

How Can We Understand Chinese Economic Development?

May 8, 15, 22, 2007

University of Tokyo, Graduate School of Arts and Sciences

Global Focus on Knowledge

“Human Society`s Future and Sustainability”

Itemized Discussion 2: Problem of “Sustainable Development”

Professor: Nakagane Watsuji (Aoyama Gakuin University)

Lecture Aims

- Achievement of Chinese economic growth after Reform and Opening-up
- Characteristics of Chinese Economic Development: comparisons with standard pattern of development or Development Economics
- Some difficult problems that Chinese Economic development has still left unsolved
- Sustainability of Chinese Economic Growth
- Some thoughts on Chinese Economic Development or Regime Shift

Introduction: Significance of Learning Chinese Economics

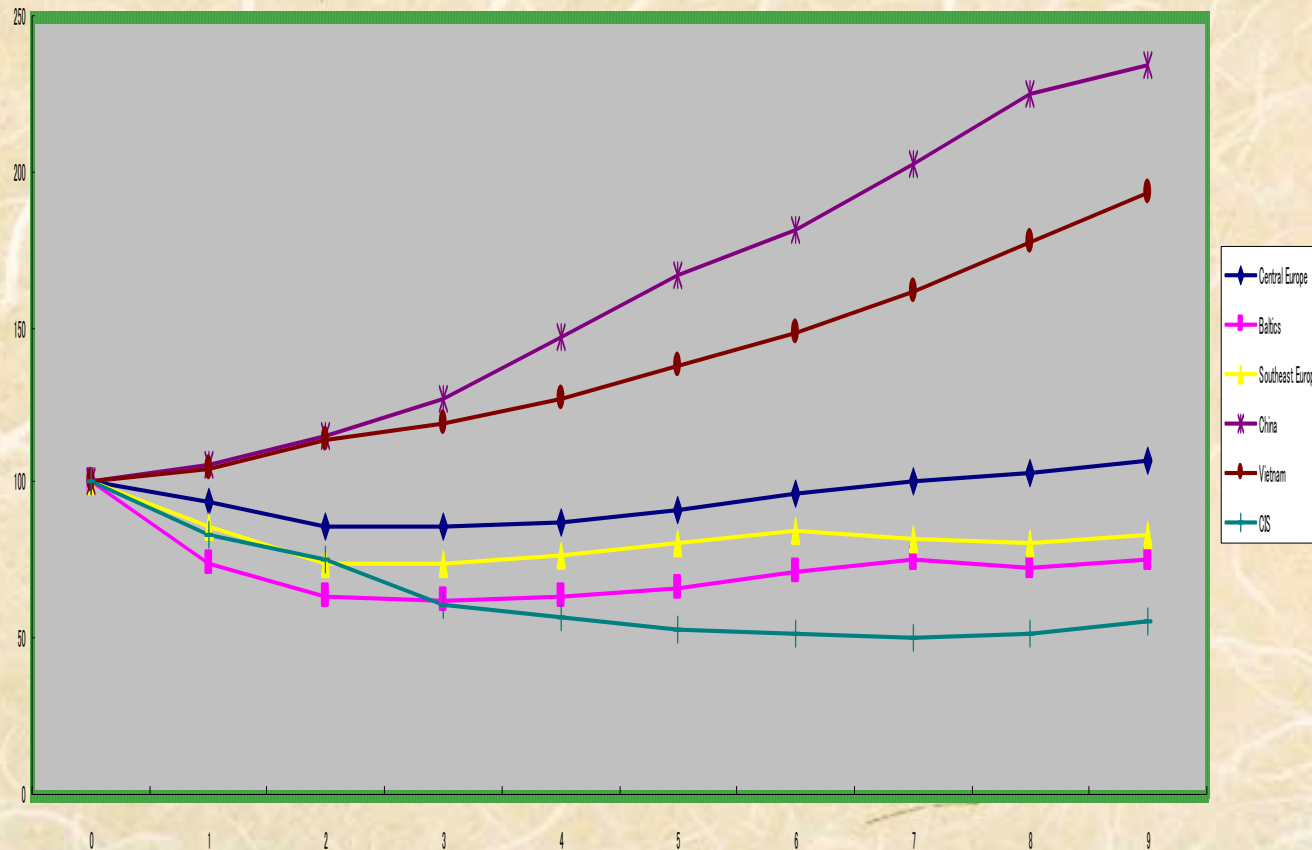
- Why are you learning about the Chinese Economy ?
- Because the Chinese Economy plays important roles in Japan and World Economic situations ?
- Because China is threatening us ?
- Because, it offers an example of Economic Development ?
- Because it offers an example of Regime Shift ?
- We learn it in a synthesis and diversified way.

1. Achievement of Chinese Economic Development after Reform and Opening-Up

- Let us begin with international comparisons
- Comparisons with other transitional economies
- Comparisons with other developing nations
- What can we learn from these ?
- Chinese high and rapid growth: Are there no such examples of other countries before ?

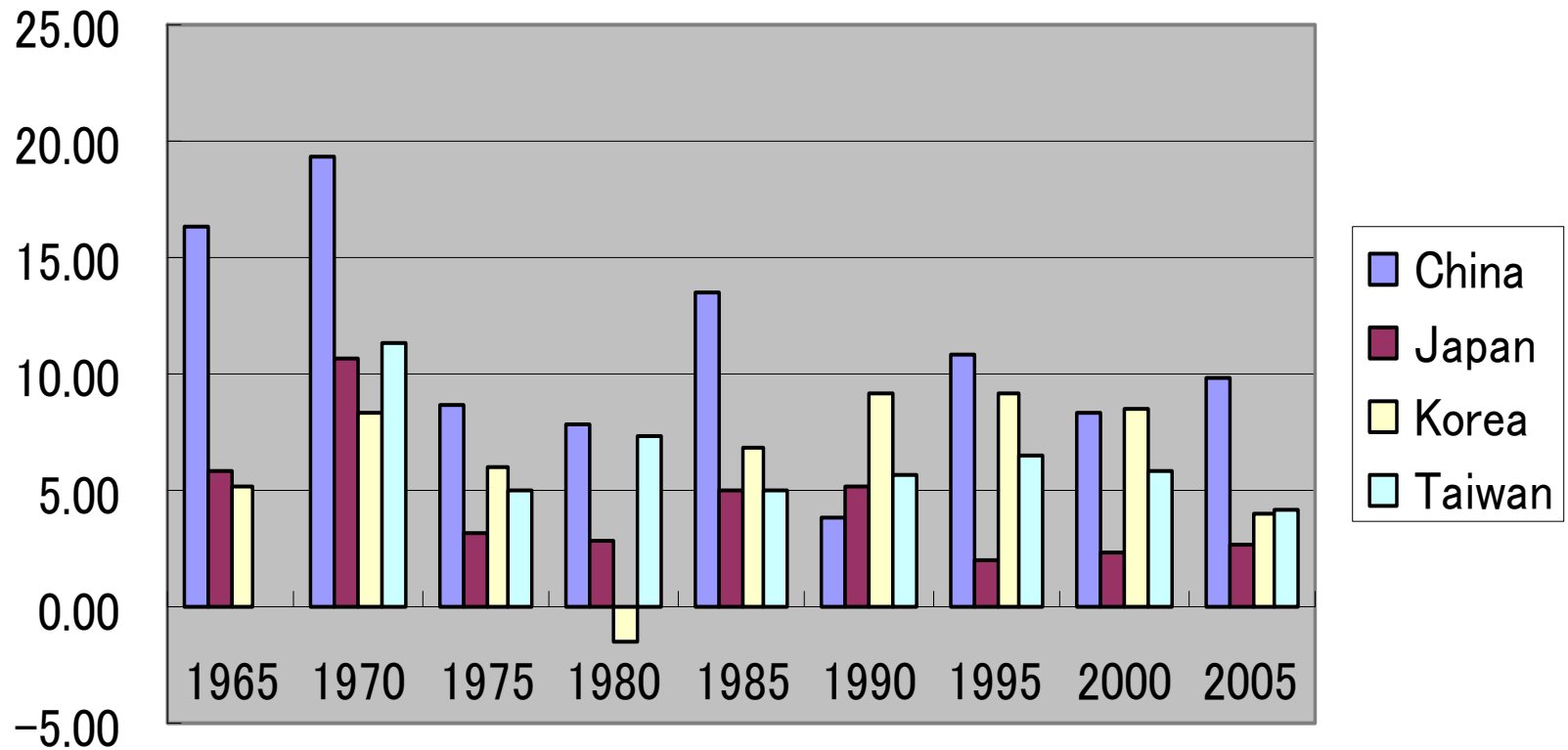
Grouping of Transitional Economies by Economic Growth Rate (by Nakagane Watuji)

GDP Growth in Transition Economies by Country Group (transition Time)



Growth Rate of East-Asian Nations (by Nakagane Watuji)

Growth Rates Compared (Japan, Taiwan, Korea and China)

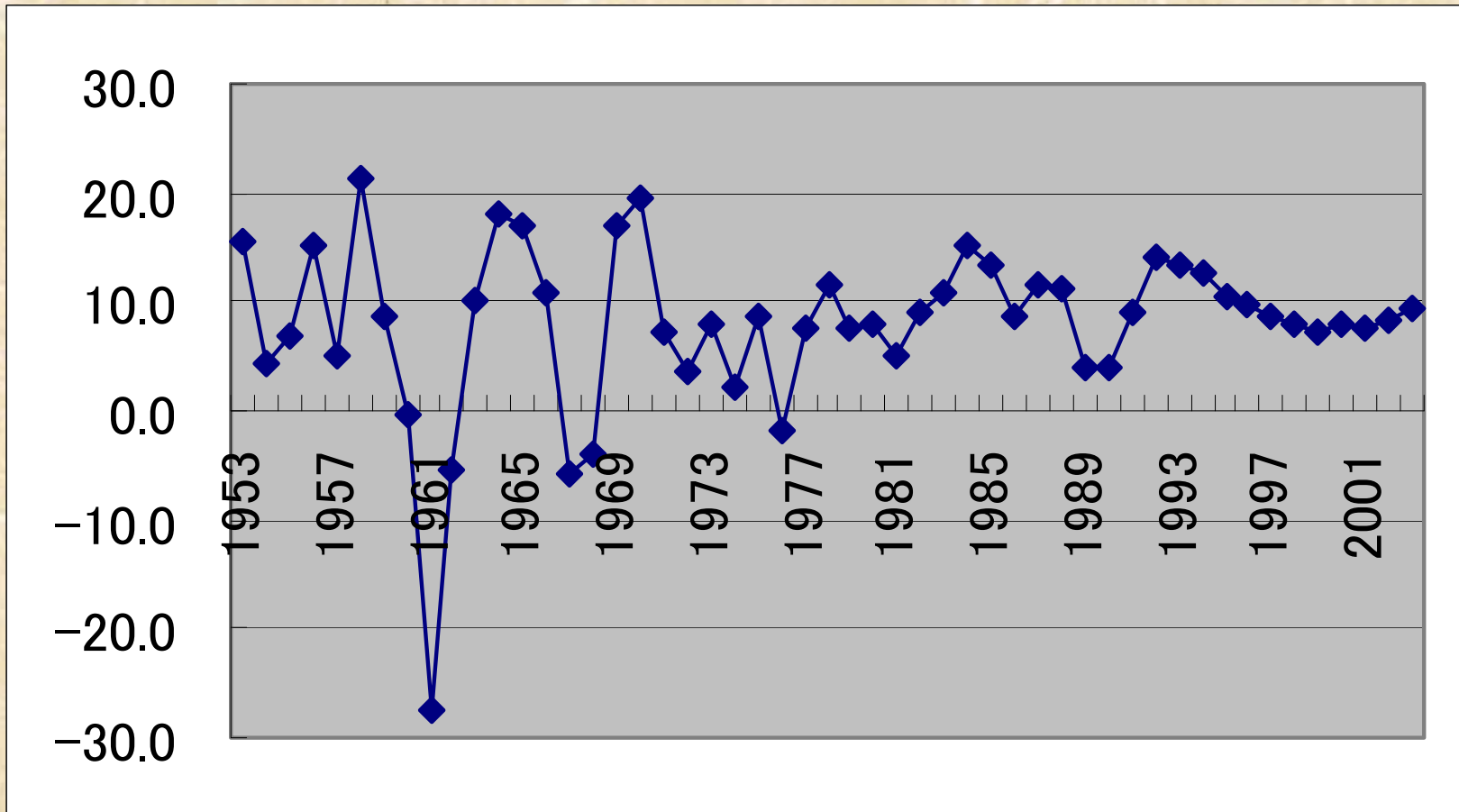


Comparisons With Before Reform and Opening-Up (pre-death of Mao Tse Tung)

- Comparisons before 1978 with after 1978
- Growth rate increased, fluctuations decreased
- Different origins of growth
- Change of industrial structure
- Increase of efficiency
- Exogenous development: increase of roles of imports and foreign investment
- Increase of disparities

Long-Term Fluctuation of Growth Rate of Chinese Economy (%)

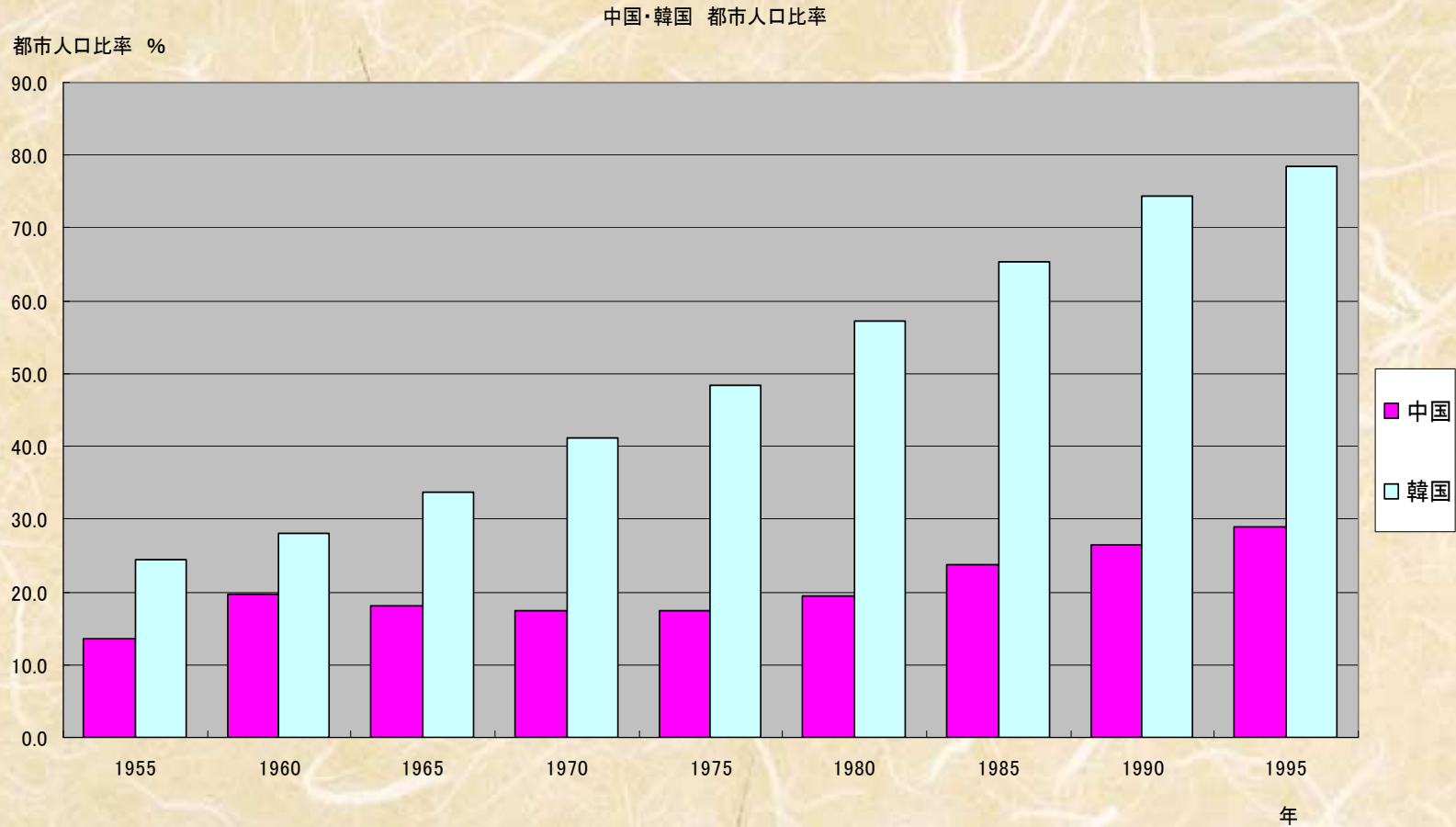
(by Nakagane Watuji)



Process of Urbanization

- Let us look at the urbanization rate (proportion of all population occupied by population in urban areas) and its progress (refer to the diagram)
- What can we learn from it ?
- Restriction of urbanization during Mao Tse Tung era
- And the Chinese family register system

Progress of Urbanization Rate: Comparisons of China with Korea



2. Characteristics of Development in Chinese Economy

- What is (economic) development ?
- Growth and Change in structure
- Development in narrow sense and broad sense
- What are standard patterns?
- Standard patterns and developing models

Developing Models and Propositions (1)

- Let's take some well-known models and propositions in developing economics
- For example:
- 1) Petty-Clark's Law: Industrial structure changes, by economic development, from the Primary sector of industry to Secondary sector of industry, and to the Tertiary sector of industry

Developing Models and Propositions(2)

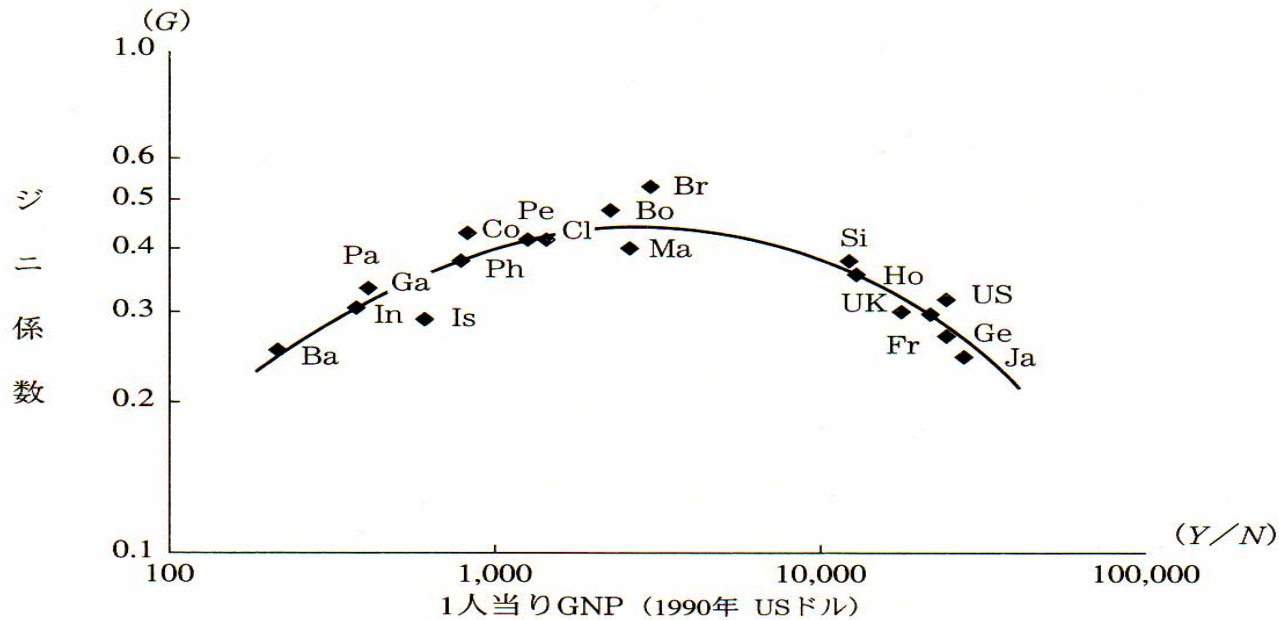
- **2) Lewis's two-tier model:** In any economy with surplus labor, it is developed through migrations from the traditional sector (agriculture) to the modern sector (industry), under the given low wages.
- Its economy will face turning point when surplus labor in traditional sector is used up.

Developing models and propositions(3)

- 3) Kuznets' inverted-**U** hypothesis: Income distribution is unequal at certain stages of development, however, beyond such stages, it is inclined to become equal.

Kuznets' Inverted-U Hypothesis

(Yujiro Shimizu, "Development Economics", 2000, 193)



| | | | | | | | | |
|----|----------|-------|----|--------|-------|----|------|-------|
| Ba | バングラデシュ | (.25) | Pe | ペルー | (.44) | UK | 英国 | (.33) |
| In | インド | (.31) | Cl | コロンビア | (.44) | Fr | フランス | (.33) |
| Pa | パキスタン | (.34) | Bo | ボツワナ | (.50) | US | 米国 | (.35) |
| Ga | ガーナ | (.34) | Ma | マレーシア | (.42) | Ge | ドイツ | (.30) |
| Is | インドネシア | (.30) | Br | ブラジル | (.54) | Ja | 日本 | (.27) |
| Ph | フィリピン | (.39) | Si | シンガポール | (.40) | | | |
| Co | コートジボアール | (.44) | Ho | 香港 | (.38) | | | |

図 7-2 家計間における所得分布の国際比較 (国名カッコ内はジニ係数), 両対数目盛

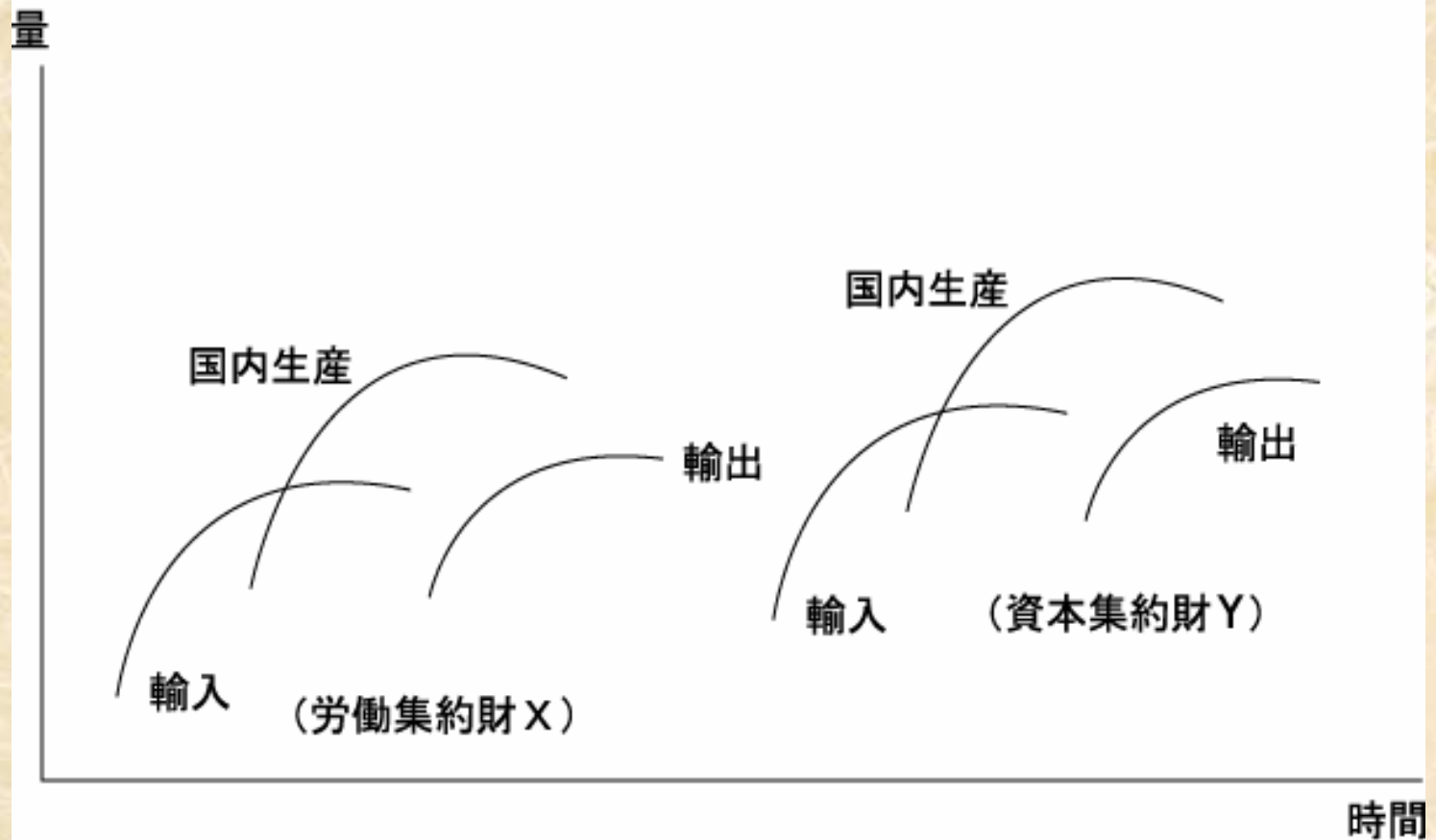
出所) World Bank, *World Development Report*, 1992, World Development Indicators Table 1 and 30. ジニ係数は5分位データより計算。5分位データの基礎となる家計調査は1970年末から1980年代にかけておこなわれた。具体的年次はWorld Development Indicators Table 30

Developing Models and Propositions(4)

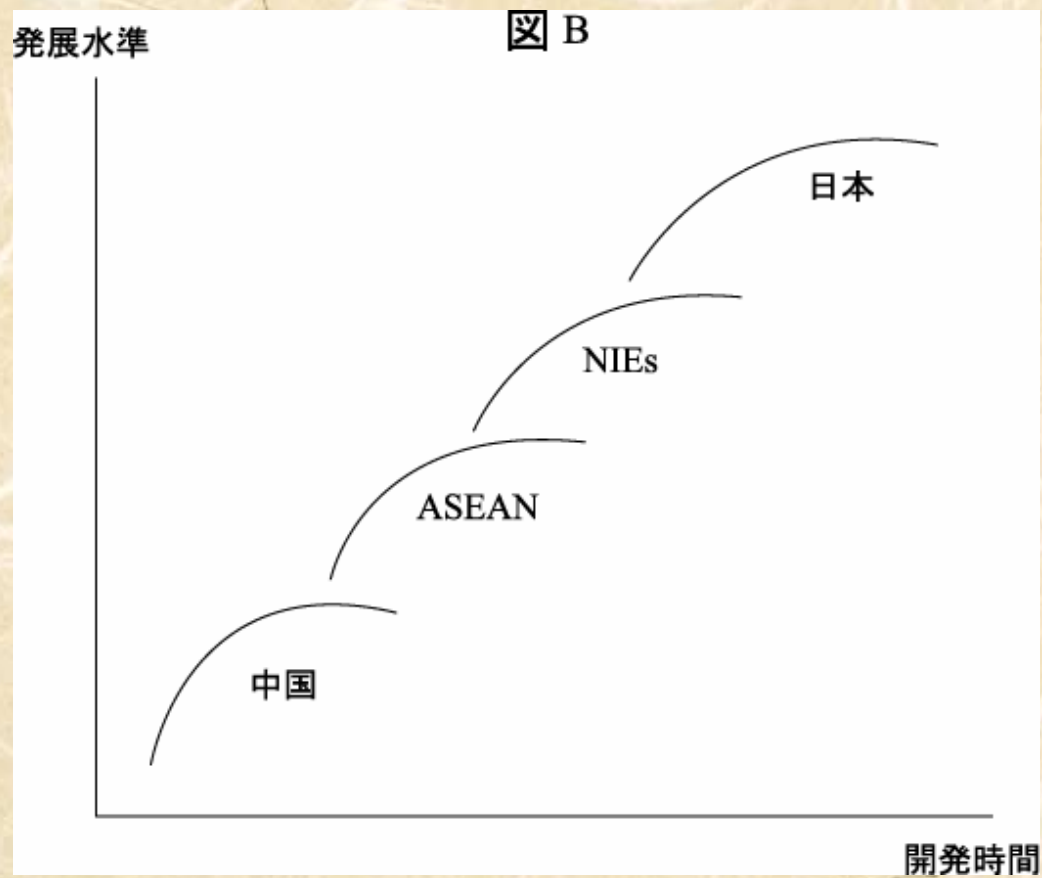
- 4) Catching up Product Cycle: Industrial development is transforming from importing to domestic production, and from consumer goods to producer goods by the changes of comparative advantages.
- From nation-state perspectives, the patterns of consecutive development is observed that developing nations catch up to developed nations.

Catching-up Product Cycle

図 A



Process of Catch-Up



Developing Model and Propositions(5)

- 5) developmental dictatorship Model:
Although at the early stage of development, market economy as well as a dictatorship-type regime is necessary. However, the political regimen becomes democratic by developing itself
- Competent bureaucracy, efficient decision-making of planed economy
- Ideology of developmentalism
- Successfull experiences in Taiwan and Korea

Developing Model and Reality in China

- Do these models and propositions explain the development process in China?
- Our interpretation: It is basically useful. But amendments are needed.
- It is more important to verify its background and the grounds for why amendments are necessary

Petty-Clark's Law and China

- Proportion of agri-industry is getting down in overall production scale. But, decrease of employees in agriculture is slow → Why ?
- The Mao Tse Tung era of Agri-focus policy (“Basic theory on agriculture”)
- Heavy Industry-led developing theory
- Existence of family register : it bonds farmers to the land

Lewis's Two-Tier Model and China

- Abundant low-wage labor and development of *xiangzhen* (local) and foreign enterprises: they are one of the springs of Chinese economic development after Reform and opening-up.
- Is labor supply from rural area “unlimited elastic” ?
- Recently, wages of peasant workers (emigrations) to coastal areas have been increasing.
- However, even now, enormous surplus labor power is left in rural areas.

Kuznets' Inverted-U Hypothesis

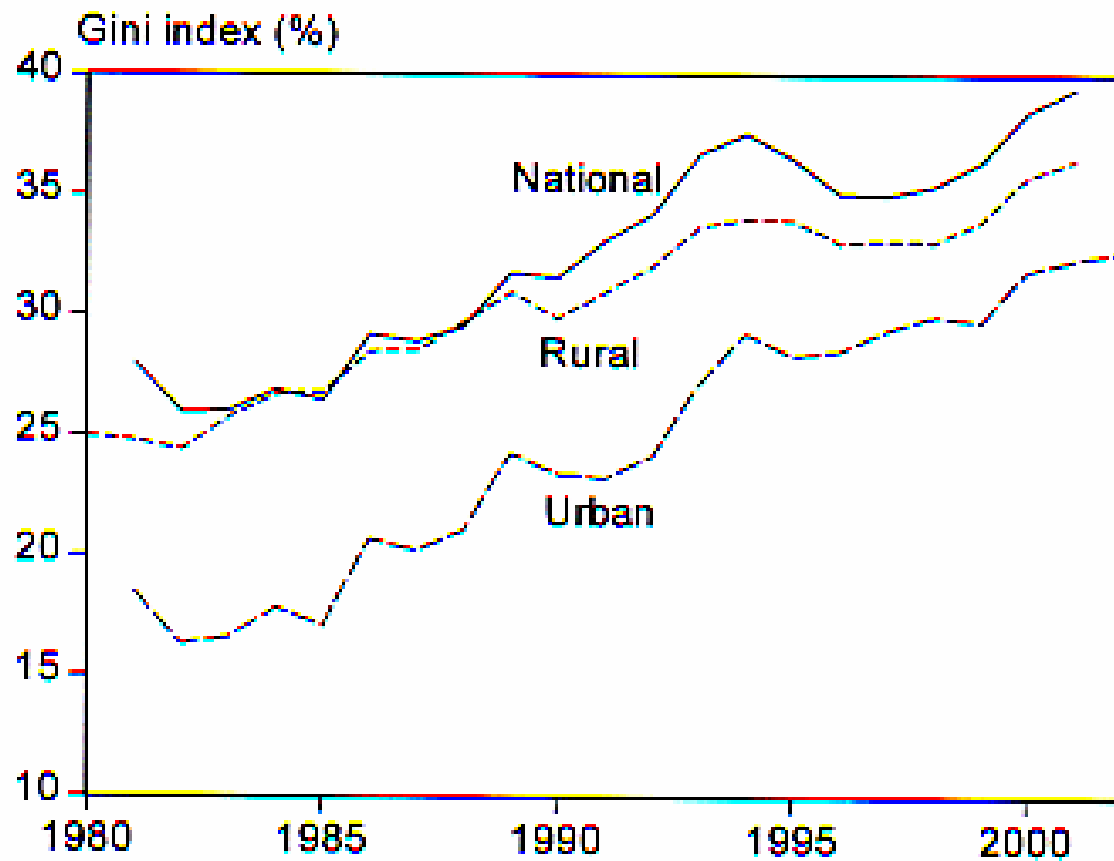
- Many researches on this hypothesis
- Not always granted
- How about China's current reality ?

Process of Income Distribution in China

- Deteriorating (growing) income difference
- Differences within urban areas and within rural areas
- Differences between urban and rural areas
- Differences between regions
- Japanese differences are further “socialistic”!
- Is China in the first position of the Kuznets Hypothesis ?
- Established double structure

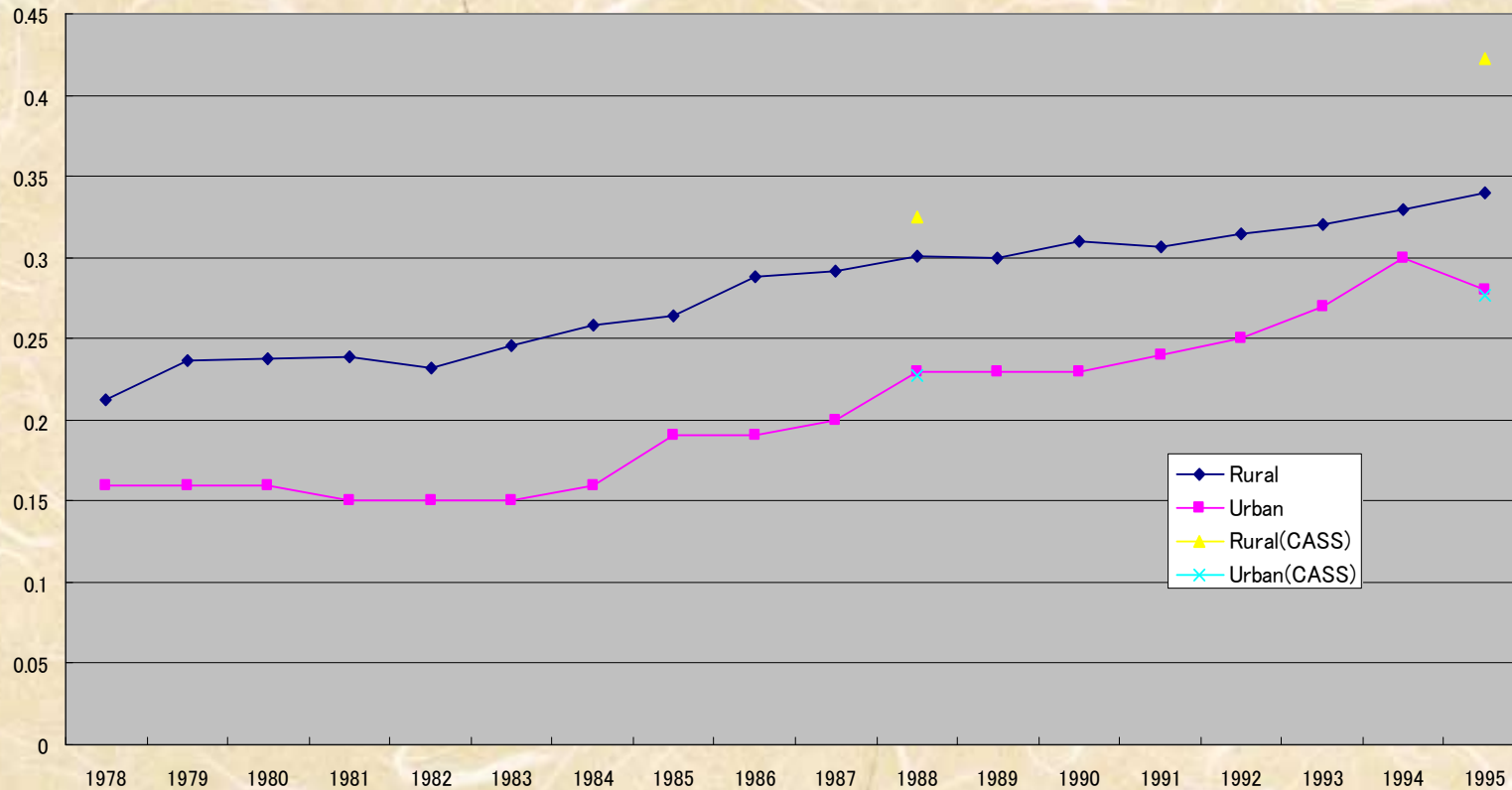
Transition of Disparity (Urban, Rural, National)

(Ravallion, Martin and Shaohua Chen (2004), "China's (Uneven) Progress against Poverty", *World Bank Working Paper 3408*)



Disparity Between Urban and Rural - Official and Personal Estimation (by Nakagane Watuji)

Gini Coefficients, 1978-1995 (official statistics)

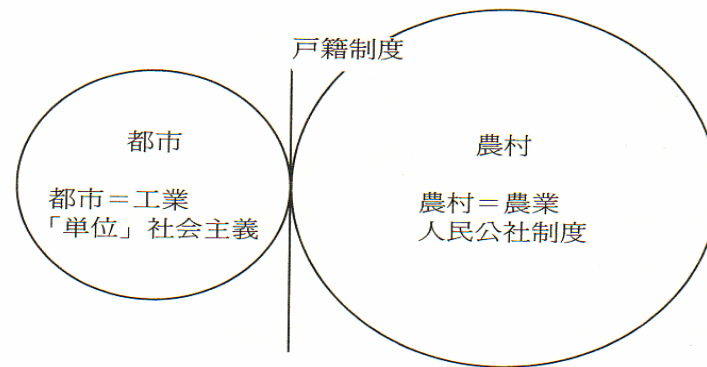


Dual Structure of Urban and Rural

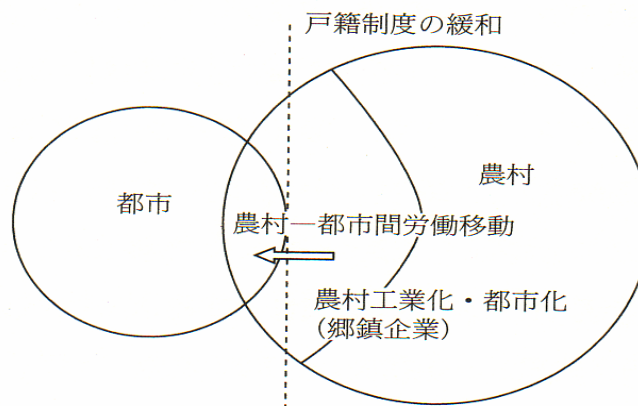
(Hiroshi Sato, "Series Contemporary Chinese Economy vol.7: *Income Gap and Poverty*, Nagoya Press, 2003, 11)

図 1-1 都市—農村関係の概念図

計画経済時代 (1950年代末~70年代末)



1990年代末



出所) Knight and Song (1999), 341 を元に加筆。