

*Original scientific paper*

911.2/3(51)

## REGIONAL COMPETITIVENESS: THE CASE OF WESTERN CHINA

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**Abstract:** This paper explains the concept of regional competitiveness and the factors that influence on it. A large number of various authors explain this concept, based on its different aspects, including: productivity, mikroaspekts (firm), quality of human capital, innovation, technology, infrastructure, social capital, etc.. Taking into account complex nature of regional competitiveness, it is difficult to determine a standard definition of this term. The second part of this paper refers to the case of western China. Substantial disparity in regional development is a reality in every geographically large country, and the causes of the disparity are numerous and complex. Regional inequality has been an important issue in China. This paper generally summarized China's Western regions geography, government policies and development situation. The authors put forward some practical strategies on how to help the western regions create a favorable environment to attract national and international investment.

**Key words:** regional competitiveness, factors, regional development, western China.

### The concept of regional competitiveness

The regional component of the economy becomes subject to the scientific and political interests during the 1980s and also a very important role in the international economic debate in the last decade (Porter, 2003). Changes in economic processes, new market demands, globalisation (Zimmermann, 2002), shorter manufacturing processes, the need for innovation, etc., are the main generators of the regional economy. According to OECD reports (2002), this can be described as:

*Globalization demands more rapid adjustment and strategic positioning of not only countries but also regions, so that they are not left to lag behind or decline in the process. In the new economic environment, policy-makers are helping build dynamic and flexible regions and cities. They also assist the transition from individual closed local economic systems to a new, open global system. To do this properly, it is important to "think globally and act locally".*

Competitiveness is defined as the ability to produce goods and services which meet the test of international markets, while at the same time maintaining high

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and sustainable levels of income or, more generally, the ability of (regions) to generate, while being exposed to external competition, relatively high income and employment levels (European Commission, 1999). The term “competitiveness” became of common use only around the 1980s, by the transferring of the public policy operated by Michael Porter (Viassone, 2008). This term is very complex and presents subject of many debates among authors. At firm level competitiveness has a relatively clear meaning and can be easily defined as the capability of a firm to survive and grow, taking into account the competition of other firms for the same profits (Powell, 2001). At national level, it may be defined as the ability of producing goods and services which meet the taste of international markets, while at the same time maintaining high and sustainable levels of income or, more generally, the ability of generating relatively high income and employment while being exposed to external competition (Viassone, 2008). Krugman (1995, 1996, and 1997) is perhaps the best-known critic when it comes to using competitiveness with reference to nations. Krugman argues that using the term competitiveness is dangerous, as it can lead to protectionism and bad public policy. The term seems to imply that in the world economy, the benefit of one nation or region comes at the expense of another. Also, Krugman argues that the concept of regional competitiveness is empty and refers to nothing other than the competitiveness of firms within regions.

The issue of regional competitiveness is subject of theoretical, empirical and policy debate. In an era of performance indicators and rankings it is perhaps inevitable that regions and cities should be compared against each other in terms of their economic performance (Kitson *et al.*, 2008). It is important to understand that under this term does not include games in which there are losers and winners, but it is a possibility of the region to attract investment. Specialization, efficient resource allocation, innovation and creativity, uses of geographical and resource advantages, etc - positively affect the economy, not only a specified region, but also the economy as a whole (in specific country). Competitiveness of an economy is generated by the capacity of its region to provide such an economic activity that will affect the dynamic economic growth (Vuković, 2009).

The significance of the term regional economy can be linked to the development of economic geography. Economic geography did not have great consequence in economic research, until few decades. As a academic discipline, economic geography has held a subordinate position in relation to order branches of economics and business studies (Maskell *et al.*, 1998). Specifically, only a small number of authors took into account the location of factors of production in economic analysis (Krugman, 1991). From the 1980s onwards, economic

geography moved away from traditional economic analysis and transformed into a more interdisciplinary approach using insights from social, cultural and political sciences (Boschma, Frenken, 2005). It is clear that economic geography must move from the periphery to the main stream (Porter, 1994). There is now a considerable literature, within both economic geography and economics that emphasises the distinctive role of regions and cities as sources of key external economies (Kitson *et al.*, 2008). This interest is in fact part of a more general recognition of the role of geography as a source of increasing returns, and the rediscovery and extension of Alfred Marshall's original triad of external economies of industrial localisation. The importance of economic geography can be seen with a need of specific territorial unit to provide results based on their specific factors, or where geographic regionalists focus on defining the meaning of territory and explaining growth of a region's output (Camagni, 1992). Taking into account this observation, the economic geography is strongly linked to the regional economy.

### **Factors of regional competitiveness**

According to the original meaning, included in the Global Competitiveness Index (World Economic Forum)<sup>2</sup>, it can implicitly be understood that the regional competitiveness is the level and quality of life in one region. On the other hand, this term could be understood as ability of region to attract factors of production. Second term indicates that the regional competitiveness can be described as a regional attractiveness, because does not primary contain standard Porters indicators. This means that the regions possess informal institutions and intangible aspect of competitiveness (Zarić, 2009). The question is: What are the factors that make a region attractive? Taking into account the complex nature of regional competitiveness, we can extract the following factors of regional competitiveness:

- *Human capital* - higher quality of human capital provides a greater potential for higher added value in production. In addition, the quality of human capital is more susceptible to innovation, adoption of new technology, greater productivity, which consequently contributes to the growth of regional competitiveness. It is important to note that the major impact has the demographic structure of the population, taking into account the age and education level of residents.

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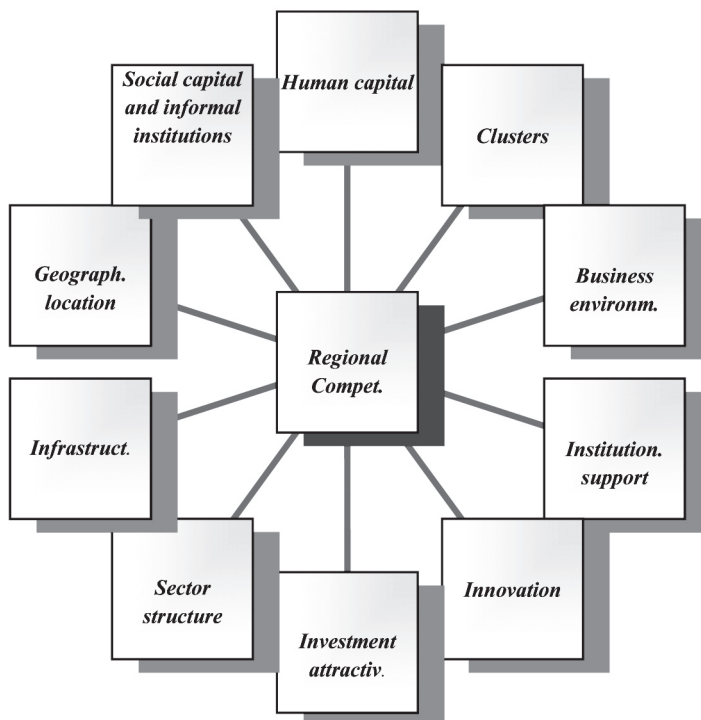
<sup>2</sup> Michael Porter and Xavier Sala-i-Martin defined competitiveness in The Global Competitiveness Report, including indicators: institutions, infrastructure, macroeconomic stability, health and primary education, labor market efficiency, good market efficiency, financial market sophistication, market size, technological readiness, higher education and training, business sophistication, and innovation.

- *Clusters* - represent an important component of regional competitiveness. Regions which develop clusters are almost always more competitive than others because they are characterized by greater specialization, better capacity of informations and business organization, the positive effects of entrepreneurial networks, etc.
- *Business Environment* - Regional competitiveness depends on the quality of business environment. Regions with better business environment are more likely to develop entrepreneurial potential and provide new business opportunities.
- *Institutional support* – Applies to government and institutions support to strengthen regional competitiveness. Appropriate regional policies, with the support of institutions (funds, agencies, etc.) generate region's competitiveness and growth.
- *Innovation* - The key element of high regional competitiveness (Sepić, 2005). When we mention the term innovation, it doesn't mean only the new and high technology, but also any improvements production, marketing, management and organization system. Taking this into account, it is clear how innovations impact on a competitive advantage of some region. The development of innovations is most influenced by the existence and connectivity of research centers, universities, companies, public, financial and other institutions. High innovativeness also requires a suitable environment, infrastructure, and co-operation within clusters of firms (Stern *et al.*, 2000; Porter, Stern, 1999).

1. *Investment attractiveness* - Domestic and foreign investments are an important determinant of growth and competitiveness of the region. When investor making investment decision, the investor will usually take into account several regions, but investor will invest only in the most attractive. The various factors will affect his decision: distance from markets, infrastructure, regulatory environment, cost factors, quality of human capital, entry barriers, social and political stability, and so on.
2. *Sector structure* - Competitiveness of the region depends on the productivity of their sectors. Those sectors that generate higher value have a greater impact on regional growth in relation to those sectors that have less. Sectoral structure of the region should be based on those sectors that have the highest productivity, which will affect more to regional competitiveness.
3. *Infrastructure* - The development of infrastructure has a major impact on the competitiveness of the region. When we observe a certain infrastructure in the region (which affects its competitiveness), then we

think on: transport, telecommunications, IT, energy, social, business and institutional infrastructure.

4. *Geographical location* - Regions located near the metropolis, will have positive effects on the competitiveness of their “neighborhood.” Similar considerations apply to those regions that are located near transportation corridors or have border advantages. Isolated regions have geographical location disadvantages (Sepic, 2005).
5. *Social capital and informal institutions* - The intangible aspects of the competitiveness of the region, which is based on social equity, tradition, a strong sense of belonging and confidence of citizens (Zarić, 2009). Regions of low factor productivity often create their own competitive position on intangible factors.



Figures 1. Factors of regional competitiveness  
Source: made by authors

### **The Case of Western China**

With the global economic integration, some changes happen, such as the global abolition of trade barriers, the shift of political, administrative and in some cases even the fiscal power to supranational and sub-national entities, limited central states to intervene and change the regional fortune. All these indicate the way will be tougher than ever to regional competitiveness as the increased regional competition for market shares, investment, and skilled workers. The main task for the policy-makers is to search for best practice and innovative territorial policies.

In the case of China, surprisingly little attention has been paid to the experience of the emerging Chinese regions in the world and there exists controversy about the key mechanism of economic growth in China. As for the current global economic development situation, the financial crisis directly led to a sharp decline in global transnational direct investment meanwhile hurting foreign investment in China. Although China remains most attractive country for foreign investment, China still should timely adjusted policies and adopted a series of initiatives, such as maintaining financial stability and promoting the revitalization of industries and the advancement of technological innovation, so as to create a sound investment environment and provide domestic and foreign companies with new opportunities and room for development.

However, substantial disparity in regional development is a reality in every geographically large country, and the causes of the disparity are numerous and complex. Regional inequality has been an important issue in China. Public concern for regional income disparity in China has been increasing quickly since the early 1990s. The concern for social equity and social stability has led China's top leaders to commit themselves to accelerating the economic growth of the interior provinces. The budgets for infrastructure investments in the poor provinces have increased substantially every year, and a Western Region Development Office has just been established under the State Council (the Chinese cabinet) to formulate a comprehensive development strategy and to coordinate its implementation.

Since the establishment of China in 1949, regional development has been a hot topic mainly as a result of its role in debates concerning the nature of socialism, central control and local autonomy, and resource allocation among regions. Since the launch of the economic reforms in 1978, China's dominant development policies have shifted from ones based on self-reliance to ones based on comparative advantage and open door policy. The acceleration in the opening-up process in 1992 led to an inflated number of so-called open economic zones, set up by local

officials without proper authorization. Besides the official policy launched by the State Council, the 30 provinces, as well as hundreds of counties and townships, started to formulate their own preferential policies for foreign investment in specific “development zones”. As a consequence of this “zone fever” (Yang, 1997), there were around 2,000 open economic zones of various kinds at and above the county level by 1993 (and probably even more below the county level), offering tax exemptions and reductions of all sorts in order to attract investment. The Open Door Policy consisted of attracting foreign direct investment and promoting foreign trade in targeted areas. This opening up initially was limited to two southern provinces (Guangdong and Fujian), then gradually was extended to larger geographical units: first along the coast and then to the inland provinces. The open economic zones provided investors with various preferential tax treatments, and exemptions on duties and from labor regulations.

Of the three regions in China: coastal, central, and western, the Chinese government focused its attention on the first when it began economic reform (Yang, 1990, 1997). In late 1999, after two decades of pursuing coastal development, Chinese leaders announced a change in China’s regional development strategy and initiated the western drive. Currently, the economic regions of China covered under the strategies promulgated by the Central government of China: The relatively wealthy east coast, “China Western Development” Strategy, “Revitalize Northeast China” Initiative, and “Rise of Central China” Strategy.

The western region of China includes 10 provinces, municipalities and autonomous regions: 6 provinces (Shaanxi, Guizhou, Gansu, Qinghai, Sichuan, Yunnan), 3 autonomous (Xinjiang, Ningxia, Tibet), and 1 municipality (Chongqing). The region covers 5.38 million square kilometers, 56% of the country land area, and has a population of 287 million people, 23% of the national total. The territory of the western region is vast, the sparse population and undeveloped economic resources need to be strengthened and exploited. It is also the region in which most of China’s minority nationalities live, for instance, Hui, Zhang, Miao, Uigur minor peoples, ect.

The western region is very rich in natural resources. Total water resource account for 82.5% of the nation’s total, and utilized water reserves account for 77% of the total, though only 1% of these reserves has been used. The region’s mineral reserves are also huge.



Figure 2. Provinces in China

Source: <http://www.euroasiasoftware.com/english/chinese/regionereng.html>

According to statistics for verified reserves, the region holds 36% of the nation's coal reserves, 12% of its petroleum and 53% of its natural gas reserves. 120 out of 140 categories of verified natural mineral resources are found in the western region, with some rare metal reserves among the richest in the nation if not the world<sup>3</sup>.

The natural and cultural resources for tourists in this region are also colorful. There are lots of World Natural and Cultural Heritages in this region. Such as Three Parallel Rivers of Yunnan protected Areas, Yungang Grottoes, Longmen Grottoes, Dazu Rock Carvings (Gansu), Old Town of Lijing (Yunnan), Mountain Emei Scenic Area, including Leshan Giant Buddha Scenic Area (Sichuan), Historic Ensemble of the Potala Palace, Lhasa (Tibet), Mausoleum of the First Qin Emperor (Shanxi), Mogao Caves (Gansu), Jiuzhaigou (Sichuan), ect. This region

<sup>3</sup> Data available: [www.stats.gov.cn](http://www.stats.gov.cn)



is contiguous to more than 10 countries with borders extending over a distance of 12,747 kilometers. With such extensive borders, there is no doubt that the region presents an attractive outlook for international trade with the border countries. The Silk Road that cut across the western region has ever been the first passage of China's exchange with outside world throughout its long history. The present western region will increasingly flourish, representing the glorious process of the region's massive development.

In 1999, the Chinese government publically announced its official plan to develop western China. Its goal is to try to achieve a satisfactory level of economic development in the western part of the country in a five - to ten - year time - frame and to establish a "new western China" by the middle of the 21st century. Then all people in the western region will enjoy social stability, economic prosperity, ethnic unity and an ecologically healthy and sustainable landscape in the future. Since the People Republic of China was established 60 years ago, the industrial systems, science technology and education, transportation, telecommunication in this region have greatly developed and a sound foundation has been laid for progressive development. The main components of the strategy include the development of infrastructure (transport, hydropower plants, energy, and telecommunications), enticement of foreign investment, increased efforts on ecological protection (such as reforestation), promotion of education, and retention of talent flowing to richer provinces.

Table 1. Population of Western Region by Sex and Age Composition, 2008.

Region	By Sex (1000 persons)		Age Composition (1000 persons)		
	Male	Female	Age 0-14	Age 15-64	Age 65 & over
Shaanxi	17233	16766	4857	17633	3055
Gansu	12010	11730	4899	16902	1939
Qinghai	2524	2484	1088	3576	343
Ningxia	2817	2716	1266	3909	358
Xinjiang	9649	9355	3978	13660	1366
Sichuan	37341	36381	12794	52488	8440
Chongqing	12878	12667	4857	17633	3055
Yunnan	21290	19658	9063	28659	3225
Guizhou	17736	16390	8888	22460	2778
Tibet	1253	1323	566	1839	172

Source: Collected from China Statistical Yearbook, 2009

Population structure in western China can best be best presented in following tables. The following table presents the structure of the population in the studied area (Western China): age structure, educational structure, the number of workers, male and female populations, and similar information (Table 1 and Table 2).

Table 2. Population of Western Region by Educational Attainment and number of Employed Persons, 2008.

Region	By Educational Attainment (1000 persons)					Workers (1000 Persons)
	No School	Prim. Sch.	Junior Secon. Sch.	Senior Secon. Sch.	College & higher level	
Shaanxi	2513	9264	12665	5023	2802	19466
Gansu	3530	7901	7283	2550	999	13887
Qinghai	704	1877	1231	483	222	2768
Ningxia	458	1673	1918	656	390	3039
Xinjiang	849	6039	6894	2029	1699	8137
Sichuan	6792	28278	24676	7012	3038	48745
Chongqing	1740	9424	9261	2564	1019	18371
Yunnan	4632	18386	11108	2571	1334	26795
Guizhou	4014	13495	10642	2354	1108	23016
Tibet	818	1131	315	80	41	1604

Source: Collected from China Statistical Yearbook, 2009

### Western Regional Development Program

The Western Development Program is basically composed of three stages in 50 years.

- From 2000-2010, the preliminary development stage, development stresses on structure adjustment, infrastructure, eco-environment, education and technology. Improvement in market mechanism, investment environment, searching for special industrial development point.
- From 2011-2030, speeding-up development stage, based on the achievement in the first stage, confirmation the development, realize the all-round improvement in industrialization, market mechanism, professional region distribution and achieve great leap on economic development.
- From 2031-2050, pushing-forward modernization development stage, reinforce the development ability to some leading regions, strive for entering the orbit of international economic system, stress on the agricultural development in the remote and poor areas, improve the productivity and people's living standard, reduce wealth disparity between regions in China. In order to carry out the great strategic plan, series of projects have been built and implemented through years.

Since the year 2000, some major projects and events are listed in the following Table 3.

Table 3. Chronicle of Event in Western Development Program, 1999-2007.

Year	Chronicle of Event
1999	the "Western Development" guidelines are clarified
2000	the "Western Development" plan begins
2001	the official website of the "Western Development" program is launched
2002	construction of the "West-East Gas Pipeline" begins
2003	the policy of "Returning Grazing Land to Grassland" comes into effect
2004	the Law on Promoting Western Development is listed on the legislative plan of the 10th National People's Congress
2005	compulsory education tuition and fees become exempt in western areas
2006	the Qinghai-Tibet Railway begins operation
2007	the Ministry of Finance invests 280 billion Chinese yuan in the west to support key projects

Source: made by authors

The western development bureau affiliated to the state council released a list of 10 major projects to launch in 2008, with a combined budget of 436 billion Chinese yuan - 64.12 billion U.S. dollars (Economic Review, 2009). These projects included new railway lines connecting Guiyang and Guangzhou, Lanzhou and Chongqing, Kashgar and Hotan in Xinjiang; highways between Wanyuan and Dazhou in Sichuan Province, Shuikou and Duyun in Guizhou Province; airport expansion projects in Chengdu, Chongqing and Xi'an. They also include the building of hydropower stations, coal mines, gas and oil transmission tube lines as well as public utilities projects in western regions. By the end of 2007, China has started 92 key construction projects in western regions, with a total investment of more than 1.3 trillion Chinese yuan (Economic Review, 2008). The Big Western Line, a possible element of the South-North Water Transfer Project, is a proposal for diverting water from the upstream sections of six rivers in southwestern China, including the Mekong, the Yarlung Tsangpo and the Salween, to the dry areas of northern China through a system of reservoirs, tunnels and natural rivers. This project may be the most controversial plan to date.

### *Policy Support*

In order to realize the achievement, China has already begun to speed up the building of extensive infrastructure projects in the western region. Water conservancy, energy, telecommunications and urban facilities have been placed at the top of the government's "Western Region Development Strategy" agenda. The State Council cooperated with all related organizations to formulate policies

and measures for the western China development. Based on the suggestions of other parties concerned and taking all factors into consideration, the Western China Development Office has formulated a comprehensive policy program for the purpose of creating positive environment for the implementation of western China strategy and rapid development of the region. Policies of reform, science, technology and education have been given special attention.

Reform and opening-up to outside are crucial areas in the course of policy-making. To reinforce reform of state-owned enterprises, animate and develop urban and rural enterprises of different ownerships including collective enterprises, individual entities, private enterprises and foreign enterprises, so as to gradually make the enterprises as the main entity in western development. Western regions should be more opened to the outside world. To improve the climate for investment, expand areas that strive for long-term and favorable foreign loans, develop export-oriented economy and exchanges with foreign economic technologies. As for the domestic enterprises, conditions should be created to attract enterprises in developed areas to invest and bring management skills to this region. East and west co-operations on economic and technological and joint development in various forms should be further strengthened. To guide foreign investment in western regions, some favorable policies have been built in succession. Such as:

- In 1995, the restrictions can be moderately relaxed as to the projects under the Category A that restricts foreign investment as long as they can take the advantages of the western resources and obey the country's industrial policies, which can be referred in "Temporary Regulations on the Guidance of Foreign Investment".
- In the "Catalogue of Foreign Investment Industry Guidance" (Revised Version 1997), conditions for foreign investment projects in western regions were improved favorably. Such as Coal-fired power plants with a capacity of 300 MW per unit are classified into the restricted Category B except for remote areas, which is actually a favorable policy catering to the western regions.

To coordinate with the western development strategy, the country has continued to adopt some "preferential policies" to encourage foreign investment in China's western areas. The policies are decided by the State Council that the foreign investment projects in western regions under the encouraged category and Category B defined by the "Catalogue of Foreign Investment Industry Guidance" can enjoy a reduced 15% income tax rate by permission after 3-year period of existing favorable taxation policies expired. And for the export-oriented enterprises with a

yearly export-to-productions rate of more than 70% or up, a reduced 10% income tax rate can be granted that year. Furthermore, the State Council has decided to upgrade 7 development zones from local level to the national level, namely, Xi'an, Chengdu, Kunming, and Guiyang in western regions (Ministry of Commerce of China, 2009).

### *Financial Support*

From 2000-2008, the total investment on the infrastructure construction amounted to 1.7 trillion Chinese yuan which is the biggest investment in history. The great financial support aimed to guarantee all projects developed for the infrastructure implemented successfully by a quick start, enough capital and highest quality ([www.stats.gov.cn](http://www.stats.gov.cn)). After 10 years construction, the western region of China has achieved progress in all different aspects, especially the following:

### *Economic Development*

China's attempt to develop its western regions has had varying effects on the West's economic development. Massive investment has boosted the region's output, effectively raising the GDP in all western regions. During the 2000-2008, the combined GDP of the western regions increased from 1.66 trillion Chinese yuan to 5.82 trillion yuan with annual increasing rate 11.7% on average. The industrial part increased from 0.59 trillion Chinese yuan to 2.4 trillion yuan. Total investment on capital asserts is up to 3.58 trillion yuan from the 0.61 trillion with an average annual increasing rate 22.9%. The total amount of consumable increased from 0.56 trillion Chinese yuan to 1.92 trillion with increasing rate 14.9% annually on average. In term of import-export trade, the total amount reached 106.8 billion US \$ with 25.6% increasing rate, from 3.8% of total nation amount in 1999 to 4.2% of total in 2008 (China Statistical Yearbook, 2000-2008). As for infrastructure development, with groups of construction projects implemented, the poor image of western region has been changed, attracting more foreign investment in the region. The total 102 major engineer programs have achieved break-up progress, ranging railway, energy, transportation to irrigation. For example, the highway mileage in Shannxi has been increased to 2500 kilometers from no more than 200 kilometers, mainly financed by the national investment in 1999-2008. Gansu has got a large growth to 1500 kilometers from only 13 kilometers in 1999 (China Statistical Yearbook 2000-2008). The development of some characteristic industries has become the regional predominance. Such as crop and livestock farming and the further processing of agricultural products that feature high technological

content, high added value, and with the capacity to increase farmer's incomes. And high-end and new technology advanced manufacturing, energy-saving and environmental protection and modern services.

### *Foreign Investment*

The economic power of the western regions has been improved remarkably after the 60-year construction, especially the 30 years of the reform and opening up. Economic conditions in various aspects, especially in Chongqing, Xi'an, Chengdu and Kunming are no worse than those of some coastal cities. In terms of attracting foreign investment, western regions have their own advantages: abundant natural resources, low labor costs, cheap land rents, and huge potential markets. However, foreign investment projects, the amount of contractual foreign capital and the amount of real utilization of foreign capital in western regions still accounted for a comparatively small proportion of the whole country. Therefore, one of the major objectives of the Open Up the West initiative was to bring in foreign investment by creating a more stable investing environment through infrastructure construction. This was a success for the western development project at some level, for statistics shows a substantial growth in foreign investment in the western regions, from US \$1,837.35 million in 1999 to \$1,922.19 million in 2001. In 2008, the foreign investment reached 66.19 billion US \$, from 1998 to 2008, increased 181.54%, from 5.2% of total in the country in 1998 to 7.2%. By the end of 2008, accumulated amount of the foreign enterprises has grown to 39,990 with real foreign capital 40.357 billion US\$ (China Statistical Yearbook 2000-2008). Now the region is still driving foreign enterprises to engage in the international service outsourcing sector and vigorously participate in various investment projects that the central government has arranged to boost domestic demand, as well as supporting the consistent improvement of the function of multinational companies' regional headquarters in China. Effective policies, stable economic growth, huge market size and labor force advantage have fueled the confidence of multinational companies, which are continuing to "extend olive branches" to the western region of China.

### *Environmental Protection*

Foreseeing significant environmental impacts in the massive infrastructure development program, the state highly publicizes environmental preservation in its campaign to open up the West. Farmland conversion to forest and grassland is the dominant strategy for this effort, targeting specifically the regions crucial to the Yangtze's protection. In Sichuan, the government aims to protect the 19.23

million hectares of existing forest and plant an additional 2.93 million hectares of new forest to diminish the amount of silt flowing into the Yangtze. Around 20,000 mu of farmland was converted in Guizhou in 2001, a key region for Yangtze preservation. In Shaanxi, 571,000 hectares of farmland and 427,000 hectares of wasteland were converted to forest or grass between 1999 and 2002. Another 280,000 hectares of farmland and the same expanse of wasteland were converted in 2003 (National Bureau of Statistics, 2005). China's environmental program in the west has made China "one of a few countries in the world that have been rapidly increasing their forest cover", according to David Dollar, director of the World Bank in China.

#### *Improvement in Living Standard*

Meanwhile net income grew on average 10% for urban residents in the west and 6.8% for rural residents. Initiatives encouraging Chinese from wealthier and more crowded regions of China to move to the relatively less crowded western regions has resulted in population growth in (a few cities), most notably Qinghai with its increase of 12.6% (Economic Review, 2009). Furthermore, with the government favorable and preferential development policy, enough financial support, and special geography, the western region of China will go further and make greater progress in the economic and social development.

#### **Conclusion**

Taking into account the large number of theories and researchings in the field of regional competitiveness (Porter 1998, 2001, 2003, Krugman, 1995, 1996, Boschma 2003, 2004, 2005, Kitson et al, 2008, Storper, 1997, Stern, 2000, Powel, 2001, and many others) it could be concluded that regional competitiveness is a very complex issue, that can not be seen only with the micro or macro point of view, because it must include local and other specific factors (social, cultural, *soft factors*) that make the region competitive. It is important to understand that under this term does not include games in which there are losers and winners, but it is a possibility of the region to attract investment. Globalization, new economic environment and the needs for innovation, demands more rapid adjustment and strategic positioning of regions. In those adjustment and strategic positionings, specialization, efficient resource allocation, innovation and creativity, uses of geographical and resource advantages, etc. - positively affect the economy, not only a specified region, but also the economy as a whole (in specific country).

In the case of China, surprisingly little attention has been paid to the experience of the emerging Chinese regions in the world and there exists controversy about the key mechanism of economic growth in China. China remains most attractive country for foreign investment, still should timely adjusted policies and adopted a series of initiatives, such as maintaining financial stability and promoting the revitalization of industries and the advancement of technological innovation, so as to create a sound investment environment and provide domestic and foreign companies with new opportunities and room for development. In 1999, the Chinese government publically announced its official plan to develop western China. The western development bureau affiliated to the state council released a list of 10 major projects to launch in 2008, with a combined budget of 436 billion Chinese yuan (64.12 billion U.S. dollars). These projects included new railway lines, the building of hydropower stations, coal mines, gas and oil transmission tube lines, but also developing of export-oriented economy and exchanges with foreign economic technologies. After 10 years construction, the western region of China has achieved progress in all different aspects, especially the following: Massive investment has boosted the region's output, effectively raising the GDP in all western regions, also affect: infrastructure development, total investment on capital asserts, the total amount of consumable, the industrial part increased, etc. FDI in the western regions increased 181.54% from 1998 to 2008.

*Manuscript submitted in April 2010; accepted in May 2010*

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