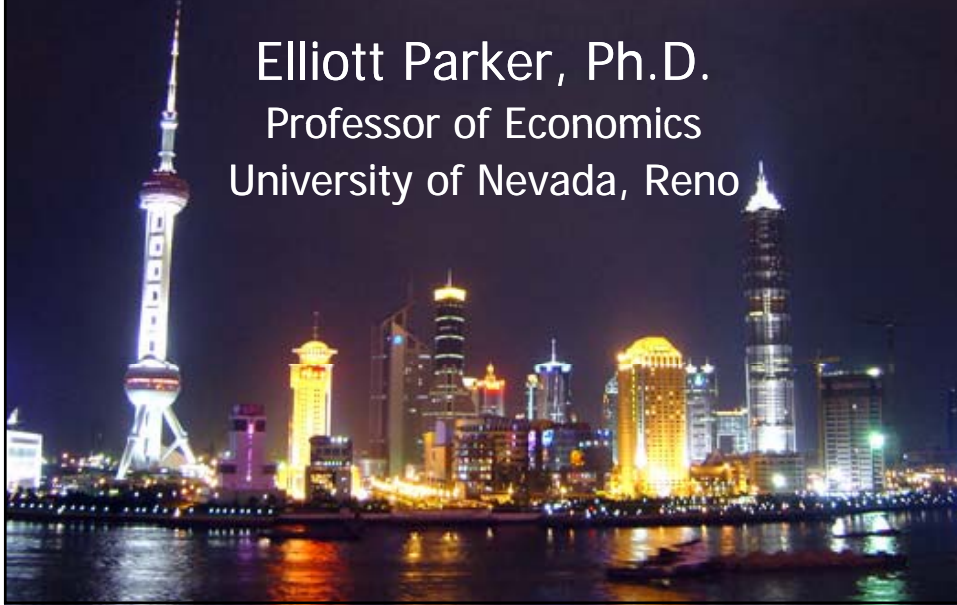


The Chinese Economy

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The **People's Republic of China** is currently the sixth (or possibly even the second) largest economy in the world, with the world's fastest growth rate and its largest population.





It is also still an economy in transition from a poor, rural command economy to a dynamic and prosperous market economy, with a stark contrast between a large and mostly poor rural population, and relatively advanced, westernized, and wealthy cities.

Geography and Population

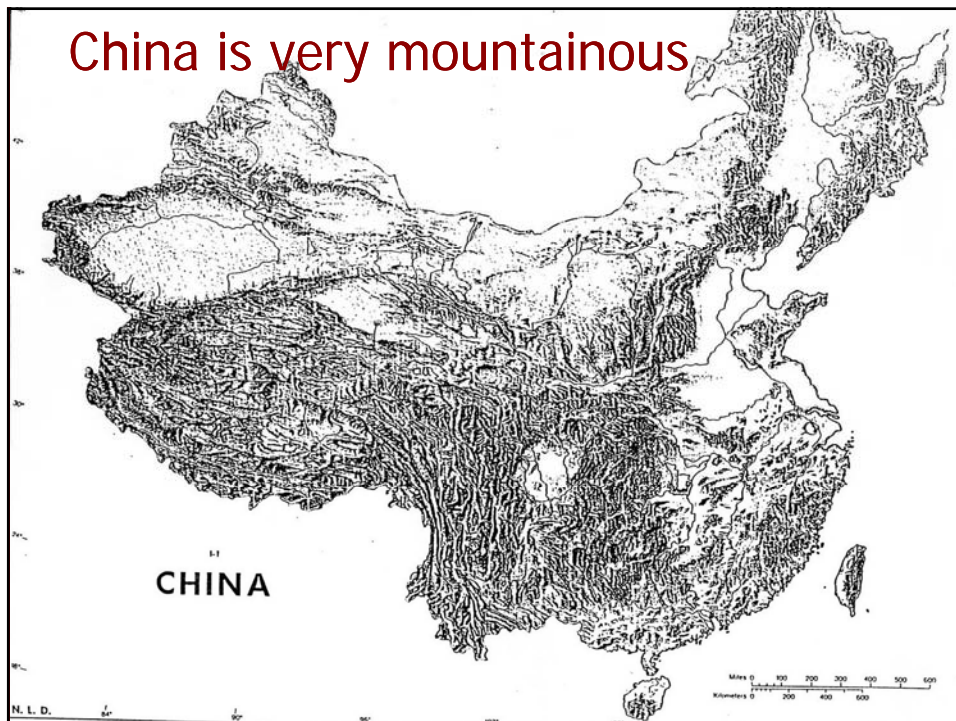
- China's population is 1.3 billion people (currently growing at only 0.6% per year).
- Roughly 60% of Chinese live in rural areas, and most of the people in the east.
- China used to be 90% rural, and will soon be 50% rural. This is one of the largest human migrations ever.

China's land area is roughly 3.7 million square miles, compared to 3.5 for the USA (including 0.6 in Alaska). The U.S. is bigger if you include water (the Great Lakes).

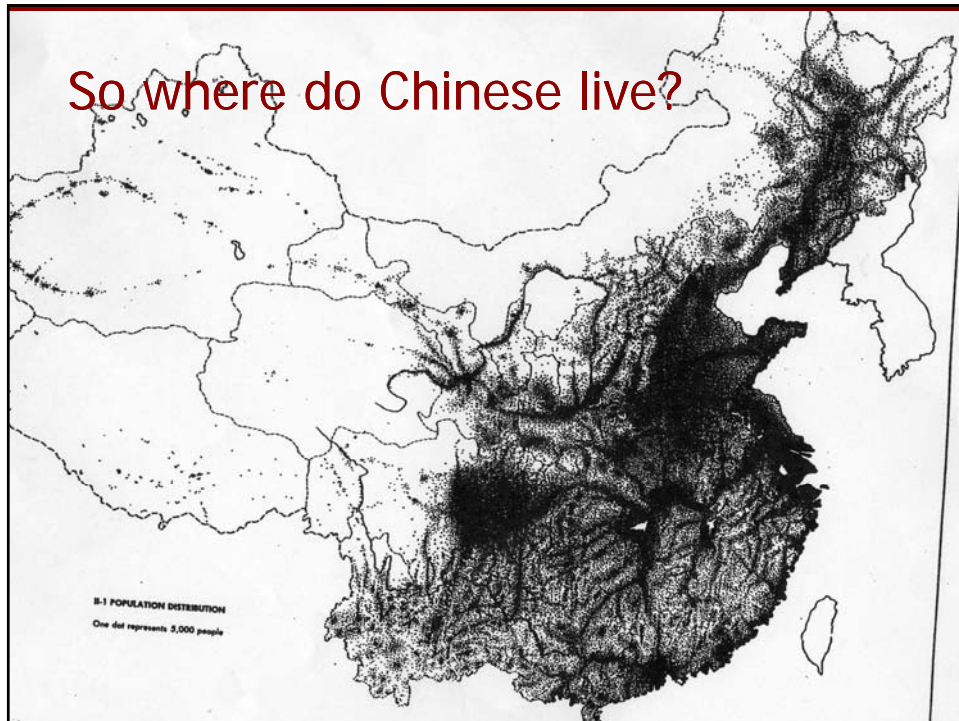
China's average population density is more than four times that of the USA.



China is very mountainous



So where do Chinese live?



Population Density

- China has significantly less farmable land than the USA, so the density per unit of arable land is almost nine times that of the USA.
- How was China able to sustain so many people?

According to UNR History Professor Hugh Shapiro, there are several reasons China had so many people:

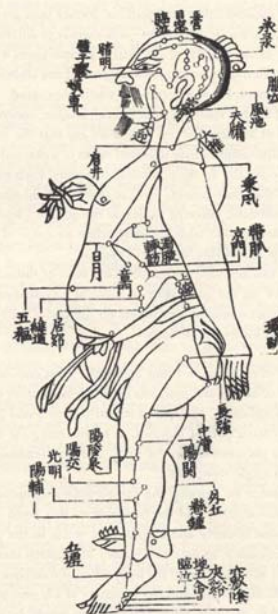
- Medicine
- Technology
- Hygiene
- Highly efficient land use
- Efficient premodern agriculture

As a result, China's population reached 450 million by 1949.



Medicine

Hugh's specialty is the history of Chinese medicine, and he argues that it was much more advanced than medicine in the West until the last Century, though also very different. Acupuncture, herbal medicine.



Technology

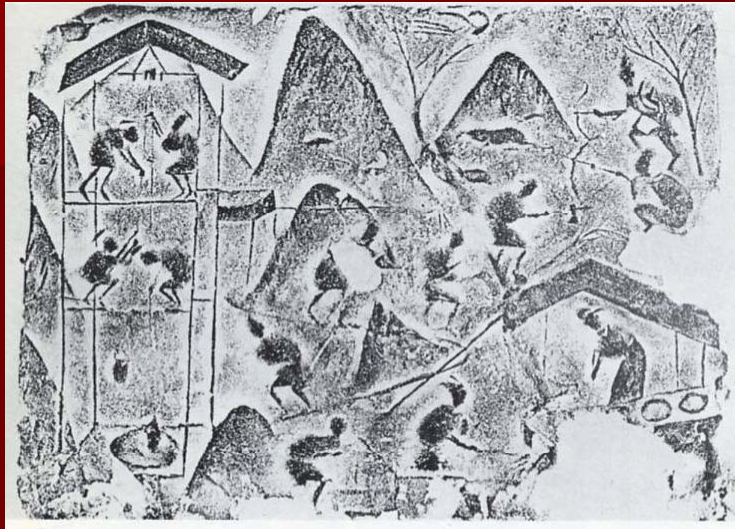
- Ancient Chinese invented many things before the West, including the compass, papermaking, printing, gunpowder, the shadow clock, the abacus, the seismometer, and the crossbow.
- In the 1200s, China produced much more pig iron than England did in the 1700s. They used natural gas for fuel, and could deep mine. They also invented the iron plow, the propeller, the suspension bridge, the parachute, the seed drill, and the double-action piston pump.



- This is a terra cotta soldier from the tomb of the first Qin Emperor, from 2200 years ago.
- He carried a crossbow.

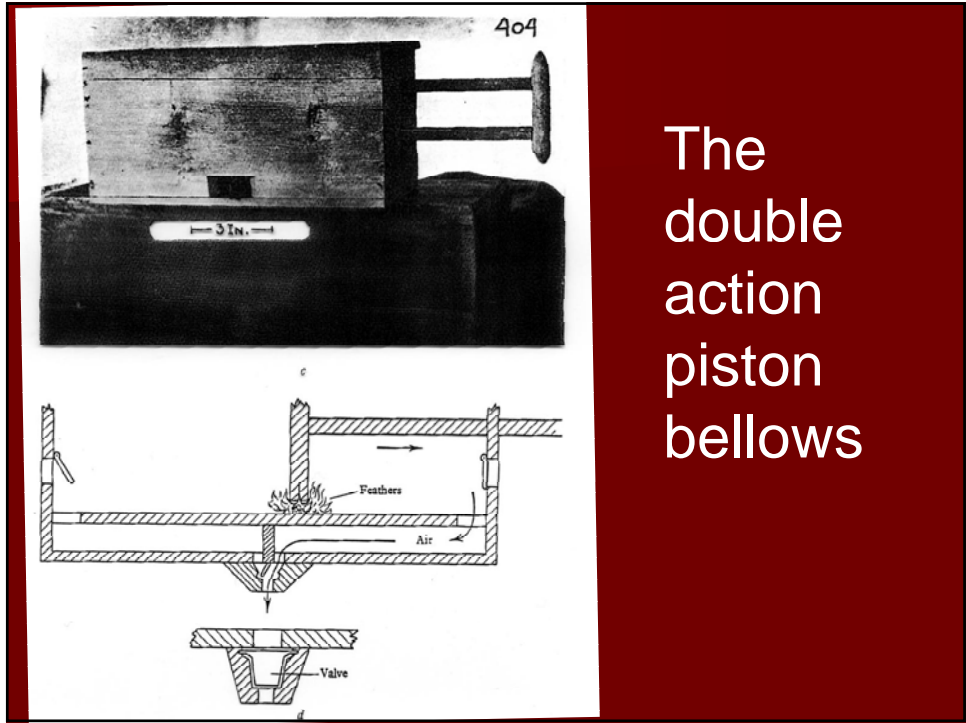


A bronze crossbow mechanism



Deep drilling for salt and natural gas, circa 100 AD

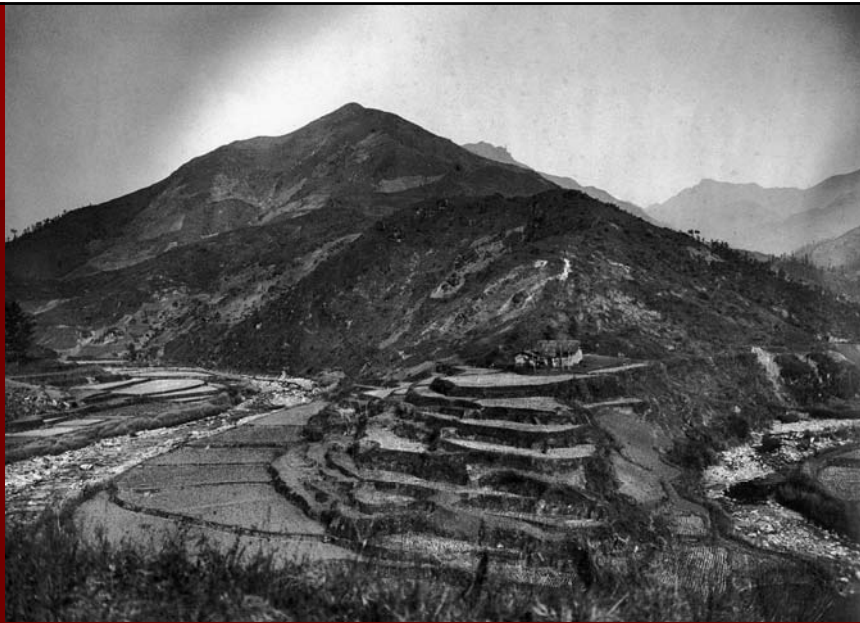




The double action piston bellows



Hygiene: habitual boiling of water for tea drinking



Efficient land use



Efficient Premodern Agriculture

China under Chairman MAO Zedong

- China was dominated by European countries from 1840s – 1940s, and by Japan from 1937-1945.
- October 1, 1949: People's Republic of China founded by Mao after civil war.
- PRC not recognized by USA until 1970s, was very isolated from the rest of the world.
- China fought the USA in the Korean War.



Communist China

- Mao led the communist party, and they tried to create a socialist economy like the Soviet Union.
- Soviet-style nationalization of industry in 1950s, where the government owns and controls all firms.
- Gradual collectivization of agriculture, so people farm in large groups. Equal sharing, but very little incentive.
- Great Leap Forward (1958-60) led to world's worst famine: 30-50 million died.
- Cultural Revolution (1966-76) led to breakdown of education, public order, and planning. Radical policies, extreme uniformity continued until Mao died (1976).
- Mao also encouraged population growth: each mouth has two hands. China's population doubled by 1980.

DENG Xiaoping



- ❑ Mao died in 1976.
- ❑ DENG Xiaoping emerged as “paramount leader” in 1978 after his followers (HU Yaobang, ZHAO Ziyang) were elected to the highest positions.
- ❑ He ended “Politics in Command,” and replaced it with pragmatic “black cat, white cat” approach.
- ❑ He changed the rules to make sure no other leader could have Mao’s power again.
- ❑ Chinese Communist Party repudiated Mao’s policies without repudiating Mao.



Deng’s Economic Reforms

- ❑ Open Door Policy : China was opened up to foreign visitors, foreign investors, and foreign trade.
- ❑ Rural Reform: Land was allocated to families instead of to big groups called communes. Rural towns and villages could invest in and produce manufactured goods.
- ❑ Industrial Reform: State-owned firms were reformed in an effort to make them more efficient. They became more productive, but also were able to get more investment than they could productively use, while more competition and poor management led to falling profits for the state.

The Socialist Market Economy, 1992 –



- Under President JIANG Zemin, the CCP renounced the idea that economic reform was just a temporary stage.
- Instead, the new policy was to create a developed market economy with the CCP in charge. State firms would be the “cornerstone” but not necessarily the dominant type of firm.
- New types of firms – including foreign-owned and private Chinese-owned – were encouraged.
- By the end of the 1990s, private entrepreneurs would be allowed into the communist party.

China's Changing Industrial Structure



- New Chinese private firms, wholly-owned foreign firms allowed, but these have little access to bank loans or the stock market.
- Policy of “release the small, retain the large” for state firms, leading to huge layoffs in 1990s and creating large Korean-style firms.
- Export sector dominated by rural firms, foreign-owned firms, and private firms; relied upon to deal with urban unemployment problem.

China's Labor Force



- The average wage was approximately 16,000 RMB/year (6400 in farming, 11,000 in manufacturing, about 20,000 in finance, research, and foreign-owned firms).

In 2004, China's official labor force was roughly 770 million people.

- 490 million were employed in rural areas, including more than 300 million in agriculture.
- 265 million were employed in urban areas, including 67 million in regular state firms, 30 million in private firms, and 10 million in foreign-owned firms.
- Estimates for the "floating population" of informal rural-urban migrants are as high as 100 million people.

Education

- Literacy rate is roughly 90%.
- China has more than 30 million new high school graduates per year, plus 2.4 million traditional college graduates, 1.9 million returning adult graduates, and 150,000 advanced graduates.
- The most popular majors for advanced graduate study are engineering, management, science, medicine, and law.
- China's exports have typically been concentrated in labor-intensive products that used to be produced by other Asian countries, but China is starting to move into more higher-tech areas.
- China's government is making a major investment in its universities, attracting back professors from top-ranked schools in USA and elsewhere. Qinghua, et cetera.





Governance



- China is run by the Chinese Communist Party. Provincial/municipal governments are appointed by the central administration.
- *Chief of State* is President HU Jintao, who is also General Secretary of the Chinese Communist Party. The President is appointed by the National People's Congress to up to two five-year terms.
- *Head of government* is Premier WEN Jiabao, also appointed by the NPC, together with the entire *State Council*.
- China's appointed leaders are all members of the CCP, as are most representatives to the NPC.



China's Foreign Trade and Investment

- In 2004, China was one of the world's biggest trading nations:
 - the world's fourth largest exporter, after Germany, the U.S.A., and Japan.
 - the world's third largest importer, after the U.S.A. and Germany.
 - accounts for 6% of world exports and 5% of world imports.
 - receives 4% of U.S. exports and provides 11% of our imports.

Foreign Investment

- In 2006, China received \$70 billion in Foreign Direct Investment. China is the largest recipient of FDI in the less developed world.
- It was also technically the largest recipient in the world, but this amount included amounts from Hong Kong. After HK, the U.S.A. is the largest investor in China.



Rural China

- Most Chinese still live in rural areas, on less than \$2 per day.
- Rural areas continue to have large surplus labor problem, and many worry about effect of U.S. agricultural imports on farm prices.
- Reports of many protests by farmers over extractive rural leaders.
- Recent experiments in local elections.
- Widening poverty gap between rural and urban areas.

Environmental Problems

- Air pollution
- Water
- Land scarcity
- Natural resources

China's GDP

- In 2004, China's per-capita GDP was 10,500 *Renminbi* (or Yuan). At the official exchange rate, this was roughly \$1,300.
- The exchange rate may be undervalued. The cost of living is much cheaper in China.
- Adjusting for purchasing power parity and updating to 2006, the CIA estimates that China's per-capita GDP is roughly \$7,600 (compared to \$43,500 for the USA).



China's future?

China's real per-capita growth rate since 1978 has averaged roughly 8% per year. This is currently the fastest in the world, but is not as fast as Japan (1950-1975) or Korea (1960-1990). By contrast, the U.S. per-capita growth rate is about 2% per year.

IF the PPP numbers are accurate, and IF China could maintain this growth rate, it will become the world's biggest economy by 2012 and the richest per-capita by 2040.