China’s Economy:
Growth and Global Connections

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An Overview of China’s Economy

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1. Welcome to our 90+ students!

2. Introduction and administration

3. Lecture: overview of China’s economy
China has had four very different economic systems in less than 100 years

<table>
<thead>
<tr>
<th>Period</th>
<th>Economic System</th>
</tr>
</thead>
<tbody>
<tr>
<td>1911-1949</td>
<td>Instability, 40 years: China’s economic growth is thwarted due to warlord disputes, the Sino-Japanese War (1937-1945), and the civil war between the Guomindang and the CCP</td>
</tr>
<tr>
<td>1644-1911</td>
<td>The Qing Dynasty: a mainly agricultural economy but one with significant trade, including foreign trade</td>
</tr>
<tr>
<td>1949-1978</td>
<td>PRC High Socialism, &lt;30 years – Mao pursues centrally-planned, socialist development, emphasizing industry &amp; infrastructure for a closed, self-reliant society</td>
</tr>
<tr>
<td>1978-Present</td>
<td>PRC Reform Era, &gt;30 years – Deng ushers in an “open door” policy which allows for reform of the centrally planned economy, market growth, and foreign trade</td>
</tr>
</tbody>
</table>
1980s: “SEZ”s for trade; original 4 were near Hong Kong, Macau, & Taiwan; now many open areas
Since 2010, China has been the world’s 2\textsuperscript{nd} largest economy

<table>
<thead>
<tr>
<th></th>
<th>~GDP (US$b)</th>
<th>~GDP/cap (US$000)</th>
<th>~GDP (PPP, $US000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. US</td>
<td>16.8</td>
<td>52.0</td>
<td>16.8</td>
</tr>
<tr>
<td>2. China</td>
<td>9.2</td>
<td>6.6</td>
<td>16.2</td>
</tr>
<tr>
<td>India</td>
<td>1.8</td>
<td>1.5</td>
<td>6.8</td>
</tr>
<tr>
<td>3. Japan</td>
<td>4.9</td>
<td>38.6</td>
<td>4.6</td>
</tr>
<tr>
<td>4. Germany</td>
<td>3.7</td>
<td>44.6</td>
<td>3.6</td>
</tr>
<tr>
<td>5. France</td>
<td>2.8</td>
<td>43.1</td>
<td></td>
</tr>
</tbody>
</table>

Notice that China’s ~GDP/capita is relatively low
China’s GDP growth has surpassed forecasts…

BRIC, GDP Forecast, shown in US$ trillion

Mainly from 2000, China’s economy has grown rapidly and become increasingly globally integrated.

(1) Date sources: tradingeconomics.com; China's General Administration of Customs; World Bank.
Today let’s review “three moves”

1. Moving to the cities

2. Moving “up the value chain”

3. Moving into a mixed economy
1. Moving to cities: largest migration in history, ~260mm+

- Lack *hukou*, so lack services

- Abuses and insecurities

- Education:
  - 64% middle or high school

- Changing demographics:\(^1\)
  - ~65% *not* in mfg
  - mostly >30, married, w/ jobs

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(1) Author’s estimates from various sources.


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**Millions of Migrant Laborers in Chinese Cities**

More migrant workers are bringing spouses and children and are staying longer in urban areas.
1 (cont.): With moving to cities, China’s total urban population likely crossed the 50% mark in 2010-2011

1 (cont.): Moving to cities; internal labor migration…
2. Moving “up the value chain”: China’s labor has increasingly moved from agriculture to mfg & services

- Labor pool is about 1 billion;\(^1\) non-agr increased by about 50 percent from 2000-2010

![Graph showing Share of GDP by Sector](image)

![Graph showing Share of Employment by Sector](image)

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(2) OECD Economic Surveys: China 2010, page 159, Figure 6.2 from China Statistical Yearbook 2009.
In recent years, analysts estimate that the state sector is responsible for about 40% of GDP.
3 (cont.): Moving to a “mixed” economy: orgs have different ownership forms, w/ differing practices & cultures

Various ownership forms in China:

- Private Chinese companies
- Private “Chinese” companies
- Joint ventures (Sino-foreign)
- Multi-national companies (MNCs); wholly foreign owned enterprises (WFOEs)
- State owned enterprises (SOEs)
- State invested companies
- Other forms

~40% of China’s economy
Three consequences

1. Higher incomes...and consumer spending

2. Mega cities...and mega infrastructure

3. Global integration...and globalizing institutions
1. Higher incomes: Incomes have increased substantially, so demand for consumer products is rising

<table>
<thead>
<tr>
<th>Annual Disposable Income Per Capita</th>
<th>Chinese Yuan</th>
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<tbody>
<tr>
<td>90</td>
<td>0</td>
</tr>
<tr>
<td>91</td>
<td>5</td>
</tr>
<tr>
<td>92</td>
<td>10</td>
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<td>93</td>
<td>15</td>
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<td>94</td>
<td>20</td>
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<td>11</td>
<td>105</td>
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<tr>
<td>12</td>
<td>110</td>
</tr>
<tr>
<td>13</td>
<td>115</td>
</tr>
</tbody>
</table>

Gini Co-efficients for Income Inequality

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Co-efficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>.40</td>
<td>.47</td>
</tr>
<tr>
<td>United States</td>
<td>.41</td>
<td>.45</td>
</tr>
</tbody>
</table>

Urban Income ~ 3x Rural

Latest Data 2013:
Urban: Y29,945 = ~US$4,325
Rural: Y8,896 = ~US$1,428

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(1) National Bureau of Statistics China; People’s Daily; tradingeconomics.com; data trend combines rural and urban averages.

(2) IMF; World Bank; CIA; over 600 million internet users; RMB up 30% since 2005; over 270mm rural migrant workers in cities; migrant worker income tends be between rural and urban averages.
1. Higher incomes, yet China still has great contrasts…
2. “Mega-cities”: China’s urbanization creates demand for infrastructure, energy, and public services

3 of the world's top 6 “City Clusters” (a.k.a. megalopolises or mega-regions):

- *The Pearl River Delta, ~120 million, near Hong Kong:*
- *The Yangtze River Delta, ~88 million, near Shanghai:*
- *The Bohai Rim, ~66 million, near Beijing:*

• 5 cities of over 10 million
  • versus 3 in India, 2 in the US, Japan, and Brazil

• 14 cities of over 5 million, over 20% of the world total

• 41 cities of over 2 million, 20% of the world total
2. “Mega-cities”: State-owned banks turn household savings into loans for gov-financed city infrastructure (& SOEs)

3. Global integration: global & high-value business links are supported by growth in higher education & China’s HR
3. Increased global business integration: for example, increasing FDI

Note, China’s outbound foreign investment reached US$90B in 2013

(1) Data source: World Bank, see data.worldbank.org, “balance of payments” includes non-cash investments and commitments.
3. Global integration: yet, China is relatively **restrictive** for FDI

**Figure 2: Formal FDI Restrictiveness, Selected Countries, 2012**

*Note: 0 means completely unrestricted market access; 1 means completely restricted.*

Source: OECD, Rhodium Group. *Calculated based on available OECD data for 24 of 27 EU member countries.*

Source: Rhodium Group, Hanemann and Bao, “A New Momentum for FDI Reforms in China,” 2013
In the past 15 years, China’s economy has sustained growth, despite fundamental weaknesses in China’s system.

* A few examples of major debates…
  - Rule of law (lacking)
  - Export-led development (over reliance on low-wage manufacturing)
  - Financial system (capital markets and the banking system are inadequate)
  - “State capitalism” (growing and inefficient)
  - Corruption: both political and economic
  - Over-investment and too-high capital formation (versus a consumer driven economy)
  - Foreign companies: face new obstacles, less favoritism
  - Environmental degradation: food supply, air and water pollution
Given the sustained growth, we’ll take a long-term view on accomplishments, trends, and present-day obstacles

- Interdisciplinary approach
- Qualitative as well as quantitative perspective
- Research by Chinese and foreign analysts
- Sources: scholars, business leaders, journalists, and others

Other sources and authors: China Labour Bulletin; Human Rights Watch; Reporters Without Borders; Amnesty International; Xiaobo Liu (China); Jamie Horsley, The China Law Center, Yale Law School; and Dali Yang.
Today: “three moves” and “three outcomes”

1. Moving to the cities
   - Higher incomes… and consumer spending
   - Mega cities… and mega infrastructure
   - Global integration… and globalizing institutions?

2. Moving “up the value chain”

3. Moving into a mixed economy
Tonight…

1. Questions for Luo Dong!

2. Reading

3. Tomorrow’s topics: “Past to Present” and “Export-led Development”
Per the PRC Constitution, China is governed by rule of law.

**Political**
- Communist Party of China (CPC)
  - Chinese People’s Political Consultative Conference
  - CPC’s National Congress
  - 8 Democratic Parties
  - Local People’s Governments (Provincial)
  - Local People’s Governments (City)

**Executive**
- State Council
  - Prime Minister Wen, Jiabao
  - General Office
  - Ministries and Commissions
  - (detail provided)

**Legislative**
- National People’s Congress
  - Chairman: Hu, Jintao
  - Constitution
  - Legislation of NPC’s Standing Committee
  - Regulations of State Council
  - Legislation of Local People’s Congress (Provincial)
  - Local People’s Congress (City)
  - Local People’s courts

**Judicial**
- Supreme People’s Court
- Military Court
- Supreme People’s Procuratorate
- Military Procuratorate
- Superior People’s Procuratorate
- Local People’s Procuratorate