

Economics 162

The Chinese Economy

Yingyi Qian

Professor of Economics

### Reasons for Study

- Intellectual curiosity on China and its impact on the rest of the world
- Family, neighbor, friend, and classmate connection to China
- Doing business in or with China
- Public policy toward China

## Themes of the Course

- Reform and transition from plan to market
- Economic development from poor to rich
- Opening and integration to the world

## Features of the Course

- Descriptive
  - Facts
  - What, when, where, who
  - Not easy
- Analytical
  - About the linkages among facts
  - Why, how
  - Even more difficult

## China in Broader Perspectives

- As a transition economy
  - Eastern Europe, former Soviet Union, Vietnam
- As an emerging market
  - East Asia, India
- As a large economy
  - Brazil, Russia, India, China (BRIC)
- As a geopolitical power
  - U.S., E.U., Russia, Japan

## Textbook

- Barry Naughton, *The Chinese Economy: Transitions and Growth*, The MIT Press, 2006
- The course reader from the last year is still usable

## Other Readings

- Janos Kornai, *The Socialist System*, 1992
- Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1993*, 1996
- World Bank, *China 2020: Development Challenges in the New Century*, 1998
- Nicholas Lardy, *Integrating China into the Global Economy*, 2001
- Jinglian Wu, *Understanding and Interpreting Chinese Economic Reform*, 2005

## Topics (chapters in Naughton)

- Topic 1. Introduction (Introduction)
- Topic 2. Initial conditions (1, 2, 3, 5)
- Topic 3. Reform stages and features (4)
- Topic 4. Growth and structural change (6)
- Topic 5. Agriculture (10, 11)
- Topic 6. Industry: The non-state sector (12)
- Topic 7. Industry: The state sector (13, 14, 15)

## Topics (chapters in Naughton)

- Topic 8. The financial sector (19)
- Topic 9. Labor and income distribution (7, 8, 9)
- Topic 10. Foreign trade (16)
- Topic 11. Foreign investment (17)
- Topic 12. The fiscal system (19)
- Topic 13. Legal reform
- Topic 14. Macro cycles and policies (18)

## Useful Information

- Midterm: March 12 (Monday), 4-5:30, in class
  - 30% of grading
- Final: May 14 (Monday), 5:00-8:00
  - 70% of grading
- Class schedule changes
  - No classes on Jan. 31, March 14, 19, 21
  - Makeup classes on Feb. 16, 23, March 2
- Office Hours
  - Wednesdays 2:00-4:00, Evans Hall 621
- Email: [yqian@econ.berkeley.edu](mailto:yqian@econ.berkeley.edu)
- Web: <http://elsa.berkeley.edu/~yqian>

## The Big Picture of China: Evidence

- A great success in economic achievement, with problems
- A slow pace in political liberalization, with progresses
- The mega trends in the three themes of the Chinese economy

### A great success in economic achievement, with problems

- Evidence on the success: fast growth in production and rapid improvement in living standard
  - Table 1: Growth indicators
  - Table 2: Growth indicators in physical units
  - Table 3A: Employment and labor indicators
  - Table 3B: Rural poverty reduction

## Table 1: Growth indicators

	GDP (billion)	GDP per capita	Consumption per capita	Foreign trade (billion \$)	Foreign trade/GDP
1978	658.4	684.0	334	20.64	9.80%
1985	1,270.1	1,199.9	619	69.60	23.05%
1990	1,854.8	1,622.3	803	115.44	29.98%
1995	3,269.1	2,699.0	1,250	280.86	40.19%
2000	4,864.5	3,838.1	1,847	474.29	43.19%
2003	6,189.9	4,789.9	2,171	850.99	60.11%
Growth rate	9.4%	8.1%	7.8%		
2003 level (1978=100)	940	700	649		

Source: China National Statistical Bureau. GDP and consumption are in 1990 price.

## Table 2: Growth indicators in physical units

	Fixed telephone (million)	Mobile telephone (million)	Auto production (million)	Passenger car per 1000 pop	Urban housing per person (m <sup>2</sup> )	Super highway length (km)
1978	-	-	0.15	-	6.7	-
1985	3.12	-	0.44	-	10.0	-
1990	6.85	0.018	0.51	-	13.7	500
1995	40.71	3.63	1.45	1.33	16.3	2,100
2000	171.53	84.53	2.07	2.93	20.3	15,300
2003	271.60	269.95	4.44	5.41	23.7	29,700
2005 July	337.44	363.17	5.07 (2004)	6.96 (2004)	-	-

### Table 3A: Employment and labor

	Non-agricultural employment (million)			Life expectancy (year)	Adult literacy rate
	Total	Industry	Service		
1978	118.35	69.45	48.90		
1985	159.16	103.84	55.32		
1990	222.15	138.56	83.59	68.55	77.7%
1995	276.34	156.55	119.79		
2000	330.99	162.19	168.80	71.40	90.9% (2002)
2003	359.00	160.77	198.23		

Sources: China National Statistical Bureau. Human Development Report 2004.

### Table 3B: Rural poverty reduction

	Chinese national standard		World Bank standard (\$1/day)	
	Poverty population (million)	% of rural population	Poverty population (million)	% of rural population
1978	250	30.7%	-	-
1990	85	9.5%	280	31.3%
1993	75	8.2%	266	29.1%
1996	58	6.3%	138	15.0%
1998	42	4.6%	106	11.5%
2002	28	-	88	-

## A great success in economic achievement, with problems

- Evidence on problems: rising inequality and corruption
  - Table 4: Gini coefficients and consumption inequality
  - Table 5: Corruption perception index, international comparison (*Transparency International*)

### Table 4: Gini coefficients and consumption inequality

	Gini coefficients			Consumption inequality		
	1988	1995	2003		1991	2003
National	0.39	0.44	0.45	Richest 20% to poorest 20%	2.02	3.95
Rural	0.32	0.38	0.37	Richest 10% to poorest 10%	2.42	5.66
Urban	0.23	0.28	0.32			

Source: Li (2003, 2004). China National Statistical Bureau.

## Table 5: Corruption perception index

Country/Region	2004 Rank	2004 Score
Finland	1	9.7
Singapore	5	9.3
Hong Kong	16	8.0
United States	17	7.5
Mexico	64	3.6
Thailand	64	3.6
Peru	67	3.5
<b>China</b>	<b>71</b>	<b>3.4</b>
Turkey	77	3.2
Romania	87	2.9
Russia	90	2.8
India	90	2.8
Ukraine	122	2.2

Source: Transparency International.

## A great success in economic achievement, with problems

- Evidence on the perception of ordinary people (*Gallup polls*)
  - Table 6A: Life satisfaction score
  - Table 6B: Confidence on the future

## Table 6A: Life satisfaction score

	Very dissatisfied	Somewhat dissatisfied	Somewhat satisfied	Very satisfied
Personal health	8	15	45	32
Current housing	17	27	40	15
Family life	6	17	56	21
Children's education	8	14	34	11
Community as a place to live	13	26	46	14
Job or work to do	15	25	38	10
Household incomes	20	38	36	5
The amount of savings	34	34	24	3
Own education	23	32	35	8

Source: Gallop poll, 2004.

## Table 6B: Confidence on the future

	Rating quality of one's personal life at different time point (10 point scale)		
	5 years ago	today	5 years from now
National	3.48	4.45	6.49
Urban	4.33	4.73	6.48
Rural	2.92	4.26	6.49

Source: Gallup poll, 2004.

## A slow pace in political liberalization, with progresses

- Not moving in the direction of democracy
  - Table 7: Political rights and civil rights index, international comparison (*Freedom House*)

### Table 7: Political and Civil Rights

	1990			2000			2003		
	PR	CL	Status	PR	CL	Status	PR	CL	Status
<i>China</i>	7	7	<i>N Free</i>	7	6	<i>N Free</i>	7	6	<i>N Free</i>
Czech	-	-	-	1	2	Free	1	2	Free
Hungary	2	2	Free	1	2	Free	1	2	Free
India	2	3	Free	2	3	Free	2	3	Free
Mexico	4	4	P Free	2	3	Free	2	2	Free
Peru	3	4	P Free	3	3	P Free	2	3	Free
Romania	6	5	N Free	2	2	Free	2	2	Free
Russia	-	-	-	5	5	P Free	5	5	P Free
Singapore	4	4	P Free	5	5	P Free	5	4	P Free
Ukraine	-	-	-	4	4	P Free	4	4	P Free

## A slow pace in political liberalization, with progresses

- Some progresses
  - Table 8: Rights directly related to economic freedom (*Heritage Foundation, Economist Intelligence Unit*)
  - Table 9: Rule of law index, international comparison (*World Bank Governance Indicators*)

### Table 8: Economic freedom

	FDI, US\$ (billion)	Visiting abroad (million)	Current account restriction	Set up new business	Index of economic freedom
2000	38.4	10.5	3	2	3.40
2001	44.2	12.1	3	2	3.55
2002	49.3	16.6	3	2	3.55
2003	47.1	20.2	5	3	3.55
2004	-	-	-	-	3.46

Sources: Economic Intelligence Unit, except for Heritage Foundation for index of economic freedom. 5 means lowest restrictions and lowest regulations.

**Table 9: The rule of law index**

Country/Region	2004	2002	2000	1998	1996
Singapore	95.7	92.3	98.9	99.5	99.4
Hong Kong	90.3	84.7	90.4	90.8	90.4
Japan	89.9	88.3	90.9	90.3	88.0
Hungary	78.7	77.6	78.6	76.2	75.3
South Korea	68.6	76.5	73.8	76.8	81.9
Malaysia	64.7	67.9	71.1	76.8	82.5
Turkey	54.6	53.1	59.9	65.9	58.4
Thailand	51.7	60.2	69.0	69.2	71.1
India	50.7	55.6	62.0	67.0	56.6
Romania	48.3	52.0	51.9	49.7	44.0
Brazil	46.9	45.9	53.5	56.8	46.4
Mexico	45.9	47.4	46.0	40.0	54.2
<b>China</b>	<b>40.6</b>	<b>48.5</b>	<b>48.7</b>	<b>52.4</b>	<b>37.3</b>
Peru	31.9	36.7	38.5	37.3	40.4
Russia	29.5	21.4	18.7	22.7	19.9
Ukraine	23.2	21.4	26.2	23.2	28.3

Note: From 0 to 100, the higher the score, the better the rule of law.

Source: Kaufmann, Kraay and Mastruzzi (2005), Governance Matters IV: Governance Indicators for 1996-2004.

## The mega trends in three themes

- Transition from plan to market
- Economic development from poor to rich
- Integration to the world

## Transition from plan to market

- Ownership: private sector and non-state sector
  - Table 10: GDP contribution by ownership
- Market: over time and across region
  - Table 11: Marketization index
- Institutional quality fits China's income level
  - Figure 1: Regression of institutional quality on per capita income in transition economies

Table 10: GDP by ownership (%)

	State	Collective	Private
1990	47.7	18.5	33.8
1995	42.1	20.2	37.7
1997	38.4	22.1	39.5
1999	37.4	18.4	44.2
2000	37.3	16.5	46.2
2001	37.9	14.6	47.5

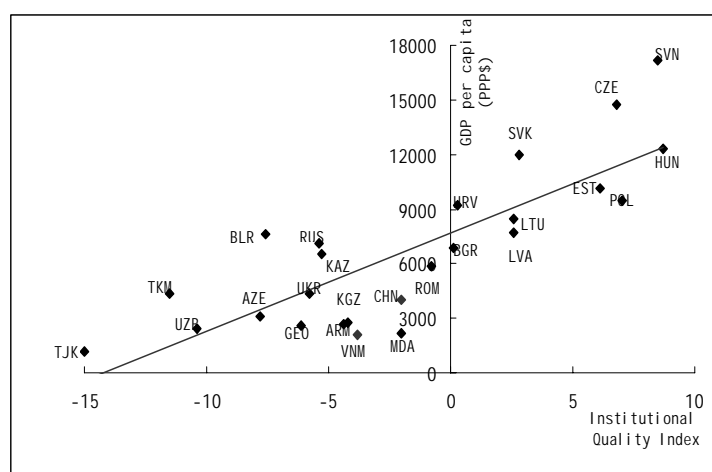
Sources: China International Capital Corporation.

## Table 11. Marketization Index

	National	East	Central	West
1997	4.98	6.36	4.63	3.86
1998	5.15	6.50	4.78	4.06
1999	5.14	6.51	4.70	4.08
2000	5.34	6.78	4.81	4.28
2001	5.74	7.37	5.11	4.56
2002	5.98	7.72	5.38	4.68

Source: Fan and Wang (2001, 2004).

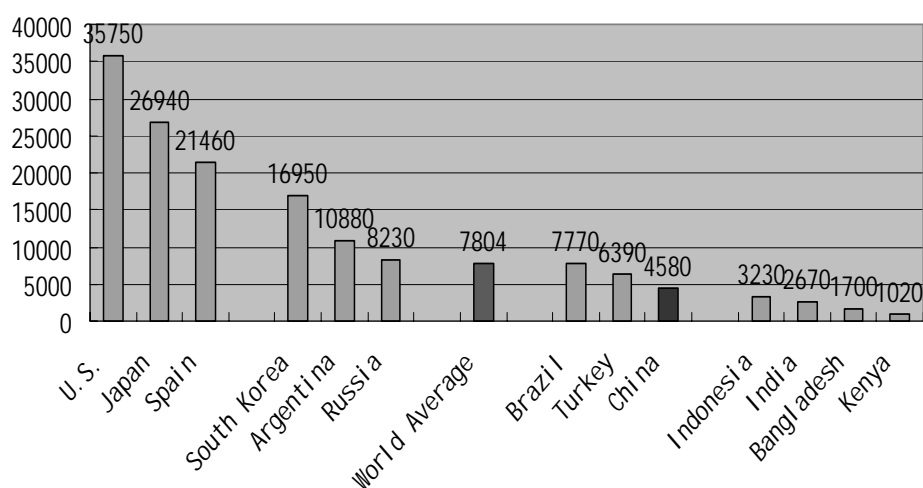
## Figure 1: Institutional quality and per capita income



## Development from poor to rich

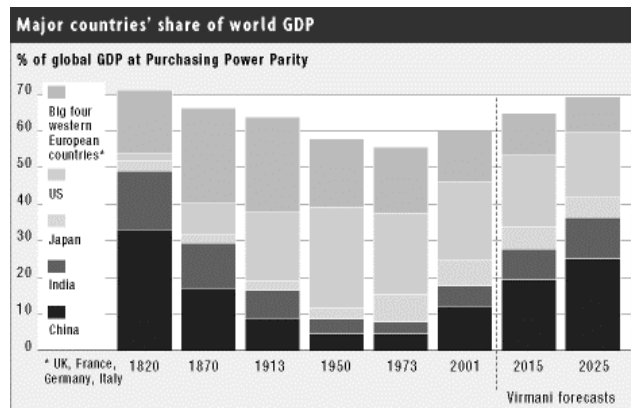
- Per capita income
  - Figure: High income, higher-middle income, lower middle income, low income (in PPP)
- Total economy size
  - Figure: Major country's share of world GDP (in PPP)

Figure 2: High income, higher-middle income, lower-middle income, and low income (PPP US\$ in 2002)



Source: UN Human Development Report 2004.

## Figure 3: Major country's share of world GDP

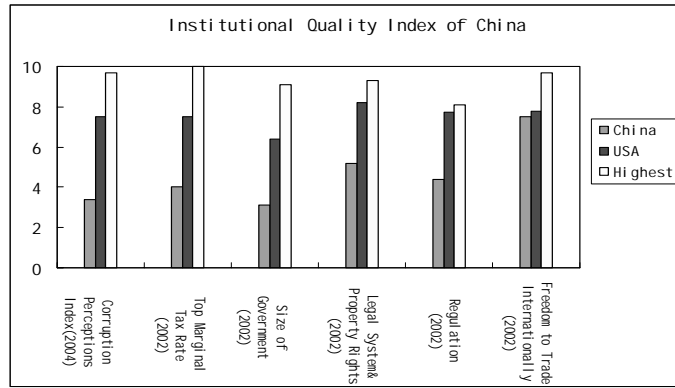


Source: Madison.

## Integration to the World

- China's foreign trade, foreign investment, and foreign reserves at a glance (2005)
  - Foreign trade: \$1.4 trillion, third largest (after the US and Germany), with a trade surplus of \$102 billion
  - Foreign investment: \$60 billion, second largest (after the U.S.)
  - Official reserves: \$816 billion, second largest (after Japan's \$847 billion), moving toward the \$1 trillion mark

# Figure 4: Opening up vs. internal reform



Source: Heritage Foundation. Transparency International.