

Answer keys to mid-term exam questions

Short answer questions

1. Explain the phrase “Growing out of the Plan”, which is used in the textbook to symbolize China’s reform process. What is the key reason that such a process is preferred by Chinese leaders?

The phrase, “Growing out of the plan”, has two key components.

First, it means that the segment of the economy that is under government planning [such as the output target for state owned enterprises or quota for agricultural products to be sold at government prices] is retained. However, the size of the planned portion of the economy was kept constant in absolute terms.

Second, growth was encouraged outside government planning. Entry barriers were lowered for non-state firms. Farmers were allowed to sell above-quota output at market prices.

As a result, the part of the economy that is under central planning became less and less significant in relative sense and the overall economy grew out of the plan.

The key reason for such a process is to minimize the disruption to the core of the economy while introducing incentives and growth to the economy.

2. What are the key features and the main outcome of the “big push industrialization” policy adopted in China between 1949 and 1978. Do you think this strategy is suitable for China at the time and why?

The big push industrialization is a government-led effort to achieve industrialization in a relatively short period of time. It has three main features.

First, investment is emphasized strongly over consumption. Government investment played a significant role. Second, investment is most concentrated mostly in industries. Third, within industries, capital-intensive, heavy industries are preferred over consumption related light-industries.

The main outcome: Industrial sector grew significantly faster than the overall economy to become the main components of the economy. The economy was quickly transformed from a mainly agriculture-society to an industry-dominant economy, with a strong heavy industry bias.

Many think the strategy was suitable for China. Although there was a need to industrialize, China was a labor-abundant, capital-scarce country. It should pay more attention to develop labor-intensive industries, instead of capital-intensive heavy industries.

3. China's Township and Village Enterprises grew rapidly between mid-1980s and late 1990s. What are the main factors behind the rapid expansion?

There are several factors underlying TVEs' rapid growth between mid-1980s and late 1990s.

First, capital was readily available for starting small rural industries. Early successes in rural reform raised farmers' income and saving. Local government was eager to help local industrial by providing loans.

Second, labor was cheap and abundant. Productivity in agriculture sector rose significantly and the number of surplus labor in rural China was huge.

Third, there was a huge potential market for consumer related products due to the lack of such industries in the past. TVEs operated under market principles and were very competitive compared to state owned enterprises.

Fourth, TVEs as firms of collective ownership, it was readily acceptable in China at the time when private ownership was still viewed with suspicion.

4. Over the past 30 years, China's economy has made remarkable achievement in both development and transition. Explain.

China has made remarkable achievement over the past 30 years in both development and transition.

In development: China recorded high growth over a period longer than most of other developing countries, even those in East and Southeast Asia. In the mean time, the country has made considerable progress in industrialization and urbanization. Per capita income and overall standard of living both rose significantly.

In transition: after 30 years, China's economy was transformed from central-planning to a [mostly] market economy; from an economy dominated by the state sector to one composed of firms with different ownership types [e.g. foreign owned, private owned, etc.]; from a closed economy [autarky] to deep integration with the rest of the world economy.

5. What are the main characteristics and recent trend of China's income inequality?

There are a few main characteristics of China's income inequality. First of all, the overall degree of income inequality is comparable to those of other developing countries with similar level of development [e.g. lower than countries in Latin America but higher than many in Southeast Asia]. Second, the gap between rural and urban residents is the main component of China's income inequality, due mainly to China's dualist economic system. Thirdly, regional gap between coastal and inland regions are also significant.

Over the last decade, income inequality rose considerable, despite various government efforts in both tax reform and direct investment in poor regions. Reforms become more urban-biased while WTO membership depresses agricultural income. Moreover, coastal regions benefited more from China's increasing economic integration with the rest of the world.