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[Research Note]

Is Fujian Following the East Asian Development Pattern?

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INTRODUCTION*

After launching an ambitious program of the reform and open-door policy at the end of the 1970s, China achieved a remarkable economic growth in the 1980s. In this period, the coastal regions, including Fujian, led the rest of China in economic growth. Before the reform and open-door policy, however, Fujian economy was stagnant for a long period, and was relatively backward in the coastal regions. Fujian economy suffered the heavy losses of the Great Leap Forward and the Cultural Revolution from the viewpoint of eco-

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nomic development. It took 17 years for the per capita GNP of Fujian to recover to the level of 1960. This was not achieved until 1977. The per capita GNP of Fujian was at a level of 73% of the national average in 1978, and finally caught up with the national average in 1990[1].

Fujian's economic development is certainly an integral part of hyper-growth of China as a whole in the 1980s, and it is demonstrating the transplanting process of the East Asian development pattern[2]. The pattern could be seen in the processes of economic development of Japan in the 1950-60s and Asian NIEs or "four little dragons" in the 1960-70s, and is now emerging in China as well as in ASEAN.

The East Asian economies are generally poor in natural resources, but has large and excellent human resource bases. They utilized the most of human resources in the processes of industrialization through the expansion of exports. Some analyses attribute the East Asian economic success to those human resource bases[3]. In this point, the initial conditions of Fujian economy have some similarities with those of the East Asian economies. Geographically, natural resources are poorly endowed in Fujian. Demographically, Fujian is over-populated, but has a large and excellent human resource base. Politically, Fujian faces the Taiwan Straits, one of the "hottest" points in the cold war period, which allocated fewer eco-

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1) The figures in this paper are based on the official statistics.

2) In this paper, we deliberately avoid using the word of "model." The purpose of this paper is not to extract the elaborate "model" of the East Asian economies, but to describe their common characteristics.

3) For example, World Bank, *The East Asian Miracle: Economic Growth and Public Policy,* 1993.

nomic resources, particularly large capital investments by the central government at Beijing, to Fujian at the beginning of its economic development. Taking these conditions into consideration, the East Asian development pattern is still of great relevance to Fujian's economic growth, although the experiences of Hong Kong and Singapore may not, because they are basically city economies with a limited size of population and little primary sector. In fact, Guangdong achieved an economic success by following the East Asian development pattern in the 1980s[4].

In this paper, first, we consider what the East Asian development pattern is by using the four criteria; the two are related to the export-oriented industrialization, and the others are associated with the structural changes caused by industrialization. As for the East Asian economic success, there are so many explanations. Some analyses try to attribute it to the traditional ethos such as Confucianism[5]. In this analysis, however, we regard these criteria as the central issues from the viewpoint of the economic performance of the East Asia. Second, based on these criteria, we examine the economic performance of Fujian after the reform and open-door policy in comparison with that of Guangdong, which is the precedent case in China. Finally, we will explore some policy implications for the

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4) See Hideo Ohashi, "Economic Relations between China and Hong Kong," *JETRO China Newsletter*, No. 95, Nov.-Dec. 1991 and "China's Opening Economy in the Regional Context," *Economic Bulletin of the Senshu University*, vol. 28, no. 2, November 1993.

5) For example, Hung-chao Tai, *Confucianism and Economic Development: An Oriental Alternative?*, Washington Institute Press, 1989, Ronald P. Dore, *Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues*, Stanford University Press, 1987.

future economic development strategy and the sustainable economic growth of Fujian in the 1990s.

WHAT IS THE EAST ASIAN DEVELOPMENT PATTERN?

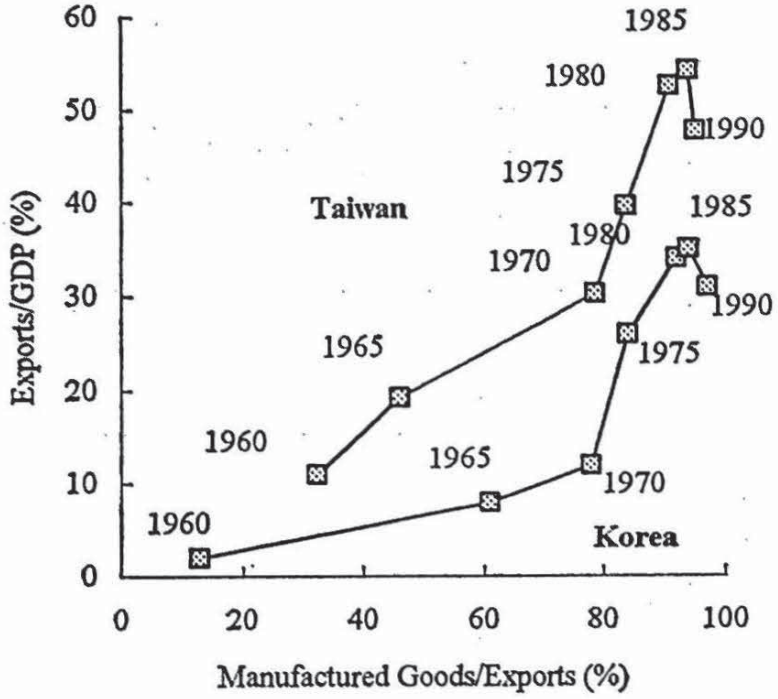
Looking back at the development processes of the East Asian economies, especially Korea and Taiwan, we find some similar patterns. We examine them by the following criteria. First, they have been pursuing the outward-looking strategy, that is, the export-oriented industrialization. Second, they have experienced the structural changes as a result of rapid industrialization. Then, we describe their economic success as growth with equality.

Export-Oriented Industrialization

Both Korea and Taiwan expanded their exports very rapidly in their processes of economic growth. **Fig. 1** shows that the ratio of exports to GDP (**criterion** 1 : export-dependence ratio) and the ratio of manufactured goods to the total exports (**criterion 2** : export industrialization ratio) in Korea and Taiwan in 1960-90. The export-dependence ratios of Korea and Taiwan were only 3% and 11% respectively in 1960. Since 1960 both economies have expanded their exports very rapidly. Korea and Taiwan recorded the highest ratios in 1985, 35% and 54% respectively. The corresponding ratios declined in the second half of 1980s, because both Korea and Taiwan shifted their development strategies from the external to domestic-oriented ones due to the severe trade friction with the U.S. and the structural adjustments as a result of their economic development.

The expansion of exports promoted the industrialization in Korea and Taiwan. This was shown in their high export-industrializa-

Fig. 1 Export Dependence and Industrialization in Taiwan and Korea



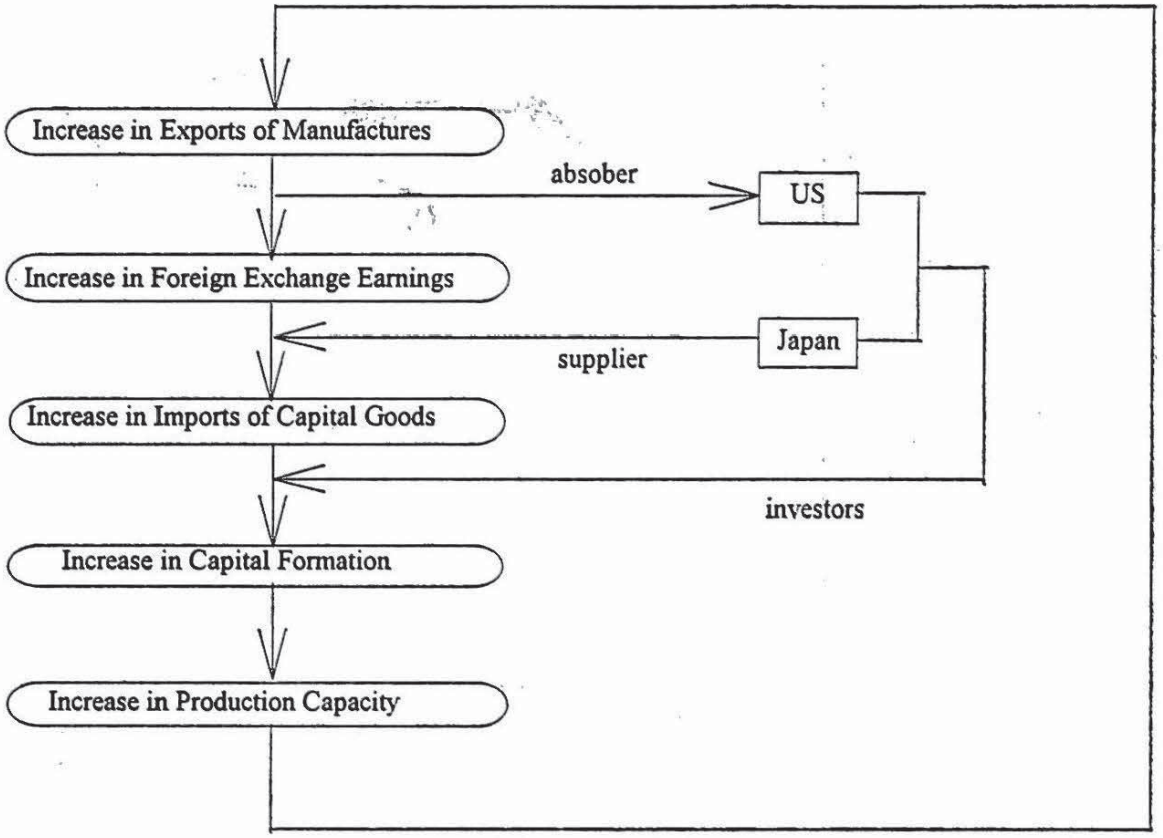
Source: *Korea Statistical Yearbook* and *Taiwan Statistical Data Book,* various issues.

tion ratios. The export-industrialization ratios in Korea and Taiwan reached over 80% in the 1970s and more than 90% in the 1980s, although they were just over 10% and 30% respectively in 1960.

The processes of export-oriented industrialization in Korea and Taiwan can be explained in terms of the "virtuous cycle of export and investment[6]." As shown in **Fig. 2,** the cycle starts with the increase in exports of manufactures, followed by the increases in foreign exchange earnings, imports of capital goods, capital formation, capacity for production, and again the increase in exportsof manu-

6) Miyohei Shinohara, Takahiko Haseyama and Toru Yanagihara eds., *2000 Nen no Ajia (Asia in the Year of 2000)*, Tokyo: Yuhikaku, 1984, pp. 32-38.

Fig. 2 Virtuous Cycle of Export and Investment



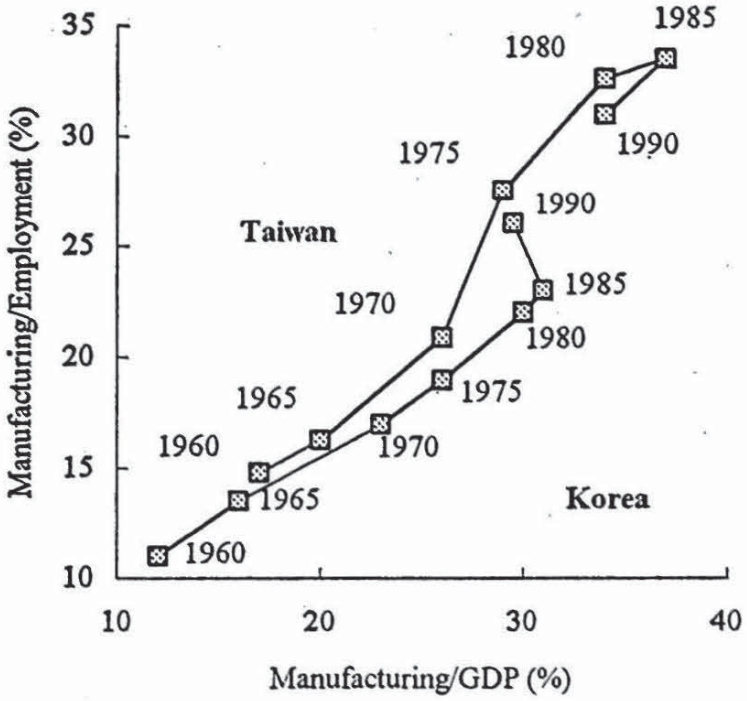
factures.

In this cycle, the two leading economies in the Asia-Pacific region, the U.S. and Japan, played vitally important roles in the export-oriented industrialization in both Korea and Taiwan. The U.S., as a "guardian" of the free trade system in the post-war period, provided them with its large domestic market, while Japan supplied a large number of capital goods to them. At the same time, both the U.S. and Japan made the greatest contributions to the increase in capital formation of Korea and Taiwan as major investors and technology suppliers.

Structural Changes

Industrialization caused major changes in the structures of both

Fig. 3 Production and Employment Industrialization in Taiwan and Korea



Source: *Korea Statistical Yearbook* and *Taiwan Statistical Data Book,* various issues.

production and employment of Korea and Taiwan. It also created a large number of opportunities for employment in Korea and Taiwan. This is a part of fruits for their economic growth. **Fig. 3** shows that the ratio of manufacturing value added to GDP (**criterion 3**: production-industrialization ratio) and the ratio of labor in the manufacturing sector to the total labor force (**criterion 4**: employment-industrialization ratio) in Korea and Taiwan in 1960-90.

The manufacturing sector in Korea and Taiwan absorbed a huge amount of labor force who had been engaged in agriculture. In other words, the manufacturing sector with higher productivity made the "disguised unemployment"[7] in the primary sector reduced

7) Joan Robinson, "Disguised Unemployment," *Economic Journal,* vol. 46, June 1936.

so much in Korea and Taiwan. The shift in labor force from the primary sector to the manufacturing sector turned into the major "inputs" to the manufacturing sector. The "unlimited supplies of labor"[8] enlarged the production of manufacturing sector. On the other hand, the decrease in labor force in the primary sector raised the output per laborer. Therefore, it brought the steady productivity growth to the sector. Moreover, industrialization makes it possible to provide the cheaper inputs' goods such as fertilizer, pesticide, agricultural machinery for the primary sector. As a result, the higher productivity of both primary and manufacturing sectors could be achieved simultaneously.

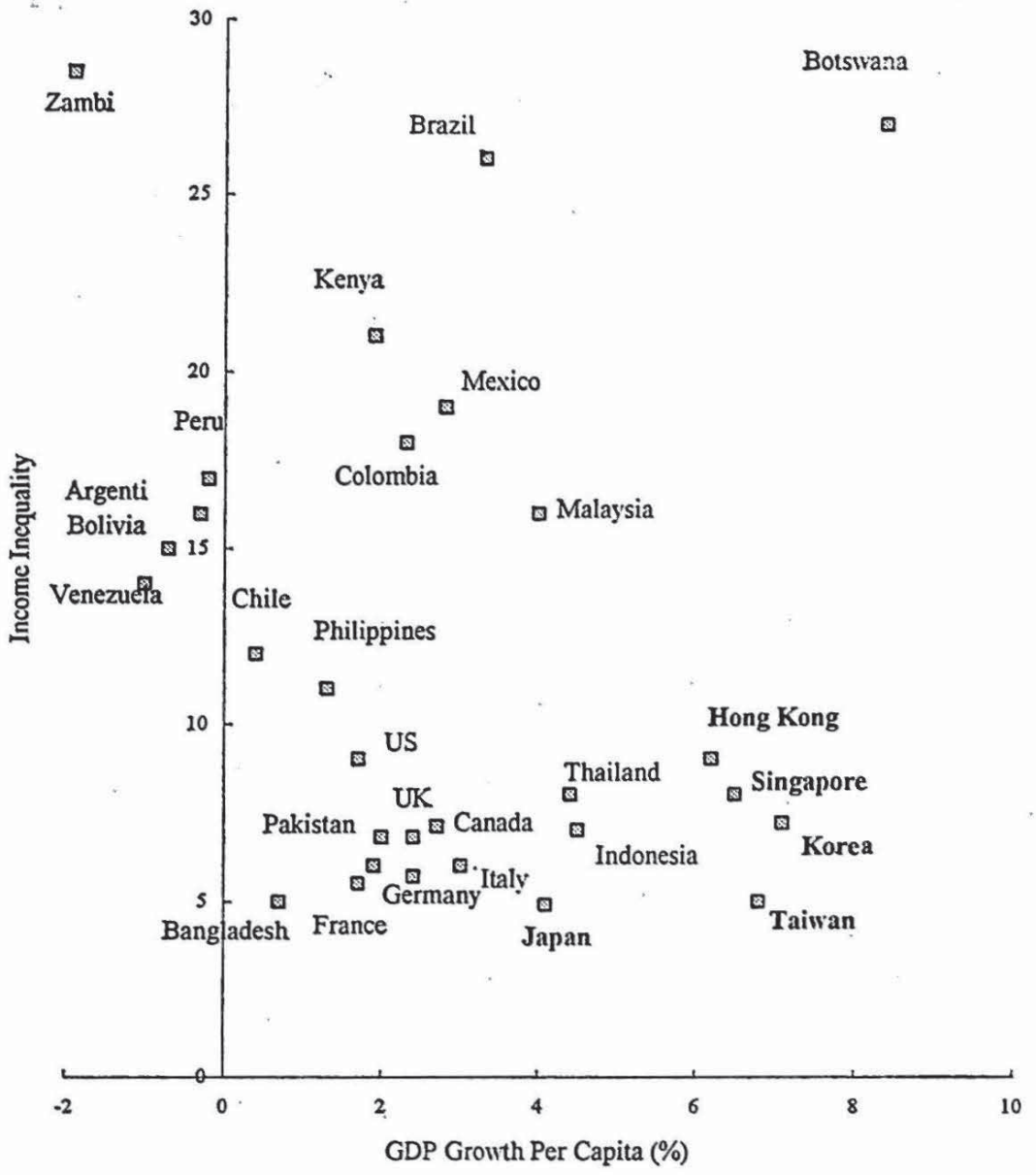
Growth with Equality

Rapid growth with reduced equality is regarded as the desirable goals for economic development by the policy-makers as well as the general populace. As the empirical studies of development economics tell us, inequality is not so prominent at the initial stage of economic growth, but the distribution of income tends to worsen as income increases from low levels. Once the economic growth arrives

8) W. Arthur Lewis, "Economic Development with Unlimited Supplies of Labour," *Manchester School of Economic and Social Studies,* vol. 22, May 1954. See also John C. H. Fei and Gustav Ranis, "A Model of Growth and Employment in the Open Dualistic Economy: The Cases of Korea and Taiwan," *Journal of Development Studies,* vol. 11, no. 2, January 1975.

9) Simon Kuznets, "Economic Growth and Income Inequality," *American Economic Review,* vol. 45, no. 1, March 1955 and "Quantitative Aspects of the Economic Growth of Nations: VIII, Distribution of Income by Size," *Economic Development and Cultural Change,* vol. 11, no. 2, 1963. See also Irma Adelman and Cynthia Taft Morris, *Economic Growth and Social Equality in Developing Countries,* Stanford University Press, 1973.

Fig. 4 Growth and Inequality of Major Economies (1965-90)



Note: Income inequality is measured by the ratio of the income shares of the richest 20% and the poorest 20% of the population.

Source: World Bank, *World Development Report 1992.*

at a certain stage, inequality reduces again. This is known as an "inverse U-shaped relation between growth and equality."[9]

The reduced inequality was the main gain for the economic development in both Korea and Taiwan. **Fig. 4** indicates that the East

Asian economies achieved the rapid growth with considerable equality. The contrasting results can be seen in the cases of Latin American economies. The benefits of growth in the East Asian economies were widely distributed. This favorable performance was attributable to their early attention to land reform, to productivity in agriculture, and to the spread of decentralized rural industries, which provided rural peasants with more opportunities for employment[10]. This wide distribution in turn contributed to the political stability that made further growth possible in the East Asian economies.

ECONOMIC PERFORMANCE OF FUJIAN

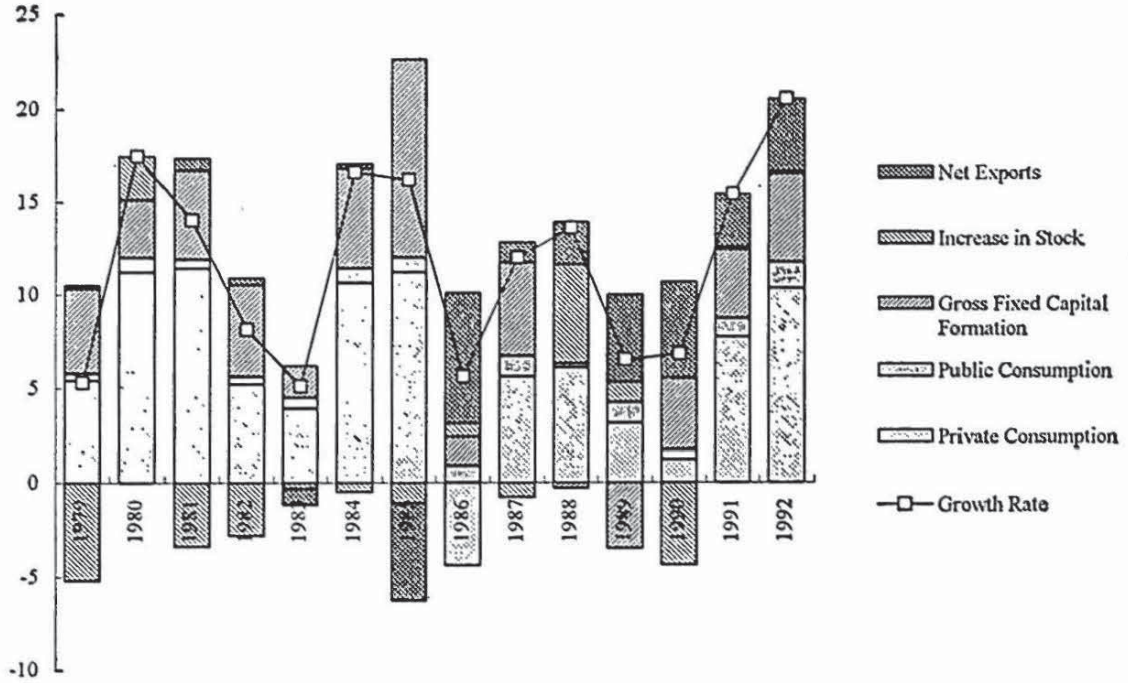
The economic development of Fujian has been outstanding since China started the reform and open-door policy at the end of 1970s[11]. Fujian economy grew at an average rate of 11.6% per annum in 1978-92. Let us therefore consider the growth process of the provincial economy from the demand side. **Fig. 5** shows the Fujian economic

10) See John C. H. Fei, Gustav Ranis and Shirley W. Y. Kuo, *Growth with Equality: The Taiwan Case,* Oxford University Press, 1979, and Shirley W. Y. Kuo, Gustav Ranis and John C.H. Fei, *The Taiwan Success Story: Rapid Growth with Improved Distribution in the Republic of China, 1952-1979,* Westview Press, 1981.

11) See Hideo Ohashi,"The Economic Development of Fujian Province," *JETRO China Newsletter*, No. 101, Nov.-Dec. 1992.

12) The Chinese authorities have not publish the expenditure statistics of GDP yet. In this estimate, we first pulled out the domestic demands by excluding the net exports (exports minus imports). Then the proportions of the GDP consumed and invested were calculated from the consumption rate and the accumulation rate in the amount of national in come. For the method of estimating the expenditure of national income in China, see Hideo Ohashi, "Keizai Seichoritsu no Juyo Komokubetu Kiyodo" (GDP components and Their Contributions to GDP Growth Rate), *MRI Chugoku Joho (MRI China Information)*, vol. 7, no. 2, May 1991, p. 15.

Fig. 5 Estimates of GDP Components and Their Contributions to GDP Growth Rate in Fujian (1978-92)



Notes 1 : Private and public consumption = private and public consumption in national income.

2. Fixed capital formation = total investment in fixed assets.

3. Increase in stock = (floating assets/accumulation in national income) × total investment in fixed assets.

4. Exports and imports are shown in RMB value exchanged by the official rate (period average), excluding service trade and inter-provincial trade due to the lack of data.

5. Values are at constant 1978 prices.

Source : *Statistical Yearbook of Fujian 1993.*

performance in 1979-92 and estimates of components of GDP[12]. Looking at it, the following characteristics of Fujian economy can be inferred from these calculations.

First, in the 1980s, particularly the early part of the decade, the Fujian economy experienced consumption-oriented growth. The double-digit growth rates of 1980-81, 1984-85 and 1991-92 were all

achieved by massive increase in private consumption. The expansion of private consumption was a factor behind the economic overheating. When its growth rate slowed, the total growth rate of the Fujian economy dropped considerably. A look at a key barometer of consumption, total value of retail sales, shows that the average annual growth rate in 1978-92 reached 16.6%, higher than the national average of 15.0%. Further, the level of consumption or the per capita consumption grew at an average annual growth rate of 14.8% during the same period, higher than the national average of 12.7%. In 1992, it reached RMB 1124 yuan, 120.2% of the national average.

Second, investment is indispensable for strong growth, serving as a growth "engine." The barometer of investment, total investment in fixed assets, achieved at an average 26.6% growth per annum during 1978-92, displaying a higher rate of growth than the national average of 19.2%. A look at the sources of funds for the investment of capital construction shows that state budget allocations accounted for 7.3%, domestic loan 33.6%, foreign capital 8.0% and independently raised fund 47.2% in 1992. The fund sources are diversifying year by year. As for the saving rate, the national average saving rate dropped 2.2 points from 1978 to 1992, while that of Fujian raised 4.8 points in the same period. Further, the saving rate of Fujian from 1952 to 1978 was an average 20.5%, and it rose to 30.5% from 1978 to 1992.

Third, in net exports, or external demand, Fujian went through an export drive, particularly after the rectification policies adopted in the late 1980s. The increase in domestic demand is defined by the ceiling on the potential for imports, so when, as in 1985, both consumption and investment grown and the economy overheated, imports immediately increased and the trade balance turned deep into

the red even in Fujian. On the other hand, from the late 1980s, while consumption faltered, investment and exports grew considerably, and external demand took the lead in the economic growth of Fujian. The average annual growth rate of exports of Fujian in 1978-92 was 24.9%, much higher than the national average of 16.7%.

COMPARISON OF FUJIAN AND GUANGDONG ECONOMIES

In this section, we compare the economic performance of Fujian with that of Guangdong. Some analyses regard Guangdong as the "fifth dragon," because it is in the process of catching up the "four dragons." In the reform and open-door policy, Guangdong goes "one step ahead in China."[13] Therefore, when we examine whether Fujian is following the East Asian development pattern, it is of great significance to make reference to Guangdong, based on the four criteria mentioned above.

Export-Dependence Ratio

The roles of exports are expanding in both Fujian and Guangdong economic growth, and the imports grew most rapidly in 1978-92 as shown in **Table 1.** Both provinces, the China's experiment cases with "special policies and flexible measures" in the reform and open-door policy, are following the export-led growth.

According to our estimates, the exports made the largest contribution to the economic growth in Guangdong in 1978-92. The contribution rate of exports reached 51% in Guangdong. On the other hand, the private consumption made the largest contribution to GDP

13) See Ezra F. Vogel, *One Step Ahead in China: Guangdong Under Reform,* Harvard University Press, 1989.

Table 1 Estimates of GDP Components in Fujian and Guangdong

Unit: %

	Fujian			
	Composition		Growth	Contribution
	1978	1992	1978-92	1978-92
Private Consumption	60.4	49.5	9.9	46.4
Public Consumption	7.7	6.7	10.4	6.4
Gross Fixed Capital Formation	11.0	28.4	11.8	33.3
Increase in Stock	16.3	-0.3	-	-4.8
Exports	4.9	33.9	27.9	42.0
Imports	-0.3	-18.2	48.9	-23.3
GDP	100.0	100.0	11.6	100.0
	Guangdong			
	Composition		Growth	Contribution
	1978	1992	1978-92	1978-92
Private Consumption	60.0	42.8	10.6	39.2
Public Consumption	4.0	7.4	18.3	8.1
Gross Fixed Capital Formation	14.7	40.2	21.7	45.6
Increase in Stock	10.6	-7.8	-	-11.7
Exports	12.6	44.3	23.9	51.0
Imports	-1.9	-26.9	37.1	-32.2
GDP	100.0	100.0	13.3	100.0

Note: At constant 1978 prices.

Source: *Statistical Yearbook of Fujian 1993* and *Statistical Yearbook of Guangdong 1993.*

growth rate in Fujian, the contribution rate of 46% in the same period, although the exports made the second largest contribution. The rapid increase in exports led to the expansion of gross fixed capital formation, that is, investments in Guangdong. In other words, we can see the "virtuous cycle of export and investment" in Guangdong. The cycle is also emerging in Fujian, but we can see it less clearly than that of Guangdong.

Export-Industrialization Ratio

In the process of industrialization, both Fujian and Guangdong expanded the exports of manufactured products, and the exports were the driving forces for industrialization in both provinces. In 1991, as shown in **Table 2**, almost 90% of their exports are non-agri-

Table 2 Exports by Commodity in Fujian and Guangdong

Unit:%

	Industry Classification			SITC	
	Agricultural Products	Light-Industrial Products	Heavy-Industrial Products	Primary Products	Manufactured Products
Fujian					
1978	32.0	63.3	4.7	-	-
1991	11.5	71.2	17.3	21.8	78.2
Guangdong					
1978	38.7	41.0	20.3	-	-
1991	9.1	75.0	15.9	15.7	84.3

Source: *Statistical Yearbook of Fujian 1993, Statistical Yearbook of Guangdong 1993* and *Almanac of China's Foreign Economic Relations and Trade 1992/93.*

cultural products in terms of the China's international trade classification, and 78.2% for Fujian and 84.3% for Guangdong in terms of SITC. In the case of Guangdong, the exports of "sanziqiye" or foreign invested companies should be added to the total exports, most of which are manufactured products. There are some differences in the export-industrialization ratios of Fujian and Guangdong. Fujian raised the ratio by increasing heavy-industrial products, while Guangdong did so by expanding light-industrial products. Therefore, Guangdong aims at the industrialization with more emphasis on labor-intensive industries.

Production-Industrialization Ratio

As shown in **Table 3,** the largest contributors to the economic growth were the secondary industries of both Fujian and Guangdong in 1978-92. Looking at the growth process of the Fujian economy from the standpoint of production, the following characteristics may be seen.

First, as for the average annual growth by industry from 1978 to

Table 3 GDP by Industry in Fujian and Guangdong

Unit:%

	Fujian			
	Composition		Growth	Contribution
	1978	1992	1978-92	1978-92
Primary	36.1	19.6	7.2	15.5
Secondary	42.4	59.4	14.7	63.6
Tertiary	21.5	21.0	11.8	20.9
GDP	100.0	100.0	11.6	100.0
	Guangdong			
	Composition		Growth	Contribution
	1978	1992	1978-92	1978-92
Primary	29.9	12.9	7.1	9.5
Secondary	46.4	59.6	15.8	62.2
Tertiary	23.7	27.5	14.9	28.3
GDP	100.0	100.0	13.3	100.0

Note: At 1978 prices.

Source: *Statistical Yearbook of Fujian 1993* and *Statistical Yearbook of Guangdong 1993.*

1992, the rate reached 14.7% for the secondary industries and 11.8% for the tertiary industries, much higher than the 7.2% of the primary industries. Obviously the economic growth of Fujian since 1978 has been led by the non-agricultural sectors.

Second, a look at this non-agricultural-oriented economic growth in terms of the rate of contribution to the increase of GDP shows this trend even more clearly. The rate of contribution by industry to the economic growth of Fujian from 1978 to 1992 was 63.6% for the secondary industries, 20.9% for the tertiary industries, and 15.5% for the primary industries. Therefore, the high growth rate of the non-agricultural sectors, especially the service sector, merely reflects the fact that the basic indicators for the sector were extremely low as of 1978. That is, the industrial sector provided the driving force behind Fujian's economic growth.

Third, major structural changes were seen in the Fujian economy as a result. In the period 1978-92, the share of industries in the

GDP, on a real basis, rose from 42.4% to 59.4% for the secondary industries, while it dropped rapidly from 36.1% to 19.6% for the primary industries. Although it also dropped slightly from 21.5% to 21.0% for the tertiary industries, the weight of new service industries such as business services rose. For example, the finance and insurance industries grew into the largest service sector by 1990, accounting for 23.0% of the added value of the tertiary industries in the same year.

As Petty-Clark's empirical law tells us, Fujian is in the process of industrialization and is one of the most industrialized provinces in China today. In comparison with the industrial structure of Guangdong, however, Fujian has a larger primary sector and a smaller service sector. We can conclude that Fujian still has some characteristics of an agrarian economy.

Employment-Industrialization Ratio

The largest difference in Fujian and Guangdong economic development lies in the capacity to absorb the surplus labor in the primary sector. As we mentioned in the export-industrialization ratios in both provinces, a driving force of Guangdong industrialization was its labor-intensive industries, while Fujian seemed to be seeking for more capital-intensive industries.

Table 4 shows the estimates of labor mobility between different sectors, that is, inter-sector labor migration. The labor force in the primary sector decreased drastically in both provinces. The secondary and tertiary industries absorbed the labor force released by the primary sector. Particularly in Guangdong, it is estimated to decrease annually at an average rate of 3.5%. Guangdong has a stronger labor absorbency than Fujian in the process of industriali-

Table 4 Labor Mobility in Fujian and Guangdong (1985-92)

	Fujian		Guangdong	
Composition (%)	1985	1992	1985	1992
La/L	61.5	56.2	60.3	47.3
Li/L	19.5	21.9	22.5	30.5
Ls/x	19.0	21.9	17.2	22.2
Growth Rate (%)	1985-92		1985-92	
G(La)-G(L)	-1.33		-3.50	
G(Li)-G(L)	1.82		4.55	
G(Ls)-G(L)	2.05		3.83	
Migration ('000)	1985-92		1985-92	
ΔLa	-634.9		-3,658.4	
ΔLi	300.5		2,243.4	
ΔLs	334.4		1,415.0	
ΔLi/ΔLa (%)	47.3		61.3	
ΔLs/ΔLa (%)	52.7		38.7	

Notes 1 : La, Li and Ls represent labor forces in agriculture, industry and service respectively.

2 : A growth rate of labor force in x sector is estimated in the form of G(Lx)-G(L), where G(L) is a growth rate of labor forces in all sectors.

3 : Estimates of labor migration between sectors are based on the growth rates assumed in note 2.

Sources: *Statistical Yearbook of Fujian 1993* and *Statistical Yearbook of Guangdong 1993*.

zation. To say it more correctly, Guangdong's labor-intensive industries have a relatively large capacity to absorb the surplus labor in the primary sector.

On the basis of our estimates, more than three million labor forces in the primary sector found their new jobs in the non-primary sectors in Guangdong in 1985-92, while only six hundred thousand labor forces left the primary sector in Fujian in the same period. Further, more than 60% of labor forces, who had been ever engaged in the primary sector, moved to the secondary sector in Guangdong in 1985-92. On the other hand, more than a half of labor forces transferred from the primary sector found their new jobs in the service sector in Fujian. According to the official statistics, 30.6% of the

Table 5 Growth Rates of Labor Productivity in the Primary Sectors in Fujian and Guangdong (1952-78 and 1978-92)

Unit: %

	G(Q/L)		G(Q/R)	G(R/L)
Fujian				
1952-78	1.77	=	3.52	-1.75
1978-92	5.96	=	7.54	-1.58
Guangdong				
1952-78	1.56	=	3.72	-2.16
1978-92	7.46	=	7.99	-0.53

Note: The labor productivity in agriculture can be expressed as follows;

$Q/L=Q/R\times R/L$

Q: Gross output value of agriculture (GOVA) at constant prices

R: Arable land

L: Labor force of the primary sector in rural area

therefore, Q/L: Labor productivity

Q/R: Land productivity

R/L: Land per laborer

It can also be expressed in terms of growth rate;

$G(Q/L)=G(Q/R)+G(R/L)$

Sources: *Statistical Yearbook of Fujian 1993* and *Statistical Yearbook of Guangdong 1993.*

former peasants were absorbed in the manufacturing industries in Fujian in 1992. The corresponding figure was 49.7% in Guangdong in the same year. It can be concluded that the absorbency of Fujian's manufacturing industries is still limited.

The contrasting nature of the capacity to absorb the surplus labor is reflected in the difference of labor productivity of the primary sectors in Fujian and Guangdong. As shown in **Table 5,** the higher growth of labor productivity was achieved by the rise in the land productivity in the primary sector of Guangdong. This was brought by the "green revolution," that is, the increase of inputs and the in-

stitutional reforms within the sector. Then, as a result of the absorption of rural surplus labor by the secondary industries, the limited decrease in land per laborer raised the labor productivity. In Fujian, the land productivity drastically rose, too. However, the decrease in land per laborer is still going on at the higher rate, and it turns out to be a ceiling on the improvement of labor productivity in the primary sector of Fujian.

POLICY IMPLICATIONS FOR FUJIAN DEVELOPMENT

After the reform and open-door policy, Fujian is one of the most rapidly growing economies in China as well as in the world, while most of developing economies are currently faced with the difficulties such as lower growth, increasing foreign debt, large trade and public finance deficits, capital flight, distorted distribution of income, poverty, and so on.

At first, we summarize the comparative analyses based on the four criteria. First, both Fujian and Guangdong are now expanding their exports on a large scale after the rectification policies adopted in the late 1980s, but Fujian exports have less linkage with local economy than those of Guangdong. Second, Fujian exports are mostly manufactured products, but they are less labor-intensive than those of Guangdong. Third, both Fujian and Guangdong are remarkably industrializing, but Fujian still has some characteristics of agrarian economy. Fourth, in spite of rapid industrialization, Fujian has not enough absorbency of the surplus labor in the primary sector.

Then, we consider some policy implications for the sustainable economic growth of Fujian in the 1990s.

First, exports are of vital importance to the sustainable economic growth of Fujian. Exports not only earn the foreign exchange for the imports of capital goods, which is a key process of the "virtuous cycle of export and investment," but exports are targeting for foreign markets, that is, very competitive markets. For the Fujian products to develop and survive in the foreign markets, the improvement of efficiency and "quality" of industrial structure is required. Further, Fujian economy can develop the markets without any limits on economic scale by exports. Indeed the domestic market of China is large and growing very rapidly, but, needless to say, the foreign markets are much larger, and some markets with larger purchasing power will attract more Fujian products.

Second, the introduction of foreign capital, especially foreign direct investments (FDI), is a "short cut" to promote exports. In fact, foreign invested companies accounted for 42.4% of exports and 24.2% of gross output value of industry (GOVI) in Fujian in 1992. The export promotion policies, such as adjustments of exchange rate and customs control, are basically national affairs. Fujian can't intervene in these policies, but it can take the initiative to invite FDI. Fujian can not only earn the foreign exchanges through exports brought forth by FDI, but it can obtain foreign capital, a wide range of technologies and "know-how," and management skills through FDI. Further, FDI creates the opportunities for employment. Therefore, it is necessary to make continuous efforts to improve the investment environments in Fujian.

Third, it is more reasonable to utilize the most of factors endowed in Fujian. There exist a huge number of labor forces in Fujian. In this context, the exportable goods should be produced according to the principle of comparative advantage, and more empha-

sis should be put on the labor-intensive industries in the industrial policies of Fujian.

Fourth, the emphasis on the promotion of more labor-intensive industries is for the purpose of absorbing the surplus labor, and making the best use of factors endowed in Fujian. They provide a large number of opportunities for employment, which induced the growth with equality in Korea and Taiwan. The labor-intensive industries are usually light and processing ones located in the down-stream of industrial structure. Without large demands created by a wide range of down-stream industries, it is difficult to establish the upper-stream industries such as materials, capital goods and intermediate inputs' industries. The labor-intensive industries are expected to create the "backward linkage effects."[14]

Fifth, the deregulation on the mobility of factors is indispensable for the sustainable economic growth in Fujian. In order to utilize the surplus labor and improve the investment environments, some regulations imposed on factors, typically labor, capital and land, should be relaxed according to the market forces. The development of factor market is the prerequisite condition for the market economy in Fujian as well as in China.

In conclusion, Fujian requires more labor-intensive industries at this stage. So far as the absorptive capacity of labor is not improved, the whole productivity of Fujian economy will remain stagnant in the future. Otherwise, Fujian will pay little attention to efficiency, and has to keep on a huge amount of investment with exceptionally high saving rates to maintain its economic growth.

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14) Albert O. Hirschman, *The Strategy of Economic Development*, Yale University Press, 1958, pp. 98-119.