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**Lu Kebin**

School of Business, Anhui Xinhua University  
Hefei, Anhui, P. R. China  
Position: Professor  
[lukebinxinhua@163.com](mailto:lukebinxinhua@163.com)

**Pan Qintian**

School of Economics and Management, Anhui Agricultural University  
Hefei, Anhui, P. R. China  
Corresponding author  
Position: Graduate student  
[panqintian@stu.ahau.edu.cn](mailto:panqintian@stu.ahau.edu.cn)

**Zhou Zexin**

School of Economics and Management, Anhui Agricultural University  
Hefei, Anhui, P. R. China

**Liu Yinuo**

School of Economics and Management, Anhui Agricultural University  
Hefei, Anhui, P. R. China

**Fang Hongxian**

School of Economics and Management, Anhui Agricultural University  
Hefei, Anhui, P. R. China

**Zhang Wanqiu**

School of Economics and Management, Anhui Agricultural University  
Hefei, Anhui, P. R. China

**Yang Ying**

School of Economics and Management, Anhui Agricultural University  
Hefei, Anhui, P. R. China

**Wu Yiping**

School of Economics and Management, Anhui Agricultural University  
Hefei, Anhui, P. R. China

**Du Yuneng**

School of Business, Anhui Xinhua University  
Hefei, Anhui, P. R. China

## DID «THIRD LINE CONSTRUCTION» MATTER IN CHINA'S HINTERLAND ECONOMIC GROWTH FROM 1965-1980?

*Abstract: The dialogue regarding the potency of industrial policies remains a sustained interest within academic circle, and comprehending the economic implications of preceding industrial policies is paramount, which will evolve*

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into an indispensable foundation for crafting future development strategies. As an imperative industrial policy, the construction of the third line still serves as a substantial empirical materials for research, particularly in contemporary China where historical statistical data gaps are progressively bridging and new measurement methods are persistently evolving. By taking the implementation of the third line construction policy as the research subject and scrutinizing the effectiveness of industrial policies, this paper employs data from the CEI and Gotohui databases to empirically examine the impact of third-line construction policies on regional economic advancement through cross period synchronization of administrative divisions with the multi-stage difference method. The study discovered that the execution of the third line construction policy substantially enhanced the economic advancement of the region, but subsequent to the termination of the third line construction, the economic growth rate of the original third line construction area exhibited a relatively significant downward trajectory. This signifies that in nations with economies in transition exemplified by China, regional industrial policies and investment incentives can alter the trajectory of economic growth, but their impact gradually diminishes over time. This also provides a historical outlook for further comprehension of industrial policy, and the policy itself is a historical artifact under specific situational restrictions. When the actual circumstance alterations, industrial policy should be correspondingly readjusted.

**Key words:** Third line construction; Industrial policies; Economic growth; Multi-stage difference.

**Language:** English

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### Introduction

"Third Line Construction" in China more specifically denotes a vast infrastructural and industrial advancement program implemented during the mid-20th century, predominantly within the 1965 - 1980. This initiative was orchestrated by the Chinese government to transfer and erect principal defense and industrial establishments in the hinterland territories of China, beyond the coastal areas that were more susceptible to prospective foreign invasions[1]. The "Third Line" usually encompasses projects encompassing the structure of subterranean bunkers, factories, military establishments, and other imperative infrastructure. This endeavor was primarily propelled by the strategic apprehensions of the Cold War era, as China sought to shield itself from potential military threats and espionage[2].

The Third Line Construction initiative necessitated substantial manpower and resources, and it played a pivotal role in steering the evolution of the interior regions of China, comprising Sichuan (including Chongqing), Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinghai, Shanxi, Hebei, Henan, Hunan, Hubei, Guangxi[3]. Throughout the 16 years of the third line construction, China invested 205.27 billion yuan across 13 provinces and autonomous regions belonging to the third line region, accounting for over 40% of the total national capital construction investment during the same span[4]. 4 million laborers, officials, intellectuals, People's Liberation Army officers and soldiers, as well as hundreds of thousands of migrant workers, have established over 1100 large industrial and mining establishments, scientific research facilities, and colleges and universities through diligent efforts[5]. China has invested a substantial amount of material, human, and financial resources in the establishment of the third

line[6]. Consequently, whether these investments have escalated the economic output of China's hinterland is a subject worthy of inquiry.

The effective utilization of the third line construction is currently at the forefront of academic circles. By scrutinizing the attributes of third line construction planning layout and the spatial configuration composition of the residual factories in the northern region of Sichuan, the influences of third line construction layout have been explored, intending to expand the protection and utilization tactics of the third line construction industrial remnants[7]. Compared with other entities in the machinery sector of Chengdu city, the factory nestled in the mountainous terrain holds potential for further development and application[8].

There are also scholarly endeavors analyzing the advancement trajectory of China's third line construction research from linguistic and literary perspectives[9], and how the library can proactively participate in the knowledge production procedure associated with the third line construction was also deliberated[10]. Through examining spatial models and the spatial design of China's third line construction from a historical perspective, China's resolve and ambition to confront the Cold War paradigm in history has been reflected[11].

China's third line construction is fundamentally an economic endeavor, therefore its present worth should not be restricted to historical remnants and intellectual literature. Examining the economic ramifications of third line construction is likewise an area that pertinent research should broaden[12]. Regarding the fiscal benefits of third line construction, corresponding academic scrutiny has not arrived at a uniform conclusion. Certain studies suggest that the economic advantages of third line construction were

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nominal[13], while others contend that third line construction fostered the advancement of China's hinterland regions especially in urbanization[14][15].

The third line construction methodology is essentially an industrial policy[16], and the explicit goals of industrial policy encompass economic augmentation and infrastructure development[17]. Contrarily, industrial policy emphasizes that the government should focus more on competition policy, which is a framework of governmental rules and regulations devised to foster and uphold equitable competition in markets[18]. However, there has been persisting controversy in the scholarly community concerning the efficacy of industrial policies and competition policies[19][20]. The debate between industrial and competition policies persists as a critical issue in economic policy formulation, and the optimal equilibrium between them can fluctuate extensively across varying contexts[21].

Investigating the repercussions of the third line construction on China's economy still holds positive implications for China's economic evolution trajectory, and can provide historical empirical corroboration for pondering industrial policy[22]. As China's historical statistical data voids gradually be filled and contemporary measurement methodologies be improved, there exist opportunities to employ novel data and techniques to ascertain whether the third line construction propels the economy in third line locales. The aim of this investigation is to utilize the Difference-in-Differences technique and statistical data from the CEI and Gotohui database to verify whether cities subsequent to the implementation of the third line construction policy demonstrate substantial advantages in economic progression compared with non-third line construction cities, and subsequently evaluate the impact of third line construction on the local economy from the viewpoint of industrial policy implication.

The schematic of this study primarily encompasses: By discerning all third line construction cities, the cities with GDP data from 1964 to 1980 were segregated through the CEI and Gotohui database, and employed these cities as the experimental group. For cities in non-third line construction regions, also by scrutinizing the CEI and Gotohui database to identify those cities with GDP data from 1964 to 1980, and used these cities as the control group. By incorporating control variables like population, distance from the provincial capital, and altitude, the difference-in-differences method was utilized to assess whether the strategic policy of third line construction confers a positive influence on the economic progress in the third line regions. To further analyze the policy effects of the third line construction, using the same methods and data sources, extending the research time from the cessation of the third line construction to the beginning of the Western Development Policy in

1981-1997, it was found that the cessation of the third line construction policy significantly negatively affected the economic growth of the original third line construction regions. Lastly, based on the econometric outcomes, it is discerned that from an empirical standpoint, industrial policies in Chinese history exhibit a positive stimulating effect on local economic growth.

## II. Theoretical analysis and research hypothesis

The field of industrial policy theory probes into how government intervention can influence industrial and economic outcomes[23]. The theoretical underpinnings of industrial policies for stimulating regional economic prosperity are grounded in the notion that government intervention can strategically navigate and propel economic growth in specific regions[24]. Advocates of industrial policies postulate that markets do not consistently ration economic opportunities and resources evenly across regions[25]. Through selective interventions such as subsidies, tax incentives, infrastructure investment, and skills formation, governments aspire to foster the progression of local economies[26]. This strategy is fortified by the conviction that deliberate government intervention can accelerate the potential economic flourishing in regions, mitigate regional disparities, and contribute to a more balanced and inclusive national economic growth. Unquestionably, China's third line construction is also a pivotal industrial policy.

As an industrial policy, the impact mechanism of the third line construction on regional economic growth manifests in several dimensions. Firstly, the massive investments associated with the third line construction have generated substantial employment opportunities and production capacity in the local regions, thereby propelling economic growth. Secondly, the introduction of relatively advanced technologies and management experiences during the third line construction has elevated local production efficiency and quality standards. Thirdly, the large-scale development and utilization of local natural resources, including minerals, water resources, and land, have occurred within the framework of the third line construction. Fourthly, the third line construction has involved the adjustment of local industrial structures, with an emphasis on strengthening the proportion of heavy industry within the economic structure. Finally, the third line construction has facilitated the expansion and development of local markets, attracting a larger population to reside and consume in these regions, further augmenting regional economic growth.

Thus, whether it has relatively catalyzed the China's hinterland economic growth during the implementation phase, and whether there has been a relative lull in China's hinterland subsequent to the

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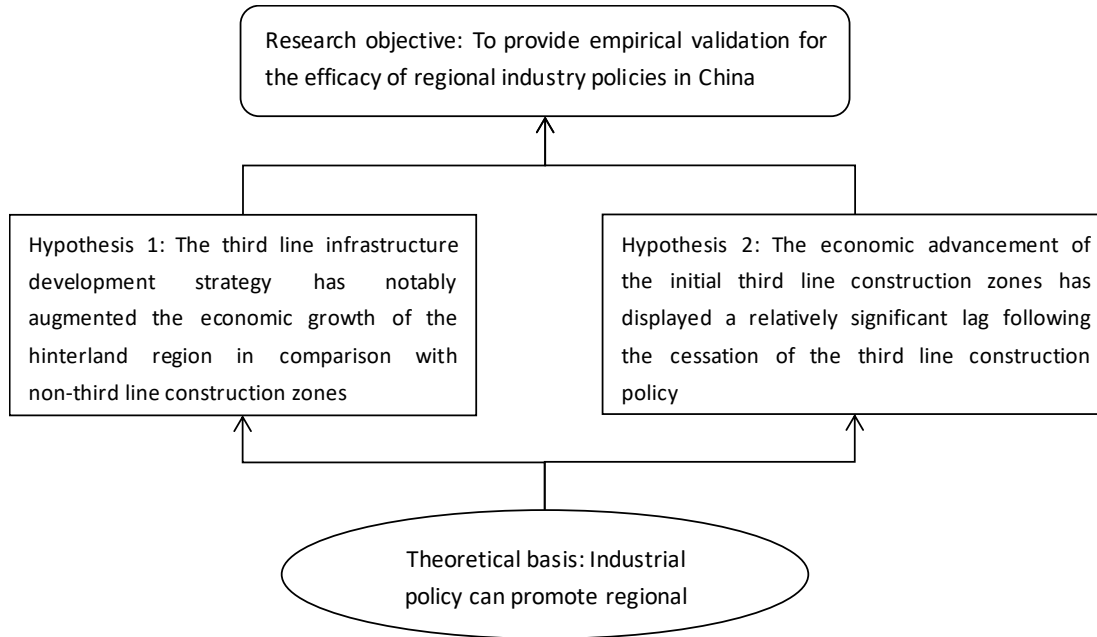
termination of the third line construction policy, these two issues can be examined from a econometric perspective. Consequently, two research hypotheses were formulated as follows:

H1: The execution of the third line construction policy substantially enhanced the economic growth of the region contrasting non-third line construction regions from 1965-1980.

H2: Following the cessation of the third line construction policy, the economic progress of the

original third line construction regions demonstrated appreciable retardation from 1981-1997.

Presumably, the industrial policies of mainland China ought scientifically endorse the regional economic advancement, and this issue forms the crux of the econometrics examination in this paper. The research proposition is encapsulated in the figure 1 below.



**Fig. 1: Concept and thought map**

**III. Materials and Methods**

**3.1 Selection of research subjects**

To investigate the practical impact of China's third line construction strategies, the geographic regions surveyed should naturally comprise the third line construction zones as the experimental group, and non-third line construction zones as the control group. Ideally, all prefectural level municipalities within the thirteen provinces under the third line construction would function as experimental groups, while other cities of the same development level which are not under the third line construction serve as control groups. However, owing to lacking economic data during the initial stages of China's development, and considering that this research primarily concentrated

on the 1960s to 1970s, selecting cities with accessible data became the only choice. Following this principle, through an exhaustive assessment of the CEI and Gotohui databases, supplemented by requisite interpolation techniques, 16 third line construction cities with data were pinpointed as experimental groups. It should be underscored that to ensure that the control group cities align economically with the experimental group cities, this study opted to exclude those mega cities and provincial capital cities, informed by expert analysis methodologies [27], and identified 16 non third line construction cities with data as the control group. The specific cities comprising the experimental and control groups are illustrated in table 1 below:

**Table 1. Regional research subjects**

Province	Experimental group	Province	Control group
Heilongjiang	Jixi	Sichuan	Luzhou

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Jiangsu	Changzhou		Leshan
Zhejiang	Quzhou		Yibin
	Xiamen		Dazhou
	Quanzhou	Yunnan	Kunming
	Zhangzhou		Xi'an
Fujian	Sanming	Shaanxi	Yan'an
	Putian		Yinchuan
	Nanping	Ningxia	Shizuishan
	Longyan	Hebei	Tangshan
	Ningde		Sanmenxia
Jiangxi	Ganzhou	Henan	Nanyang
Shandong	Weihai		Huangshi
	Huizhou		Yichang
Guangdong	Zhanjiang	Hubei	Jingmen
	Maoming		Xianning

### 3.2 Variable selection and description

In order to study regional economic growth, the pivotal dependent variable should naturally be GDP growth data. In terms of core independent variables, the policy dummy variable for the third line construction reform is selected. If a city  $i$  becomes a pilot city in a given year  $t$ , then the city  $i$  will assume a value of 1 commencing from said year  $t$ ; otherwise, the value is 0. Besides the construction of the third line, there exist additional factors that can influence the economic progress of the region. Primarily, the construction of the third line is to mitigate potential

war risks, and the site archetype is primarily in mountainous regions, hence the average altitude of each city is employed as a control variable; Secondly, the economic conditions of each city prior to the implementation of the third line construction policy can be quantified by the distance from each city to the provincial capital city; Ultimately, the demographic conditions of each city manifestly constitute a crucial factor influencing economic growth. In conclusion, population, altitude, and distance from provincial capital cities were selected as the control variables. The descriptive statistics of variables are shown in Table 2:

**Table 2. Descriptive Statistics**

Variable	Observations	Mean value	Standard deviation	Minimum	Maximum
Third line construction	1120	0.500	0.500	0.000	1.000
GDP	1120	47.551	92.926	0.630	710.880
Population	1120	308.385	181.166	25.290	1037.880
Average altitude	1120	525.766	445.742	19.200	1895.000
Distance to provincial capital city	1120	195.113	115.326	0	454.100



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### 3.3 Model selection and setting

The pilot of the third line construction policy has the characteristics of quasi natural experiments, hence, this paper proposes utilizing the multi-stage difference methodology to assess the influence of the third line infrastructure policy on economic growth [28]. The DID (Difference in Differences) model is a statistical tool utilized in econometrics and social sciences to gauge the causal implications of treatment or intervention on outcome variables. In DID analysis, such as this study, there necessitate being two distinct groups: the experimental cohort and the control cohort [29]. The experimental group experiences certain interventions, policy alterations, or treatments, while the control group is not subjected to the same intervention and serves as a benchmark. As a method for estimating group causal effects, the basic principle of the DID model is to distinguish between policy pilot groups and non pilot control groups, explore the impact of policy support behavior on specific groups, effectively utilize policy externalities, address endogeneity bias, and avoid reverse causal problems[30]. Furthermore, its fixed-effects estimation can mitigate bias resulting from missing variables. In comparison to other econometric methodologies, DID typically demands fewer data points, rendering it a cost-efficient policy assessment strategy, particularly when dealing with scarce data resources.

Due to the different policy time points involved, this study contemplates employing a multi-stage DID model for exploration. Additionally, in order to negate the interference and endogeneity issues of unobservable variables, individual effects and time effects were also managed. The benchmark regression model is delineated as follows:

$$Y_{i,t} = \alpha + \beta \cdot TF_{i,t} + \delta \cdot X_{i,t} + \mu_i + \lambda_t + \varepsilon_{it} \quad (1)$$

In the formula,  $Y_{i,t}$  represents the economic growth status of County  $i$  in the  $t$  th year, which is measured by GDP;  $TF_{i,t}$  represents the virtual variable of whether it is a third line construction city;  $X_{i,t}$  is a series of control variables, including geographical aspects and the economic endowment of each county before the start of the third line construction. The variables involved include average altitude, population of each city, distance to the provincial capital city, etc;  $\mu_i$  is a regional fixed effect,  $\lambda_t$  is a time fixed effect, and  $\varepsilon_{it}$  represents a random disturbance term.  $\beta$  is the core estimation parameter, which identifies the long-term economic impact of the third line construction.

## IV. Results and Discussions

### 4.1 Benchmark regression results

This paper utilized the SPSSAU software for regression analysis. SPSSAU is an engineered software founded on statistical analysis methodologies that advocate data investigation. It streamlines the unwieldy data investigation stages of conventional software into intelligent and automated examination procedures. Exhibit 2 exposes the benchmark regression results amid the reform of the third line construction and economic growth. Model I analyzes the influence of the third line construction policy from commencement on economic growth from 1963 to 1980. This segment of the outcomes scrutinizes the repercussions of the third line construction era on economic growth. Model II examines the effect of the third line construction policy from execution to cessation on economic growth from 1965 to 1997. This section of the results evaluates the impact on economic growth subsequent to the termination of the third-line construction policy.

**Table 3. Basic Regression Analysis**

Variable	(1)	(2)
Third line construction	1.012** (2.777)	-54.589** (-8.425)
Population	0.024** (21.991)	0.181** (11.942)
Average altitude	-0.002** (-3.809)	0.001 (0.121)
Distance to provincial capital city	-0.009** (-5.365)	-0.058* (-2.134)
Constant	2.420** (4.748)	17.464* (1.987)
Observations	608	1056
R <sup>2</sup>	0.489	0.367
Fixed year	YES	YES
Regional fixed	YES	YES

Note: \*, \*\*, and \*\*\* indicate significant at the 10%, 5%, and 1% levels, respectively. The robust standard error of county clustering is shown in parentheses.

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A deduction drawn from the aforementioned regression outcomes is as follows: (1) the coefficient values for the third line construction strategies are exceptionally positive at the 5% significance level, signifying that the third line construction strategies possess a significant, positive stimulative impact on economic progression, corroborating hypothesis 1; From 1965 to 1980, in comparison with non-third line construction zones, the implementation of the third line construction strategy substantially enhanced the economic growth of the region; (2) The coefficient values for the third line construction policy are significantly negative at the 5% level, indicating that the abolition of the third line construction policy exerts a substantial, negative impact on economic growth. This validates hypothesis 2: post the termination of the third line construction policy, the economic progression of the erstwhile third line construction area exhibited a relatively significant lag period between 1981 and 1997.

## V. Discussions

### 5.1 Robust Test

#### 5.1.1 Parallel trend test

The tenet of the multi-stage difference methodology is that prior to the policy's implementation, the parallel trend postulate is satisfied between the experimental group and the control group, indicating that prior to the experimentation of the pilot third line construction policy, the economic progression trajectory of the treatment group and the control group cities should be concurrent or there should be no substantial disparities. Hence, the graphical approach is employed to assess whether the impact of the third line construction policy on urban economic growth adheres to the parallel trend hypothesis. The outcomes of the parallel trend examination are illustrated in the figure 2 and 3: preceding the policy epoch, whether the overarching trend of the experimental group and the control group at distinct time points is generally consistent, thus it is deemed that the prerequisite for utilizing multi-stage difference is satisfied, and subsequent regression validation can ensue.

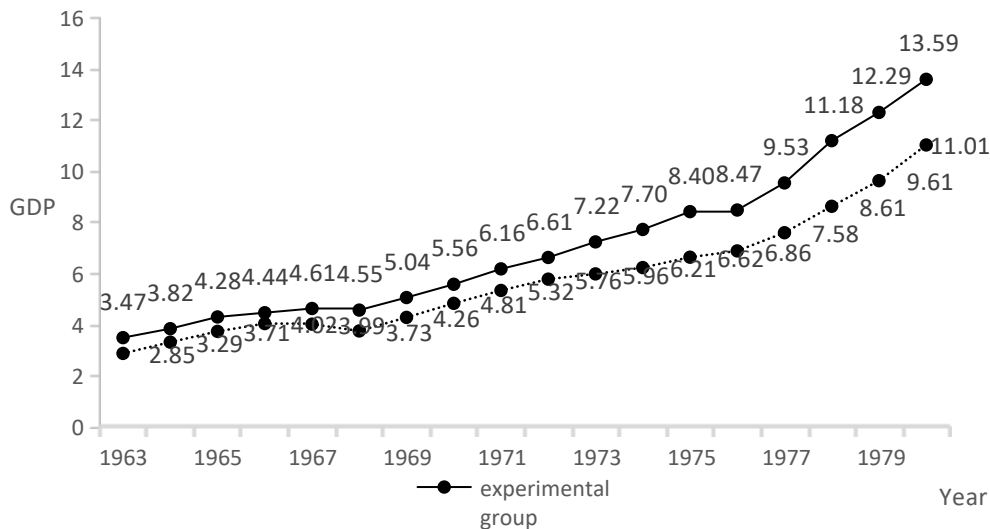
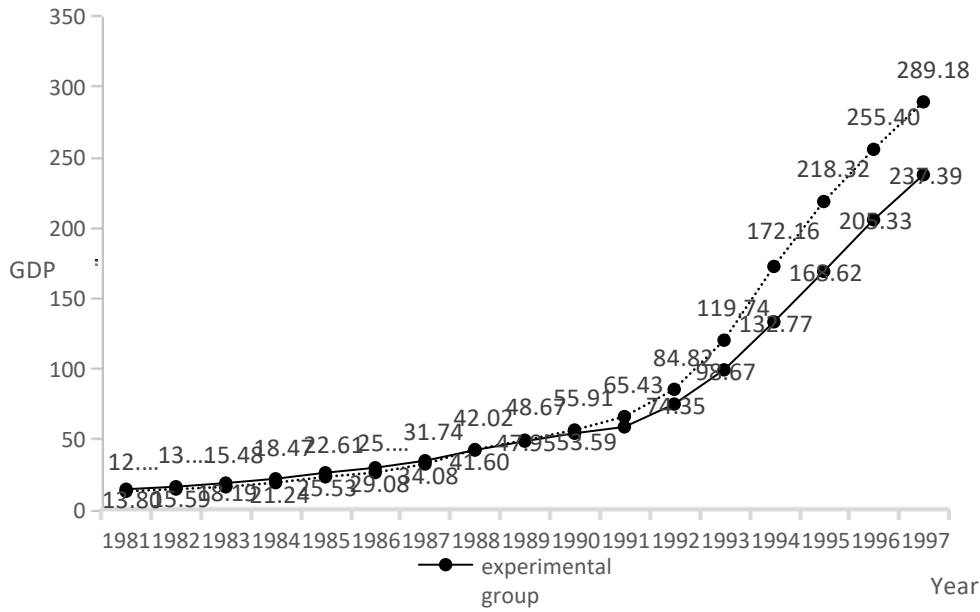


Fig. 2. Parallel Trend Test of Model 1 GDP

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**Fig. 3 . Parallel Trend Test of Model 2 GDP**

**5.1.2 Estimation after removing some samples**

Given that the stimulating influence of the third line construction on urban economic growth might be attributed to the robust economic growth base of specific territories, this stimulus might not be considerable in other regions. To mitigate potential interference triggered by the unique attributes of certain cities, this study removes the sample duplicate benchmark regression for first-tier cities. Table 3 illustrates the projected outcomes after excluding certain economically advanced cities. Based on the

regression inferential results of columns (1) and (2), following some sample exclusions, the stimulative impact of the third line construction policy on urban economic growth remains substantial. Hence, it can be discerned that the stimulating influence of the third line construction on urban economic growth is relatively consistent, not only the contribution of individual areas with robust economic growth, but also the economic growth of pilot cities has been impacted to a certain degree.

**Table 4. Regression Results after Excluding Partial Samples**

Variable	(1)	(2)
Third line construction	0.990** (4.508)	-37.738** (-5.704)
Population	0.014** (14.189)	0.215** (9.473)
Average altitude	-0.002** (-6.812)	-0.015 (-1.872)
Distance to provincial capital city	-0.000 (-0.213)	-0.019 (-0.653)
Constant	2.472** (8.019)	8.249 (0.920)
Observations	432	792
R <sup>2</sup>	0.437	0.167
Fixed year	YES	YES
Regional fixed	YES	YES

Note: \*, \*\*, and \*\*\* indicate significant at the 10%, 5%, and 1% levels, respectively. The robust standard error of county clustering is shown in parentheses.



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## VI. Enlightenment

The academic circle lacks consensus regarding whether government orchestrated industrial policies engender economic distortion or spur growth. Nevertheless, in the context of all latecomer countries, the pressing responsibility is not to adjust theoretical models to align with reality. Comprehension of the economic consequences of past industrial policies becomes paramount, which will form an indispensable foundation for devising future development strategies. From this perspective, this paper focuses on analyzing the long-term impact of the priority development strategy for the construction of the third line of heavy industry on regional economic growth. To contend with potential war perils, the industrial spatial principles of the tertiary regions have been delineated as "reliable, diffused, and concealed" to curtail potential damages during hostilities. The construction of a third line independent of economic growth goals has become a rare quasi natural experiment, providing favorable conditions for alleviating endogeneity issues in causal identification. This paper employs data extracted from CEI and Gotohui databases to empirically examine the influence of tertiary line construction policies on regional economic growth via cross period matching of administrative territories. The investigation discovered that the execution of the tertiary line construction policy notably augmented the economic growth of the region, but subsequent to the cessation of the tertiary line construction, the economic growth rate of the original tertiary line construction area exhibited a relatively significant downward trajectory. This signifies that in economies undergoing transition typified by China, regional industrial policies and investment incentives can alter the trajectory of economic growth, but their impact progressively diminishes over time.

Our research offers novel country examples for regionally targeted industrial policies, and within the sample scope delineated by empirical research, the establishment of the third line yields a pronounced positive influence on regional economic progression. Nevertheless, in a broader temporal perspective, the

economic impact of prior investment gradually diminishes. This conclusion enlightens us that during the process of economic transformation, the factors that propelled growth in the past may cease to be effective presently. The research in this paper offers a historical lens for further comprehension of industrial policy, signifying that the policy itself is a historical artifact subject to specific situational limitations. As real conditions fluctuate, industrial policies must be recalibrated accordingly. Only by embracing a "new history" can sustained growth be realized. The findings of the study also have certain reference value for current regional economic policy decisions in China, yet future research should persist in probing more profoundly into the cost-benefit ratio of these stimulative investment policies, rather than merely focusing on whether the policies yield positive impacts.

## Acknowledgment

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Here, we once again express our heartfelt gratitude to all the leaders and experts who have supported and helped us! At the same time, we also want to thank the funding of the Anhui Higher Education Revitalization Plan project, which has provided us with more sufficient funding and support for our research. We will continue to strive to improve the quality and level of research, and make more contributions to the development and application of social science research.

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