

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)

Catching-up Product Cycle and China

- Has industrial development in China really developed from imports to domestic production, to exports, and from consumption goods to production goods ?
- In the Mao Tse Tung era “self-rectification-ism” : domestic production from the beginning
- Heavy industry-led policy : from the beginning, development of production goods industry
- Would the proportion of export goods change the emphasis from consumption goods to production goods?
- From sundry goods to automobiles

Modern China and Development of Catching-Up Product Cycle Theory

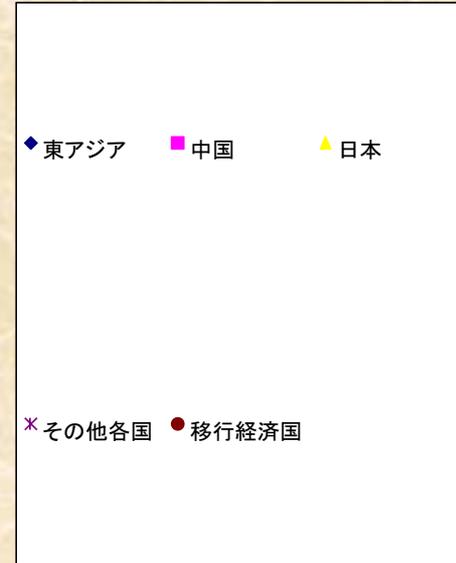
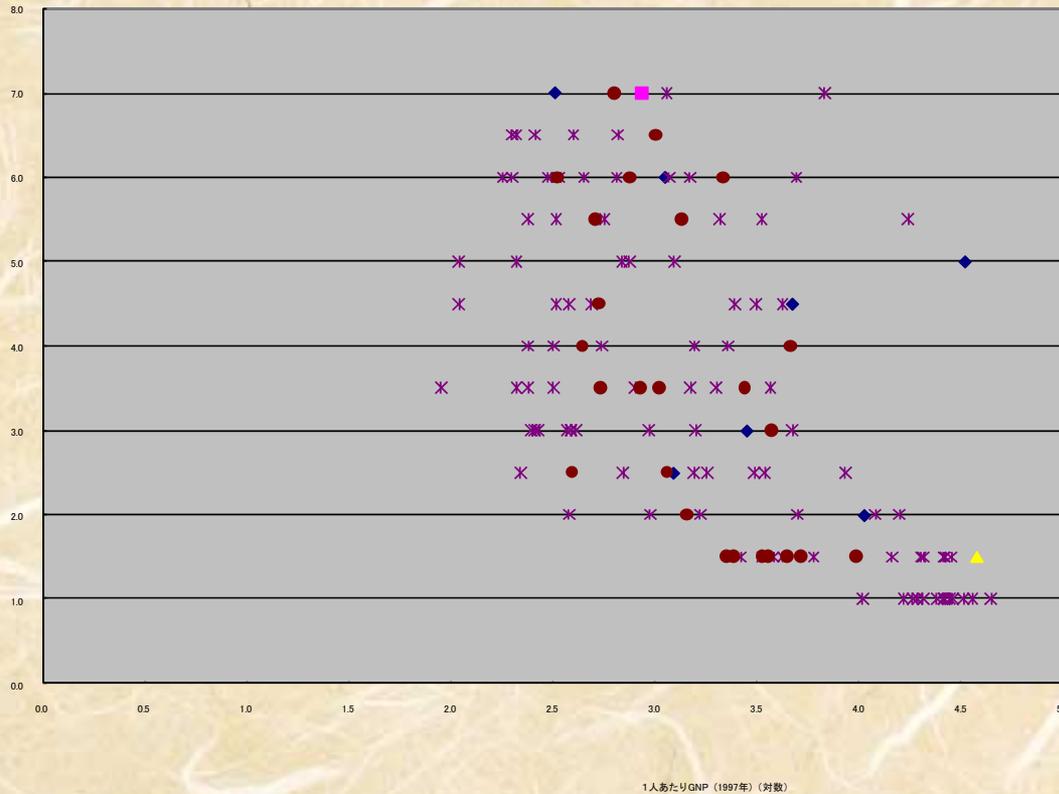
- Then, has China after Reform and opening-up been developed by this process ?
- Some reasons that explain the partial implausibility of this model being applied to China
- Legacy of era of Mao Tse Tung
- Direct investment from foreign
- Industrial cluster and scale of economic
- Rapid technique evolution/ innovation
- Some of industries in China already exceeded that of ASEAN

Chinese Reality and Developmental Dictatorship

- China has strong developmental tendency
- China is developmental dictatorship (Kazuko Mouri)
- If so, as long as economy develops, China would become a democracy (Tou Ryou)?
- But, the relations between the political system and the economic system are really various
- For example, let us look at relation between freedom and development

Freedom and Developmental Standard (by Nakagane Watsuji)

体制の不自由度



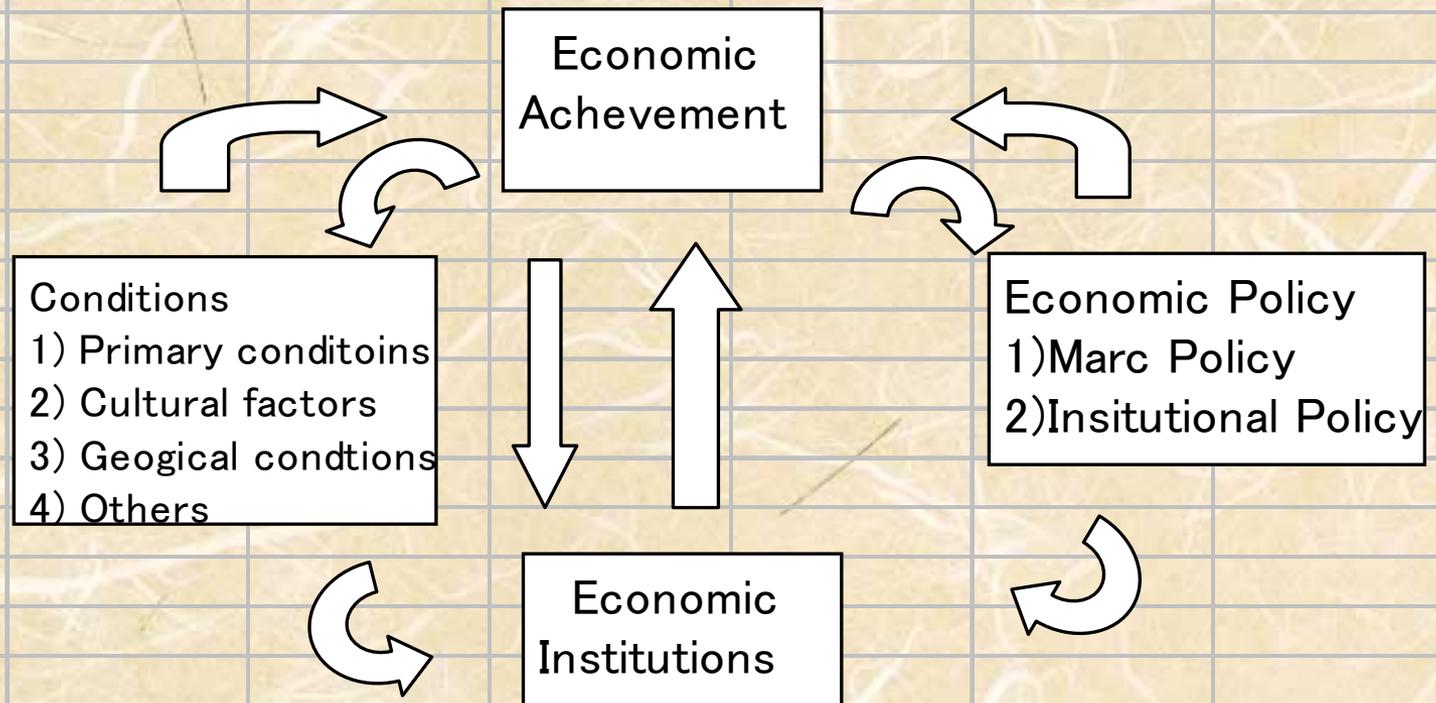
Conclusion 1 :

What Can be Asserted From the Above Analysis ?

- Can these models and propositions be used to correctly explain the Chinese development process?
- Basically it is effective, but various amendments are necessary
- Why? Two reasons:
- Peculiarity of China (history, policy, institution, scale etc)
- Endogenous limitation within models and propositions

Relationship Between Institution, Policy, and Economic Achievement (by Nakagane Watuji)

figure 1 – 3 interaction among institution, policy, and economic achivement



3. Possibilities of Chinese Economic Growth

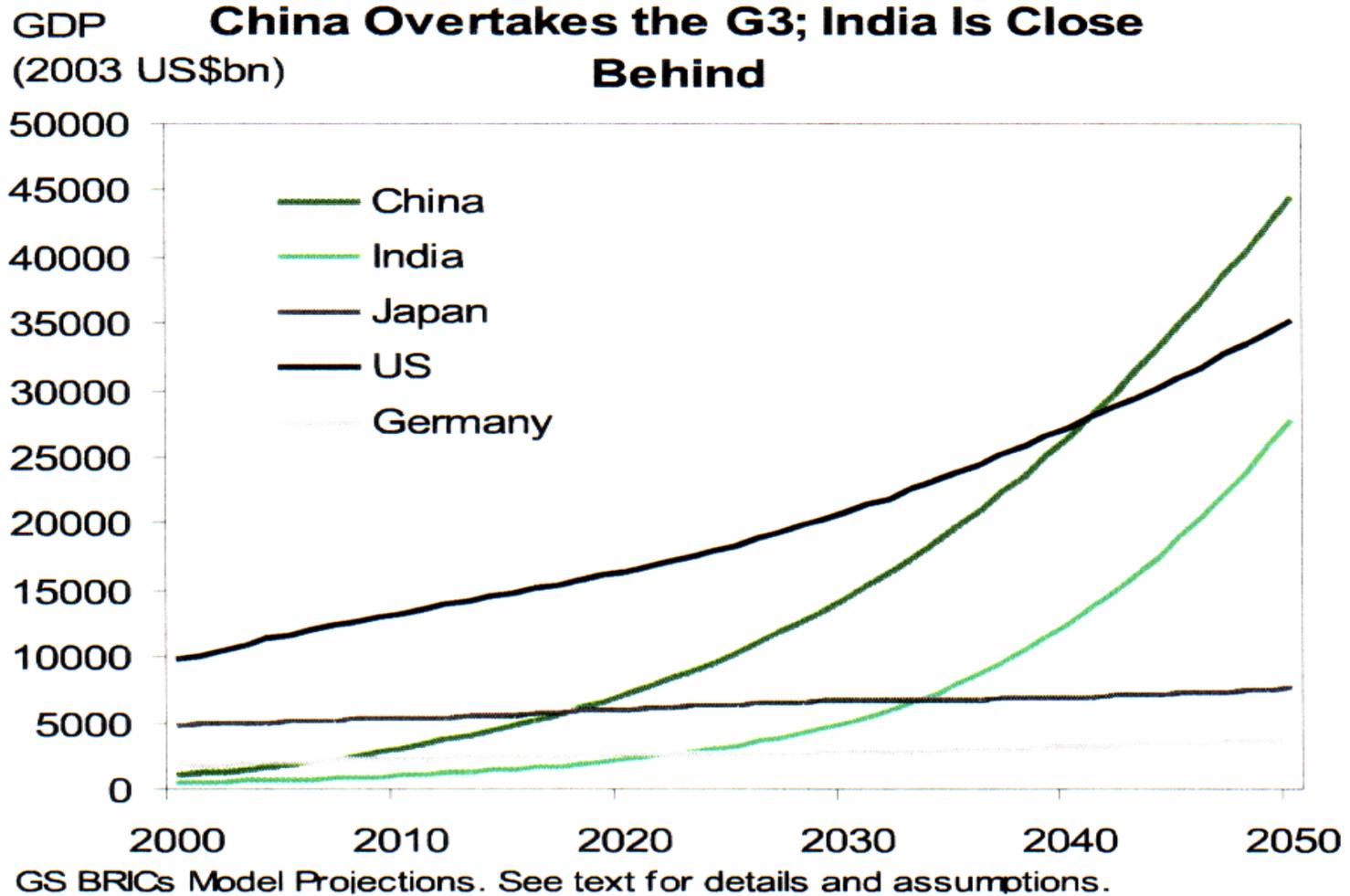
- Will high Chinese economic growth keep going ?
- Both optimistic and pessimistic theory
- “China broke up theory” that presented before and its logical structure
- Paid attention to negative aspects of China
- Mixture of reality and expectation

Predictions of Chinese Economic Growth Prospects by Goldman Sachs

- China will pass Japan before 2020
- In the future, China will pass the USA and it will be the best of economic nations
- China Long Term Strategic Aim: becoming the mid-developing nation within the mid-21st century

China's Growth Prospect: Goldman Sachs' Projection

(*Global Economics Paper No. 99: Dreaming with BRICs: The Path to 2050, 2005*)



Optimistic Prospects in Chinese Economy

- Reasons For Optimistic View

- 1) “stability” of politics (as long as economy grows, politics is stabilized)

- 2) Pragmatism, proto-Ideology

- 3) Room for further development: Eastern region and rural villages

- 4) Internationalism and advantages of backwardness

- 5) In general, “youth” that Chinese Economy has

What is Growing Power in Chinese Economy ?

- Growth of Chinese Economy from a growth accounting perspective
- Growth rate = f (qualitative and quantitative increase rate of labor force, increase rate of capital, technological progress rate, rate of reformation, α)
- Increase of educational standards
- Surplus labor power
- Increase of technological standards
- Institutional reform
- α (other factors): such as political stability

Factors and Risks That Regulate Growth

- Piles of problems in China: for example . . .
- Population problem: One Child Policy leads to rapid aging issues in the future
- Energy problem: Shortage of energy pushing up world demand
- Foreign friction: for example, huge US-China trade surplus and a worsening of relations
- Political regime: can one-party dictatorship deal with various political interests ?

Factors and Risks That regulate Growth

- Disparity/distribution problems: can Chinese regime sustain itself from devastating inequality ?
- Minority Problems : Can independence tendency in Tibetans or Uiguls be suppressed?
- Environmental problems
- Decaying politics problems
- *Sannong Wenti* (three agri-problems)

4. Chinese Economy and Problems of Peasants / Environment / Corruption

- Why do we consider these three problems?
- Because they are critical problems
- So, they will deeply influence future Chinese conditions
- Besides, through these problems, various characteristics of the Chinese economy and society can be known

4.1 What is “*Sannong Wenti*” ?

- What are the problems of agriculture, of rural villages, and of peasants in China ?
- Why did they occur ?
- Frequency of peasants’ riots and disputes

Frequent Peasants' Riots and Disputes (2003,10 - 11) ("Soumei" 2003/12)

District	Numbers of Riots	Participants	Reason For Riot
Tianjin province	3	more than 3million	farmland condemnation
Hebei province	more than 20	"more than 10million	"_"
Hunan province	more than 50	more than 30million	farmland condemnation
Hubei province	more than 40	"more than 26million	farmland condemnation etc
Chongqing city	11	more than 12million	farmland condemnation etc
Shandong province	22	more than 30million	farmland condemnation etc
Anhui province	more than 30	more than 15million	farmland condemnation etc
Jiangxi province	more than 40	more than 2 0million	"_"
Liaoning province	more than 30	more than 15million	farmland condemnation etc
Heilongjiang province	more than 40	more than 10million	farmland condemnation etc
Inner Mongolia	more than 30	more than 6million	farmland condemnation etc

A peasant in Beijing is appealing to get back his contractual lands which “were confiscated” somewhere . . .



Process of Farmland Condemnation

- “unit of ground”
- “national land administrative superintend department”
- (prefecture or city) “official office”
- Local government
- Land contractor: peasants
- What are differences from the Japanese case?
Let us compare it with Japanese process of land confiscation

Indemnity to Whom and How Much ?

- Standard of compensation for farmland confiscation
- Proportion goes to village
- Proportion goes to peasants
- However, most profits go to “development unit”

Where Does Profit of Land Condemnation Go ?

- According to a survey of Jiangsu, the government takes up 60-70% of incremental part of farmland laying-down, 25-30% goes to rural collective economic organization, and peasants gain only 5-10%
- One example from a certain province in China's eastern region: net income for one peasant in 2003 was 1675 RMB, and compensation of road construction was 600 RMB per 6.7 acres

Peasant Anger and Rage

- Conflict between peasants in Hebei and rogues, and collision between peasants in Guangdong and policeman
- Still, why don't rural villages in China descend into chaos, and not political power collapse?
- Because of peasants' ignorance ?
Because of oppression of nation ?

4.2 Environmental Problems in China

- Deteriorating Chinese environment
- Structure of environmental problems in China
- Air pollution
- Water pollution
- Waste problems
- Desertification

Progress of Desertification

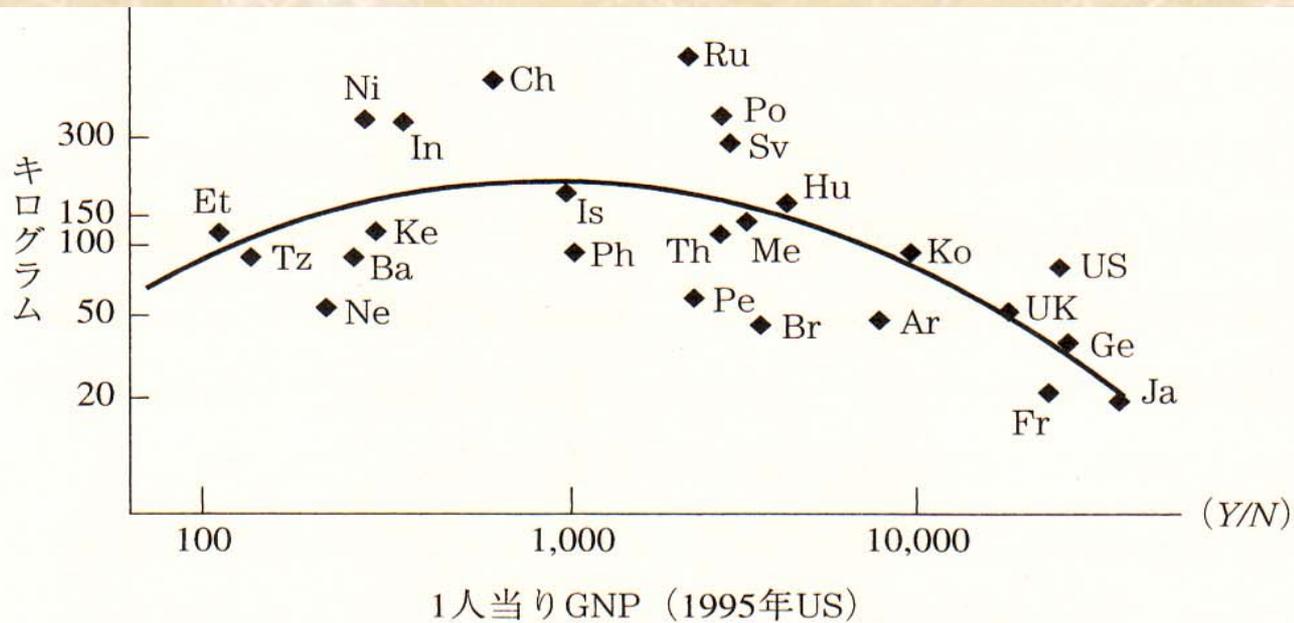
- Desert area in nation (2.674 million km²)
(occupied 27.9% of national land)
- On it, desert area is expanding at the rate of 3,436 km² yearly
- Influence of desertification affects more than 40 million people in China, and it makes a direct economic loss of US\$650 million

Comparison of Environmental Problems Between Japan and China

- Environmental Kuznets Curves
- Has China simply followed the Japanese way?
- Difference from Japan
- Climate conditions
- Natural geographic environment
- Institutional conditions: differences between China and Japan in civil movement

Environmental Kuznets Curves

(Simizu ibid. 214)



Ba バングラディッシュ
In インド
Ni ナイジェリア
Tz タンザニア
Et エチオピア
Ne ネパール
Ke ケニア
Ch 中国
Ru ロシア

Th タイ
Po ポーランド
Sv スロバキア
Is インドネシア
Ph フィリピン
Me メキシコ
Hu ハンガリー
Pe ベルー

Br ブラジル
Ko 韓国
Ar アルゼンチン
Fr フランス
UK 英国
US 米国
Ge ドイツ
Ja 日本

4.3. Corruption in the Chinese Economy

- What is corruption?
- Why has corruption spread in China?
- Because of its social character of “authoritative society” (*Wang Yunhai*)
- Leff-Huntington hypothesis: corruption is useful for developing nations
- Demonstrative study of corruption: it does not support this hypothesis

Low Growth Mechanism Brought by Corruption

- Tanzi, Vito and Hamid Davoodi (2000)
- 1) Corruption swells cost of enterprise, deteriorates profit rates. And it is especially serious to middle small size enterprises.
- 2) Corruption declines scale and quality of investment.
- 3) Corrupt society needs more lawyer than engineers, and it distorts allocation of human resources
- 4) Corrupt society relatively worsens government expenditure on education and health.
- 5) Corrupted nations have low-taxation rate.
- Above all, it affects negatively growth rate: corruption equals denial of growth acceleration

Why Does Corruption Occur?

- Causes of corruption
- From Moral crash?

Clitgaard's formula

corruption = monopoly + arbitrary - account
responsibility

- Control of corruption :

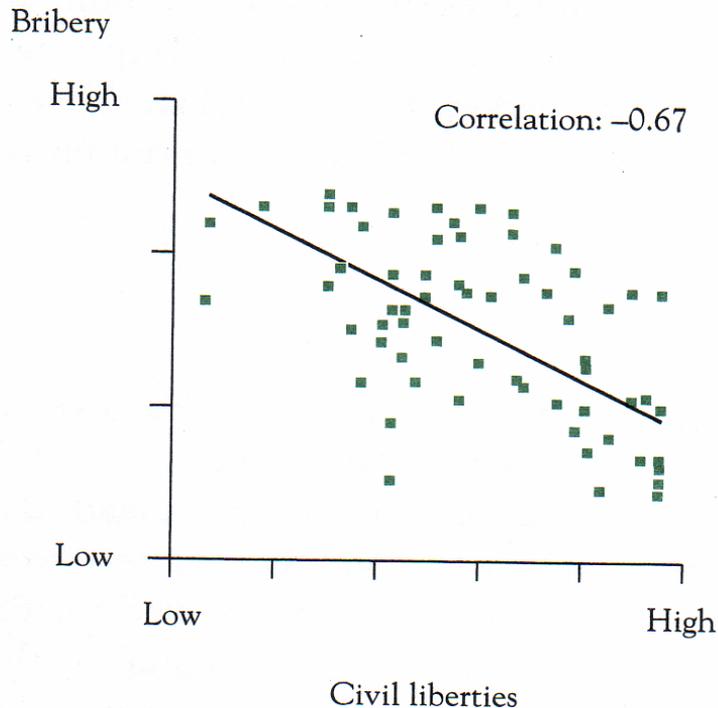
institutional arrangement led from this formula

- (1) Effective and small government and competition
- (2) Secure of transparency · · · freedom of
broadcasting
- (3) Accomplishment of order by law

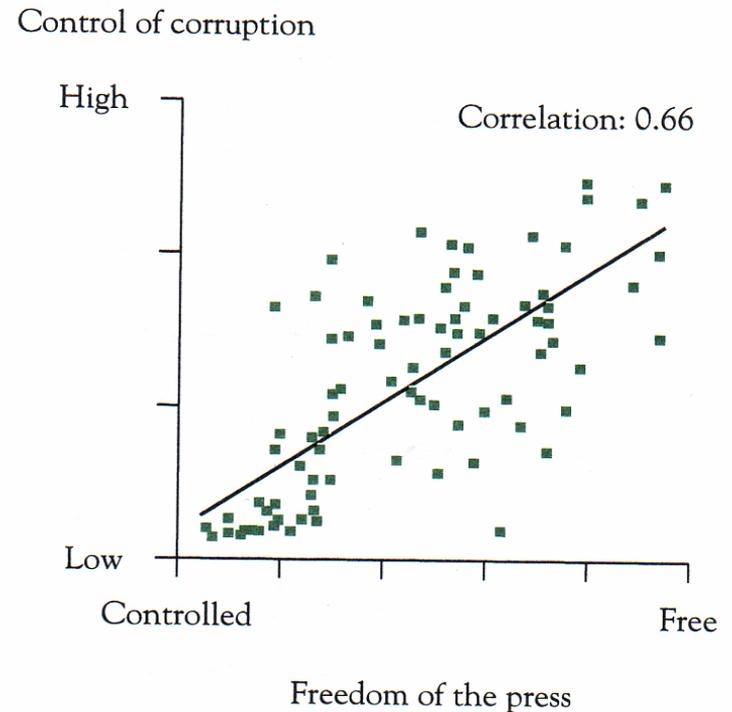
Corruption and Civil Rights (Vinod Thomas et al. *The Quality of Growth*, Oxford University Press, 2000, p.151)

Figure 6.7. Corruption and Civil Rights

Civil liberties and bribery



Press freedom and control of corruption



Source: Kaufmann (1998).

Causes of Corruption in China

- Existence of state-owned enterprises
- Strength of national regulation
- Rapid development of market economy and delaying institutionalization of it
- Lack of freedom of the press

4.4. Stability of Regime

- As a result of those challenging problems, will China collapse sooner or later ?
- Let us look back again at the structure of the “China collapse theory”
- “A hateful, but strong wrestler” theory