

EC2374

Economy of Modern China

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Topic 6 Future Prospects: lessons & challenges

sustaining growth and development

- lessons and experiences
 - policy pragmatism: a gradualist approach
 - building a market economy: liberalization & opening
 - the role of government: direct intervention vs. indirect regulation
- toward a new model of development
 - changing/diversifying sources of growth
 - domestic challenges
 - managing external economic relations
- current economic crisis

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lessons & experiences

- a gradualist approach

1978 to
early 1980s

- rural reform
- some reform in trade & FDI

Mid-1980 to
mid-1990s

- more reform in trade & FDI
- initial reform of urban industries

From mid-
1990s

- industrial sector
- more trade/FDI reform for WTO membership
- fiscal/taxation reform
- banking sector reform

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lessons & experiences

■ liberalization

1978 to
early 1980s

- dual track pricing for agriculture products
- household responsibility system

Mid-1980 to
mid-1990s

- dual track pricing for industrial good
- some autonomy for enterprises
- central to local decentralization

From mid-
1990s

- eliminate dual track pricing
- enterprises restructuring/privatization
- trade reforms to conform with international norms
- institutional reforms

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lessons & experiences

■ opening up

1978 to
early 1980s

- special economic zones
- process trade

Mid-1980 to
mid-1990s

- opening of key coastal cities
- export-oriented FIEs

From mid-
1990s

- Shanghai Pudong District
- opening of some interior cities
- opening of domestic market

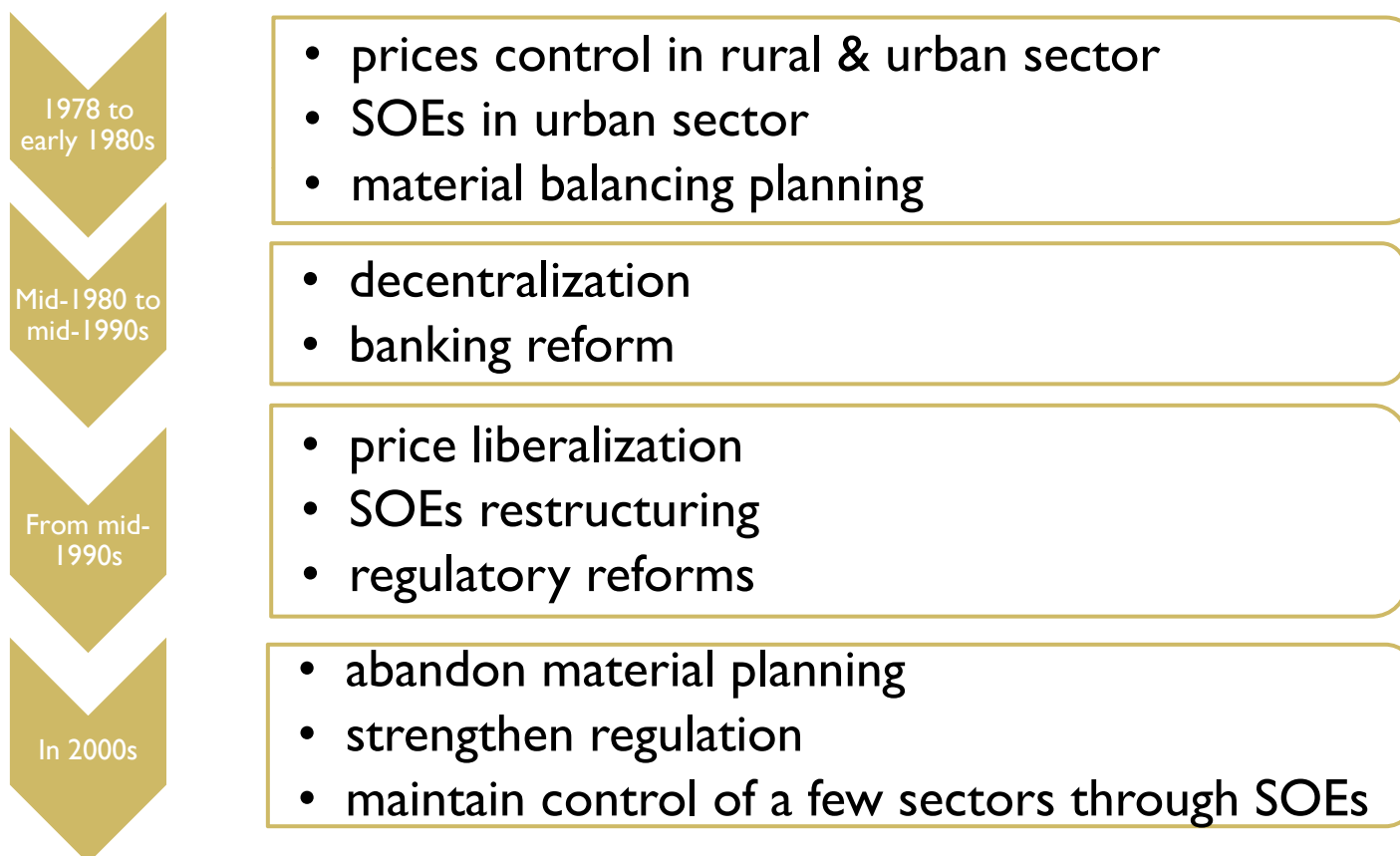
In 2000s

- agriculture
- telecommunication
- banking; wholesale; logistic industries...
- going out

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lessons & experiences

- changing role of government



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toward a new model of development

- source of China's rapid growth
 - from the supply side: K, H, productivity

	K	H	TFP
1978-2005	43.7%	16.2%	40.1%
1978-1985	40.6	26.6	32.8
1985-1990	38.8	21.5	39.7
1990-1995	33.3	9.5	57.3
1995-2000	52.7	10.5	36.8
2000-2005	57.1	10.6	32.3

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toward a new model of development

- source of China's rapid growth

- K: saving & investment
- H: education, demography

- TFP:

labor from agricultural to non-agricultural activities

market liberalization

economic opening

development of the non-state sector

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toward a new model of development

- source of China's rapid growth
 - high savings & investment sustainable?
 - hard to maintain as the stock becomes larger
 - the role of the state in investment
 - FDI
 - household saving: social safety nets / aging population
 - government saving: revenue and expenditure
 - enterprises saving: concentrated
 - labor & education
 - aging, education

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toward a new model of development

- source of China's rapid growth

- TFP

- industrialization, urbanization, & industrial upgrading

- market liberalization

- economic opening

- development of the non-state sector

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toward a new model of development

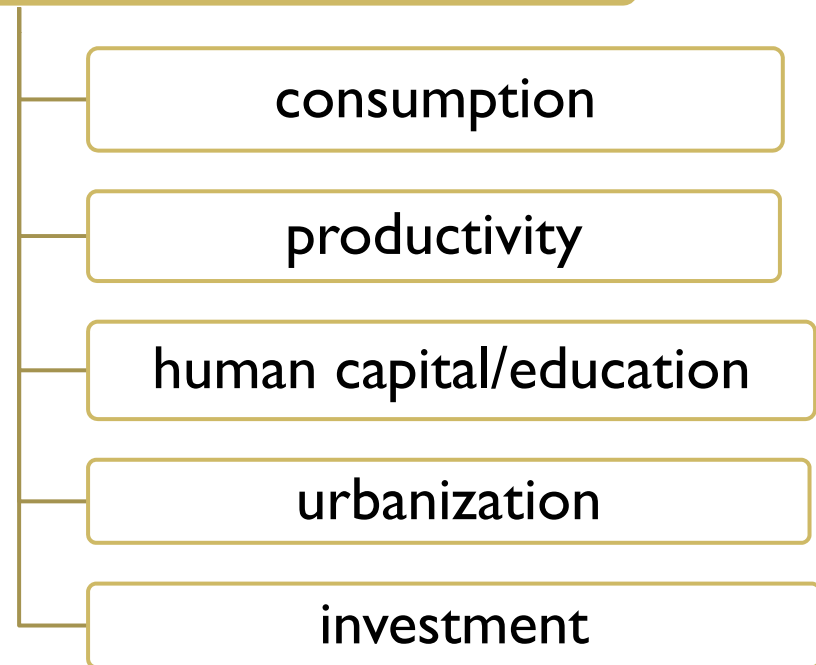
- source of China's rapid growth
 - from the demand side: G, C, I, NX

Topic 6 Future Prospects: lessons & challenges toward a new model of development

past experience



future direction



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toward a new model of development

- domestic challenges:
 - to increase C

macroeconomic
management

- fiscal reform
- taxation reform
- provision of societal public goods

income
inequality

- widening rural urban gap
- widening regional gap

labor income

- financial sector
- population & aging

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toward a new model of development

- domestic challenges
 - to raise TFP
 - R&D
 - the role of state and the state sector
 - to improve education
 - further urbanization & industrialization
 - domestic and foreign investment
 - environment and energy efficiency

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toward a new model of development

- external challenges:

external imbalances

- domestic consumption
- exchange rate

bilateral trade tensions

- Sino-US trade tensions
- Sino-EU trade tensions
- Sino-Japan trade tensions

multilateral, regional & sub-regional economic cooperation

- WTO, IMF, G20, & related new challenges
- CAFTA, ASEAN+N
- Northeast Asia economic integration
- bilateral FTAs

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current economic & financial crisis

ST issues

- sustaining recovery
- unemployment remain serious
- rising banking sector risks

LT issues

- technology & innovation
- energy efficiency & renewable energy
- a more balanced growth

policies designed to accommodate both

- increase investment
- assisting export
- establish social infrastructure
- industrial revitalization
- regional economic integration