

# The Benefits and Costs of a Regional Development Strategy to the Chinese Economy

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# The Benefits of a Regional Development Strategy

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- ◆ The keys to a successful regional development strategy are coordinated planning and division of labour within the region so as to fully exploit the different comparative advantages of different areas and to avoid wasteful duplication of facilities and unproductive and counter-productive competition.
- ◆ One critical issue is the optimal size of the region. To be effective, it should be neither too large nor too small. In the past, the size of region was chosen to be very large—for example, the Northeast, the Central and the Western regions—with the authority too diffused to be effectively managed and monitored.
- ◆ A regional development strategy can be a solution to the problem of the appropriate degree of centralization, so that both over-centralization and over-decentralization can be avoided.

# The Benefits of a Regional Development Strategy

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- ◆ Currently, the regional development strategy is based on large, geographically contiguous, regions that cross several political jurisdictions—For example, Jingjinji (Beijing, Tianjin and Hebei combined), the Bohai Bay Area, the Yangtze River Delta, and the Guangdong-Hong Kong-Macau Greater Bay Area Initiative
- ◆ Basic infrastructure investment is still extremely important to assure connectivity within the region (for example, high-speed trains, connecting the eastern and western banks of the Pearl River Delta). There is still more basic infrastructure investment that needs to be done. The eastern bank of the Pearl River Delta, which includes Hong Kong and Shenzhen, is much more developed than the western bank.
- ◆ The need for basic structure is also related to increased urbanization, which requires mass-transit systems, electric power plants and fresh water plants.

# The Benefits of a Regional Development Strategy

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- ◆ The public goods nature of environmental preservation, protection and restoration, and the prevention of climate change requires a regional approach. (For example, shutting down steel mills within Beijing alone does not help to improve the air quality in Beijing because they will be moved to the neighbouring province of Hebei, and thus continuing to pollute the air in Beijing.)
- ◆ The reduction of existing and the prevention of additional excess production capacity must also be dealt with on a regional level. (How much cement production capacity is needed within the region? How many power plants are needed?)
- ◆ A regional approach enables the realization of the benefits of economies of scale. For example, with the Guangdong-Hong Kong-Macau Greater Bay Area Initiative, Hong Kong can now serve a market of 70 million people rather than 7.5 million people.
- ◆ There will be much fuller utilization of existing capacities and facilities.
- ◆ The Guangdong-Hong Kong-Macau Greater Bay Area Initiative can become a pilot experiment for the free flows of goods and services, people, capital and information between the Mainland and the outside world.

# The Costs of a Regional Development Strategy

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- ◆ The local areas in each region are not incentivised to collaborate with one another. Their key performance indicators (KPI) pertain only to their own individual regions. Unless the structure of incentives is changed, their primary interests are still focused on their individual regions.
- ◆ Coordination is costly, especially with a diffused structure of authorities. A centralised framework for regional planning and development may have to be established.
- ◆ Regional economic integration, while it is definitely good for the region as a whole, will create winners and losers in each local area, just as economic globalization created winners and losers in each country. The local governments have to take responsibility for compensating the losers from regional integration through such measures as re-training grants, unemployment benefits and early retirement provisions.