

## **A Study on the Relationship between Price Policy Application and Regional Economic Development**

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### **Abstract**

*To promote the coordinated development of regional economy, the application of price policy to promote the coordinated development of regional economy is worth research besides the application of fiscal policy, financial policy and other traditional polices in terms of the regional economic policy. As for the application of price policy, the following several aspects can be the start: to moderately increase resource prices and promote the adjustment of regional industrial structure; to implement price compensation system for resources and ecological environment and promote the sustainable development of regional economy; to formulate reasonable region difference and product price ratio and promote the development of regional trade; to determine the reasonable resources price ratio and the production factors price and narrow the gap in development among regions; to use the price transfer payment and promote the development of less developed regions.*

**Keywords:** regional economy; price policy; industrial structure; transfer payment

At present, the overall situation of China's economic development is good; and the regional economic growth has become an important growth point of national economy. However, in the process of regional economic development, there is still low-level repetition and blind competition. Moreover, the contradictions such as regional difference expansion are still outstanding. To promote the coordinated development of regional economy in China, besides the application of the traditional fiscal policy, financial policy and industrial policy, the application of price policy to promote the coordinated development of regional economy is worth research. The following analyzes how to use the price policy to promote the coordinated development of regional development from the aspect of structure, sustainable development, regional trade, and regional differences respectively.

### ***1. To Apply the Price Policy to Promote the Regional Economic Structure Adjustment***

Under the market economy environment, the more important point of adjusting the economic structure is to play the role of the price leverage besides the traditional policy guidance and administrative means. Price changes can induce or force the economic subject adjusting input and output without too much cost paid by the government. In this way, rationalization of economic structure can be achieved. Therefore, the price policy is promising in the regional economic structure adjustment.

#### **1.1 To Moderately Increase Resources Prices and Promote the Adjustment of Regional Industrial Structure**

The resource price in China is basically of the government pricing or government guidance prices and only reflects the resource development costs. There is no universal coverage for environmental damage cost and safe production cost, and resource tax is low. The more important is it fails to reflect market supply and demand and resource scarcity and leads to the resource price rather on the low side.

At present, the low regional industrial structure level and the extensive growth mode problems are further prominent. To appropriately increase resource prices is conducive to adjusting the industrial structure, transforming the mode of economic growth, saving and intensively using resources, and enhancing the high degree processing of products and technology intensification.

The increase of the price of resources can make the local government and enterprises that pursue benefit maximization actively adjust the industrial structure, truly reduce or restrict energy intensive industries and enterprises, actively pursue scientific and technological progress and independent innovation, practically innovate production process and flow, enhance the deep and fine processing of products, improve the level of comprehensive utilization of resources, and reduce resource consumption aggregate. The increase of the price of resources also makes the local governments and enterprises develop the low-consumption modern service industry and high-tech industry and promote the upgrade of regional industrial structure.

The appropriate increase of resource prices, at the same time, is conducive to regional industry layout optimization. By promoting industrial concentration and enterprise agglomeration, enterprises can increase the investment intensity of unit resource consumption and utilization efficiency to lower down the cost through the pursuit of economies of scale and agglomeration economy. An area with a particular resource endowment and industrial advantage can obtain the mover advantage of further developing this resource industry and cumulative effect. Based on the regional resources endowment and industry development direction, local governments can carry out differential pricing policy, guide the shift from the disadvantage to advantage industry, eventually promote regional specialization and cooperation, and form the distinctive regional economy<sup>[1]</sup>.

### **1.2 To Implement Positive Price Means and Promote Regional Industry and Labor Transfer**

From the perspective of regional industry transfer and in terms of regional industrial development, the government should get rid of the stale and take in the fresh, i.e. some industries should be eliminated, and some industry should be moved to the next level area including rural areas, and accept the industrial transfer from the developed areas and develop new industries to achieve the purpose of industrial structure optimization besides the traditional industry's technological transformation and system innovation.

To promote traditional low-end manufacturing in developed regions transferring to the less advanced regions, a region should make room for attracting the advanced manufacturing and high-end services outside of this region entering the developed areas of this area. The government can form production and management cost difference within the area, form a "depression effect", guide the orderly transfer of regional industry, and realize the rational flow of factors such as labor and capital through adjusting the charge for water and electricity and other production capital goods and carrying out preferential price policy and other measures<sup>[2]</sup>.

## **2. To Use Price Policy to Promote the Sustainable Development of Regional Economy**

Although the level of economic development is relatively backward, a lot of less developed regions in China have an obvious advantage of resource advantages and ecological advantages. However, this kind of resource advantages and ecological advantages has not been fully reflected in price. The too low resources and primary product price is an important cause of the backward economy in these regions. According to investigation of poverty relief office of the state council, 76% of the poor peasant households without adequate food and clothing for years are living in the western mountainous regions. These regions output resources to developed areas and undertake the cost of ecological damage, but do not get the corresponding compensation. The price policy should be fully used to promote the sustainable development of regional economy.

### **2.1 To Reform Price Policy of Resource Utilization and Promote Regional Resources Economic Development**

From the perspective of economics, the excessive destruction of environment and the abuse of environmental resources are mainly caused by the highly externalization of cost of using environmental resources. That is to say, the cause of environmental destruction is the saboteur has not fully paid for the destruction of environment or escape paying for the responsibility. According to the principle of western economics, increasing the price of using resources can make its personal cost higher than the social cost so that the user can intensively and economically use the resources and promote the sustainable development of resource economy.

The "suggestion" of the fifth plenary session of the 16<sup>th</sup> CPC explicitly pointed out setting up a sound system of paid use of resources.

Through the establishment of compensation mechanism and according to different amount of resources, population, economy and environment in different regions, a country should set up different development goals and evaluation criteria so that the ecologically fragile areas can undertake more responsibility for the ecological protection but not economic development responsibility and set up the mechanism for ecological compensation of

downstream to upstream regions, developed regions to protection regions, benefit regions to the damage regions, the urban to the rural, and the rich to the poor to balance the benefits of each parties. At the same time, the government should encourage the development of renewable resources such as water and electricity and forest, actively solve the current problem of low feed-in tariff of small hydropower, one of the clean energies, develop and implement the minimum protective price, stimulate the enthusiasm of development and utilization of small hydropower in mountainous regions rich in hydropower resources, and promote the development of renewable energy.

## **2.2 To Use the Compensation Policy for Ecological Environment Construction and Promote the Regional Ecological Economic Development**

Many less developed regions in China are weak in infrastructure, local finance and people's income. At the same time, here is the source of China's major rivers. In recent years, under the "barometer" guide of existing economic development evaluation index system, some regions one-sidedly pursue to the GDP growth and impractically bring in some industrial enterprises (even polluting enterprises), which leads to the result that the ecological environment is getting worse and gradually affects the ecological environment and economic development in the economic developed regions.

A good ecological environment in underdeveloped regions has the nature of quasi-public property. The government should strengthen ecological environment protection and construction, implement grain for green and grasslands on hilly lands, preserve hillsides for reforestation, and prevent soil and water loss. Thus, the whole society can benefit from better ecological environment. However, farmers private benefits are much smaller than the social benefits, which should be compensated by the state for ecological environment construction for farmers and make the private benefits and social benefits equal so that farmers' motivation for ecological environment construction can be enhanced to reach the Pareto optimal state.

To stimulate the regional ecological economic development, the problem needing first solution is food, forest, grass price relationship and to arouse farmers' enthusiasm of planting trees and grass. This is a key issue related to various interest relations. If it cannot be solved properly, making good industrial structure adjustment and environment protection is meaningless. If food, forest, grass price relationship is not reasonable, the situation of deforestation for grain will occur again. To solve the problem of food, forest, grass price relationship mainly lies in eliminating the relatively low price of forest and grass, which relies on not the only one price subsidy policy.

In addition, the current society attaches great importance to the scientific development and sustainable development. The conflict between the gradual lower "total amount of pollutant discharge" and "pollutant discharge amount" caused by development of each region particularly developed regions is increasingly obvious and the less developed regions have a large environmental capacity. It is worth the attention to explore and set up the regional ecological environment compensation and emission trading mechanism. The index evaluation system of sewage and exhaust emission should be strictly formulated and the developed regions buying emission indexes from the less developed regions should be encouraged. Thus, it can both encourage the developed areas to transform the mode of development and guide them to develop the economy in strict accordance with the requirements of the scientific outlook on development, and make the less developed areas increase income and narrow the gap in development among regions.

## **3. To Use the Price Policy to Promote the Regional Division of Labor and Regional Trade**

### **3.1 To Form the Price Mechanism of Promoting Regional Division of Labor**

Under the condition of market economy, there is price difference in different areas of some goods and factors of production such as labor, land and capital, etc. The pursuit to the profit maximization of using goods and factors of production make people both consider the market sales of commodity and the cost of production of goods, which will operate on the formation and development of regional division of labor. There are differences in supply aggregate, production cost, income level, total demand and structure in different regions, which has a direct impact on the formation of commodity prices.

Interregional factor mobility and commodity exchange can make some factors and commodities gradually concentrate in some regions with better production condition and appropriate adaption between the price level and demand ability.

Interregional supply and demand proportion of production factors and factor price difference are the direct cause of forming regional division of labor. Price mechanism will force some regions give up some goods production, also can promote the development and expansion of the production of certain commodities, thereby, the distinctive regional division of labor is gradually formed.

### **3.2 To Formulate Reasonable Region Price Difference and Product Price Ratio and Promote the Development of Regional Trade**

Reasonable price can promote the normal development of regional trade; the unreasonable prices will limit the development of regional trade. In the regional trade, whether the price is reasonable or not is mainly reflected in the following aspects.

First, whether regional price difference is reasonable or not. If the unreasonable price and the price subsidy policy result in price inversion, i.e. the price in production area is high but low in sales location, then, the production area will be unwilling to sell and sales location will be unwilling to buy. The result is the product in production area is greatly overstocked while short in sales area and the product tends to return to the production area, and then it will be transported to the sales location to processed or produced again. The structure results in unnecessary waste<sup>[3]</sup>.

Second, whether the price ratio of industrial and agricultural products is reasonable or not. Since long ago, the price of agricultural products, raw materials and other primary commodity is in the low side and processing price is on the high side. Therefore, agricultural provinces will limit the outflow of region's primary products (including agricultural products, minerals and other raw materials) to guarantee the raw material source of local processing enterprises and develop processing industry one after another. Meanwhile, they will limit the finished products of other regions to flow into the local market, form market blockade to enlarge local products market share in the region and guarantee the development of local enterprises. Therefore, to compete for raw materials, many regions areas launched a "wool war", "tobacco wars", "cocoon war", and "coal war", etc. throughout the country. To compete for the market, many regions across the country launched the "color television war", "refrigerator war", "air conditioning" and even "car war", etc<sup>[4]</sup>. The result is the situation has seriously affected the development of the regional division of labor and trade and led to low level and repeated industry and low economic efficiency. Therefore, the reform of price system in China should mainly focus on improving the price of agricultural products, energy, and raw materials, industrial and make agricultural and industrial products price ratio develop in the direction of rationalization systematically.

## **4. To Use the Price Policy to Shorten the Regional Development Gap**

### **4.1 To Determine the Reasonable Resources Price Ratio Relations and the Production Factors Price to Narrow the Gap in Development among Regions**

A reasonable resources price ratio relation is not only conducive to the optimization and adjustment of the resources structure, but also the smooth and healthy development of resources industry in China and laying a foundation for the sustainable development of economy in China. Whether the price ratio relation is reasonable or not touches on the interest relationship between different industries and different regions and directly affects the coordinated development of regional economy. The long-term unreasonable resources price ratio in China has made the north and south region economic difference markedly increased. Therefore, to realize economic sustainable development, the resources price ratio relation in China must be rationalized gradually. The situation of too low price of upstream energy and resource products compared with the price of downstream industrial products should be changed. The key point is to adjust the unreasonable price ratio relation between crude oil, natural gas and coal for electricity generation. Relevant industry price linkage mechanism and interests regulating mechanism between upstream and downstream industries and regions must be set up and perfected.

Because the market mechanism and related policies in China are not sound and reasonable, the actual price of factors is lower than the market equilibrium price, which further leads to the western and middle regions with rich production factors suffer from some loss in terms of economy and social welfare. This situation forms the impetus of further expansion of regional difference<sup>[5]</sup>.

Therefore, maximally reducing the distortion of factor prices, perfecting the pricing mechanism of production factors such as labor and land and changing the unreasonable price relation have a basic significance of both improving income distribution and increasing the economic efficiency, and transforming the pattern of economic development.

#### **4.2 To Use the Price Transfer Payment to Promote the Development of Less Developed Regions**

Moderately increasing resource price and implementing compensation system of ecological environment construction can both promote the regional economic structure adjustment and sustainable development and make the developed area free of charge promote the development of the less developed regions with rich resources and good ecological environment. This is actually a kind of means of price transfer payment. Price authorities should fully use price transfer payment means to really support for economic development in less developed areas in the resources and environment price policy and make full use of the advantages in resources and environment of the less developed areas.

Price transfer payment can be represented in key sectors and crucial links of economic and social development of price authorities. When formulating the governmental price of a commodity or service price in a certain region, they can adopt a unified sales price and service fee standard and let the consumers in the developed regions undertake the production and operation cost of the goods and services priced by the government in the less developed regions to reach the goal of promoting economic and social development in the less developed areas.

Regarding the practice of using price transfer payment policy, if a unified price of goods and services is adopted, it will be simple, easy, and readily acceptable to the civilians. For example, if a unified sales price of electricity, refined oil retail, the highest salt retail and national essential medicines retail is adopted and other price transfer payment means, the burden of the less developed regions can be eased and economic and social development in underdeveloped regions can be promoted.

From the above analysis, it can be seen if price policy can be fully adopted, it can not only accelerate the pace of regional industrial structure adjustment and promote the sustainable development of regional economy, but also promote regional trade and narrow the gap in development among regions and achieve regional coordinated development. Based on the present situation of regional imbalance and inefficiency of regional economic development in China, the good and practical price policy will no doubt play an active role in promoting the development of regional economy in China.

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