

EC2374
Economy of Modern China
Semester I, 2010/2011

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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 2nd 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

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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

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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

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