

EC2374

# Economy of Modern China

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# A brief review of topic 1

## Growth and development

- Outstanding growth performance in recent decades
  - Following a long decline, China is catching up
  - China outperformed the world in post 1949 period
  - China's post-1978 growth has been “unprecedented”
  - China made a quick & strong recovery, now the world 2<sup>nd</sup> largest economy
- Considerable achievement in development
  - Rapid industrialization since 1949
  - Urbanization lagged behind, started to catch up in the last decade
  - Rising standard of living, poverty reduction
- Rapid growth brings about rising challenges
  - Inequality; environment degradation; energy

# A brief review of topic 1

The economy has been transformed

- From central-planning to market
  - in production, consumption, employment
- From state-dominated to a diversified economy
  - domestic non-state and foreign invested firms significant
- From autarky to deep integration
  - trade expanded rapidly
  - trade to GDP ratio among the world's highest

# A brief review of topic 1

Can China's experience serve as lessons for others?

- Limited applicability to others
  - Conditions differ
  - China learned from others
  - China's pragmatic and experimental approach
- Growth/development
  - investment-led, and export-oriented
  - strong influence of the government and the state sector
- Transition
  - market liberalization and external openness

# A brief review of topic 1

## The impact of a rising China on the others

- As a large growing country
  - China exert influence through both demand and supply
  - resources
- As an economy increasingly integrated with the rest
  - domestic & external imbalances have important implications
  - regional economic affected more through supply chain

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## Inheritance & the initial condition:

- Endowment from nature
  - main features
  - advantages and constraints
- Historical experience
  - ups and downs over the long-run
  - modern history of stagnation
  - early attempts of industrialization
- Implications and lessons

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## Main geographic features:

- Vast area
  - land size: ~ 2.4 times of European Union;
  - long E-W & N-S stretches: 5000km, 4000km;
  - long border line: many bordering countries.
- Mountainous topography
  - 65%: hills, mountains, and high plateaus;
  - 25%: less than 500m in elevation above sea level;
  - 26%: above 3000m in elevation above sea level;
  - tilted eastward: two principal rivers.

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## Main geographic features:

- Relatively rich but uneven distributed resources
  - arable land;
  - water and annual precipitation;
  - fuels, minerals, metals.
- Poor endowment on per capita terms
  - overall arid;
  - high population density, esp. in the eastern part.



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## Advantages & constraints:

- On development: comparative advantages
  - technology & technology advancement
  - diversity & disparity
  - a mismatch between resources and capacity
- On governance:
  - the center vs. the locals
  - diversity & disparity

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## History: ups & downs over the long-run

- a rough timeline
  - the ancient dynasties: 2000 BC – 221 BC
  - the imperial era: 221 BC - 1911
    - Opium War with England in 1839
  - Republic of China: 1911-1949
  - People's Republic Of China: 1949 – present

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## History: ups & downs over the long-run

- the imperial era (221 BC – 1911)
  - 221 BC unification under the Qin (秦) Dynasty
  - key social-economic features
    - private ownership of land
    - state management of agro-hydraulic infrastructure
  - was the world's technology leader (9th-14th century)
    - peaked in Tang Dynasty 618-906
    - sophisticated & productive agricultural
    - development of some industry: iron production & textile machines
    - Urbanization

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## Modern history of stagnation

- foreign aggression: Wars & defeats after 2 Opium Wars
  - the Treaty of Nanking (1842): Hong Kong; open treaty ports
  - war compensations after defeats
  - cities open to foreign control
  - Sino-Japanese War (1894-1895): Taiwan
  - Boxer Protocol: control over tariffs & other tax revenues
  - Russo-Japanese War (1904-1905)
  - Sino-Japanese war: 1937-1945
  - *the # of treaty ports once reached >80*

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## Modern history of stagnation

- domestic turbulence
  - 1850 – 1900s: rebellions, upheavals & wars
    - Taiping Rebellion: 1850-1864
    - Nien Rebellion: 1853-1868
    - the Boxer Rebellion: 1890s
  - 1911: the end of a 2000-year-old imperial tradition
    - a period of warlord: 1911-1927
    - KMT ruling with continuous civil wars (1928-1937)
    - the Civil War: 1946-1949

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## Early attempt of industrialization

- China's traditional economy
  - basically a rural, agricultural society
  - agriculture:  
sophisticated, labor intensive, and highly productive
  - non-agriculture activities:  
household based
  - widespread network of markets
  - handicraft technologies distributed widely

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## Early attempt of industrialization

- The founding of the Republic of China

- limited overall achievement

- warlord domination: 1912-1927

- some development with government efforts: 1927-1937

- little development in war years, 1937-1949

- anti-Japanese war, 1937-1945

- nationalist vs. communist: 1946-1949

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### Early attempt of industrialization

- two patterns of industrial growth
  - *treaty port industrialization*
  - *Manchurian industrialization*

### **1933 survey of industry in China proper**

main Industries		main Locations	
Textile	42% of total output	Shanghai, Tianjin, & Qingdao	70% of textiles
food	26% of total output	Shanghai	40% of industrial output



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## Lessons and implementations

- Nationalist sentiment
  - nation building
    - historical obligation to restore China as a great nation
    - stability, sovereignty, & economic prosperity
  - a western complex
    - memory of national humiliation
    - deep suspicion of Western powers
    - confidence building
    - constant debates regarding interaction with the West

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## Lessons and implementations

- Big-push industrialization: 1949-1978
  - government-led development to maintain stability
    - try avoid disruption & damage from chaos
    - Hyper-inflation in late 1940s
  - a strong socialist state
    - to defend against the west
    - to strengthen government capacity
  - heavy-industry led industrialization
    - nationalize heavy industry previously controlled by the Japanese & by the nationalist government

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## Lessons and implementations

- Labor-intensive industries-led post 1978 growth
  - a revive of the traditional economy
    - small household businesses emerge & expand
    - township & village enterprises in rural China
  - a revive of traditional market networks
    - rural small businesses connected by markets
    - China re-connects with overseas Chinese (TW, HK, & SEA)

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## Lessons and implementations

- A gradualist reform
  - wary of social unrest
    - set up SEZs as windows and test grounds
    - pick easy targets first
  - wary of western influence
    - open for foreign investment slowly
    - restrict foreign presence in SEZs