A man of the state of Lu (in today’s southern Shandong province) was skilled in weaving hemp sandals and his wife was good at weaving fine white silk. The couple were thinking of moving out to the state of Yue (in today’s Zhejiang province). ‘You will be in dire straits,’ he was told. ‘Why?’ asked the man of the Lu. ‘Hemp sandals are for walking but people of the Yue walk barefoot. White silk is for making hats but people of the Yue go about bareheaded. If you go to a place where your skills are utterly useless, how can you hope to do well?’

– Hanfeizi (280–233 BC)

8.1 Comparative advantage index

A glance at modern Chinese history reveals that China’s economic development has been concentrated in three geographical areas: the Bohai Sea rim (BSR) area, the Pearl river delta (PRD) area, and the Yangtze river delta (YRD). In terms of physical environment, the three areas are mutually complementary. For example, most of the BSR area (including Beijing, Tianjin, the coastal Hebei, and the peninsulas of Shandong and Liaodong) belongs to the semi-arid zone, while the PRD area (including Guangdong, and northern Hainan, Hong Kong and Macau)\(^1\) is classified as tropical. Nevertheless, the YRD area (including Shanghai, Zhejiang, and southern Jiangsu) has a semi-tropical temperature. Culturally, the three areas are dominated by the ethnic Han community. But there also exist some differences. For example, although written Chinese is used widely throughout the country, people in the BSR area speak Mandarin, while those in the PRD and YRD areas use Cantonese and Wu

as their native spoken languages, respectively. Daily food is also cooked differently in the three areas.

It is evident that mutually complementary conditions exist in these three areas. In general, the BSR area has advantages in terms of agricultural products, energy, industrial materials, some high-tech products and education. However, this area possesses obsolete equipment; lacks management experience for small and medium-sized enterprises; and has a shortage of capital. This PRD area neighbors Hong Kong and Macau and so has the advantages of accessing international markets and attracting foreign direct investment (FDI). Most overseas Chinese, many of whom were sources of FDI in China during the early 1980s and the 1990s, originated from this area. It is also the area which was the first to open its doors to the outside world. For example, among the original four special economic zones (SEZs), three (Shenzhen, Zhuhai and Shantou) were established in this area. With favorable conditions for international trade, the PRD area has the freest market; and considerable management experience for small and medium-sized enterprises. The disadvantages of the area are, among others, the less-developed education sector, and a shortage of industrial materials, especially energy and some mineral resources. The YRD area has advantages in terms of education, management experience for large modern industrial bases, and rural industrial enterprises. A lack of industrial resources, especially minerals and energy, is one of the many disadvantages in this area. Table 8.1 sorts out the advantageous and disadvantageous industrial sectors for the three areas.

There exist many multiregional differences in terms of natural and social resources, industrial structure and economic development in China. For example, Shanxi (the western part of Mount Taihang) province has abundant coal resources but poor mineral, petroleum and agricultural resources; except for petroleum, non-metal and agricultural resources, metals and coal resources are relatively poor in the province of Shandong (the eastern part of Mount Taihang); Hebei (the northern part of the Yellow river) province has a surplus supply of metals and coal resources but lacks petroleum and non-metals; Henan (the southern part of the Yellow river) province has rich coal, metal and agricultural resources but low non-metals.

To have a better understanding of the multiregional comparative advantages in China, let us introduce a quantitative index \( Q_{ij} \), which is formulated as follows:

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Q_{ij} = \frac{x_{ij}}{\sum_i x_{ij} / \sum_j \sum_i x_{ij}} \tag{8.1}
\]