The Chinese Economy

The Chinese Economy

I. The Chinese Experience

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THE PEOPLE'S REPUBLIC OF CHINA

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Some Basics

- Formal name: People's Republic of China (PRC)
- Capital: Beijing
- Head of State: President: Xi Jinping (assumed the post formally March 2013.
- Government Type: Communist State
- Land size: China has a landmass of 9,600,000 sq km, and is the third-largest country in the world, next only to Russia and Canada. Cultivated land is 130.04 million ha.
- Border countries: Korea, Mongolia, Russia, Kazakhstan, Kyrgyzstan, Tadzhikistan, Afghanistan, Pakistan, India, Nepal, Bhutan, Myanmar, Laos and Vietnam.
- Population ethnicity: 91.6 percent of Chinese people are Han. The non-Han population includes 55 ethnic minorities, of which the major groups are the Zhuang, Manchu, Hui, Miao, Uygur, Yi, Tujia, Mongolian, and Tibetan.
- Population distribution: Most of the population of China lives in the middle and lower reaches of the Yellow River, Yangtze River and Pearl River valleys, and the Northeast Plain. In 2000 a "go-west" campaign was launched by the government to help its relatively backward western and central areas catch up with more affluent eastern China.

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Population	1,409,000,000 (2023 est.))
Age structure	**0-14 years: 17.29% (male 129,296,339/female 111,782,427)** **15-24 years: 11.48% (male 86,129,841/female 73,876,148)** **25-54 years: 46.81% (male 333,789,731/female 318,711,557)** **55-64 years: 12.08% (male 84,827,645/female 83,557,507)** **65 years and over: 12.34% (male 81,586,490/female 90,458,292) (2020 est.)**
Median age	total: 38.4 years male: 37.5 years female: 39.4 years (2020 est.)
Population growth rate	0.26% (2021 est.)
Birth rate	11.3 births/1,000 population (2021 est.)
Death rate	8.26 deaths/1,000 population (2021 est.)

https://www.indexmundi.com/china/demographics_profile.html

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Infant mortality rate	**Total:** 11.15 deaths/1,000 live births **male:** 11.6 deaths/1,000 live births **female:** 10.64 deaths/1,000 live births (2021 est.)
Life expectancy at birth	**Total population:** 77.4 years (2024 est.) **male:** 74.23 years **female:** 78.62 years (2021 est.) https://www.macrotrends.net/countries/CHN/china/life-expectancy
Urbanization	**urban population:** 62.5% of total population (2021) **rate of urbanization:** 1.78% annual rate of change (2020-25 est.) **note:** data do not include Hong Kong and Macau
Major cities - population	Shanghai 23.741 million; BEIJING (capital) 20.384 million; Chongqing 13.332 million; Guangdong 12.458 million; Tianjin 11.21 million; Shenzhen 10.749 million (2015)
Sex ratio	**at birth:** 1.11 male(s)/female **0-14 years:** 1.16 male(s)/female **15-24 years:** 1.17 male(s)/female **25-54 years:** 1.05 male(s)/female **55-64 years:** 1.02 male(s)/female **65 years and over:** 0.9 male(s)/female

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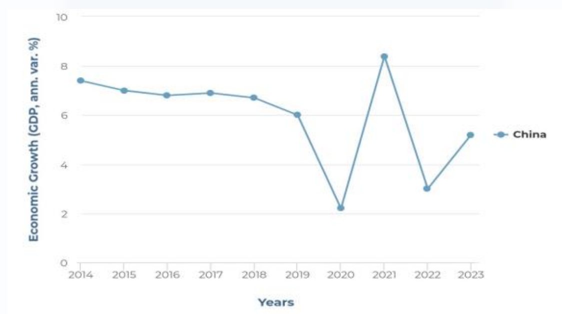
Economic Data (GDP Growth)



https://www.focus-economics.com/countries/china http://www.stats.gov.cn/english/

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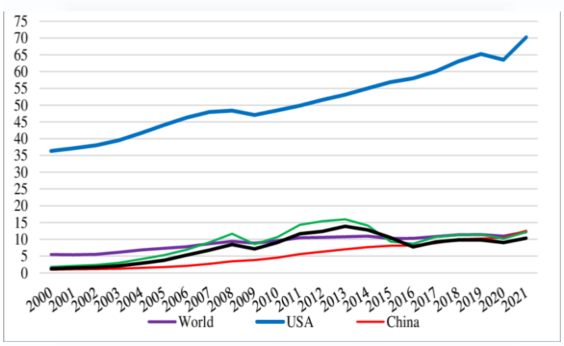
GDP per capita in the world (world average), the USA, China, Russia



https://www.researchgate.net/figure/GDP-per-capita-in-the-world-world-average-the-USA-China-Russia-and-Kazakhstan_fig1_372742265 https://www.worldometers.info/gdp/gdp-per-capita/

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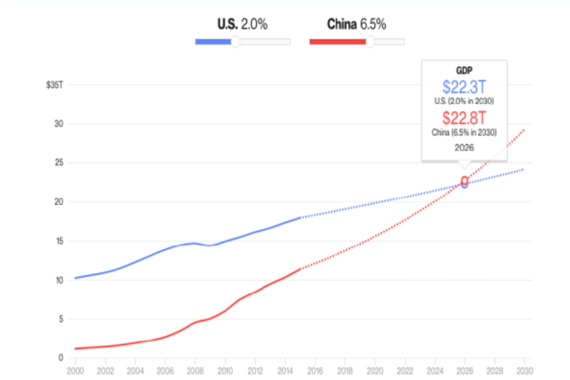

https://www.quora.com/Will-China-pass-the-US-in-GDP-any-time-soon-Why-or-why-not

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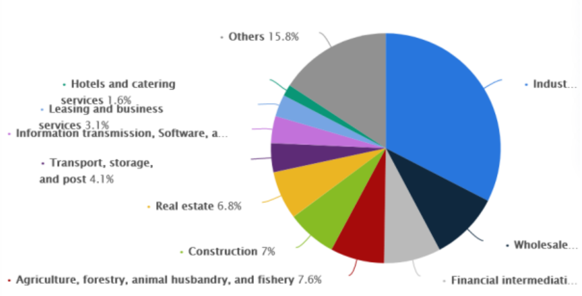
Sources of Growth



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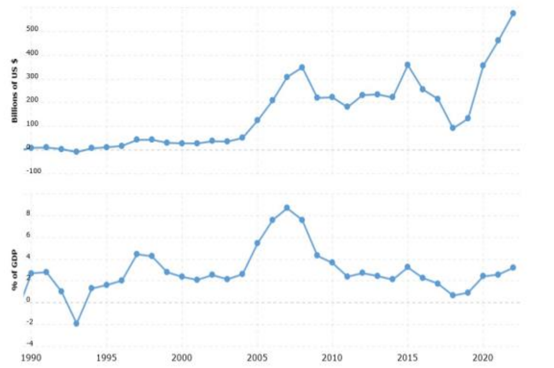
China’s Trade Balance



https://www.macrotrends.net/countries/CHN/china/trade-balance-deficit

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China’s Top 10 Imports

The following product groups represent the highest dollar value in China’s import purchases during 2022. Also shown is the percentage share each product category represents in terms of overall imports into China.

1. **Electrical machinery, equipment: US$644.7 billion (23.7% of total imports)**
2. **Mineral fuels including oil: $535.3 billion (19.7%)**
3. **Ores, slag, ash: $224.7 billion (8.3%)**
4. **Machinery including computers: $202.1 billion (7.4%)**
5. **Gems, precious metals: $103.7 billion (3.8%)**
6. **Optical, technical, medical apparatus: $82 billion (3%)**
7. **Vehicles: $80.8 billion (3%)**
8. **Plastics, plastic articles: $75.2 billion (2.8%)**
9. **Copper: $68.7 billion (2.5%)**
10. **Oil seeds: $68.6 billion (2.5%)**

http://www.worldstopexports.com/chinas-top-10-imports/

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China’s Top 10 Exports

The following export product groups categorize the highest dollar value in Chinese global shipments during 2022. Also shown is the percentage share each export category represents in terms of overall exports from China.

1. **Electrical machinery, equipment: US$954.8 billion (26.6% of total exports)**
2. **Machinery including computers: $552 billion (15.4%)**
3. **Vehicles: $150.2 billion (4.2%)**
4. **Plastics, plastic articles: $143.5 billion (4%)**
5. **Furniture, bedding, lighting, signs, prefabricated buildings: $130.9 billion (3.6%)**
6. **Articles of iron or steel: $110.3 billion (3.1%)**
7. **Toys, games: $103.3 billion (2.9%)**
8. **Organic chemicals: $101.9 billion (2.8%)**
9. **Knit or crochet clothing, accessories: $90.9 billion (2.5%)**
10. **Iron, steel: $77.3 billion (2.2%)**

http://www.worldstopexports.com/chinas-top-10-exports/

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China's Top Trading Partners

Below is a list highlighting 15 of China's top trading partners in terms of export sales. That is, these countries imported the most Chinese shipments by dollar value during 2022. Also shown is each import country's percentage of total Chinese exports.

1. **United States: US$582.8 billion (16.2% of China's total exports)**
2. Hong Kong: $297.5 billion (8.3%)
3. **Japan: $172.9 billion (4.8%)**
4. **South Korea: $162.6 billion (4.5%)**
5. **Vietnam: $147 billion (4.1%)**
6. **India: $118.5 billion (3.3%)**
7. **Netherlands: $117.7 billion (3.3%)**
8. **Germany: $116.2 billion (3.2%)**
9. **Malaysia: $93.7 billion (2.6%)**
10. **Taiwan: $81.6 billion (2.3%)**
11. **United Kingdom: $81.5 billion (2.3%)**
12. **Singapore: $81.2 billion (2.3%)**
13. **Australia: $78.8 billion (2.2%)**
14. **Thailand: $78.5 billion (2.2%)**
15. **Mexico: $77.5 billion (2.2%)**

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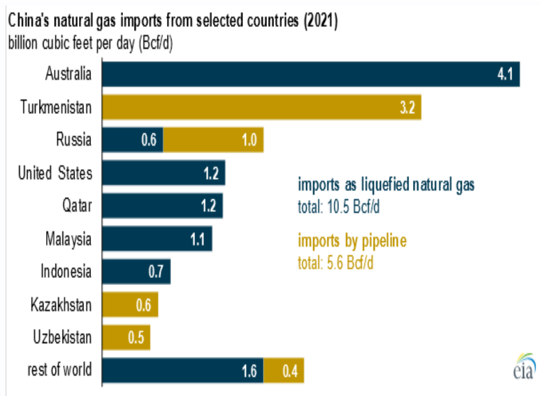

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Currency and Exchange Rate

Chinese Currency – Renminbi (RMB)

Chinese yuan, also known as Renminbi, is used throughout in mainland China, while in Hong Kong and Macau, Hong Kong dollar and Macau pataca are respectively used. The basic unit of Renminbi is Yuan and the sign of Yuan is ¥

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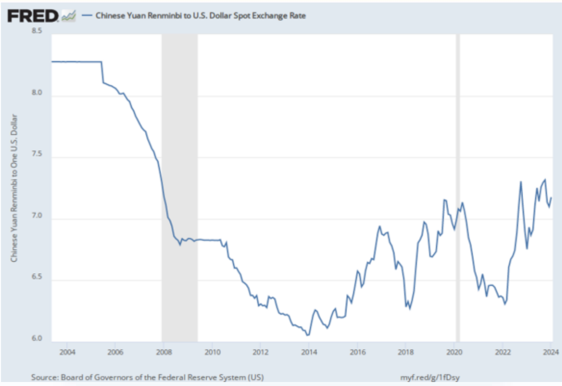

February 5 2024 USD/CNY close: 7.20

https://www.xe.com/currencycharts/?from=USD&to=CNY&view=10Y

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Brief Look at the Chinese Economy Today

- As discussed earlier, East Asia has been the fastest-growing region in the world over the past two and a half decades, the East Asian currency crisis of 1997-98 notwithstanding.
- China is the fastest growing country in East Asia—approximately 9% p.a. since beginning of economic reform (1979) and close to 7% over the past five years.
- Between 1979 and 2019, Chinese real GDP grew from $177 billion to $14.2 trillion (official exchange rate (2nd largest GDP in the world) and real GDP per capita grew from $183 to more than $9000.
- In 2020, growth rate slowed to 2.3% due to Covid-19.
- In 2021, growth rebounded to 8.1 %
- In 2023, growth slowed to 5.2 %

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- One of the main factors contributing to the growth of China is the Chinese reform program which began in 1978-9 with the re-introduction of markets.
- China is still a socialist country, but one of the few to have made a successful transition from a centrally planned to a market economy
- Over the past 40 or more years, China's economy has experienced a profound transformation, with shares of GDP changing from agriculture to manufacturing.

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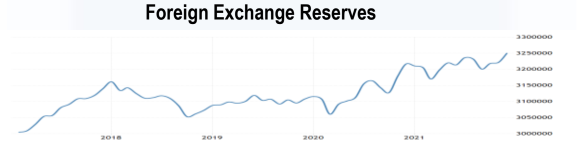
- Another important structural transformation has seen the private (non-state) sector account for more or more of GDP
- China's trade has expanded faster than the economy and in 2012, China surpassed the U.S. to become the world's biggest trading nation as measured by the sum of exports and imports of goods.
- China's foreign exchange reserves at the end of December 2021 were USD 3.426 trillion.
- Foreign direct investment (FDI) into the Chinese mainland, in actual use, expanded 14.9 percent year on year to a record high of 1.15 trillion yuan in 2021.
- High-tech industries saw FDI inflows jump 17.1 percent from a year earlier, and cross-border investment in China's high-tech industries saw a year-on-year increase of 17.1 percent in 2021, outpacing the services sector that recorded a 16.7-percent jump during the same period, official data showed.

Foreign Exchange Reserves



https://tradingeconomics.com/china/foreign-exchange-reserves

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Historical Background

- 1911 • End of the Ch'ing Dynasty (1644-1911)
- Instability, Revolts, Invasions, and Civil War
- 1949 • Mao's Communist Victory
- 1950 • Intervention in the Korean War (November)
- Decay of Chinese-Soviet Relations
- 1966 • Cultural Revolution
- 1969 • Soviet-Chinese Border Clashes
- 1972 • Nixon Plays the "China Card"
- 1976 • Death of Mao
- 1978 • "Market Reforms" Begin Slowly
- 2001 • Joined WTO

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2002 July - The US says China is modernising its military to make possible a forcible reunification with Taiwan. Beijing says its policy remains defensive.

2003 March - National People's Congress elects Hu Jintao as president. He replaces Jiang Zemin, who steps down after 10 years in the post.

2004 November - China signs a landmark trade agreement with 10 south-east Asian countries; the accord could eventually unite 25% of the world's population in a free-trade zone.

2005 April - Relations with Japan deteriorate amid sometimes-violent anti-Japanese protests in Chinese cities, sparked by a Japanese textbook which China says glosses over Japan's World War II record.

2005 August - China and Russia hold their first joint military exercises.

2006 August - Official news agency says 18 million people are affected by what it describes as the country's worst drought in 50 years.

2006 November - African heads of state gather for a China-Africa summit in Beijing. Business deals worth nearly $2bn are signed and China promises billions of dollars in loans and credits.

2007 February - President Hu Jintao tours eight African countries to boost trade and investment. Western rights groups criticise China for dealing with corrupt or abusive regimes.

2008 May - A massive earthquake hits Sichuan province, killing tens of thousands.

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2008 August - Beijing hosts Olympic Games.

Global financial crisis

2008 November - The government announces a $586bn (£370bn) stimulus package to avoid the economy slowing. Chinese Premier Wen Jiabao says the effect of the global financial crisis on China is worse than expected.

2009 February - Russia and China sign $25bn deal to supply China with oil for next 20 years in exchange for loans.

2010 March - The web giant Google ends its compliance with Chinese internet censorship and starts re-directing web searches to a Hong Kong, in response to cyber attacks on e-mail accounts of human rights activists.

2012 January - Official figures suggest city dwellers outnumber China's rural population for the first time. Both imports and exports dip, raising concern that the global economic slowdown could be acting as a drag on growth.

2012 March - Chongqing Communist Party chief and potential leadership hopeful Bo Xilai is dismissed on the eve of the party's 10-yearly leadership change, in the country's biggest political scandal for years. His wife, Gu Kailai, is placed under investigations over the death of British businessman Neil Heywood in the city in November.

2012 April - China ups the limit within which the yuan currency can fluctuate to 1% in trading against the US dollar, from 0.5%. The US welcomes the move, as it has been pressing China to let the yuan appreciate.

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2012 September - China cancels ceremonies to mark the 40th anniversary of restored diplomatic ties with Japan because of a public flare-up over disputed islands in the East China Sea. Talks between China and Japan on security matters nonetheless go ahead.

2012 November - Communist Party holds congress expected to start a once-in-a-decade transfer of power to a new generation of leaders. Vice-President and heir-apparent Xi Jinping takes over as party chief and assumes the presidency in March 2013.

2013 March - Xi Jinping takes over as president, completing the once-in-a-decade transfer of power to a new generation of leaders. He launches an efficiency and anti-corruption drive.

2013 November - Communist Party leadership announces plans to relax one-child policy, in force since 1979. Other reforms include the abolition of "re-education through labour" camps.

2014 January - China allows foreign companies majority ownership of some telecom and internet services in the Shanghai free trade zone. They will be able to supply services nationwide except for home internet access, which will be restricted to the zone. The government also lifts ban on selling foreign video games consoles, paving the way for major firms to enter the lucrative market.

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2015 January - China's economic growth falls to its lowest level for more than 20 years - 7.4% percent in 2014. Government revises growth targets down.
2015 September - President Xi pays official visit to the United States to seek investment in China; agrees to abjure from economic cyber-espionage.
2015 October - China expresses anger at US naval ship sailing by artificial reefs Beijing is building among disputed Spratly Islands in South China Sea.
The Communist Party announces it has decided to end the decades-old one-child policy.
2015 November - China's President Xi Jinping and Taiwan's President Ma Ying-jeou hold historic talks in Singapore, the first such meeting since the Chinese Civil War finished and the nations split in 1949.
2016 January - Economic growth in 2015 falls to lowest rate in 25 years (6.9%, down from 7.3% in 2014), and International Monetary Fund predicts further deceleration over next two years.
Image copyright AFP/Getty Images Image caption The growth of China's economy has slowed in recent years
2017 January - The country's slow economic growth continues, with the 2016 marking its slowest growth (6.7%) since 1990.

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US trade tension
2017 April - President Xi urges trade cooperation with the US at his first official meeting with US President Donald Trump in Florida.
2017 June - The government passes a new cyber security law, giving it more control over the data of foreign and domestic firms.
2017 July-August - Row with India over disputed area of Himalayas, where China says Indian troops were trespassing.
2017 October - Communist Party votes at its congress to enshrine Xi Jinping's name and ideology in its constitution, elevating him to the level as founder Mao Zedong.
2018 March - National People's Congress annual legislative meeting votes to remove a two-term limit on the presidency from the constitution, allowing Xi Jinping to remain in office for longer than the conventional decade for recent Chinese leaders.
2018 April - China announces it will impose 25% trade tariffs on a list of 106 US goods, including soybeans, cars, and orange juice, in retaliation for similar US tariffs on about 1,300 Chinese products.

2019 June-July - Hong Kong sees anti-government and pro-democracy protests, involving violent clashes with police, against a proposal to allow extradition to mainland China.

2020 January - Outbreak of Covid-19 coronavirus in Hubei province spreads worldwide.
https://www.bbc.com/news/world-asia-pacific-13017882

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Chinese Socialism: The First Decade

- Mao Zedong proclaims People's Republic in 1949
- Mao takes leadership as Chief of State
- Initial tasks
  - collectivization of land
  - nationalization of industry
- Followed typical (Stalinist) planned socialist model
  - heavy industry high priority, agriculture low priority
    - aggregate investment 20% - 25% of national product
    - 85% industrial investment goes to heavy industry
    - 8% state investment goes to agriculture
    - by end of Mao period, industry share in national output much higher than other countries at similar level of development

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Collectivization of Agriculture

- First step was redistribution of land from the landlords to the peasants
- Major farming equipment provided by village authorities
- Collectivization involved organizing households into large production teams
- Finally led to the commune (after Great Leap Forward)

http://factsanddetails.com/china/cat2/sub5/item1079.html

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Nationalization of Industry

- Slow and orderly transfer from private to state ownership
  - by 1956, 68% value of output by state owned enterprises (SOE) and 16% by jointly owned (state-private) enterprises
- Planning mechanisms and priorities and enterprise management same as Soviet Union
- Same problems
  - poor quality, shortages, inefficiency, etc.

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Political and Economic Turmoil

- Hundred Flowers Campaign (1956-7)
  - Mao unhappy with the Communist Part leadership
  - invites constructive criticism from intellectuals
  - reveals deep hostility
- Great Leap Forward (1958-1960)
  - massive resurgence of ideology
  - last vestiges of rural private property eliminated
  - commune system established
  - attempt to initiate rapid growth and industrialization
  - economic disaster after years of solid growth
    - economy collapses and does not recover to 1958 level until 1963

The Great Leap Forward (大躍進) of the People's Republic of China (PRC) was an economic and social campaign by the Communist Party of China (CPC) from 1958 to 1961. The campaign was led by Mao Zedong and aimed to rapidly transform the country from an agrarian economy into a communist society through rapid industrialization and collectivization. The campaign caused the Great Chinese Famine.

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The Rural People's Commune

- Created during the Great Leap Forward (1958-1960)
- Individual households organized into production teams
- Production teams combined to form brigades
- Brigades combined into a commune
  - thousands of households in a commune
- Communes were controlled by the county
- County played major role in implementing the plans of the Ministry of Agriculture and Forestry

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Agricultural Reform

The principal-agent problem created a free-rider problem. The earnings of a commune member did not depend on how much he or she contributed. He could benefit from other members' efforts. Rational behaviour for an individual farmer who could not control output outcomes would be to minimise work input. In the end, it was a negative-sum game-a result of the prisoners' dilemma. Everyone was made worse off by free-riding.

The problem was made much worse by the political situation. Mao's 'utopianism' dictated that the contribution of farmers to their communes should not be assessed only by their work contribution, but also by their 'revolutionary' spirit. Thus one could make no economic contribution to his commune, but was still rewarded with income, perhaps more than those who were not so 'revolutionary'. The son of a former landlord who was forced to work long hours would earn much less than a 'revolutionary' farmer would. To make the situation even worse, the communists decided at the beginning of rural collectivisation that the leaders of the communes must be 'poor and lower-middle peasants'. Those who seized power in the communes tended to have little experience in farming and management.

http://press-files.anu.edu.au/downloads/press/p212991/pdf/ch036.pdf

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Recovery from the Great Leap

- Communist Party exerts control
- Mao removed as chief of state
- Recovery from Great Leap emphasizes
  - less focus on output growth and more on quality and efficiency
  - more balanced economic development
  - modernization of agriculture
  - decentralization

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The Cultural Revolution

- Mao's struggle to retake supreme leadership culminates in the Cultural Revolution
  - peaks from 1966 to 1969
  - more upheaval
  - lost generation of leadership as universities closed and students sent to the countryside
- No increase in GDP from 1965 to 1970

Recovery from the Cultural Revolution

- Led by Zhou Enlai
  - advocated moderate path of industrialization
  - engineered rapprochement with West, especially the US
  - Richard Nixon's visit

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The End of the Stalinist Period

- Both Zhou and Mao die in 1976
- Gang of Four Trial
  - Mao's wife and three others arrested and discredited
  - Stalinist thinking repudiated
  - political maneuverings end in 1978 with rise of Deng Xiaoping
  - reform period begins

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The Transition from a Centrally Planned Economy to a Market Economy

- The meaning of transition
  - replacement of administrative allocation by market allocation
  - replacement of administered prices by market prices

DISCUSS PLEASE

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Internal vs. External Processes

- Undeniably, the market reform started by Deng Xiaoping in 1978 is a huge success. In a matter of two decades, China changed from an inward-looking, poor country into one of the largest exporters and fastest growing economy of the world.
- To discuss and explain the success of the reform, one has to look into both internal and external processes of the reform. It is the interaction between the internal and external processes that enables the success of the reform.
- Internal processes refer to the restructuring of the domestic economy and society made possible by a series of reform policy initiated by Deng.
- External processes refer to economic and social processes in the East Asian region that accelerated the growth of China.

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Internal Process of post-Mao reform

The post-Mao reform that began after 1978 can be roughly divided into three stages.

1. Rural Reform
2. Urban Reform
3. Marketization

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Three Stages of Post Mao Reform

First stage: around 1978-1985:

- At this stage, reform measures mostly concerned the rural area. Communes were dismantled and peasants got the “right of use” of small plots of land. They became free to manage their own land and sell their produce in the market.
  - It gave rise to rapid growth in agricultural productivity and improvement in peasants’ livelihood, as peasants’ got a lot more initiatives to work hard.
- At the same time, local rural industries emerged in the form of township and village enterprises (TVEs) and in the form of factories run by foreign capital in special economic zones.

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Second stage: around 1985-1989

- Given the phenomenal success of rural reform, the Chinese leadership embarked on urban reform after the mid-1980s.
  - One important measure was to lessen state’s control over prices of commodities. This immediately triggered wild inflation and rampant corruption.
- The hardship and popular resentment caused by inflation and corruption contributed to the escalation of discontent that finally led to the unrest in 1989.

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Third stage: around 1990-present

- After 1989, Chinese leaders not only tried to restore law and order, but also tried to redress the hyper-inflation in the late 1980s, which was thought to be a major cause of unrest.
- It led to a series of macro-economic measures that tightened monetary supply in the early to mid-1990s. It led to the “soft-landing” of the economy.
- But the urban market reform did not stop. More decentralization, marketization, and slackening of rules followed suit.

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Major factors Contributing to the Success of the Reform

(1) China was not affected by the debt crisis that troubled many other developing as well as socialist countries in the early 1980s. As a result, autonomy of the Chinese government in regulating the economy remained intact. Chinese leaders can hence develop the reform strategy that fits China’s most, rather than enacting the formula prescribed by Western institutions (such as IMF and World Bank).

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(2) China adopted a “trial and error” path of gradual reform, instead of the “shock therapy” method adopted by Russia and Eastern European countries

(3) Large percentage of Chinese population was rural. This huge rural population provided the coastal industries and TVEs with abundant supply of cheap labor.

But the above factors are insufficient in explaining China’s success. The following external factors have to be taken into account as well.

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External Processes that Contributed to the Success of China’s Reform

- Some argue that the rise of China is actually a continuation of the rise of East Asia (including Japan, South Korea, Taiwan, Hong Kong, and Singapore).
- In the beginning, people thought that China was just another goose like the four tigers and other new tigers in Southeast Asia.
- After a while, however, people began to realize that China is far from an ordinary goose. There are two distinct characteristics of China:

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4. Size

The size of China (including its market size, size of the pool of talents, etc.) is much bigger than any other single economy in East Asia. Once it takes off, it becomes a huge magnet that drains the capital from other East Asian economies. Its highly competitive products, exported to the Western markets in huge amount, nearly squeezes many other export-oriented economies in the region out of business.

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Additional Factors - Integration into Global Economy

- Exports gave ready employment for freed up agricultural labor in labor intensive production in TVEs
  - allowed China to import modern technology
  - encouraged foreign direct investment which increased capital stock, access to modern technology, and efficient western management

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Factor Markets: Labor

- Historically, Chinese market impeded by administrative restraint on ability of workers to relocate
- Mobility reduced further by lack of portability of benefits (housing, pensions, health insurance)
- Experimentation on the margin, becoming widespread in new century. Driving forces:
  - Reform of government and SOEs
  - Continuing decline of agricultural work force
  - Emergence of private employers and shortages of senior managerial and technical skills (ADB 2003)
  - Mobility-enhancing developments in provision of social security, housing

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Factor Markets: Labor

- Cracks in the "iron rice bowl;" but true flexibility of labor practices might be over-stated by numbers
- Pilot projects to standardize and modernize employment practices in 100 cities nationwide
- Apparent transition from a system of guaranteed employment with little choice of employer, to one offering considerable choice of jobs with less security of long-term employment

"Iron rice bowl" (simplified Chinese: 铁饭碗; traditional Chinese: 鐵飯碗; pinyin: tiě fàn wǎn) is a Chinese term used to refer to an occupation with guaranteed job security, as well as steady income and benefits.

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Factor Markets: Foreign Exchange

- Strikingly successful achievement of reform – unification of the foreign exchange rate
- Unified exchange rate since 1/94; stable at 8.3 to dollar for 15 years and now at about 6.9 Yuan to the dollar
- Expected to appreciate
- Interbank market in foreign exchange established 4/94
- Current account convertibility since 12/96
- Scope for establishing a more efficient foreign exchange market initially by widening intervention bands

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Regional Development

- These national level programs started with the Special Economic Zones for three cities in 1978, as part of China's economic reform, and were extended to the Economic and Technological Development Zones in 14 cities in 1984. In 2006, there are were 49 Development Zones and at present the number is 54.
- SEZs and ETDZs exempted from most controls on foreign investment and private ownership
- Result is much faster growth, especially in non-state sector
- Regional disparities a major problem
- Certain places (mostly coastal) targeted for faster transition
  - began in 1980 when four southern coastal sites were designated Special Economic Zones (SEZ)
  - Shantou, Shenzhen, Xiamen, Zhuhai
  - Hainan Island added in 1988

http://www.china.org.cn/english/SPORT-c/76751.htm

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China and WTO

- China's effort to apply for membership of WTO redoubled over the 1990s, and it ended up in China's accession into the organization in 2001. The followings are examples of what is changes have occurred under WTO:

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1) Tariffs on agricultural products have declined drastically, US producers are now allowed to export bulk produces (wheat, rice, etc) to China.

2) Tariffs on imports of industrial goods have been reduced considerably, foreign companies have increasing rights to sell, distribute and market industrial goods without any Chinese middlemen. In particular, China has cut tariffs on imported automobiles from the 80-100 percent level in 2001 to less than 4 percent in 2019.

3) Foreign banks now allowed to carry on more activities in China.

4) The aftermath of the trade fight with the US.

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Challenges

- Legal system/rule of law
  - private property rights still lacking
  - business cannot turn to legal system to enforce contracts
    - self enforcement
    - protection from political elite
    - Corruption
- Privatization
  - Managers of SOEs don't want to give up power
  - SOEs continue to be a huge drain on economy
- Agricultural reform
  - incomplete ownership of land
  - disincentive to improve land
    - reduces potential productivity of land

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Challenges

- **Financial reform**
  - near monopoly of state on banking
    - savings channeled to inefficient capital formation in SOEs
- **International finance**
  - full convertibility
- **Trade relations**
  - Continuing to meet the requirements of WTO
  - Improvement of trade relations with US, EU, Taiwan, other Asian countries

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Challenges

- Social safety net
  - current hodge-podge
  - not a immediate need as in other transitional economies
    - rural population to large extent self-sufficient
    - continued support of SOEs reduces urban unemployment problem
    - lack of political reform prevents the poor from having a voice
  - as SOEs privatized, unemployment will soar
  - rural population has much lower income and access to health care

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Challenges

- Regional policy
  - most growth from Special Economic Zones and Development Areas
  - huge income differential between coastal and interior provinces
- Population policy
  - slowing population growth
  - slowing/preventing migration to cities
- Macroeconomic policy
  - reform of tax structure
  - stabilization

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Challenges

- Environment - current issues:
  - Air pollution (greenhouse gases, sulfur dioxide particulates) from reliance on coal produces acid rain
  - water *shortages, particularly in the north*
  - *water pollution from untreated wastes*
  - *Deforestation*
  - *estimated loss of one-fifth of agricultural land since* 1949 to soil erosion and economic development
  - trade in endangered species

https://www.youtube.com/watch?v=2nFZaSbkf0U

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Basic Education

- 1950: 20% over age 15 are literate
- 2007: 93.3% over age 15 are literate while 99% of 15-24 year olds are literate
- 2013, PISA (Program for International Student Assessment) international rankings of 15 year olds placed Shanghai students first in the world in mathematics, science and literacy
- But in the latest 2015 study - with the addition of Beijing, Jiangsu, and Guangdong - the mainland Chinese entry saw all scores from the test for 15 year-olds drop and its ranking fall to 10th in science, sixth in maths, and 27th in reading – below the UK, which finished 22nd.

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Health

- 1949: Average Life Expectancy of 35 years
- 2023 (est.): Average Life Expectancy of 77.40
- But life expectancy would be much higher if respiratory illnesses (cigarettes, air pollution) could be reduced, water quality improved and food safety increased.
- Improvements to public health should provide huge gains in life expectancy.

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The one-child policy, a part of the family planning policy, was a population planning policy of China. It was introduced in 1979 and began to be formally phased out near the end of 2015 and the beginning of 2016. The policy allowed exceptions for many groups, including ethnic minorities. In 2007, 36% of China's population was subject to a strict one-child restriction, with an additional 53% being allowed to have a second child if the first child was a girl. Provincial governments imposed fines for violations, and the local and national governments created commissions to raise awareness and carry out registration and inspection work.

According to the Chinese government, 400 million births were prevented. Scholars have widely disputed this claim with Martin King Whyte and Wang et al finding that the policy had little effect on population growth or the size of the total population.[1][2][3] China has been compared to countries with similar socioeconomic development like Thailand and Iran, along with the Indian states of Kerala and Tamil Nadu, which achieved similar declines of fertility without a one-child policy.[4] Although 76% of Chinese people supported the policy in a 2008 survey, it was controversial outside of China.[5] https://en.wikipedia.org/wiki/One-child_policy

On October 29, 2015, it was reported that the existing law would be changed to a two-child policy, citing a statement from the Communist Party of China[citation needed]. The new law became effective on January 1, 2016, following its passage in the standing committee of the National People's Congress on December 27, 2015.

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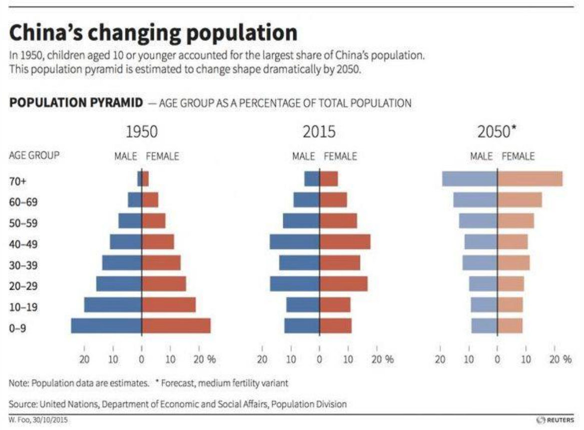

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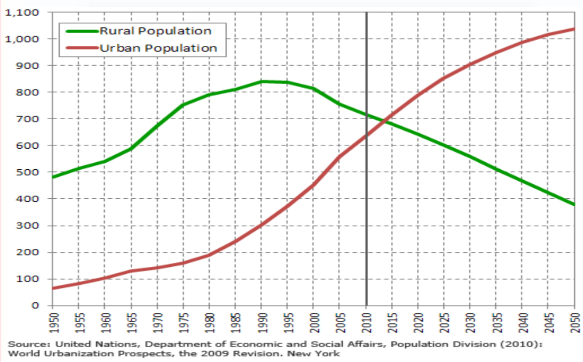
Where do all these people live?



Source: United Nations, Department of Economic and Social Affairs, Population Division (2010): World Urbanization Prospects, the 2009 Revision. New York

http://www.worldometers.info/world-population/china-population/

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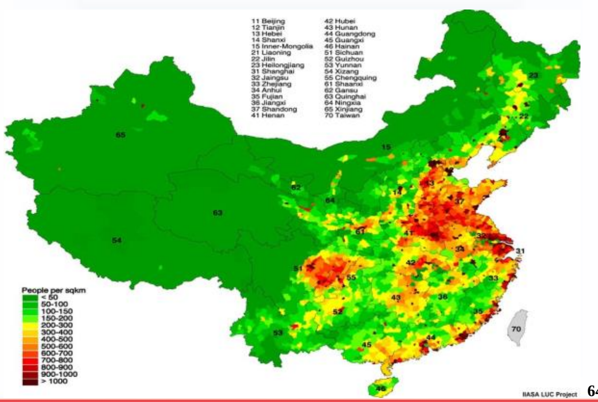
Where do all these people live? Population Density



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What Does China Need to Do?

Implement a NEW long term strategy for the next phase of development. The 12th Five Year Plan an excellent place to start. The IMF Report recommends that China seek to implement policies that:

1. **Complete the transition to a market economy**
2. **Accelerate the pace of open innovation**
3. **Go green**
4. **Expand Individual Opportunities and Improve Social Services**
5. **Fiscal Reform**
6. **Become a responsible Global Player**

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1. Complete the Transition to a Market Economy

- **Implement structural reforms,**
- **Strengthen the foundations for a market-based economy,**
- **Redefine the role of government its relationship to markets and the private sector,**
- **Reform and restructuring state enterprises, developing the private sector,**
- **Promote competition,**
- **Provide more intangible public goods and services like systems, rules,**
- **Introduce modern corporate governance practices, e.g., separating ownership from management**

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➢ **Financial sector reform:**

- **Allow commercializing the banking system,**
- **Allow interest rates to be set by market forces,**
- **Deepening the capital market,**
- **Developing the legal and supervisory infrastructure to ensure financial stability,**
- **Build the credible foundations for the internationalization of China's financial sector.**

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➢ **Labor market reform:**
- Ensure workers can move in response to market signals,
- Introduce measures to increase labor force participation rates, and
- Use social security instruments (pensions, health, and unemployment insurance).

➢ **Land reform:**
- Increase efficiency of land use,
- Reform policies for acquisition of rural land for urban use, and
- Reduce local government dependency on land-related revenues

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2. Accelerating the Pace of Open Innovation

- Needed: An open innovation system that fosters both Product and Process innovation
- How? Increasing Chinese domestic R&D
  - ❖ By participating in global R&D
  - ❖ By establishing a research and development infrastructure via:
    - increase the technical and cognitive skills of university graduates,
    - build a few world-class research universities with strong links to industry, and
    - foster research parks, innovative cities.

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3. Go green

- Why ?
  - Increased efficiency,
  - Improve the level of well-being,
  - Sustain comparative advantage,
  - Achieve and sustain economies of scale, and
  - Sustain rapid growth.

➢ How ?
  - Public education and awareness,
  - market incentives,
  - Regulations,
  - Public investments,
  - Industrial policy, and
  - Institutional development.

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4. Expand Individual Opportunities and Improve Social Services

- Expand opportunities and promote social security,
- Facilitate equal access to jobs, finance, quality social services, and portable social security,
- Help households manage employment, health, and age-related risks,
- Increase labor mobility,
- Manage the large rural-urban differences in access to jobs, key public services, and social protection.

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4. Expand Individual Opportunities and Improve Social Services Con't

- Deliver more and better quality public services to under-served rural areas and migrant,
- Restructure social security systems to ensure secure social safety nets
- Mobilize all segments of society, public and private, government and social organizations, to share responsibilities in financing, delivering and monitoring the delivery of social services.

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5. Fiscal Reform

Three key dimensions:

1. Mobilize additional fiscal resources to meet rising budgetary demands,
2. Reallocate spending toward social and environmental objectives
3. Ensure that budgetary resources available at different levels of government.

Note: fiscal reform as an essential prerequisite for many of the other reforms

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6. Becoming a Global Player

- Seek mutually beneficial relations with the world,
- Use multilateral institutions and frameworks and open regionalism,
- Intensify trade, investment, and financial links with the global economy,
- Seize the benefit from further specialization, and diversification,
- Integrate into the global financial system, which will involve opening the capital account,
- Take steps toward internationalizing the RMB as a global reserve currency,
- Help shape the global governance agenda such as:
    - climate change,
    - global financial stability,
    - effective international aid structure,
    - development in poor nations.

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Will China Become A Democracy?

- Tiananmen Square 1989
- General Hypothesis:
- Economic Development ---(+)---> Political Development
- Optimists:
    - -- Seeds of Democracy Have Been Planted
- Pessimists:
- a) Low GNP per Capita
- b) Exchange Economic Rewards for Political Silence
- c) Peasants are Conservative Majority

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The Chinese Economy

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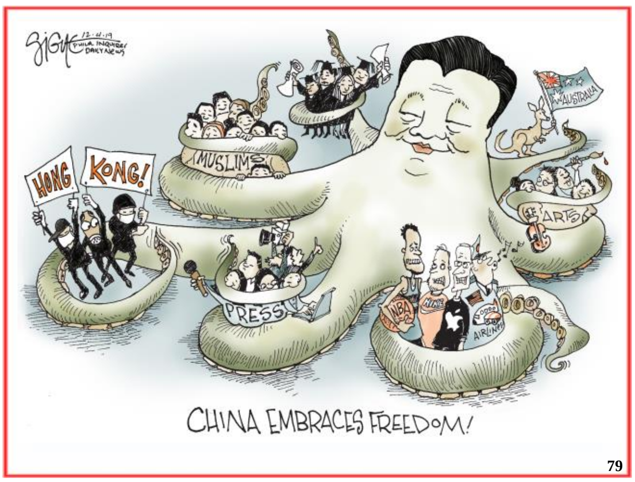

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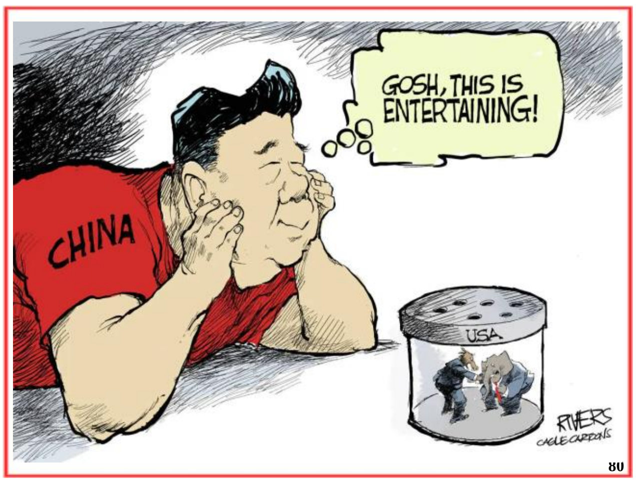

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