

Coordinating Regional Development as a Solid Foundation for Common Prosperity

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Abstract: *Coordinating regional development is a key step for China to achieve the goal of common prosperity for all. From the era of the planned economy to the development, consolidation and improvement of the socialist market economic system after reform and opening up since 1978, as a key target of economic development, China has been committed to balancing regional development, and after decades-long explorations and relentless efforts made great progress. Coordinated regional development - as manifested in narrowed regional development gaps, more equal access to basic public services and eradication of regional absolute poverty - has paved the way for more substantive progress to be made in delivering common prosperity for all. Despite the progress, China still needs to further improve institutional systems for regional coordination and undergird the regional foundation for common prosperity according to the requirements of its new development stage. Specifically, China should focus on the following priorities: (i) Strengthen institutional infrastructure, smooth regional internal and external circulations, and develop a unified domestic market at a higher level; (ii) give full play to the role of the government in equalizing access to basic public services, promoting infrastructure connectivity and protecting basic living standards; (iii) optimize integrated urban-rural development mechanisms, take solid steps to revitalize the countryside, and further coordinate urban and rural development; (iv) improve the layout of the industrial chain and advance interregional industrial chain upgrade and social progress.*

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1. Relationship between Coordinated Regional Development and Common Prosperity

“We can allow the people of some regions to get rich first and then guide and help others get rich together,” said Comrade Deng Xiaoping in 1985. General Secretary Xi Jinping noted in his article *Making Solid Progress toward Common Prosperity* that “In order to make regional development more balanced, we will implement major regional strategies and coordinated regional development strategies.”¹ Coordinated regional development is the foundation and sure path for common prosperity for all.

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¹ See Xi Jinping, “Making Solid Progress Toward Common Prosperity,” *Seeking Truth*, no. 20, 2021.

In reaching our goal of achieving common prosperity, we are faced with the priorities of regional coordination and development in special regions. Common prosperity requires income growth for low-income people to keep them from falling further behind. One way to achieve this goal is to bolster development in special regions. Common prosperity does not mean that all regions should follow the same pace in reaching a fairly high level of development. Instead, some regions should take the lead in achieving prosperity and help others follow. Besides, it is difficult for China as a large country with disparate regional conditions to reach a stable state of convergence in a short time.

There are numerous special regions across the country, including revolutionary base areas, environmentally degraded regions, border regions, resource-rich regions, and state-owned forest areas. After years of endeavor, those special regions have made big strides in development, but still fall short of the level of more prosperous regions. We should tackle challenges facing sustainable development in those regions, support their level of development, and keep them from falling further behind. Coordinated regional development holds the key to raising incomes for the poor and narrowing income gaps, thus paving the way for common prosperity for all.

The three basic targets of coordinated regional development - equal access to basic public services, relatively balanced infrastructure connectivity, and similar levels of living standards - are the intrinsic requirements for delivering common prosperity for all. In 2018, the CPC Central Committee and the State Council released the *Opinions on Establishing More Effective New Mechanisms for Coordinated Regional Development*, which called for creating new mechanisms of coordinated regional development in three stages. Specifically, those regional coordination mechanisms should be compatible with efforts to build a moderately prosperous society in all respects by 2020, complete modernization by 2035, and develop a great modern socialist country in all respects by the mid-21st century.

In the present second stage, those mechanisms should help reduce gaps in regional development, equalize access to public services and infrastructure, and maintain a similar level of basic living standards. They underpin China's development of a modern economic system and the satisfying of people's growing needs for a better life.² Delivering common prosperity for all is the ultimate goal in promoting coordinated regional development.

Coordinated regional development and a unified national market are the fundamental pillars for achieving common prosperity for all. In the current stage, China is striving to make substantive progress in delivering common prosperity for all under the condition of a socialist market economy with Chinese characteristics. In achieving common prosperity, China should give play to the decisive role of the market in resource allocation rather than egalitarian distribution by administrative diktats characteristic of the traditional planned economy era.

Released on March 22, 2022, the *Opinions of the CPC Central Committee and the State Council on Expediting the Development of a Unified National Market* set the goal to develop a unified national market, which serves as a key pillar for common prosperity. A unified national market is essential for China's large-market advantage to be brought into full play. It will lay a solid material foundation for delivering common prosperity for all, as it will drive economic and income growth and the resultant improvement of living standards. In establishing a unified national market, we should remove local protectionism and regional barriers and abolish market segmentation and anti-competition policies.³ Doing so will regulate primary income distribution and prevent income inequality and widening income distribution gaps resulting from barriers to fair competition.

² See the *Opinions of the CPC Central Committee and the State Council on Establishing More Effective New Mechanisms for Coordinated Regional Development*, http://www.gov.cn/zhengce/2018-11/29/content_5344537.htm.

³ See the *Opinions of the CPC Central Committee and the State Council on Expediting the Development of a Unified National Market*, http://www.gov.cn/home/2022-04/10/content_5684391.htm.

2. Historical Journey of China's Coordinated Regional Development

China explored coordinated regional development in the era of the planned economy and has done in the subsequent stage of developing a socialist market-based economic system with Chinese characteristics. In the first stage, China created economic coordination zones to coordinate regional development, and in the second stage, differentiated regional development strategies predominated.

2.1 China's Exploration of Coordinated Regional Development in the Planned Economy Era (1953-1978)

Upon the founding of the People's Republic of China in 1949, China's level of development was extremely uneven across regions, as manifested in the disparate levels of regional industrial development. In his *On the Major Relationships*, Mao Zedong classified Liaoning, Hebei, Beijing, Tianjin, eastern Henan, Shandong, Anhui, Jiangsu, Shanghai, Zhejiang, Fujian, Guangdong and Guangxi as coastal regions. He noted that some 70% of China's light and heavy industries were located in the coastal regions, while only 30% were in the interior regions, an untenable situation left over from history.

Beginning in the First Five-Year Plan period (1953 to 1957), in an attempt to address the problem of unbalanced industrial development between coastal and interior regions, China started to locate more projects in the interior regions. This Plan's overall arrangement of the industrial layout was to exploit existing industrial strengths in the northeast, Shanghai and some other cities to their fullest potential while at the same time constructing new industrial bases in the northern, central and northwestern regions. To achieve this goal, out of 694 large projects, the Plan allocated 472 to the interior regions and the remaining 222 to the coastal regions. Such a layout required new auxiliary systems and the reallocation of other resources within a certain geographical space.

The 2nd Five-Year Plan called for regional industrial output to exceed agricultural output and a relatively complete industrial system to be established with a relatively scattered layout of economic coordination zones. In his report "Suggestions on the 2nd Five-Year Plan for National Economic Development (1958-1962)" delivered at the Eighth CPC National Congress, Premier Zhou Enlai said when discussing the layout of productivity that "To reasonably allocate productive forces, we must make the most of the existing industrial strengths in the near-shore regions while constructing new industrial bases in the interior regions in a planned manner. We should make the most of existing industrial strengths of near-shore cities in a reasonable manner: Where necessary and possible, existing enterprises should be renovated; in cities with many industrial enterprises already, as few new enterprises should be built as possible; in building new enterprises and renovating existing ones, we must give attention to such conditions as the source of raw materials, product sales, manufacturing technology and convenience of transportation, as well as reasonable division of work with other regions. When it comes to the distribution of industrial sites in the interior and near-shore regions, our principle is to follow a combination of appropriate decentralization and mutual coordination."⁴

The 2nd Five Year Plan was predicated on the development of economic coordination zones. On June 1, 1958, the CPC Central Committee released the *Decisions on Enhancing the Work on Economic Coordination Zones*, which clarified the roles of the central government, economic coordination zones and provincial/municipal authorities in economic development under the principle of combining centralization with decentralization. While central ministries were responsible for nationwide coordination and technical guidance, the seven economic coordination zones, including the northeastern, northern, eastern, southern, central, southwestern and northwestern regions, were responsible for

⁴ See Zhou Enlai, *Suggestions on the Second Five-Year Plan for National Economic Development*, http://www.chinadaily.com.cn/dfpd/18da/2012-08/29/content_15715153.htm.

coordinating provinces and municipalities within their respective jurisdictions, promoting intra-regional equilibrium, and constructing large industrial backbones and economic centers.

Amid changing situations, the CPC Central Committee held a working conference in Beijing from May 15 to June 17, 1964 to discuss the 3rd Five-Year Plan. At the conference, Mao Zedong suggested that “In the 3rd Five Year Plan, we should consider addressing the imbalance of the national industrial layout, develop a strategic layout of the first, second and third fronts, and strengthen the third-front construction to guard against an enemy invasion.” The 4th Five-Year Plan (draft) divided China into 10 economic coordination zones, including the southwest, the northwest, the central plain, southern, eastern, northern and northeastern regions, Shandong, Fujian-Jiangxi and Xinjiang, and called for independent but coordinated industrial and economic systems with disparate levels and distinctive characteristics to be established in each cooperation zone.⁵ According to the central government’s plan, various localities were to establish small yet complete industrial systems. However, unreasonable layout and inefficient resource allocation, as well as other problems, began to surface.

On November 13, 1972, the then State Planning Commission held a national economic planning conference to discuss problems concerning the proportion of agriculture, light and heavy industries, the relationship between third-front construction and investments in other regions, and the relationship between defense and economic development. On July 1, 1973, based on the opinions put forth at the CPC Central Committee’s working conference, the State Planning Commission drafted the *Outline of the 4th Five-Year Plan (Amendment Draft)*, which modified the guiding principle that focused economic development on defense and third-front construction, reduced the number of economic coordination zones from 10 to 6, and called for giving full play to the production potentials of coastal industrial bases while developing a strategic rear in the interior regions (Zhao *et al.*, 1998).

2.2 Explorations during the Development of a Socialist Market Economic System with Chinese Characteristics (1978-Present)

The Third Plenary Session of the 11th CPC Central Committee held in 1978 marked the historic transition of China’s regional development pattern. The meeting called for prioritizing economic development as the central task for future work and adopted major guidelines for national economic adjustments and reform and opening up. It vowed to “take a host of major economic measures to reform economic administration systems and methods and proactively conduct economic cooperation with all countries on an equal-footed basis for mutual benefit.” This important meeting sounded the clarion call for a brand-new era in which reform and opening up took root in the public consciousness.

With the increasing relaxation of the policy environment for opening up, the CPC Central Committee adjusted the regional development strategy to facilitate the reform of socialist market-based economic system with Chinese characteristics and maintain a dynamic equilibrium between efficiency and fairness.

As shown by China’s changing regional development gaps since reform and opening up in 1978, the CPC Central Committee’s major regional development strategy decisions were intended to narrow regional development gaps arising from market-oriented reforms. Since the late 1990s, coordinated regional development has evolved from a concept into actual practical explorations. Since then, the central government has implemented major regional development strategies which underpin China’s overall regional development strategy, for the eastern, central, western and northeastern regions.

Since the 18th CPC National Congress, the CPC Central Committee has implemented additional major regional strategies including integrated development for the Beijing-Tianjin-Hebei Region, the Yangtze River Economic Belt, and the Guangdong-Hong Kong-Macao Greater Bay Area, regional

⁵ “Formulation of the Third Five-year Plan in Preparation of War.” *Research on Chinese History Studies*, (6), 1997.

integration of the Yangtze River Delta, and ecological protection and high-quality development for the Yellow River Basin. These strategies have formed pillars of coordinated development for the new era. After eight years of relentless hard work and innovative practices, the central government has achieved the poverty reduction goals for the new era. Under the overlapped effects of those strategies, China has narrowed inter-provincial development gaps, enhanced integrated development in key regions, eliminated regional absolute poverty, and created favorable conditions for creating a new development pattern, thereby laying a solid foundation for common prosperity for all.

2.2.1 Coordinated regional development in which coastal regions took the lead and drove development in the interior regions (1981-2000)

After the 6th Five-Year Plan period (1981-1985), China's coordinated regional development policy started to focus on giving play to the respective strengths of various regions. Seeing that the coastal regions could drive economic development in the interior regions, the understanding of China's policymakers on coordinated regional development deepened. In the Sixth Five-Year Plan period, it was suggested that the coastal regions could drive further economic development in the interior regions by giving full play to their strengths. This approach was carried out through the implementation of pilot programs (Zhang, 2021).

In the 7th Five-Year Plan period, it was suggested that the development of China's eastern, central and western economic zones be planned to leverage their respective strengths, develop their horizontal economic ties, and establish a network of economic zones of different sizes and characteristics at various levels.

In the 8th Five-Year Plan period, coordinated regional development in the regional economic layout was emphasized, and the balancing of three relationships was highlighted: The relationship between regional strengths and national planning, the relationship between the coastal and interior regions, and the relationship between prosperous and less developed regions. The goal was to coordinate regional development and achieve common prosperity.

In the 9th Five-Year Plan period, China vowed to narrow the income gaps across regions toward common prosperity. To achieve this end, the 9th Five-Year Plan called for establishing cross-provincial economic zones according to the laws of a market-based economy and natural economic links. Coordinated regional development mechanisms required not only balancing national and regional economic development, but handling the economic relationships between regions, provinces and municipalities properly.

2.2.2 Advancing coordinated regional development through the implementation of major regional development strategies (2001-2005)

After the 10th Five-Year Plan period, China began to develop a targeted regional development strategy to address regional development issues and further narrow regional gaps. The 10th Five-Year Plan was adopted after the establishment of the socialist market economic system with Chinese characteristics. It identified central and western regions as priorities for coordinated regional development, and called for infrastructure development, environmental protection, and progress in science, technology and education. Administrative segmentation was to be removed to allow various localities to bring their comparative strengths into play and to avoid a homogeneous industrial structure. Initiative at the local level was to be mobilized through regional planning and policymaking to form distinctive regional economies and achieve breakthroughs in developing ecological protection zones, specialized agricultural production bases, and tourism economic zones.⁶

⁶ See *Outline of the Tenth Five-Year Plan for National Economic and Social Development*, http://www.gov.cn/gongbao/content/2001/content_60699.htm.

After adopting the strategy of developing the western region, the CPC Central Committee proceeded to revitalize the northeast and other old industrial bases and promote the rise of the central region. However, the northeast and other old industrial bases, which bore a heavy legacy burden, presented severe obstacles to the reform of state-owned enterprises (SOEs), as they suffered from the pains of institutional reforms and experienced economic slowdown and massive layoffs.

To prevent those old industrial bases from slipping into industrial recession, the Report to the 16th CPC National Congress held in November 2002 officially put forth a vision to “support old industrial bases such as the northeast to expedite restructuring and renovation.” In October 2003, the CPC Central Committee and the State Council issued *Opinions on Implementing the Strategy of Revitalizing the Northeast and Other Old Industrial Bases*.

The CPC Central Committee extended comprehensive and vigorous policy support to both resource-based cities and resource-depleted cities with respect to employment, sustained industrial development, and environmental protection. In April 2006, the CPC Central Committee and the State Council issued the *Opinions on Promoting the Rise of the Central Region*, which marked the implementation of the strategy for the rise of the central region and the establishment of a framework for coordinated regional development of the eastern, central, western and northeastern regions.

2.2.3 Promoting coordinated regional development with high quality (2006-present)

With the layout of the four regional segments taking shape, China’s coordinated regional development entered a new stage of implementation. In the 11th Five-Year Plan period (2006-2010), China called for the creation of a reasonable pattern for regional development, further developing the western region, revitalizing the northeast and other old industrial bases, promoting the rise of the central region, and encouraging the eastern region to spearhead development. Priority was given to creating regional coordination mechanisms such as market, cooperation, mutual assistance and support mechanisms, increasing the level of support to less developed regions based on the principle of equal access to public services, and speeding up economic and social development in old revolutionary base areas, ethnic regions, border regions and poverty-stricken areas.⁷

The 11th Five-Year Plan emphasized science-based regional development that considers the distribution of China’s population, as well as its economic layout, land use and urbanization according to environmental capacity, existing development density and development potentials. Land space was to be divided into four main function zones, including those for optimized development, priority development, restricted development, and prohibited development. Regional policymaking and performance evaluation were to be adjusted according to the orientations of the main function zones to standardize spatial development and form a reasonable structure of spatial development. In the 12th Five-year Plan period, China vowed to implement an overall regional development strategy featuring main function zones, to enact laws, regulations and policies accordingly, to improve regional interest compensation, and to promote integrated urban and rural development.

Since the beginning of the 13th Five-Year Plan period, the CPC Central Committee has maintained its strategic focus, followed a consistent approach in addressing the weaknesses and bottlenecks facing regional development, and stepped up strategic arrangements for regional development. In the 13th Five-Year Plan period, China vowed to foster regional development mechanisms led by river and coastal economic belts. The *Outline of the 13th Five-Year Plan* called for developing vertical and horizontal economic belts along the coastline, rivers and transportation routes driven by the Belt and Road Initiative, integrated development of the Beijing-Tianjin-Hebei Region, and the Yangtze River Economic Belt, with a view to forging a new regional development pattern featuring the orderly and free flow of

⁷ See the *Outline of the 11th Five-Year Plan for National Economic and Social Development*, <https://www.ndrc.gov.cn/xwdt/gdzt/ghjd/quanwen/?code=&state=123>.

factors, effective constraint of main functions, equal access to basic public services, and resource and environmental sustainability.⁸

The Report to the 19th CPC National Congress in November 2017 unveiled a “coordinated regional development strategy,” which became a strategic policy document of the CPC Central Committee for coordinating regional development, implementing major regional strategies, and expediting development in special regions, among other regional priorities. The Report clearly outlined the development priorities for various levels and types of regions. Since the 19th CPC National Congress, the CPC Central Committee has adopted various major regional strategies under the auspices of General Secretary Xi Jinping, including the development of the Hainan Free Trade Port, regional integration of the Yangtze River Delta, and ecological protection and high-quality development of the Yellow River Basin. These regional strategies reflect the CPC Central Committee’s intention to strengthen the momentum of high-quality development, enhance the management of river basins, and manage regional disparities.

In 2018, the *Opinions of the CPC Central Committee and the State Council on Creating More Effective New Mechanisms for Coordinated Regional Development Mechanisms* were officially released, marking a new stage in China’s plan for coordinated regional development. The *Outline of the 14th Five-Year Plan* vowed to optimize the development layout of national land space and protection, achieve new breakthroughs in major regional strategies, and promote regional integration, interaction and complementarity. Progress was called for in the development of the western region, the rise of the central region, the modernization of the eastern region, and the improvement of special regions, giving more prominence to perfecting institutional mechanisms for coordinated regional development.⁹

Coordinated regional development has been an important priority for China’s national economic and social development and is a key element of China’s modernization. Since the founding of the People’s Republic of China in 1949, China has been exploring coordinated regional development mechanisms. Academics have divided this journey of development into various stages.

For instance, some divided this journey into the four stages of balanced development (1949-1978), efficiency first (1978-1999), focus on fairness (1999-2012), and deepening regional coordination (2012-present) (Li and Liu, 2020). Some others defined the four stages as follows: Balanced development unilaterally decided by the government (1949-1978), tiered non-equilibrium development dominated by the government and supplemented with market mechanisms (1978-1992), market-led and government-controlled coordinated development (1992-2012), and fair, balanced and shared development in which the market plays a decisive role (Jiang *et al*, 2019). Still others considered that China’s coordinated regional development strategy could be divided into the four stages of proposition, completion, deepening and improvement (Sun, 2018).

In various versions, it is common to divide this historical journey by focusing on balanced or unbalanced development and on fairness or efficiency. In its economic development, China has experienced widening and narrowing regional gaps. From a strategic or policy perspective, however, China does not have a non-equilibrium development strategy, efficiency first or fairness first strategy. Instead, China’s coordinated regional development strategy has been characterized by mutual promotion between fairness and efficiency with the steadfast goal of promoting coordinated regional development.

3. Basic Achievements and Experiences of Promoting Coordinated Regional Development

After relentless explorations and hard work, China has made remarkable achievements and gained

⁸ See the *Outline of the 13th Five-Year Plan of the People’s Republic of China for National Economic and Social Development*, http://www.gov.cn/xinwen/2016-03/17/content_5054992.htm.

⁹ See *Outline of the People’s Republic of China 14th Five-Year Plan for National Economic and Social Development and Long-Range Objectives for 2035*, <https://www.12371.cn/special/ssw2035/>.

extensive expertise in coordinating regional development. Since the 18th CPC National Congress, in particular, China has established an institutional foundation for coordinated regional development, which has helped prevent regional disparities and disorderly competition and has formed a reasonable layout of regional development.

3.1 Basic Achievements

3.1.1 Narrowing regional development gaps

Over the years, China has introduced a string of regional development plans for the western, central, and northeastern regions to address major regional development issues. Since the 18th CPC National Congress, the CPC Central Committee has implemented major regional strategic plans for the Beijing-Tianjin-Hebei region, the Yangtze River Delta region, the Guangdong-Hong Kong-Macao Greater Bay Area, the Yangtze River Economic Belt, and the Yellow River Basin. China has established strategic mechanisms for coordinating prosperous and less developed regions and land and maritime territories, promoting interregional interactions and complementarity, and improving land and space management. The 18th CPC National Congress has been followed by a convergence of development gaps across various regions and significant decreases in the Theil index and Gini coefficient measured by GDP per capita at comparable prices.

3.1.2 Equalizing access to basic public services

In 2017, China adopted the *Plan for Equalizing Access to Basic Public Services in the 13th Five-Year Plan Period* to standardize and equalize public services. According to the Plan, the national basic public service system should deliver equal access to basic public services such as education, employment and entrepreneurship, social insurance, healthcare, social services, housing, culture and sports to people from the cradle to the grave throughout urban and rural regions. The government should enforce mechanisms of implementation with respect to overall coordination, financial assurance, talent development, diversified service supply, and supervision and evaluation.

Years of pilot programs have led to the official issuance of the *Standard of National Basic Public Services (2021 Edition)* that encompasses 80 service items of 22 categories in nine aspects, including childcare, education, employment, healthcare, elderly care, and housing. The Standard marks a milestone in the equalization of access to basic public services. In terms of the effects, the 13th Five-Year Plan period saw significant reductions in regional per capita basic public service spending gaps and great improvement in people's living standards.

3.1.3 Eradicating regional absolute poverty

China has established distinctive regional mutual assistance mechanisms to support the development of special regions through poverty reduction, targeted aid and collaboration. The “three-in-one” poverty reduction approach galvanized the broad participation of government, enterprises, research institutions and other private actors in partner assistance and cooperation. In 2013-2020, for instance, nine provincial/municipal governments provided fiscal and social assistance funds worth over 100.5 billion yuan and dispatched 131,000 officials and technical personnel to poor regions, contributing to the eradication of absolute poverty for nearly 100 million people (Information Office of the State Council, 2021).

In developing the western regions, the CPC Central Committee initiated partner assistance programs for Tibetan areas in provincial jurisdictions like Xinjiang, Tibet and Qinghai, as well as Guizhou, in

¹⁰ See *Xi Jinping Delivers an Important Speech at the Third Central Working Conference on Xinjiang*, http://www.gov.cn/xinwen/2020-09/26/content_5547383.htm.

which government agencies and enterprises took part at various levels. In 2014-2019, 19 provinces and municipalities committed assistance funds worth 96.4 billion yuan to Xinjiang and implemented over 10,000 aid programs; enterprises from those provinces and municipalities invested 1,684 billion yuan in Xinjiang.¹⁰

By 2020, China has lifted all its rural poor populations by the current poverty line out of poverty, lifted all poor counties out of poverty, and eradicated regional absolute poverty. Great improvement has been made in the quality of “two no worries” social protection, and prominent problems facing the “three guarantees” have been eradicated. The income level of the poor has increased sharply.¹¹ Poor regions have benefited from much better access to public services, infrastructure development and development strengths (Huang and Yuan, 2020).

3.1.4 Integrated national transportation network contributed to more balanced regional infrastructure connectivity

By the end of 2021, China’s road density reached 55 km/100 km², and the length of expressways totaled 170,000 km, or 10.43 times the level of 2000.¹² Provinces like Guangdong, Fujian, Henan, Jiangxi, Guizhou and Liaoning achieved the goal of connecting every county to the expressway. Since 2010, China has expanded its railway - especially its high-speed railway - network on a mass scale. By the end of 2021, China’s railway and high-speed railway operating lengths exceeded 150,000 km and 40,000 km, respectively, connecting an additional 204 counties to the high-speed railway after the 18th CPC National Congress. With the sophistication of the railway network, the high-speed railway has become the chief choice of rapid transportation for the general public across China.

By the end of 2021, China had built 248 domestic airports and expanded access to aviation to 83% of the people in regions newly lifted out of poverty.¹³ Denser distributions of high-speed railway stations and civil-aviation airports have sharply reduced the gaps in efficient travel across regions and have greatly improved the accessibility of cities at or above prefecture level. Completion of major transportation corridors has transformed economic development conditions for China’s interior regions, ushering in a new stage of all-round openness.

3.2 Basic Experiences

3.2.1 Promoting market integration and the role of the market in resource allocation

In coordinating regional development, China has attached great importance to the decisive role of the market in the allocation of resources. For instance, steps have been taken to promote the free flow of factors between cities and the countryside, to relax urban residency restrictions, to integrate urban and rural land markets, to establish a natural resource pricing system, and to launch pilot programs of regional pollution rights and carbon emissions trading, as well as market-based water rights and electric power transactions.

Horizontal interest compensation policies have been introduced to compensate for ecological protection and protected regions and between upstream and downstream regions in the form of financial compensation, partner assistance, industrial relocation, training and joint development of industrial zones. Provinces and municipalities along the Yangtze River Economic Belt have carried out pilot programs for ecological protection compensation between upstream and downstream regions and

¹¹ See *Opinions of the CPC Central Committee and the State Council on Linking Poverty Reduction with Countryside Revitalization*, http://www.gov.cn/zhengce/2021-03/22/content_5594969.htm.

¹² Source: *China Statistical Abstract 2021*.

¹³ Source: “China’s Transition towards a Transportation Powerhouse,” *People’s Daily*, May 2, 2022, http://paper.people.com.cn/rmrb/html/2022-05/02/nw.D110000renmrb_20220502_3-01.htm.

beneficiary and protected areas. For instance, Zhejiang and Anhui jointly launched ecological protection compensation pilot programs in the Xin'an River Basin with compensation standards formulated according to cross-section water quality and with local governments accountable for water pollution in their respective jurisdictions. Compensation mechanisms have also been established between main grain producing and grain distribution areas and between resource producing and resource consuming regions.

On January 3, 2019, Shanghai, Jiangsu, Zhejiang and Anhui signed the “Memorandum of Understanding for Cooperation on Developing an Integrated Yangtze River Delta Regional Market System” in Shanghai. According to the MOU, Shanghai and the three provinces will step up cooperation on organizing major events like the China International Import Expo (CIIE), unifying business registration standards, imposing joint sanctions on breach of trust, enhancing food safety supervision, and facilitating the mutual recognition of test and inspection significations. They have agreed to create cross-regional market supervision and cooperation mechanisms, to jointly explore inclusive and prudential regulation of the new business modes, to foster an environment that is conducive to business, and to promote the development of an integrated regional market.

3.2.2 Developing regional cooperation mechanisms for active cross-regional cooperation

The CPC Central Committee has set up cross-jurisdictional cooperation mechanisms for regional cooperation. Since 2008, provincial/municipal governments in the Yangtze River Delta have implemented a “three-tiered” regional cooperation mechanism at the levels of decision-making, coordination and implementation. In 2018, the Yangtze River Delta Regional Cooperation Office was established. In the same year, it released the *Three-Year Action Plan for Integrated Development of the Yangtze River Delta Region (2018-2020)*, which covers 12 cooperation themes, focusing on seven priorities, including transportation interconnectivity, energy supply, industrial innovation, high-speed and ubiquitous IT infrastructure, joint environmental management, universal access to public services, and market openness and orderliness.

To promote collaborative innovation, nine cities in the Yangtze River Delta region jointly established the G60 Sci-Tech Innovation Corridor. Since 2018, those cities have established 14 industrial alliances and 11 industrial cooperation demonstration parks. In November 2020, the Ministry of Science and Technology (MOST), the National Development and Reform Commission (NDRC), the Ministry of Industry and Information Technology (MIIT), the People's Bank of China (PBC), the China Banking and Insurance Regulatory Commission (CBIRC), and the China Securities Regulatory Commission (CSRC) jointly issued the *Plan for the Development of the G60 Sci-Tech Corridor for the Yangtze River Delta Region*.

3.2.3 Developing a science-based and differentiated regional regulation policy system in smooth coordination with other policies

By adopting differentiated regional environmental and industrial policy systems, the central government has targeted fiscal, monetary and investment policies at the implementation of major regional strategies. The central government has improved the fiscal transfer payment system to balance regional development and keep per capita fiscal spending gaps within a reasonable range. To bolster major regional strategies, the central government has linked regional policies with other macro-regulatory fiscal, financial and industrial policies to support the implementation of cross-regional transportation, water conservancy, environmental protection, public welfare and other major projects.

3.2.4 Establishing the rights and responsibilities for coordinated regional development and enhancing the leadership, supervision and evaluation of regional coordination strategies

In addition to the existing steering groups for the western, central and northeastern regions, the

central government has established steering groups for new regional strategies for the Beijing-Tianjin-Hebei region, the Guangdong-Hong Kong-Macao Greater Bay area, and the Yangtze River Delta region. In addition, for coordinated regional development, central authorities have established procedures for formulating, implementing and evaluating regional development plans, as well as monitoring and early warning systems. Based on the mid-term and final implementation evaluations, the regional development plans are subject to adjustment, revocation or renewal. For the implementation of major regional strategies, relevant provinces, municipalities and autonomous regions have also set up steering groups for regional cooperation.

4. Policy Recommendations

Coordinated regional development is essential to delivering common prosperity for all. Gaps in people's incomes and living standards inevitably find expression in regional development disparities. The speed at which incomes and living standards rise is subject to regional development strengths. It would be impossible to achieve common prosperity for all when there are vast regional disparities. In the new development stage, we must steadfastly give play to the decisive role of the market in resource allocation across regions. This forms the groundwork for China to develop its socialist market economic system at a higher level. Yet the decisive role of the market in allocating resources does not mean a complete hands-off approach of the government. At the heart of more effective regional coordination lie efforts to improve the socialist economic system, the role of the market in resource allocation, and the combination of an effective market and a capable government.

4.1.1 Smooth regional internal and external circulations and build a unified national market at a higher level

To give full play to the decisive role of the market in resource allocation, we must enhance infrastructure development, smooth regional internal and external circulations, and build a unified national market at a higher level. Despite China's improved market mechanisms that are increasingly dominating resource allocation after decades of reform, some hurdles still exist and impede the development of a unified national market. Take factor flow, for instance, there are still barriers to the flow of factors like land, capital, labor and technology between and within regions. Development of an institutional infrastructure requires those barriers to be removed. Local governments have enacted policies to develop local industries and supply chains according to their development levels and resource endowments, which are justified but cannot be allowed to undermine the fundamental status of the competition policy. To create a unified national market, we must focus our attention and effort on the fundamental status of the competition policy and review regional industrial and development policies in terms of fairness and competition. To leverage an effective market and capable government, we should also strengthen the use of market-based policy instruments such as pollution rights trading, carbon emissions trading and ecological valuation.

4.1.2 Strive to equalize access to basic public services, infrastructure connectivity and basic living standards

Better health services, infrastructure and living standards cannot be attained by market means alone and require the government to play a more effective role. One obstacle to equalizing access to basic public services, infrastructure connectivity and basic living standards is the absence of national standards that define the scope and level of basic public services, infrastructure connectivity and basic living standards. Those national standards should be created and adjusted from time to time to keep abreast of socio-economic development and fiscal strengths, to form the basis for central fiscal allocations to support less developed regions and to inform local governments so that they are able to provide public

goods accordingly. They may also serve as guidance for private actors to take part in the supply of such public goods.¹⁴


4.1.3 Further level up coordinated urban and rural development by implementing the countryside revitalization strategy and consolidating poverty reduction results

As General Secretary Xi Jinping noted, the most arduous tasks for common prosperity remain in the countryside.¹⁵ In 2020, the CPC Central Committee and the State Council issued *Opinions on Effectively Linking Poverty Reduction with Countryside Revitalization*, which called for further raising living standards for people lifted out of poverty through revitalization of the countryside. By 2025, the goal is to further strengthen poverty reduction results, revitalize the countryside on all fronts, and ensure farmers' income growth in regions lifted out of poverty above the national average income growth for farmers. By 2035, the goal is to bolster economic strengths in regions lifted out of poverty, achieve great progress in revitalizing the countryside, sharply raise living standards for rural low-income people, and further narrow urban-rural gaps. The *Opinions* call for establishing sound long-term mechanisms for consolidating poverty reduction results, supporting rural industries to flourish in regions lifted out of poverty, securing stable employment for people lifted out of poverty, and improving infrastructure and public services for regions lifted of poverty. In consolidating poverty reduction achievements, the government should extend fiscal, financial, land and human resources policy support.

4.1.4 Optimize industrial chain spatial layout and promote industrial upgrade and social progress across regions

We should advance cross-regional industrial and supply chain cooperation to meet the needs of the deepening industrial division of labor. We should integrate industrial and supply chain development in megacities, large cities, small and medium-sized cities, as well as in the countryside, to bring into play the growth effects of emerging growth drivers, emerging industrial clusters and major provincial economies (Zhang, Zhou, 2022). In developing cross-regional industrial cooperation, we should simultaneously upgrade our industrial chain and social protection systems and avoid social downgrades such as wage declines in the process of optimizing industrial layout.

4.1.5 Establish a national governance system for coordinated regional development

For more effective inter-provincial coordination, central authorities should explore new regional governance models focusing on key regions such as the Beijing-Tianjin-Hebei region and the Yangtze River Delta region and when conditions are ready, create a permanent regional coordination agency responsible for organizing major regional development strategies and policies for coordination across provinces, municipalities and autonomous regions. Accordingly, the central authorities should continue improving mechanisms for regional coordination, fully leverage China's large-country advantage and market heft, and guide the free flow of production factors and orderly industrial relocation. Further progress should be made in promoting high-quality development in Zhejiang Province for building demonstration areas for common prosperity. New development experiences and practices of coordinated intra-provincial development should be summarized and scaled up. Provincial-level regional governments should live up to their responsibilities for coordinated regional development and assist regions with special difficulties in their respective jurisdictions to ease China's regional imbalances. 

¹⁴ See Public Services Planning for the 14th Five-year Plan Period, http://www.gov.cn/zhengce/zhengceku/2022-01/10/content_5667482.htm.

¹⁵ See Xi Jinping, "Making Solid Progress toward Common Prosperity," *Seeking Truth*, (20), 2022.

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