

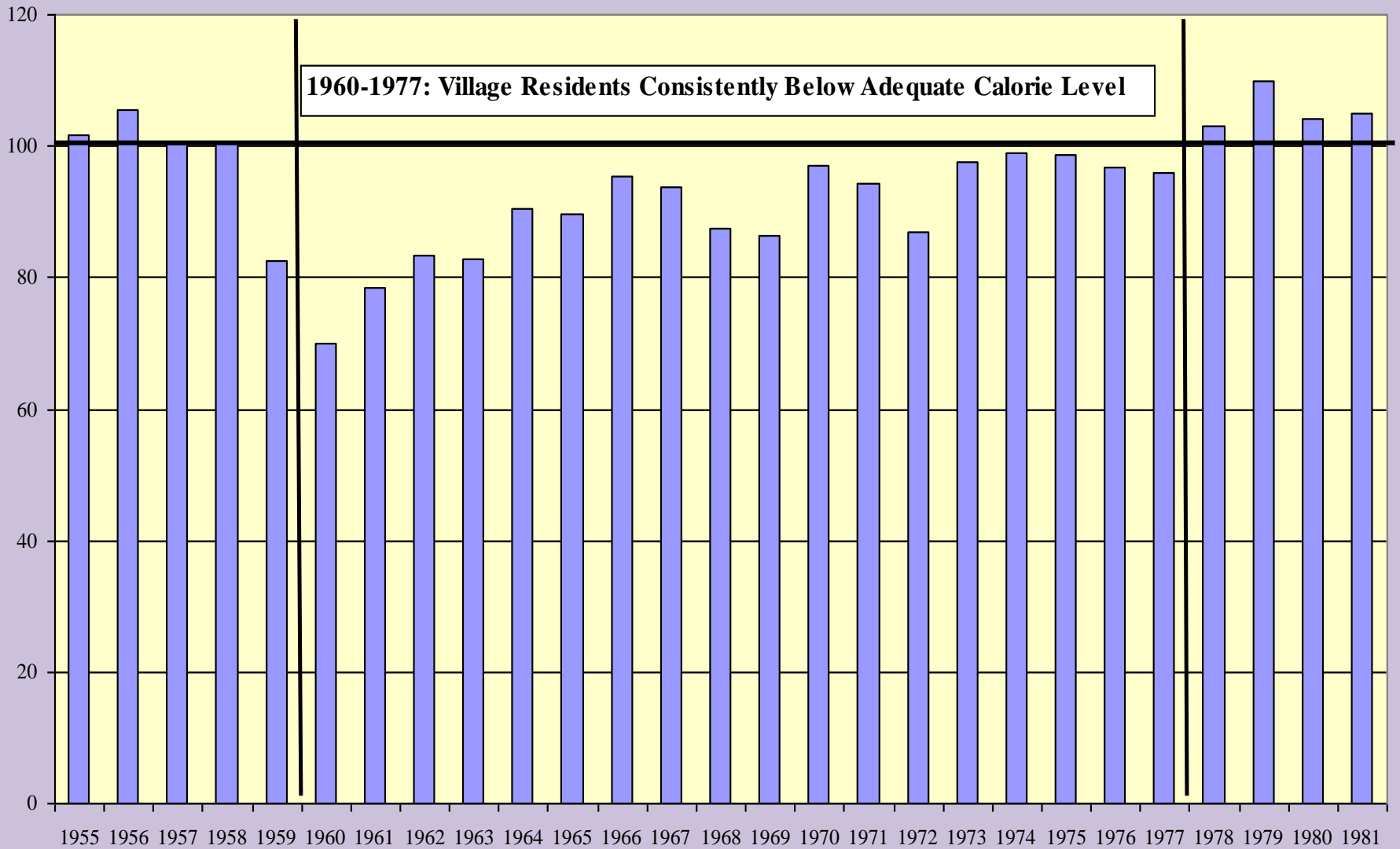
China's Economy: Recent Growth and Historical Legacies

Thomas G. Rawski

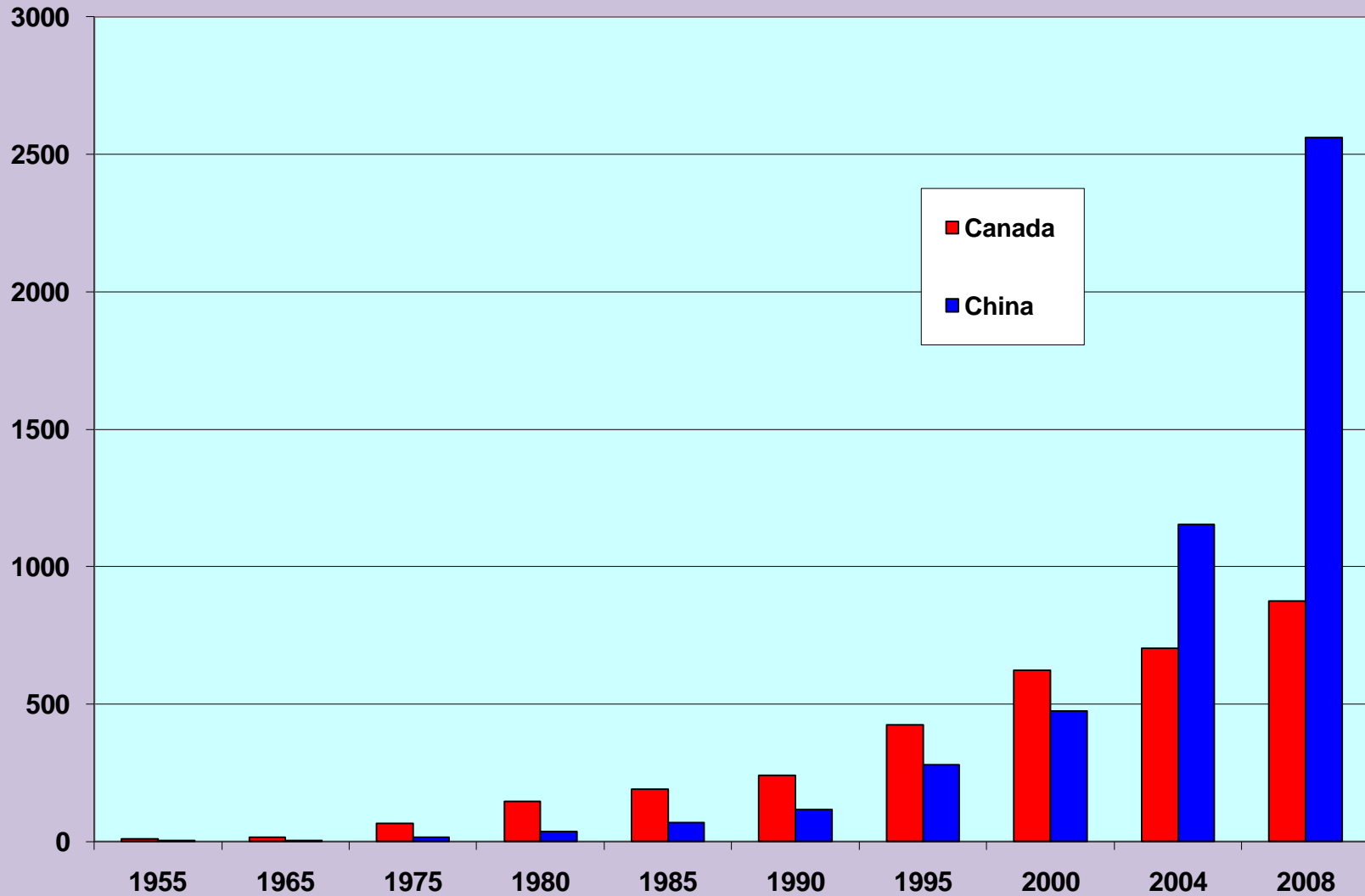
University of Pittsburgh

March 2011

Calorie Adequacy for Chinese Villagers, 1955-1981



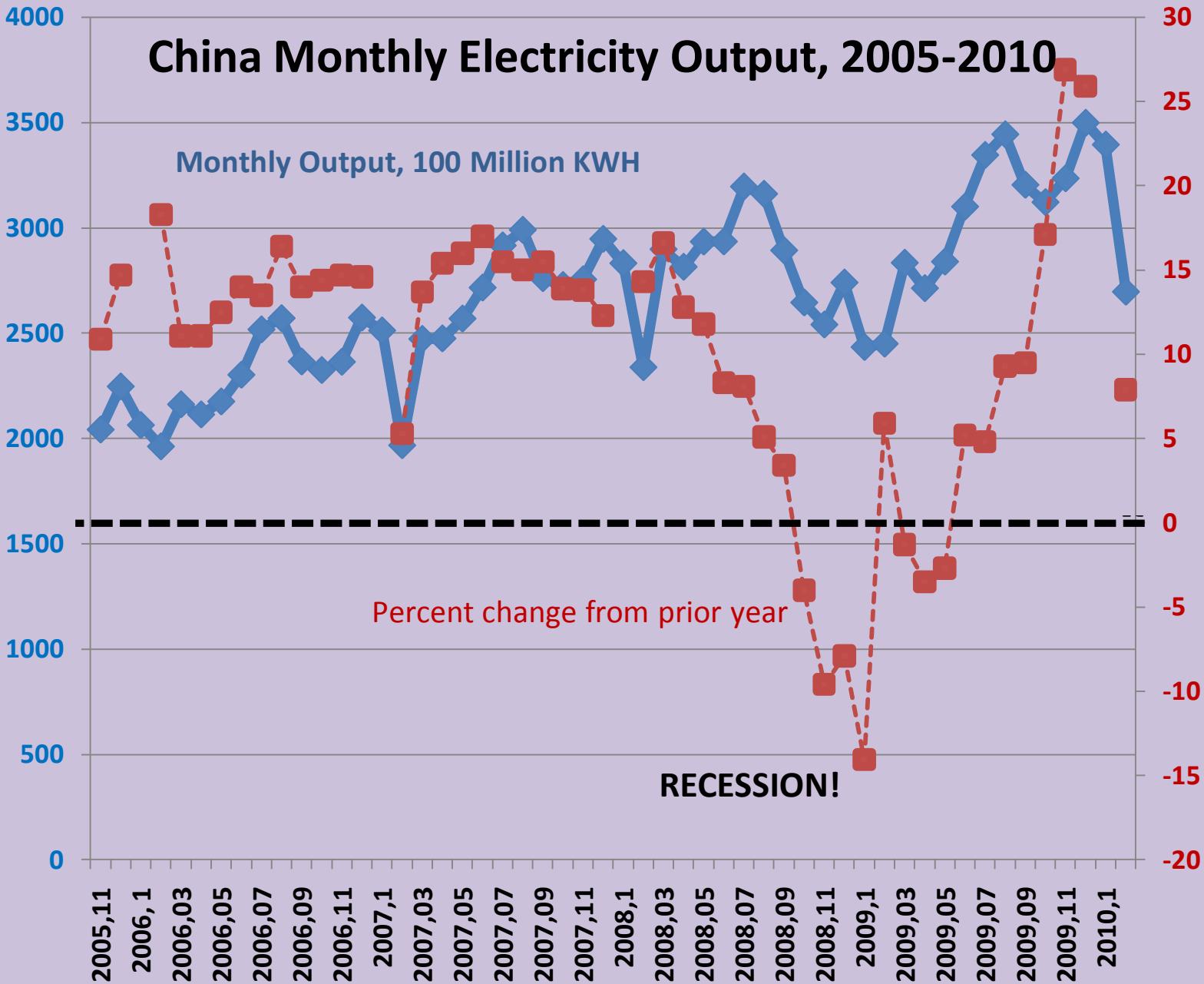
Annual Foreign Trade, Canada and China (US\$ Billion), 1955-2008



10 Reasons to Expect More Growth

- Confidence and momentum
- **Experience in meeting economic shocks**
- Strong focus on economic growth
- **HUMAN CAPITAL**
- Beneficial plan legacies
- Institutional benefits!
- Globalization
- **Growing Innovative capability**
- Bold policy initiatives
- Scale

China Monthly Electricity Output, 2005-2010

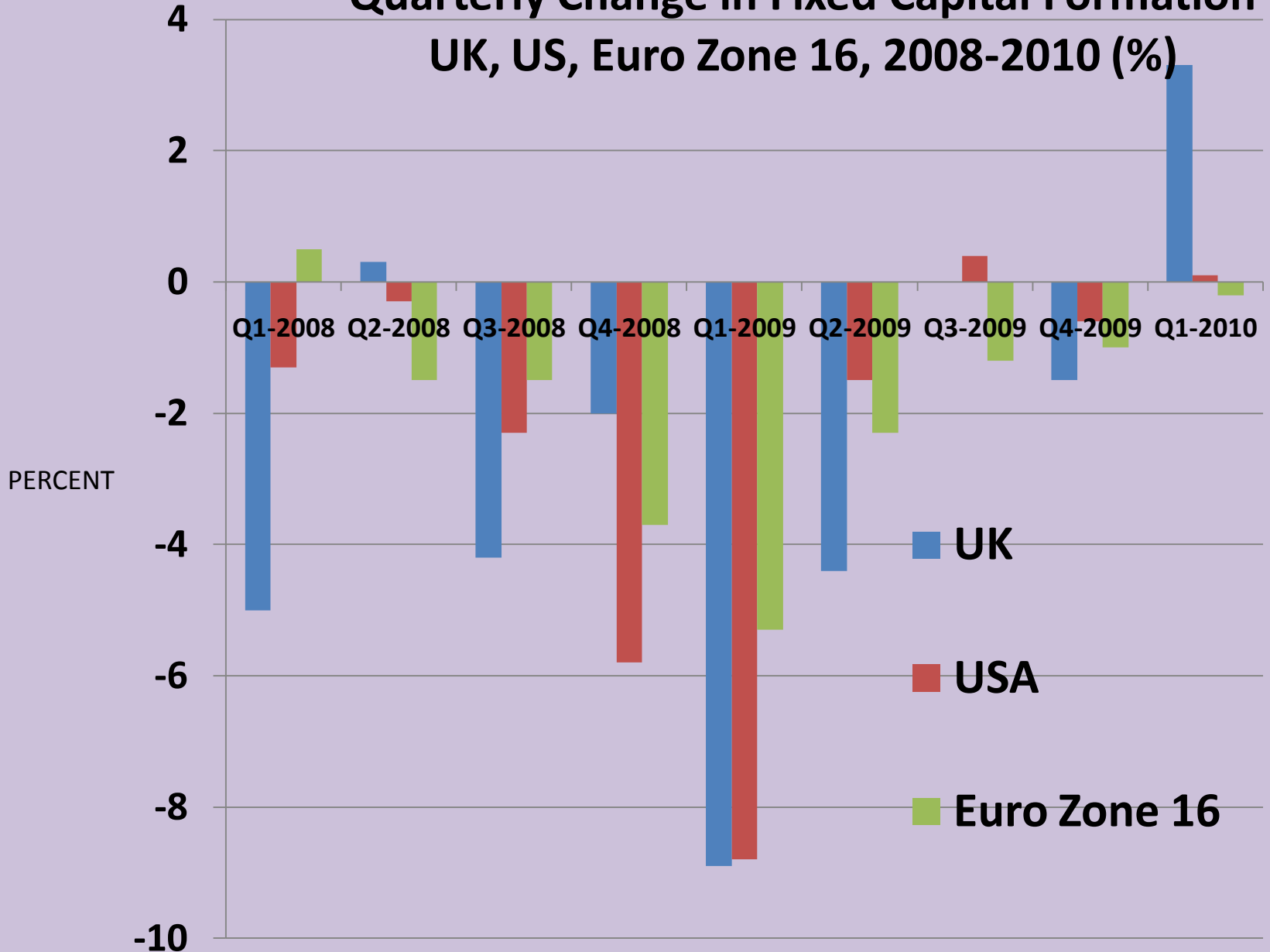


Many difficulties :

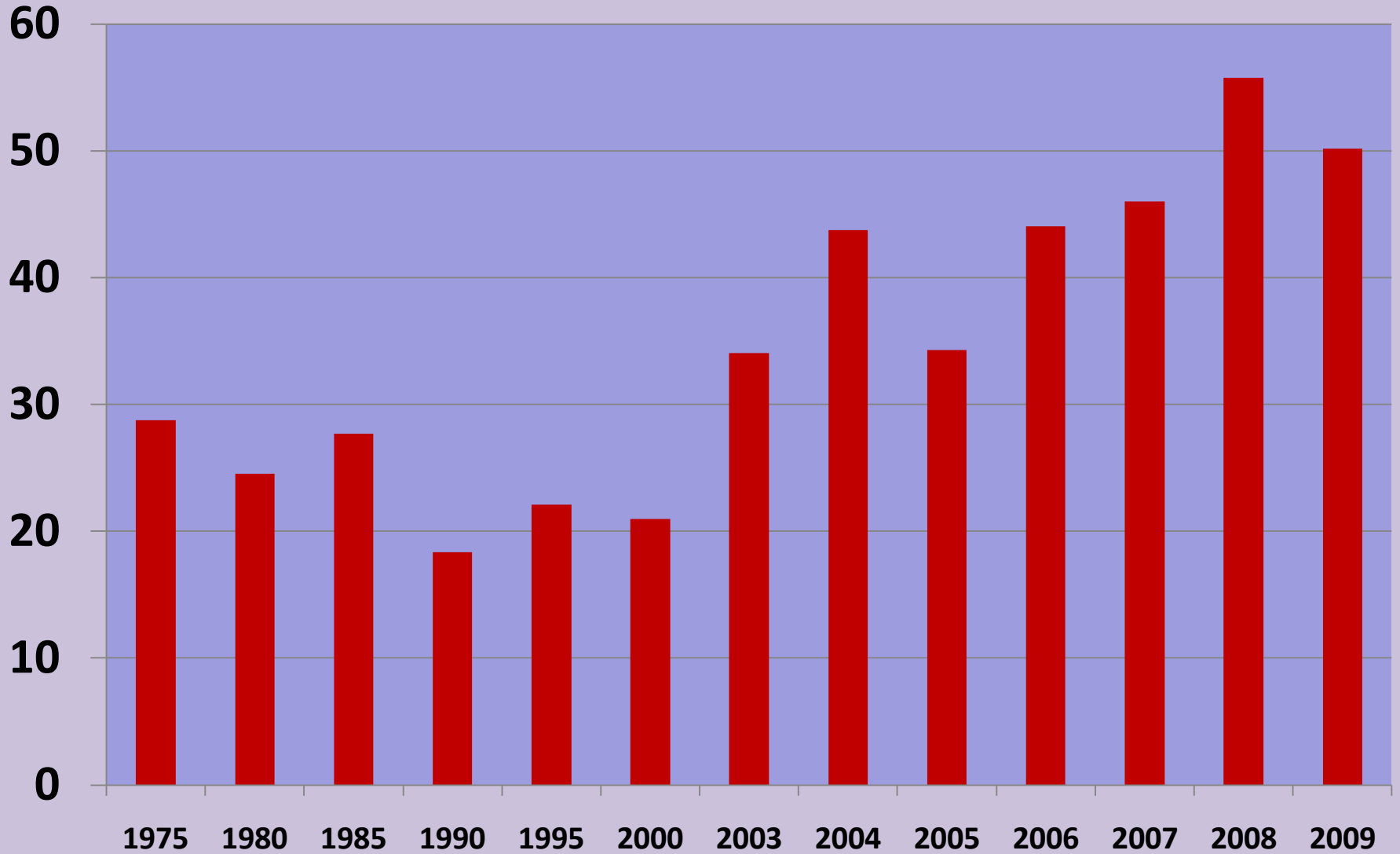
No. 1 on my list: **investment system**

- Funds flow to (often inefficient) state-sector firms, limiting private-sector growth
- **Major** costs associated with current system
 - **Poor investment returns**
 - **Huge seasonal fluctuations**
 - **Elevated financial risk**
 - **Slow growth of employment**

Quarterly Change in Fixed Capital Formation UK, US, Euro Zone 16, 2008-2010 (%)



Nominal Investment: Q1 as Percent of Prior Year's Q4, 1975-2009



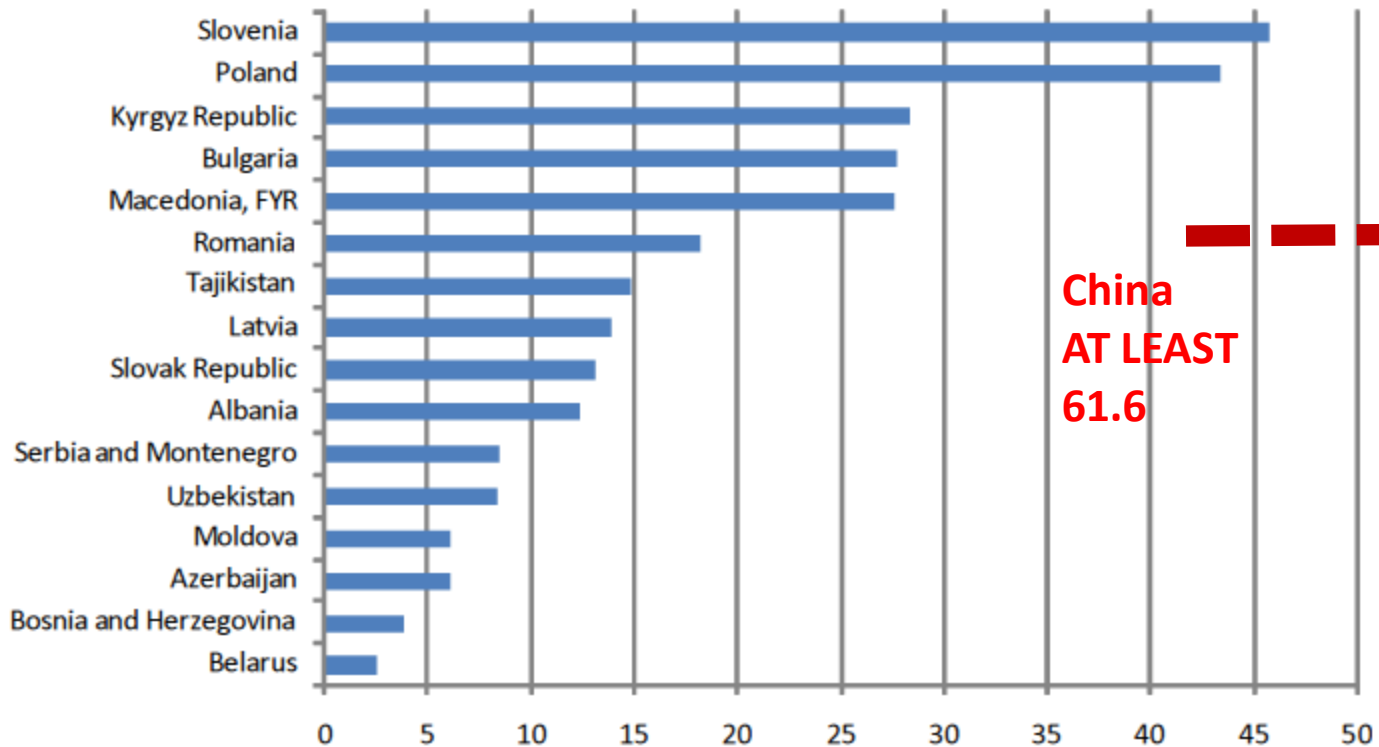
Rural Management Skills

- 1950s-1970s: Over 50,000 communes; 750,000 brigades, 7 million teams.
- 1976 \approx 1.1 million rural enterprises
- 1986 \approx 12 million rural “TVE” firms
- **NO LACK OF MANAGERS & ACCOUNTANTS**
- Where did managers come from? Who kept the books?

Legacy: “Deep Bench” of Entrepreneurship

- **Overseas Chinese in Southeast Asia**
- **Business acumen in Taiwan and Hong Kong**
- **Average income for ethnic Chinese in US higher than for Caucasians**
- **T. Wright: prewar China’s “abundance of small-time entrepreneurs”**
- **Now also see big-time operators**

Number of Micro, Small, Medium Size Enterprises per 1,000 people (2000-2005 average)



China Manufacturing Vignettes

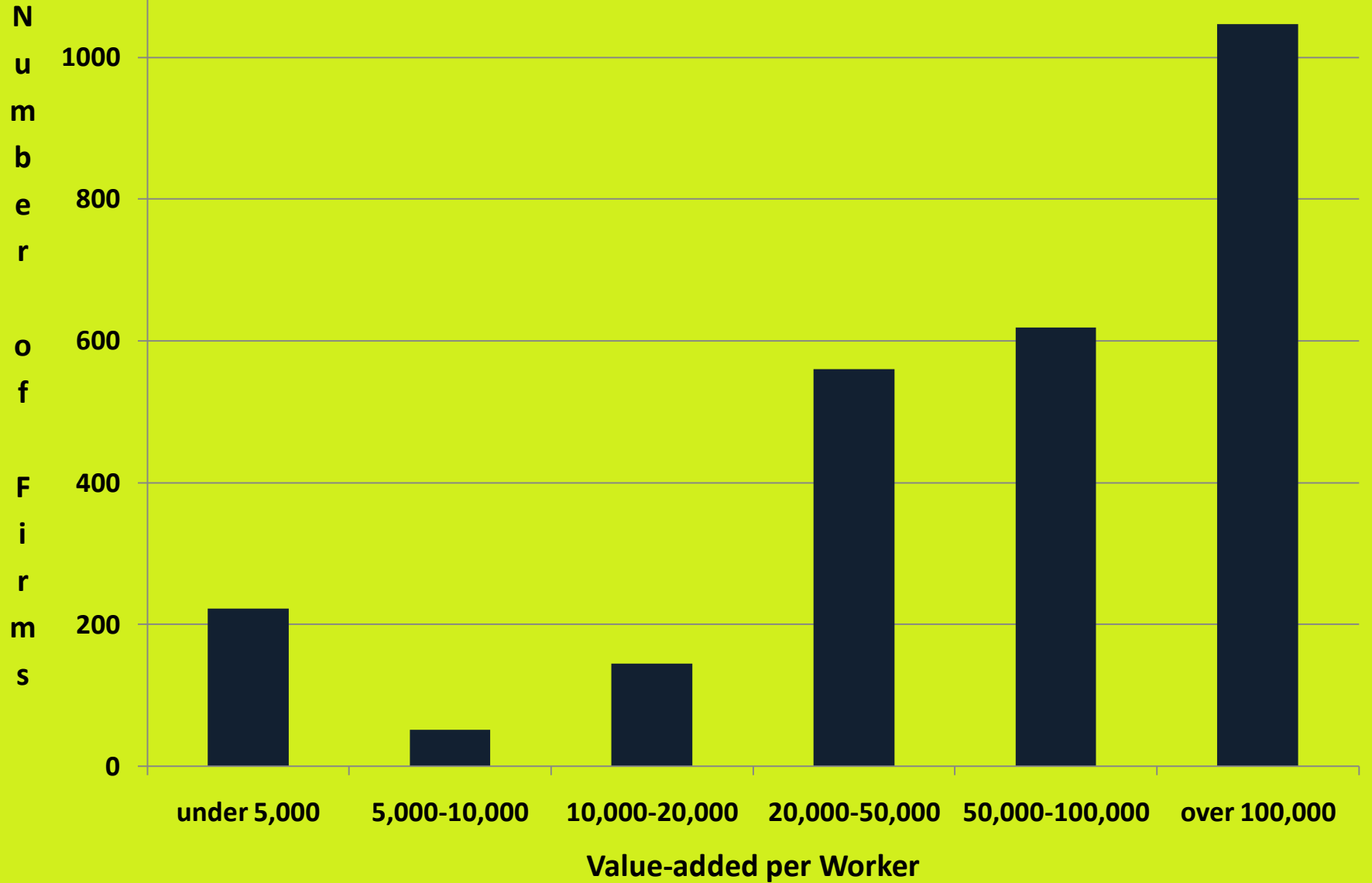
- Industry dominates China's economy
- Industry dominates China's exports
- China: a major recipient of foreign investment
- The foreign share of total investment $\approx 5\%$
- Rising costs: labor, land, materials, energy
- Renminbi likely to continue rising
- Environmental regulation cranking up
- More R&D, but **CAN CHINESE INDUSTRY INNOVATE?**

Sources of TFP Growth to 2025

- Domestic reform: of State firms, private business, financial sector, investment system
- Urbanization
- Deepening interaction with global markets
 - E.g. M&A in banking, insurance
 - Will interior regions participate?
- FDI inflow (now expanding to R&D) & outflow
- Domestic R&D spending – 1.5% of GDP in 2008, outlay projected to rise from 9.5 (2007) to 12.5% (2009) of global R&D

China's Automotive Industry 2007

Dispersion of Value-added per Worker



China's Automotive Industry 2007

Dispersion of Value-added per Worker

N
u
m
b
e
r

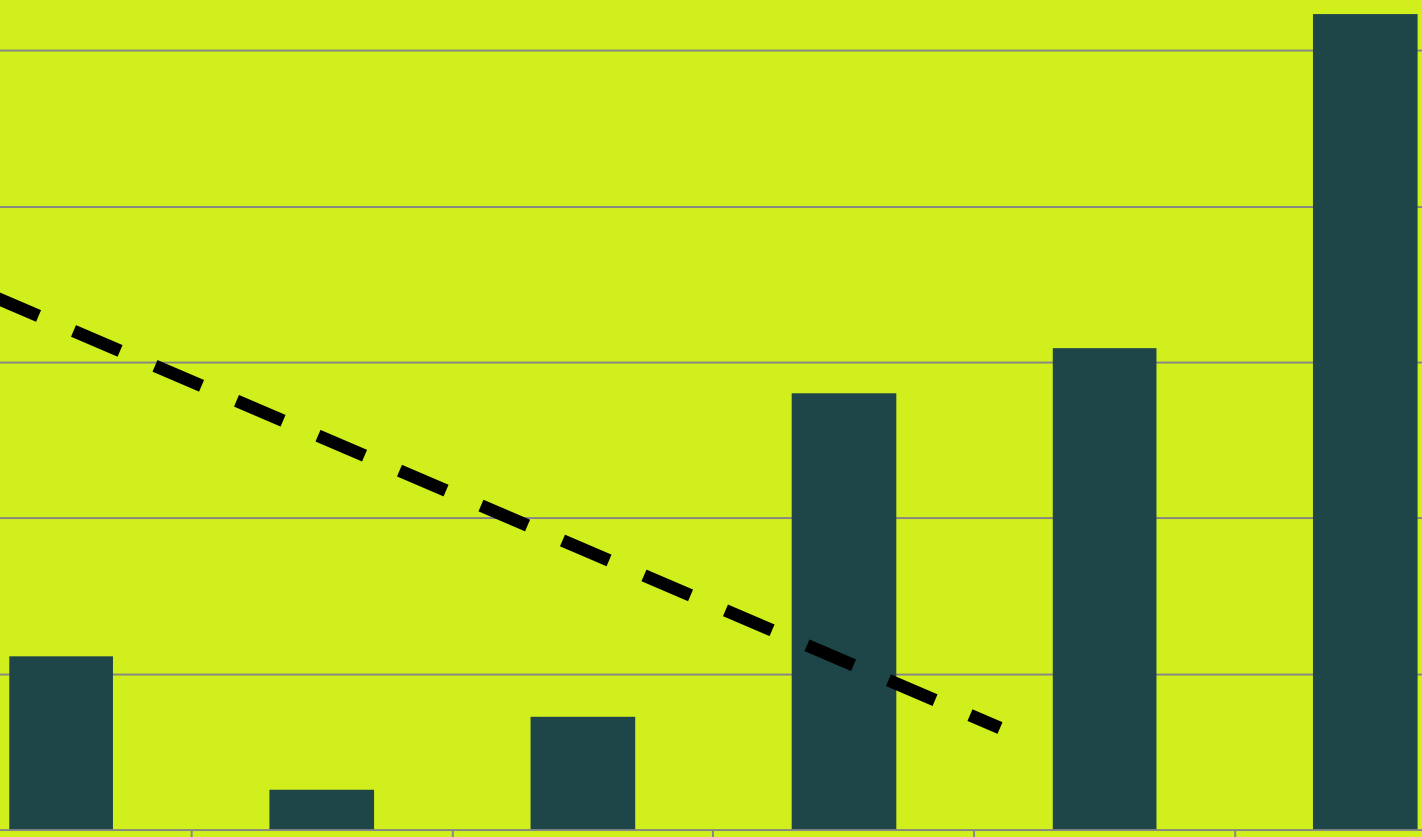
o
f

F
i
r
m
s

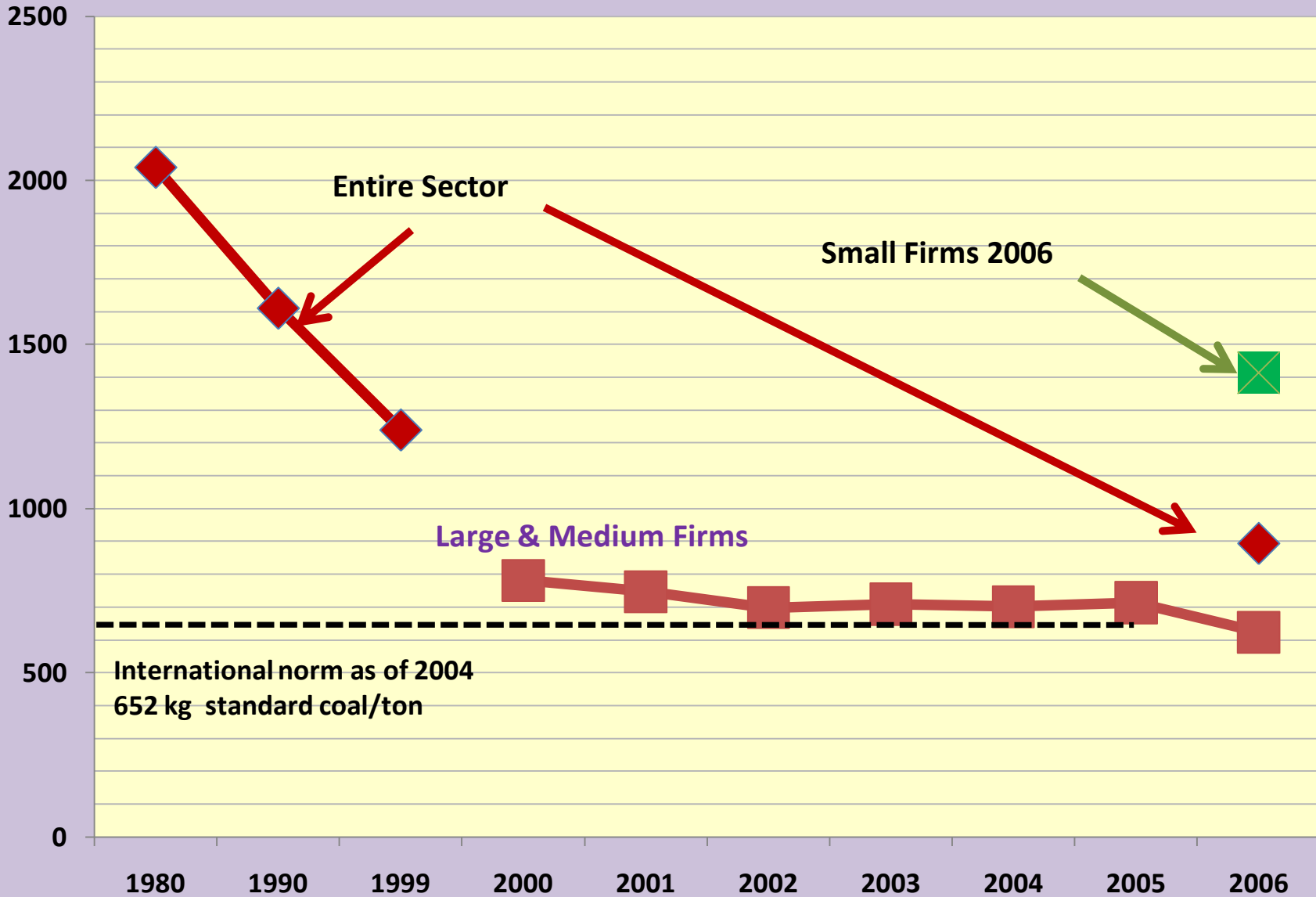
1200
1000
800
600
400
200
0

under 5,000 5,000-10,000 10,000-20,000 20,000-50,000 50,000-100,000 over 100,000

Value-added per Worker



China: Energy Use Per Ton of Steel, 1980-2006 (Kg Standard Coal per Ton of Steel)



China Elasticity of Power Output vs. Real GDP, NBS Data, 1990-2009Q3

