GOG 160: China: People and Place

Section I: China in time and space
- Natural environment
- Historical context
- Politics and governance
- International relations

Section II: Modernizing China
- Economic Reform
- Urbanization and migration
- Chinese cities in transition
- Population and family planning

China:
The Economy & Economic Reform
(Reading: chapter 8-11)

Outline

China’s economy in perspective
- Socialist economy (1949-1978)
- Economic reform (1978-)
  - Rural reform
    - Can China feed itself?
  - Urban reform
    - Is China’s economic growth sustainable?
  - Trade and transportation
    - New growth pillar?
  - Evaluating the reform

China’s Economy in Perspective

Now, 2nd largest economy
Top ten GNP in 2005 and 2050

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China’s GDP annual growth rate

11.4% in 2007

Figure 9.7 (China’s Economic Growth, 1978-2002)

China: GDP real growth rate (%)

China’s Economy in Perspective
- The 2nd largest economy
- Spectacular growth since 1980s
- The largest exporter – “Made in China”
- The 3rd largest importer
- The largest auto marker and auto market
- Per capita income over $8,000, increasingly high purchasing power
- High Inflation in recent years
Chinese Economy in Perspective

- No. 1 in foreign exchange reserves ($3.2 trillion), equal to over $2,500 per head for the entire population
- The largest holder of U.S. Treasury
- One of the most favored nations for investment
- Strong currency
- Tourists/consumers in N. America, Europe
  - Alipay

The Socialist Economy

- Pre-1949: agrarian economy, small scale capitalism, some industries in port cities and the northeast; but no industrial revolution
- 1949-1978: the socialist economy

Group Discussion:
- What is the socialist economy? What are the main characteristics of the socialist economy?

The Socialist Economy

- 1949-1978:
  - Economic recovery
  - Planned economy, soviet style 5-year plan
  - 1st 5-year plan (1953-57): 8.5% growth rate
- Maximized Industrialization
  - Investment in heavy industry, e.g. iron, steel, chemicals, electricity generation, coal mining
  - "Production first, consumption later"
  - "Great Leap Forward" (1958-60) – "walking on two legs"

The Socialist Economy

- The Great Leap Forward
  - "Exceed U.S. and U. K."
  - Resources wasted
  - Disastrous impact on farming
  - Neglected farming
  - Destroyed farming tools

The Socialist Economy

- Socialist ideology of equality:
  - Goal: eliminate inequality between rural and urban areas, between cities, between coastal and inland regions.
- Countryside:
  - Land Reform in 1950s: return land to the people
  - Collectivization, People’s Commune
    - Eat together, work together – “communal kitchen”
    - Mass mobilization for large projects e.g. building dam and irrigation system
  - Emphasizing self-reliance

Life in People’s Commune
Building Irrigation System

Self-reliance

Massive Land Reclamation – environmental consequences

The Socialist Economy

- Socialist ideology of equality:
  - Goal: reduce inequality
  - Countryside:
  - Cities:
    - Socialist Transformation: convert private economy into state/collective owned economy
    - Welfare-oriented economy: free medical service, education, subsidized housing, lifetime employment
    - work-unit system (danwei)
    - Similar wage systems between cities
  - Regions:
    - First and Second Five-Year Plan (1953-57)

Massive state investment in the West

Adapted from Buchanan, K. (1979)

Figure 3.3 - The extent of industry in the First and Second Five-Year Plan
The Socialist Economy

- Socialist ideology of equality:
  - Goal: reduce inequality
  - Countryside:
    - State/collective owned economy
    - Welfare-oriented economy: free medical service, education, subsidized housing, lifetime employment
  - Cities:
    - Work-unit system (danwei)
    - Similar wage systems between cities
  - Regions:
    - First and Second Five-Year Plan (1953-57)
    - Construction of The "Third Front" (san xian)

"Three Fronts"

Prepare for wars and disasters, work for people

Industrial City – Chongqing (foggy capital)

Downtown of Chongqing
The Socialist Economy

- What kind of problems are there in this kind of economy?

Problems:
- Rigidly planned economy -- Lack of flexibility
- Emphasize heavy industry (production), neglect light industry (consumption) -- shortage of consumer goods
- Lack of incentives
- Disruption by constant political campaigns
- Equal, but everyone was poor

Reform is needed!

Group Discussion

- How would you reform a socialist economy? List at least three things you would do.

Economic Reform

- 1978, Deng Xiaoping gained power
  - Strategic shift from ideology to economy
  - Goal of "four modernizations"
  - Launched economic reform
  - Started "Open-door policy"

- Compared to "big bang" in E. Europe, China adopted a strategy of gradualism -- "crossing the river by touching the stones"
  - Experiment in a few places first, revise, then expand; trial and error

Economic Reform – Rural Reform

- Household Responsibility System (HRS) – de-collectivization
  - Originated in villages in Anhui province
  - Collective land was divided, leased to households based on hh size
  - Turn in assigned quotas, keep the extra grains
  - Household (not collective) as the unit of production -- restored incentives
  - → huge increase in grain production and rural household income
For the first time in decades, people had plenty of food.

And better food!

Figure 8.3: Fruit Production in China: 1978 - 2008

Figure 8.4: Changes in Farm Land Devoted to Vegetable Production in China: 1978 - 2008

Figure 8.5: Fisheries and Aqua-cultural Production in China

Figure 8.8: Distributions of Selected Crops

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Outline

- China's economy in perspective
- Socialist economy (1949-1978)
  - Main characteristics; problems
- Economic reform (1978-)
  - Rural reform
  - Can China feed itself?
  - Urban reform
  - Is China's economic growth sustainable?
- Trade and transportation
- New growth pillar?
- Evaluating the reform
Debate: Can China Feed itself?

- 1995 book by Lester Brown
- To feed its 1.2 billion people, China may soon have to import so much grain that this action could trigger unprecedented rises in world food prices.

The environment may not be sustainable to produce enough food over the long time

- China Rises: Food is Heaven

Debate: Can China Feed itself?
Camp 1: No

- Huge pop. (22%) vs. limited arable land (7%)
  - Arable land accounts for 13% of territory → 0.27 hectares per capita
- Loss of farmland to housing and industries
- Hard to increase productivity
- Increasing grain demand as people “move up” on the food chain
- Environmental degradation
- Potential consequences:
  - grain shortages and rising food prices
  - China becomes a food (grain) importer

Debate: Can China Feed itself?
Camp 2: Yes!

- International Institute for Applied Systems Analysis (IIASA): “China has enough arable land and water to feed its projected population of 1.48 billion in 2025 - even at currently available levels of agricultural technology”: “has enough cultivation potential to produce 650 million tons of grain. This production potential meets most food demand projections such as those from the World Bank, from the US Department of Agriculture, or from the Food Demand Scenarios for China reported in this application”.
- China’s food security is a multicriteria problem

IIASA: Increase, Decrease and Stock of Cultivated Land in China, 1988 - 1995
Debate: Can China Feed itself?
Camp 2: Yes!

- **IIASA**: but it does not mean China will feed itself; import some may make more sense
- **World Bank**: China will import food, but should be 95% self-sufficient through 2020
- **Chinese government**: 1996 White Paper: *The Grain Issue in China*: Import is small, an insignificant share of global trade; rise in food price is mainly a result of global market, not China’s need

**Little imports for rice**

**Small wheat imports**

**Debate: Can China Feed itself?**
Camp 2: Yes!

- **China**: aims grain self-sufficiency by 2030
  - increase grain production ability
  - exploiting/utilizing wasteland;
  - Adopt scientific and technological improvements (bioengineering);
  - exploitation of non-grain food resources;
  - curtailing grain losses
- **PM**: set up 1.8 B mu arable land — “red line”
  - Harder to convert farm land for urban expansion
- In addition to food security, agriculture also needs to provide jobs to half of the labor force

**Can China feed its population?**

- What do you think?
Economic Reform – Rural Reform

- Household Responsibility System
  - Incentives; efficiency; higher yields, income
  - Massive surplus rural labor
- Develop rural industries: Township-Village Enterprises (TVEs)
  - Privatization of collective industries + New establishment of private industries
  - Large demand for consumer goods – niches
  - Timing: economic restructuring in large cities/technology diffusion
  - Small scale, flexible in production and management
  - Low cost (cheap labor); Few regulations
  - Local government support
Economic Reform – Rural Reform

- Household Responsibility System
- Develop rural industries: Township-Village Enterprises (TVEs)
  - "leave the land not the village"
- Relaxation of rural-to-town migration
  - 1984: zili kouliang migration ("leave the land as well as village")
  - Migrants engage in services and industries

Figure 8.9

Rural Per Capita Incomes by Province for China, 2008

Figure 8.9

Figure 7.1a

Increases in Average Rural Income, 1978–1992

Figure 7.1c

Increases in Rural Living Space, 1978–1992

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Huaxi Village in Jiangsu Province -- "No. 1 village in China"

Economic Reform: Evaluating Rural Reform

- Positive Impact:
  - Rapid industrialization and economic growth
  - Huge increase in grain production
  - Huge improvement in the standard of living

- Negative:
  - Loss of farmland (to industries, housing)
  - Pollution (TVEs, use of fertilizer, pesticide)
  - High unemployment rate of rural labor, massive rural-urban migration

Economic Reform – Urban

- Later than rural reform – more risky
- Foreign investment/economy allowed in controlled environments
  - "Open-door" policy
    - First in four Special Economic Zones (SEZs): Shenzhen, Zhuhai, Shantou, Xiamen
    - FDI by oversea Chinese
    - Labor-intensive industry for export
  - Open economic zones
  - Eventually nationwide

China’s Regional Scheme for National Development
Timberland in China

Per capita GDP, 2003

Economic Reform – Urban
- Later than rural reform – more risky
- Foreign investment/economy allowed
- Private economy allowed, expanded rapidly
  - No more “capitalist tails”
  - Deng: “It is glorious to become rich”
"People selling tea eggs made more money than those making atomic bombs"

- In the 1980s, people engaging in private economy made more money than those in the state economy.
- "xiahai" (下海) – plunging into the sea (private sector)

Economic Reform – Urban

- Later than rural reform – more risky
- Foreign investment/economy allowed
- Private economy allowed, expanded rapidly
- Privatization of state/collective owned economy – de-centralization, marketization
  - Reverse of the Socialist Transformation
  - Bonus system + wage → incentives
  - Workers may be fired/laid off, no more "iron rice bowl" → social problems

Declining importance of SOEs

- GDP: about 50%

Industrial Revolution

- China's GNP and share from industry (100 million yuan in current value)

Urban reform

- Industrial revolution:
  - Agriculture → industry and services
  - GDP: agriculture (10%), industry (44%), service (46%)
Urban reform

- Industrial revolution:
  - Agriculture → industry and services
- Privatization and declining importance of SOEs
- Diversified industries:
  - Heavy industry
  - Light industry; consumer goods

China’s new wealth, huge market

New “Chinese Dream”

Number of bicyclists dropped 26% during 2001-2006

122 M Chinese toured oversea in 2016 spending $109.8 Billion
Is China’s Economic Growth Sustainable?
Camp 1: YES

- Virtuous circle of growth: high savings, high investment, high export growth, high GDP growth → high savings
- Economic restructuring – from labor intensive to capital intensive, increase productivity per worker (like HK, Taiwan...)
- Chinese economy is driven more by domestic consumption than by export
  - Institutional spending on infrastructures: communication, transportation, airports...
  - Individual consumption: housing, car, travel, consumer goods...
  - Develop the West: 2000 Western Development Committee

Plan for a new city center, Shenzhen
Public square in Dongguang

Wuhan Yangtze Bridge

Mega-events:
2008 Olympics in Beijing
- 8 new subways
- a 96-mile light-rail system
- two new ring roads
- a new airport terminal (Terminal Three)
- 19 purpose-built facilities

Real Estate as a growth engine
Is China’s Economic Growth Sustainable?
Camp 2: No

- Increasingly high labor cost
  - Minimum wage increased rapidly
  - Highest: Shanghai, Shenzhen
  - FDI goes to other nations

- The size of the economy is larger
- Extensive use of natural resources
  - Depletion of resources
- Environmental consequences

Trade

- Pre-1949:
  - Mostly domestic trade
  - Limited foreign trade through silk roads
    - Silk, porcelains, fine handicrafts, teas
    - Opium imports – Opium Wars

- 1949 – 1978:
  - Unique geopolitical environment
  - Principle: self-sufficiency, self-reliance
  - Limited foreign trade, with Soviet-bloc states

- 1978 – present
  - Explosive growth
  - Export-driven economic growth
  - Main trading partners: Asian neighbors, leading market economies

"Holiday Economy": Domestic tourism as a driving force for economy (4.44 Billion trips; $564 Billion in 2016)
China’s Trading Shares by Region, 2013

Trade

- 1978 – present
  - Explosive growth
  - Export driven economic growth
  - Main trading partners: Asian neighbors, leading market economies
  - Rapidly increasing imports – "China market"

Chart 1: China’s Trade in Goods

2015: Export: 2.3B (20% of GDP); Import 1.7 B (17%)

Coastal Concentration of trade

70% trade in 5 coastal provinces: Guangdong, Jiangsu, Zhejiang, Beijing, Shanghai
Transportation: A key to growth

Linking air, rail, subway, highway system

Expanding and Upgrading transportation system (1980-2014)
- Highway: 400% increase
- Railway lines: 100% increase
- Aviation routes: 2274%
- Subway: 60 metro lines in 25 cities

Still not enough: Traffic jams

2015: China’s 50-Lane Traffic Jam Is Every Commuter’s Worst Nightmare
One Belt One Road (OBOR) or BRI promote trade, invest in infrastructure abroad

The 12th Five-Year Plan (2011-2015)
- "a crucial stage for building a prosperous society in an all-around way"
- "a time of deepening the reform and opening-up process while accelerating the transformation of the nation's economic development pattern."

1) Strategic shift in economic structure to accelerate change in economic development model
   - Promote domestic consumption
   - Develop all three sectors
   - Develop the countryside

2) Promote science, technology and innovation
   - Education, talent

3) Improve people's livelihood
   - Income reform, redistribution
   - Social security, public services

4) Energy-saving, environment-friendly, low-carbon economy
   - Renewable energy

5) Deepen reform and opening up

13th Five Year (2016 -2020)
- Economic growth remains central:
  - Double 2010 GDP and per capita income of both urban and rural residents by 2020
- Innovation-Driven development
  - Shift to high value added manufacturing
  - Strengthen SOEs
- Coordinated Development
  - Accelerate urbanization; coordinate regional development
- Openness: opening the world to China
  - One Belt One Road initiative
- Inclusive Growth
  - Poverty relief, raise the standard of living
  - Reform household registration system
- Promote education

Group Discussion
- How would you evaluate the economic reform in China?
Evaluating Economic Reform

- Success:
  - Achieved rapid economic growth and political stability (vs. E. Europe and former USSR)
  - Significantly improved the standard of living in the most populous country
  - A powerful player in the world economy
- Undesirable consequences:
  - Increasing inequality (spatial and social)
  - High unemployment rate (laid-off SOE workers); "floating population"
  - Higher crime rate
  - Corruption; materialism; "moral crisis"
  - Environmental problems

Future Reforms

- **China 2030**, by World Bank and China

- If China seizes its opportunities, meets its challenges, and manages its risks, by 2030 it will become:
  - A high income economy
  - with harmonious social, environmental, and global relations
  - driven by creativity and the power of ideas

China 2030: six strategic directions

- Recalibrate the role of government and the private sector to strengthen the market-based economy;
- Encourage system-wide "open" innovation
- Grow "green"
- Promote equality of opportunity and basic social protection for all
- Build a strong fiscal system aligned with the evolving role of government
- Develop win-win relations with the rest of the world

Summary

- China's economy in perspective
- Socialist economy (1949-1978)
  - Central planned
  - Maximized industrialization
  - Socialist ideology of equality
  - problems
- Economic reform (1978-)
  - Rural reform
    - Household Responsibility System; rural industry
    - Can China feed itself?
  - Urban reform
    - Privatization; Open door policy
    - "Is high growth sustainable?"
    - Trade and Transport: new growth pillar?
    - Evaluating the reform