

EC2374

# Economy of Modern China

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# A brief review of lecture 2

## Natural endowment & historical experience

- A large & very uneven geographic setting
  - mountainous topography with limited
  - highly uneven distribution of resources, especially water
  - large regional gap & high population density in coastal regions
- A long and turbulent historical experience
  - an early leader in economic and technological development
  - stagnation & relative decline due to foreign aggression & domestic turmoil
  - early attempts of industrialization largely unsuccessful

# A brief review of lecture 2

## 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

# A brief review of lecture 2

## 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

# A brief review of lecture 2

## 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)

# A brief review of lecture 2

## 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

## Topic 2 (Cont.) Socialist Central Planning

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A recent experience still fresh in the minds of many:

- Economic significance
  - achievements and lessons
- Socialist appeal
- Economy under central-planning
  - big-push industrialization
- Legacy & implications

# Topic 2 (Cont.) Socialist Central Planning

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## Considerable achievements:

- Industrialization
  - structural changes
  - moderate growth
- Improvement in social aspects
  - education
  - basic healthcare



# Topic 2 (Cont.) Socialist Central Planning

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Many lessons to be learned:

- Frequent and drastic policy changes
  - economic fluctuations
  - personal suffering and tragedies
  - general problems with central planning
- Problems with central planning
  - low efficiency
  - shortages

# Topic 2 (Cont.) Socialist Central Planning

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## Why socialist central-planning?

- Experience as an under-developed country
  - especially between 1930s to 1940s
- Un-successful earlier attempts to industrialize
  - different alternative
- Inspiration from Russia
  - Russian Revolution in 1917

# Topic 2 (Cont.) Socialist Central Planning

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## Communist platform

- National independence
  - free from foreign dominance and influence
  - government led industrialization
- Development
- Equality
  - “equality” among people
  - gender equality: *women can hold up half of the sky*

# Topic 2 (Cont.) Socialist Central Planning

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## Central-planned economy

- big-push industrialization
  - government led industrialization
- main national goals
  - strengthen upstream and downstream linkages
  - self-sufficient/self-reliance

# Topic 2 (Cont.) Socialist Central Planning

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## Big-push industrialization

- Heavy investment in (heavy) industry
  - investment is favored over consumption  
1952-78: 10.4% a year (I) vs. 4.3% a year (C)  
service sector: 29% (1952) => 24% (1978)
  - industry is favored over agriculture  
1949-1978: 11.5% year (Ind.)  
shares: 18% => 44% (Ind.) vs. 51% => 28% (Agr.)
  - heavy industry is favored over light industry  
1949-78: 17% a year (HI) vs. 11% a year (LI)

# Topic 2 (Cont.) Socialist Central Planning

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## Big-push industrialization

- Institutional features of central-planning
  - public ownership
    - state ownership of large-scale industry & wholesaling
    - collective ownership of agriculture & handicrafts
  - party dominance
    - overlapping organizational structures of party/state
    - party is above state in decision-making
  - material balance planning the key apparatus
    - top down
    - limited material incentives

# Topic 2 (Cont.) Socialist Central Planning

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## Big-push industrialization

- systematic deficiencies
  - public ownership
    - incentives
    - low efficiencies
  - party dominance
    - objectives
  - material balance planning
    - P & Q controls: distortions and rigidities
    - incomplete information
    - static

# Topic 2 (Cont.) Socialist Central Planning

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## Big-push industrialization

- Shortcomings in application:
  - suitability for China?
    - factor intensity mismatch: labor vs. capital
  - low job creation:
    - 1952-78: absorbed 37% of all labor force increase
    - growing under-employment in rural China
  - technology and skill
    - low endowment of human capital
  - frequent policy changes
    - political campaigns dictate economic policy-making



# Topic 2 (Cont.) Socialist Central Planning

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## Big-push industrialization

- Modest attainment with high cost
  - some degree of growth & development
    - GDP and per capita GDP: 6% & 4% a year
    - improvement in living standard: education, health, etc.
    - high overall investment
  - highly volatile
    - due to policy instability
  - highly uneven
    - wide rural-urban divide
    - large regional differences

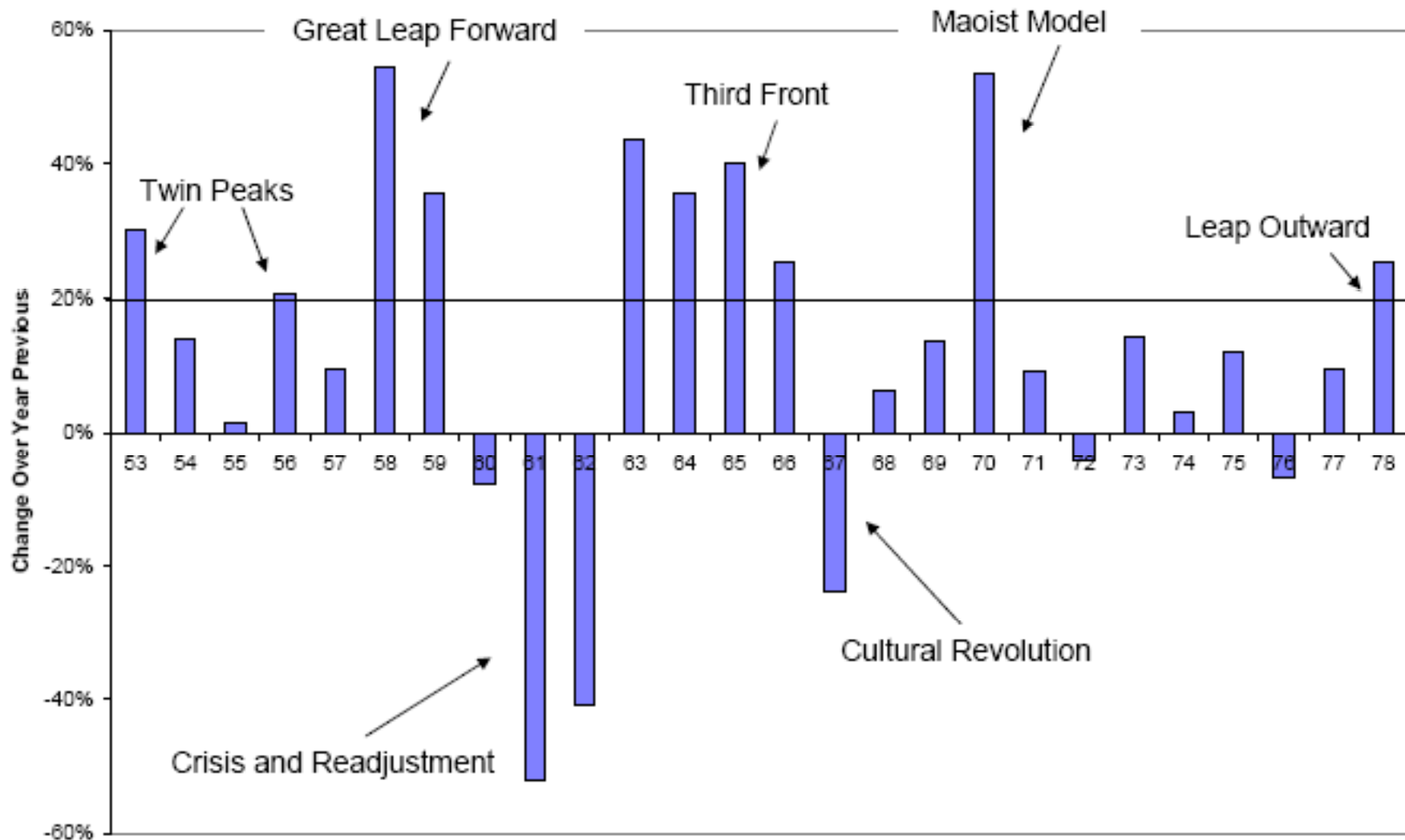
# Topic 2 (Cont.) Socialist Central Planning

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## Policy instability

- Major development phases, 1949-1978
  - 1949-1952: the recovery and transition to socialism
  - 1952-1957: the First Five-Year Plan
  - 1957-1960: the “Great Leap Forward”
  - 1961-1966: “Consolidation and Readjustment”
  - 1966-1976: The “Great Proletarian Cultural Revolution” (narrowly defined as 1966-1969)
  - 1976-1978: Interregnum

**Figure 3-3: Growth of Investment**



# Topic 2 (Cont.) Socialist Central Planning

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## Implications

- a general consensus for reform
  - discontent at the grassroots level  
stagnation & poor living conditions
  - discontent among the social elites  
victimized in political & ideological campaigns
  - unfavorable international comparison  
China's gap with the rest
  - the Communism's appeal – evaluated  
independence, development, equality?

# Topic 2 (Cont.) Socialist Central Planning

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## Implications

- policy lessons

- “*black cat, white cat*”

- radical ideologies do not pay off

- China’s basic economic conditions

- river crossing

- try to do every thing at once will not work

- victimized in political & ideological campaigns

- gradual, experimental, & pragmatic

- Stability