North East China Revitalisation Plans

“Win the fortress-storming battle of reviving the old industrial base” banner seen on a Shenyang flyover in 2004.

“Once the cradle of China's planned economy, the northeast is now a rustbelt. Reviving the region is one of the biggest challenges facing the leaders in Beijing.” Economist 2004 (1)

“The Northeast produces 80% of all heavy machinery and equipment in China, as well as an endless torrent of aircraft and automobiles. It has been an arduous road in transforming the region into a modern industrial zone …but there is much more that needs to be done” The Geographical Magazine of China 2010 (2)

Issues for research
• Most information is in Chinese
• The information available is often in long turgid documents, which are very repetitive
• Most information is from government organisations, national or local, or Chinese newspapers.
• There are few holistic studies of the old industrial base or the revitalisation (Wang et al confirm)
• The “north east” may refer to the 3 provinces alone or include part of eastern Inner Mongolia - but sources do not always specify to which they are referring.

History

The northeast region experienced its early industrialisation when controlled by the Japanese (1932 to 1945) and later (1950s) it was developed by the communists as the first major industrial base in China. Before 1945 and in the early days of the command economy (1950s) heavy industry was developed (including iron and steel, machinery production, vehicles and shipbuilding) using resources obtained locally (coal and metal ores) and from all over China. Russian technicians and plant assisted the expansion of State Owned Industries (SOEs) until 1960 (when the Russians withdrew). The Russians (late C19/early C20) and later the Japanese developed the railway network. Industrial and agricultural products were sent out to other parts of China. From the 1960s oil production and petrochemicals added to the wealth of the region. In 1980 Heilongjiang produced half of China’s petroleum, 40% of its timber and one third of its heavy industrial machinery (Economist 2004) (1). In the 1980s the region included 8% of China’s population but produced 16% of its industrial output. It is also an important food producing region with associated processing industries.

The huge SOEs provided for the living and welfare needs of their employees, including housing, schools, healthcare and support in old age (the “iron rice bowl”).

By the 1980s the region’s problems had much in common with “rust belts” in other countries but the structure of its economy led to additional challenges. In the era of “reform and opening up”, coastal areas further south forged ahead and the north east lost its pre-eminent place and its share of national output declined.

<table>
<thead>
<tr>
<th>Year</th>
<th>Contribution to National Output</th>
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<tbody>
<tr>
<td>1960</td>
<td>18%</td>
</tr>
<tr>
<td>1978</td>
<td>17%</td>
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<tr>
<td>2004</td>
<td>9%</td>
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Since the 1970s the north east had fallen behind the 3 other east coastal areas, the Beijing/Tianjin, the Yangtze Delta (around Shanghai) and the Pearl River Delta (Guangzhou area).

<table>
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<th>2002</th>
<th>% of GDP within NE</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>12.8 (declining)</td>
</tr>
<tr>
<td>Industry</td>
<td>49.6 (rising)</td>
</tr>
<tr>
<td>Services</td>
<td>37.5 (increasing)</td>
</tr>
</tbody>
</table>

Notes: By late 2002 many loss making SOEs had already been closed. Many MNCs already had a presence (in joint ventures).

**National Context**
The plan is part of China’s macro regional development strategy. In the period of “opening up” Deng Xiaoping promoted the economic growth in the coastal areas and then, to reduce regional disparities, later governments focussed on the areas left behind.

**1999**
Western Development Strategy

**2002/3**
Northeast Revitalisation Plan

**2005**
The Rise of Central China Plan

**Issues in the Northeast in 2003**
- declining natural resource reserves (including oil and coal)
- loss making SOEs (many propped up by state funding) with poor management and overstaffing
- outdated technology, much obsolete.
- 70% of total industrial assets in the north east were government owned, producing 2/3 of northeast’s GDP (3).
- conservative attitudes; deep rooted values and social norms.
• lack of understanding of free market economics, including demand and foreign trade - by SOE executives and political leaders
• excessive bureaucracy
• unattractive for FDI
• legacy of old heavy industry including environmental
• nearly 3/4 of industrial labour force in SOEs
• 1997-2002 over 6.7m workers laid off (half of the labour force in mining cities like Fuxin)
• 10-15% of workers are unemployed
• lack of alternative employment
• cost to SOEs of welfare including pensions and costs of laying off workers (transferred to local government in Liaoning in 2001)
• 5-6m receive minimum income social security (1/4 of the urban poverty in China)
• corruption in SOEs and public office
• increasing number of protests by laid off workers and worry about spreading labour unrest (including Daqing, Fushan, and Liaoyang) (4)
• there was a glut of agricultural produce from inefficient farmers, whose wages were falling
• falling further behind areas like the Yangtze and Perl River Deltas.

Advantages 2003
• “semi decent infrastructure” (Economist)
• natural resources
• skilled workers
• revival is a top priority for the new regime in Beijing (Hu Jintao/Wen Jiabao), with investment and financial aid promised (as they seek to ensure more even economic growth rates across the country to lessen disparities and avoid social disorder).

The 2003 Plan
The initial plan was announced in 2002 and adopted in 2003. The area concerned was the 3 provinces and parts of eastern Inner Mongolia.
The process was “top down” and there was little consultation with private or foreign business. Some lessons were taken from western world. It was devised in the context of “socialism with Chinese characteristics” (where the state takes the major role) and the national “10th Plan” (5 year plan).
The Beijing government encouraged the region to facilitate structural and institutional reform, foster conditions for growth of the non-state sector and actively seek inward investment. Local authorities should devise and develop policies to suit their own local conditions and they would get financial support from Beijing. Tax incentives would be important instruments in attracting investment into the industrial and technological zones.

Other objectives of the plan were:
• to provide new employment opportunities and diversify industry
• to upgrade and revitalise outdated industries including machinery, electric power, automotive, petroleum, chemicals, metals and shipping
• to encourage entrepreneurship
• to draw in investment including FDI (There are preferential policies for foreign investors who are encouraged to invest in modern agriculture and industries, SOEs, logistics, and financial services.)
• to raise agricultural production and processing
• to improve the environment and living conditions in mining areas
• to develop service industries and social welfare  
• to improve basic infrastructure, including transport and financial  
• to transform Dalian into an international port for the south east Asia region  
• to combat environmental degradation, including anti-desertification and soil erosion management  
• to promote intra and inter-regional co-operation and links with bordering counties.  
• to build the region into the 4th economic growth poe of China.  

In 2004 Executives in SOEs were given performance targets. Amendments were made to the policy including allowing foreigners to have majority holdings in infrastructure holdings.  

Chinese Government 2007 - “The past three years witnessed the most brilliant period of the region since reform and opening up in that the regional economy has expanded substantially and both the urban and rural residents here have received more tangible benefits than ever before. In general, the campaign of "Revitalising Northeast China" has achieved great progress.” (5)  
In the years following the region achieved double digit economic growth (6) and in 2005 FDI reached $5.7bn.  

The 2007 Plan  
For details see Appendix 1.  
This was an updated and refined version in the context of the “11th Guideline” (5 year plans became “guidelines”) looking towards 2020. it included a target for per capita GDP of 21,889 yuan by 2010 (an average annual growth rate of 7.4%, from 15,318 yuan for 2005). (7)  
In 2009 the strategy was affirmed by the State council, with the requirement that the provinces should co-ordinate their economic development strategies better.  

The 12th national “Guideline” 2011-2015 continued promoting revival with key areas for development listed as equipment manufacture, raw materials, automobiles, agricultural products and processing, financial services, logistics, tourism, software ,IT and reforming SOEs! The region is to be a food security base.  
The development of the Shenyang Experimental Economic Zone was stated to be a national priority, with the theme “new industrialisation’ focussing on IT. It includes 8 cities, Shenyang, Anshan, Fushun, Benxi, Yinkou, Fuxin, Liaoyang and Tieling.  

Urban Revitalization related to economic development  
Six models demonstrate the role of schemes devised within the region and not due to external forces (in contrast to the other coastal areas). (8) These are;  

<table>
<thead>
<tr>
<th>City</th>
<th>Description</th>
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<tbody>
<tr>
<td>Tiexi</td>
<td>reborn - revitalization of an old industrial zone</td>
</tr>
<tr>
<td>Dalian</td>
<td>coastal new industrial base development model (beyond the coastal development model).</td>
</tr>
<tr>
<td>Daqing</td>
<td>Industrial chain extension (extension of old structure)</td>
</tr>
<tr>
<td>Fuxin</td>
<td>economic transformation and continued industrial development model; modern agro-processing and industries to replace coal mining (including wind power)</td>
</tr>
<tr>
<td>Jilin City</td>
<td>Low carbon reindustrialization</td>
</tr>
<tr>
<td>Central Liaoning Urban agglomeration (Shenyang area)</td>
<td>regional integration and agreed industrial division.</td>
</tr>
</tbody>
</table>
Success?

According to “A decade after the explosion of unrest in China’s north-east a remarkable recovery is underway” The Economist 2012 (4). From 2006-9 the region’s GDP grew faster than other major economic regions and SOEs contribute less than 50% of it (compared to 30% nationally).

Demand for products such as machinery and chemicals grew and government stimulus spending (nationwide) on flats, infrastructure as well as factories helped.

Liaoning grew fastest of the 3 provinces.

Large demonstrations have become relatively rare, though they still happen. New housing has been built for 6.5m people affected by slum clearances (though demolition is still a major cause of complaints/unrest, often due to inadequate compensation). (4)

Official sources claim that there has been significant progress, including in opening up to the outside world. One government planning organisation said that success was such that they wished to spread the ideas for revitalisation elsewhere. Consumer demand has increased. There have been high annual economic growth rates, and GDP growth rates rising faster than the national average - until recently. The GDP growth rate declined in 2013 more than in other areas of China. Heavy industry is not developing rapidly and smog is still very serious.

In 2010 and 2011 the GDP of the region rose over 21% but only 12% in 2012 but in 2013 industrial growth rates declined more than other areas.

China’s economy is slowing and in the first 3 months of 2014 Heilongjiang missed its growth target by the biggest margin, a victim of government desire to move away from inefficient, polluting growth while it tries to reduce industrial overcapacity. (Econ May 2014) (9)

Many official publications say there has been much progress and the scheme has stimulated faster growth in the region, fastest in Liaoning. There has been significant opening up to the outside world. Many Chinese economists predict that northeast China will catch up with the other 3 coastal regions. But there is still frequent emphasis on the need to remove institutional obstacles and conservative mindset.

Some Success stories

Liaoning has seen fastest growth rates and diversification, particularly in the Shenyang area, where the city now boasts the fastest growing software and automotive industries in the country. FDI in Liaoning increased, for example for car parts and electronics by Japan and South Korea.

Tiexi, an industrial district in western Sheyang, was a model workers village with factories employing many thousands. More than 90% of its industries come to a complete standstill with laid off workers who could not believe their “jobs or life” plants had closed down. After 2003 prime land in the downtown area was sold to real estate developers and the money was used to buy cheap land in the suburbs to rebuild its plants and upgrade its equipment. The strategy revived many enterprises and was copied elsewhere.

Fuxin (90 miles west of Shenyang) was one of the cities relying on diminishing coal production. Asia’s largest open cast mine has closed (now a grim tourist attraction) and young people move elsewhere to work. Older people have been moved from shanty towns around the mine to new apartments. The economy grew by 16% in 2011 (4).
Jilin province - for the last 10 years growth has surpassed the national average. The GDP grew 51% between 2003 and 7. The private sector has surged ahead following government support, including the Ginsber Draft beer Company, agricultural enterprises and high-tech (including insulin manufacture). Changchun in 2012 private enterprises employed 50% of the city’s employees. Industry has diversified away from the dominance of automobiles and petrochemicals. There has been growth of small businesses in high-tech industrial development zones, where links with universities are encouraged. (10)

Update 2014
The government has deepened the execution of the strategy to invigorate NE China and the emphasis in 2014 will be on regional co-ordination between the three provinces. Source: “Report on China’s economic and social development plan” for the Twelfth National People’s Congress” March 2014

The map above shows the the performance of the five worst and five best performing regions of China in the first quarter of 2014. (HSBC)(11)

PS The British government has been giving advice on the privatisation large corporations since the 1980s!
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