

Economics 162. Fall 2023

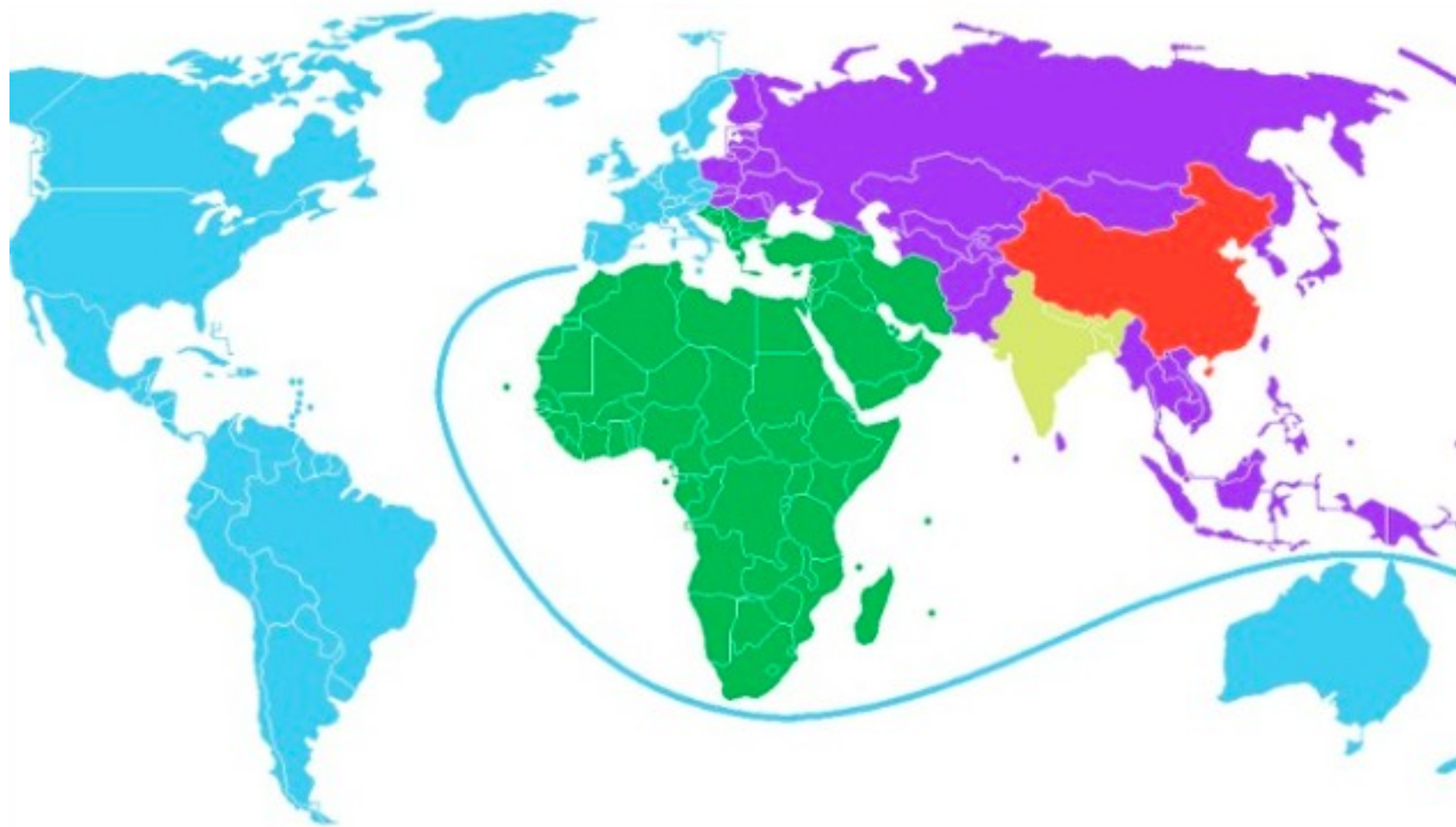
The Chinese Economy

Gerard Roland

E. Morris Cox Professor of Economics

Interest in China

- No day goes by the last few years without news of the China-US rivalry.
- Attitudes towards China have been changing very fast, in the US, but also in Europe and Asia....
- China was until recently praised for its growth miracle since 1978. China's GDP now closing in that of US. China's population five times larger (roughly 20% of the world – see Figure-).
- More recently, the Chinese economy post-covid seems to be in trouble: growth slowdown, demographic problems, youth unemployment, real estate and public finance crisis, problems with Belt and Road Initiative (BRI),...



Interest in China

- The world seems to be afraid of China's power these days.
- Noteworthy article in the Financial Times on July 10 2019 by famous Hungarian economist Janos Kornai stating regrets about creating a “Frankenstein”.
- There are talks about “containment”(George Kennan), "Thucydides trap", “new cold war”...

Interest in China

- Issues around Hong Kong national security law.
- Tension around Taiwan.
- Issues around treatment of Uyghurs in Xingjiang,
- Border conflict with India...
- Talk of economic decoupling from China.
- Tension is high but it is necessary to reach a calm understanding of stakes based on the best academic research on the topic.

Importance of understanding China's economy.

- China has a regime that is new and unique in history: a market economy (capitalist economy) under a communist political regime.
- Core of communist ideology was that the market economy needed to be replaced by central planning. Centrally planned economies collapsed; in China, it was successfully replaced by market economy that led to growth miracle.
- The Communist Party of China (CPC) played a fundamental role in these market reforms.

Importance of understanding China's economy.

- In recent years, there is a tendency to reevaluate the last 40 years using traditional Marxism: China needed to grow first before consolidating socialism. Now that China is economically more powerful, the state sector should grow again and the role of the market and the private sector should decrease in the future. These ideas (Xi Jinping thought) have some success among young nationalists who were born after the Cultural Revolution.
- This makes it even more important to have a correct understanding of the reasons behind the growth miracle of the last 40 years.

Important Themes

- Reform and transition from plan to market
- Economic development from poor to rich
- Opening and integration to the world

Features of the Course

- Descriptive
 - Facts
 - What, when, where, who
 - Not easy
- Analytical
 - About the linkages between facts
 - Why, how
 - Even more difficult

China in a Broader Perspective

- As a transition economy
 - Eastern Europe, former Soviet Union, Vietnam
- As an emerging market
 - East Asia, India
- As a large economy
 - Brazil, Russia, India, China (BRIC)
- As a geopolitical power
 - U.S., E.U., Russia, Japan

Textbook

- Barry Naughton, *The Chinese Economy: Adaptation and Growth*, The MIT Press, 2018.
- I will go beyond the textbook, both in my slides and my lectures.

Other Readings

- Loren Brandt and Thomas Rawski (ed.) *China's Great Economic Transformation*, Cambridge, 2011.
- Janos Kornai, *The Socialist System*, 1992
- Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1993*, 1996
- Jinglian Wu, *Understanding and Interpreting Chinese Economic Reform*, 2005

Topics (chapters in Naughton)

- Introduction (Introduction)
- The Geographical and Historical Background (2+3)
- China under Central Planning (4)
- A Picture of the Reform Process (5)
- China's specific institutions (slides only)
- Growth and Structural Change (7)
- Agriculture (11+12)
- State Industry and State-Owned Enterprises (6, 14, 15)

Topics (chapters in Naughton)

- Non state industry (13)
- The financial sector (19)
- Population, Labor, income distribution (slides only)
- Foreign trade and Investment (16 +17)
- China in the 21st Century (slides only)

Useful Information

- Midterm: October 5 (Thursday) in class
 - 30% of grade
- Final: (date TBD)
 - 40% of grade
- Regular quizzes (details TBD):
 - 30% of grade.
- Logistics of exams to be determined in due time.
- Office Hours (mostly with readers: will be announced)
- Email: groland@econ.berkeley.edu

China: The Big Picture

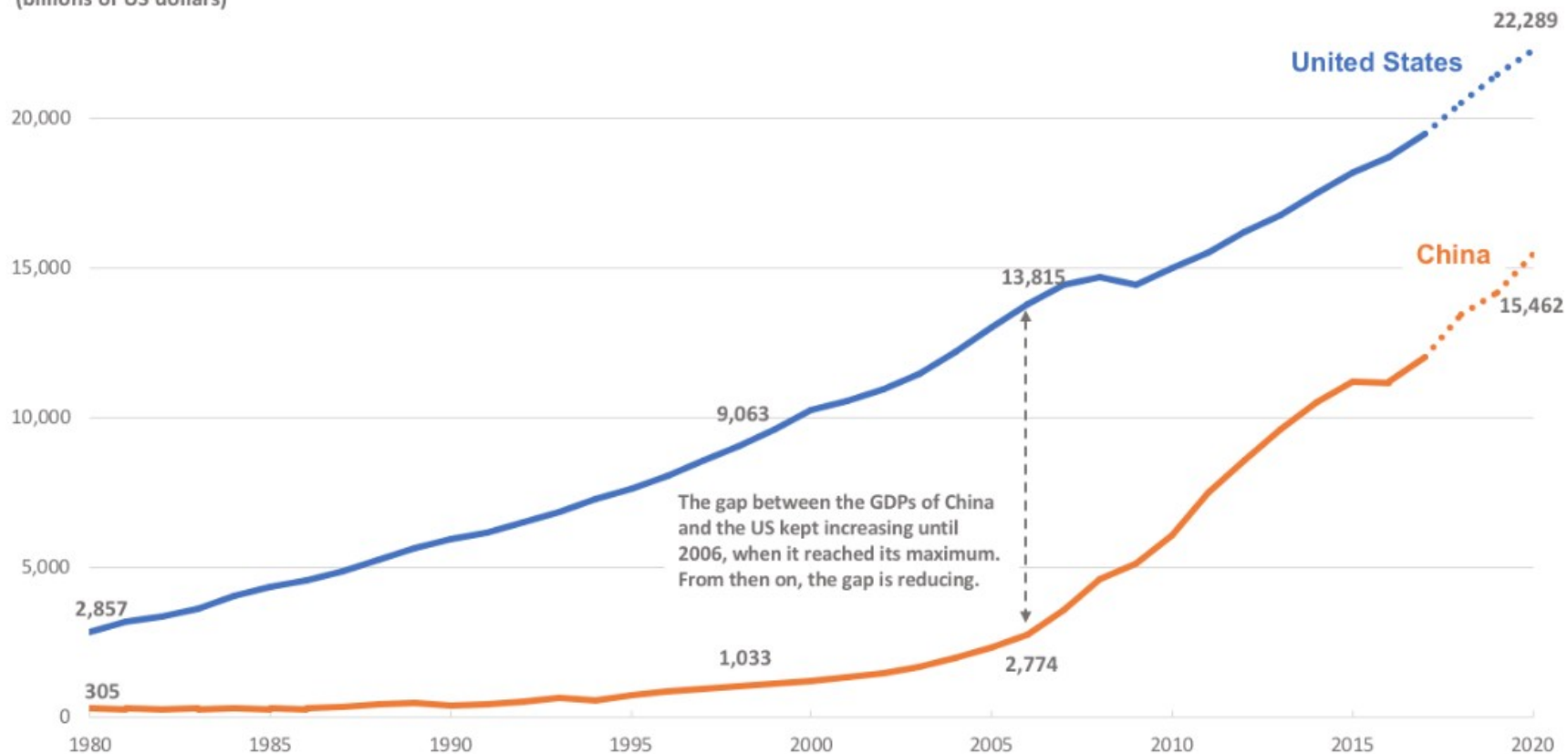
- Growth miracle over more than 40 years, but problems mounting last 15 years
- No progress in political liberalization, instead tightening of repression under Xi Jinping, uncertainty about succession rules.

An economic miracle, with structural problems

- Current GDP is around 70% of that of the US, close to 20% of the world economy, but higher than US in PPP (purchasing power parity) , and uncertain future growth.
- Current GDP per capita went from low levels (in the hundreds) in the seventies to roughly \$12,000 today.

CHINA VS UNITED STATES: GDP COMPARISON

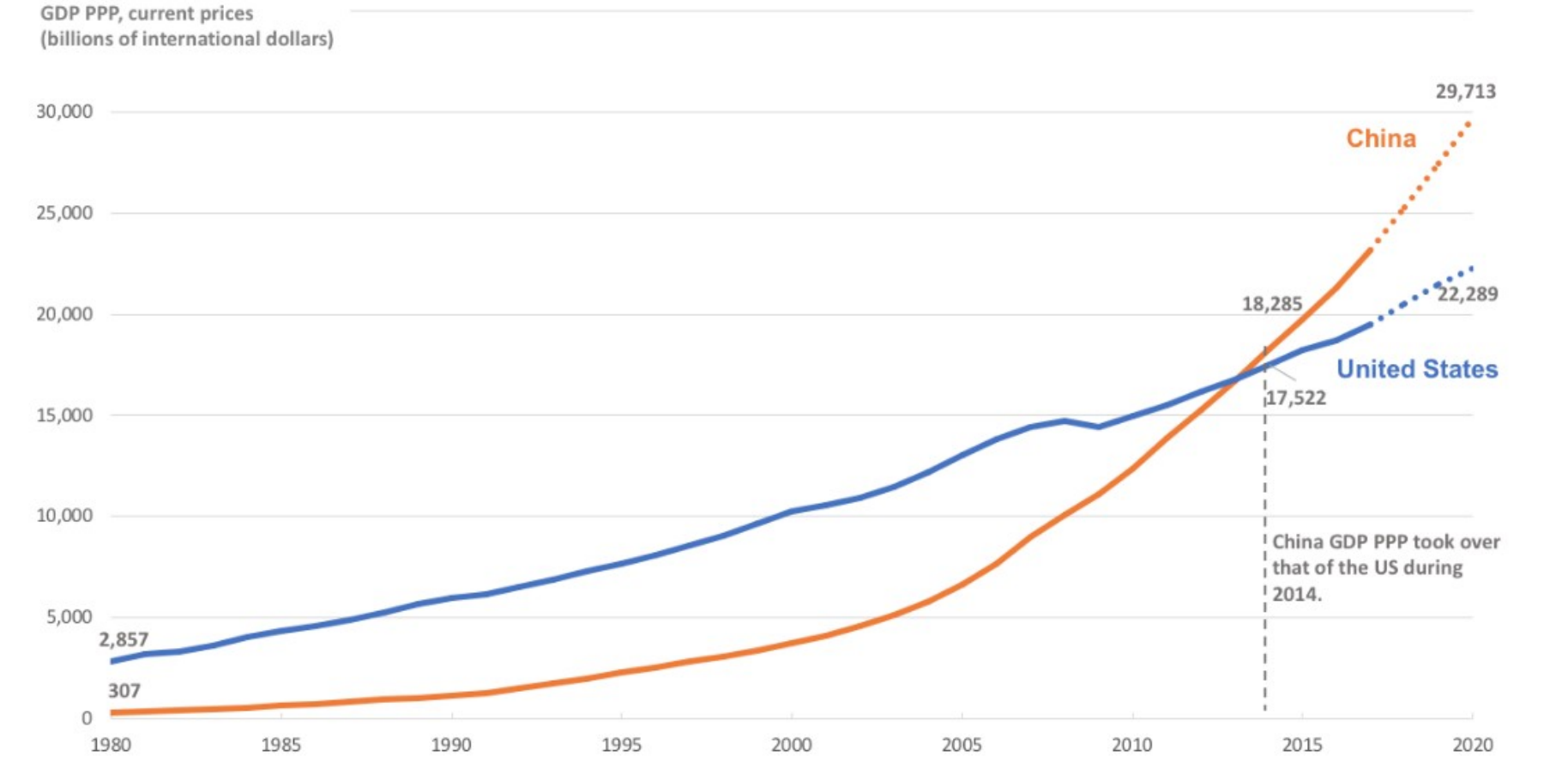
GDP, current prices
(billions of US dollars)



Data Source: IMF World Economic Outlook, October 2018

Data Analysis by: MGM Research

CHINA VS UNITED STATES: GDP PPP COMPARISON



Data Source: IMF World Economic Outlook, October 2018

Data Analysis by: MGM Research

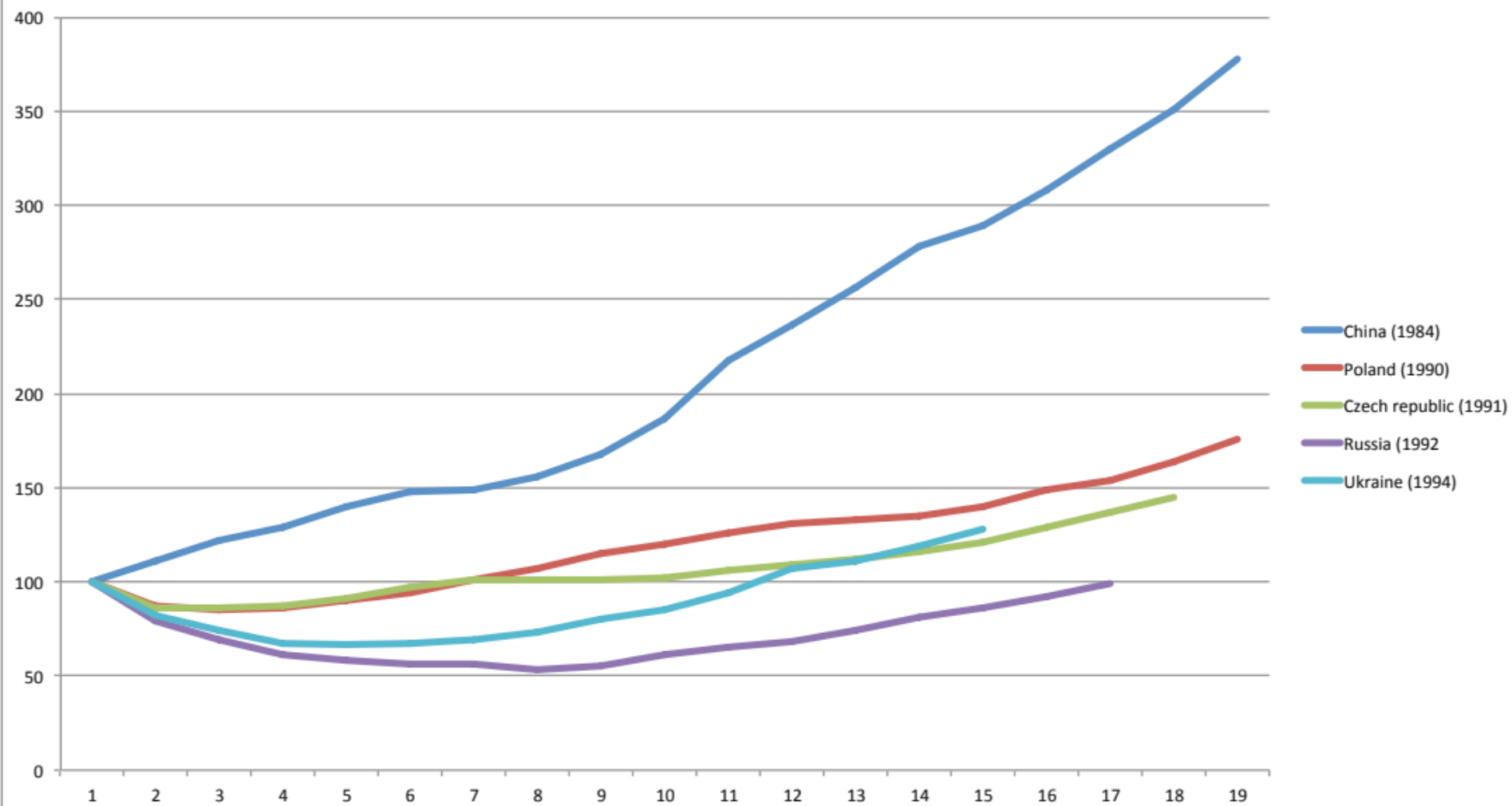
Poverty alleviation and Industrialization

- In 1990, 66.6 million people lived below World Bank poverty line of \$1.9, in 2010 only 11.2. Hundreds of millions of people pulled out of poverty since 1978 and economic reforms. Now, less than 1% below \$2.3 per day.
- In 1978, 75% of the labor force was in agriculture. In 2022, it was 25%.
- China now upper middle income country.

A successful transition to the market economy

- The reason behind the Chinese growth miracle is the successful reform strategy in the transition from a centrally planned economy to a market economy.
- China's reform strategy has delivered better economic performance than other transition economies: no output fall and spectacular growth.

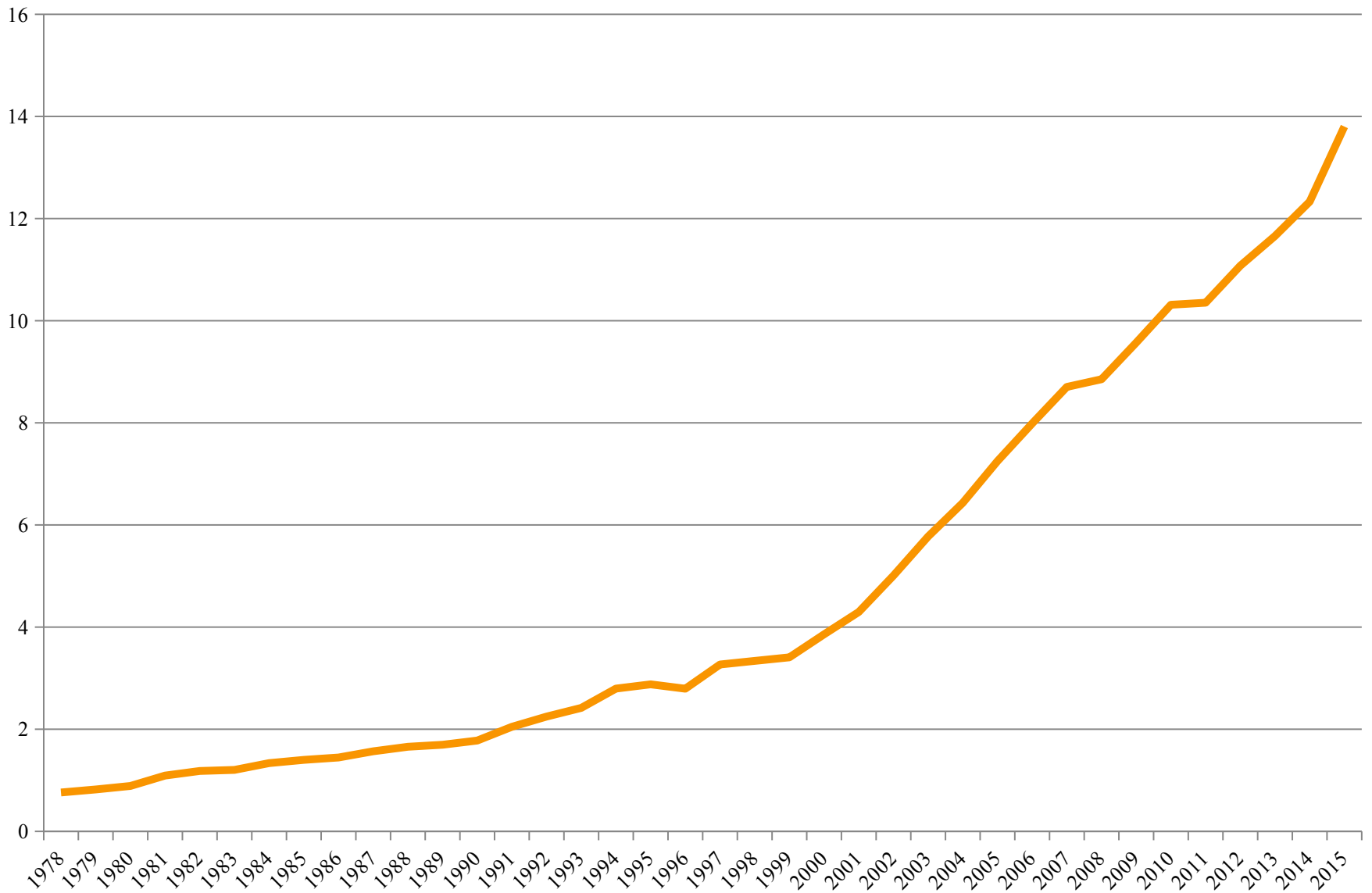
Real GDP per capita (PPP) evolution since year of price liberalization



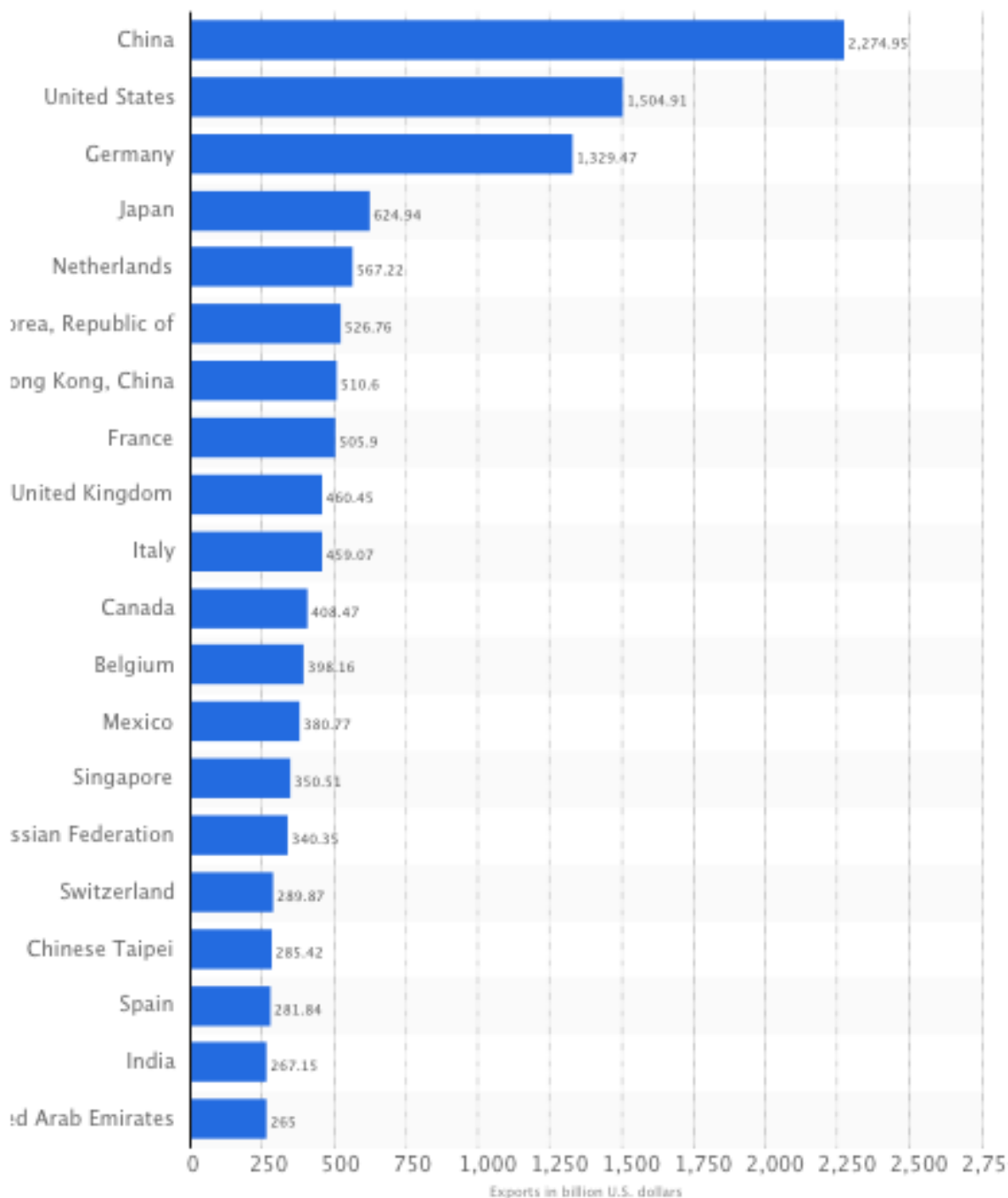
Successful international integration

- Like other East Asian countries, China emphasized integration in the world economy and aggressive export strategy.
- China's share in world exports went from less than 1% in the late 70s to over 14% in 2022.

China's share of world exports (1978-2015)



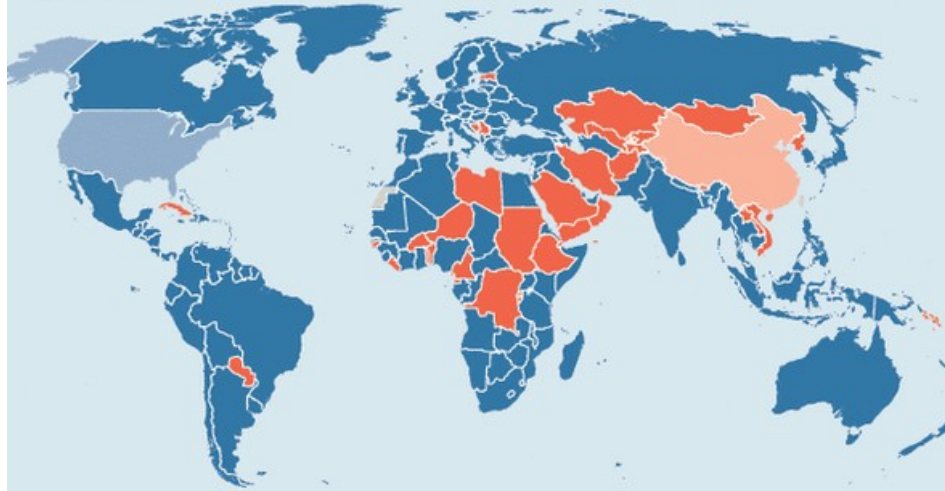
Top 20 export countries worldwide in 2015 (in billion U.S. dollars)



Countries which share greater trade* with:

■ United States ■ China ■ No data

2000†



2020†

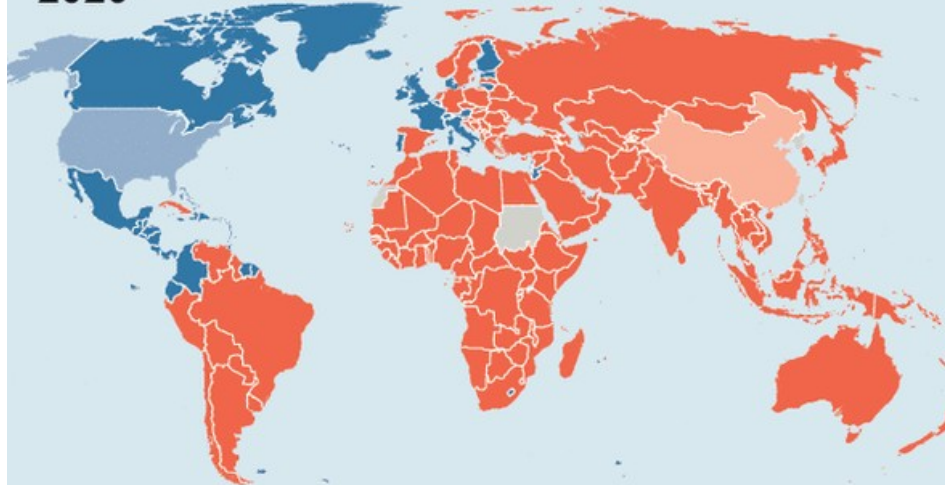
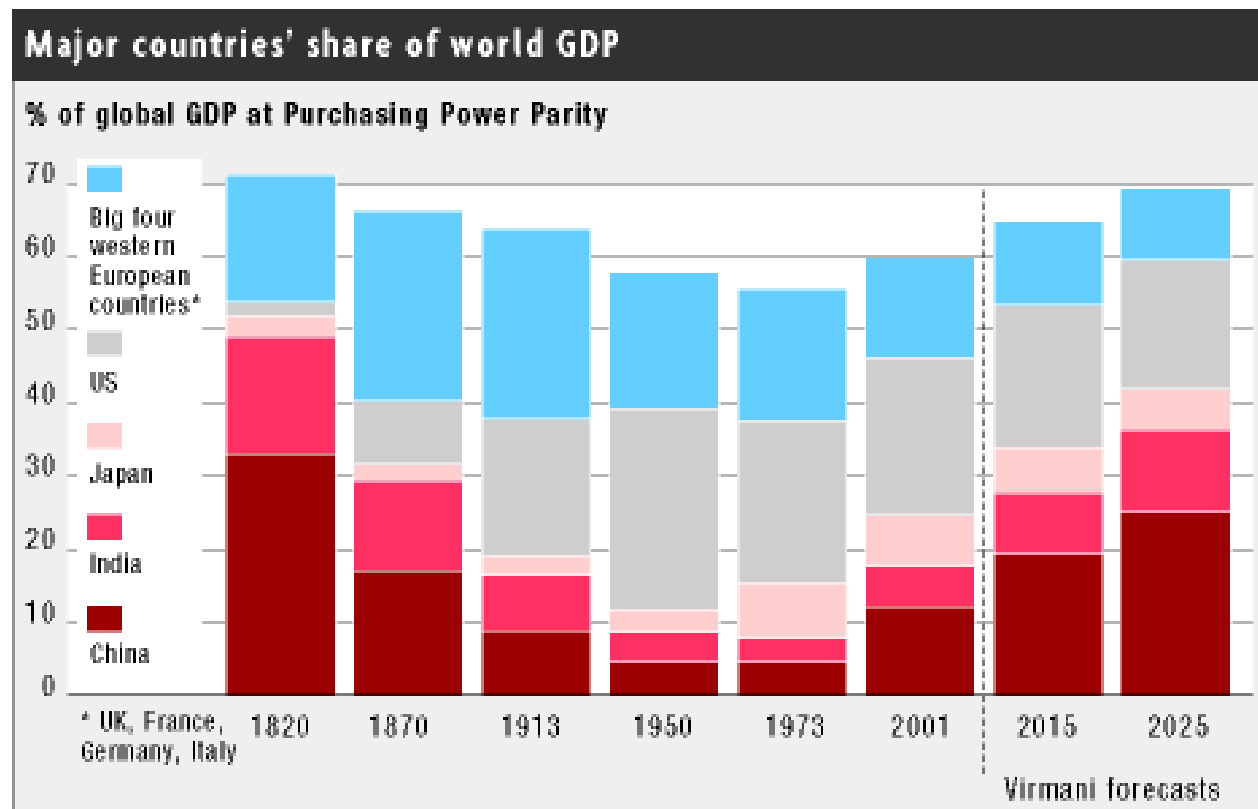


Figure 3: Major country's share of world GDP



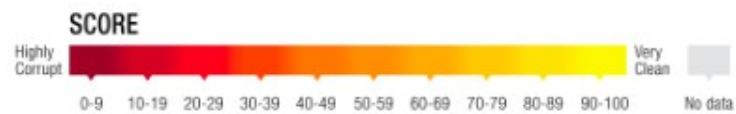
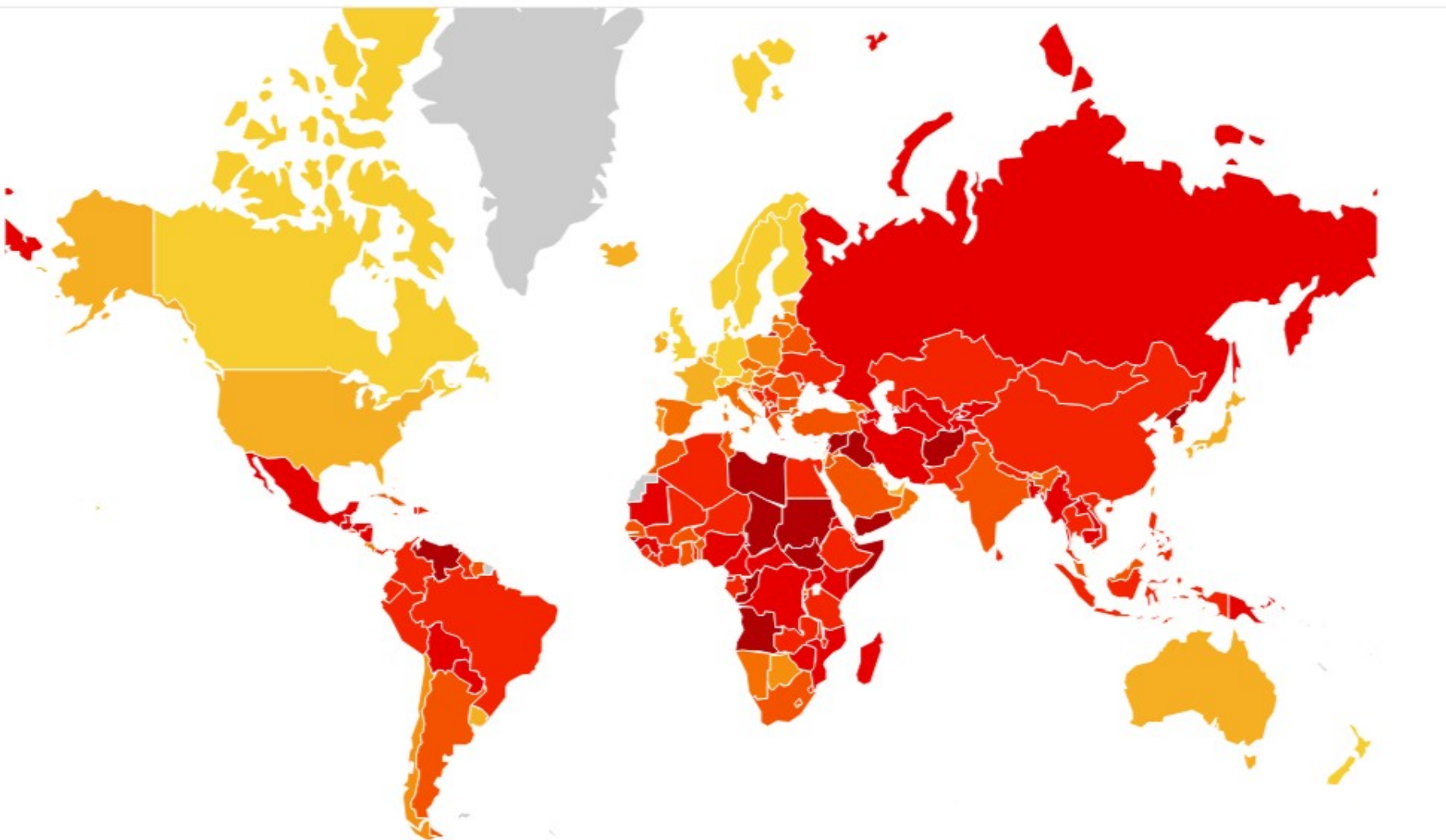
Source: Madison.

Problems

- Economic reforms have stalled in the last 15 years. No major market reforms since the late nineties.
- A large inefficient state sector (44% of assets, roughly 30% of output)
- Large indebtedness of local governments.
- Important imbalances in the economy (real estate, youth unemployment, low consumption,...)
- Corruption is still a big issue.

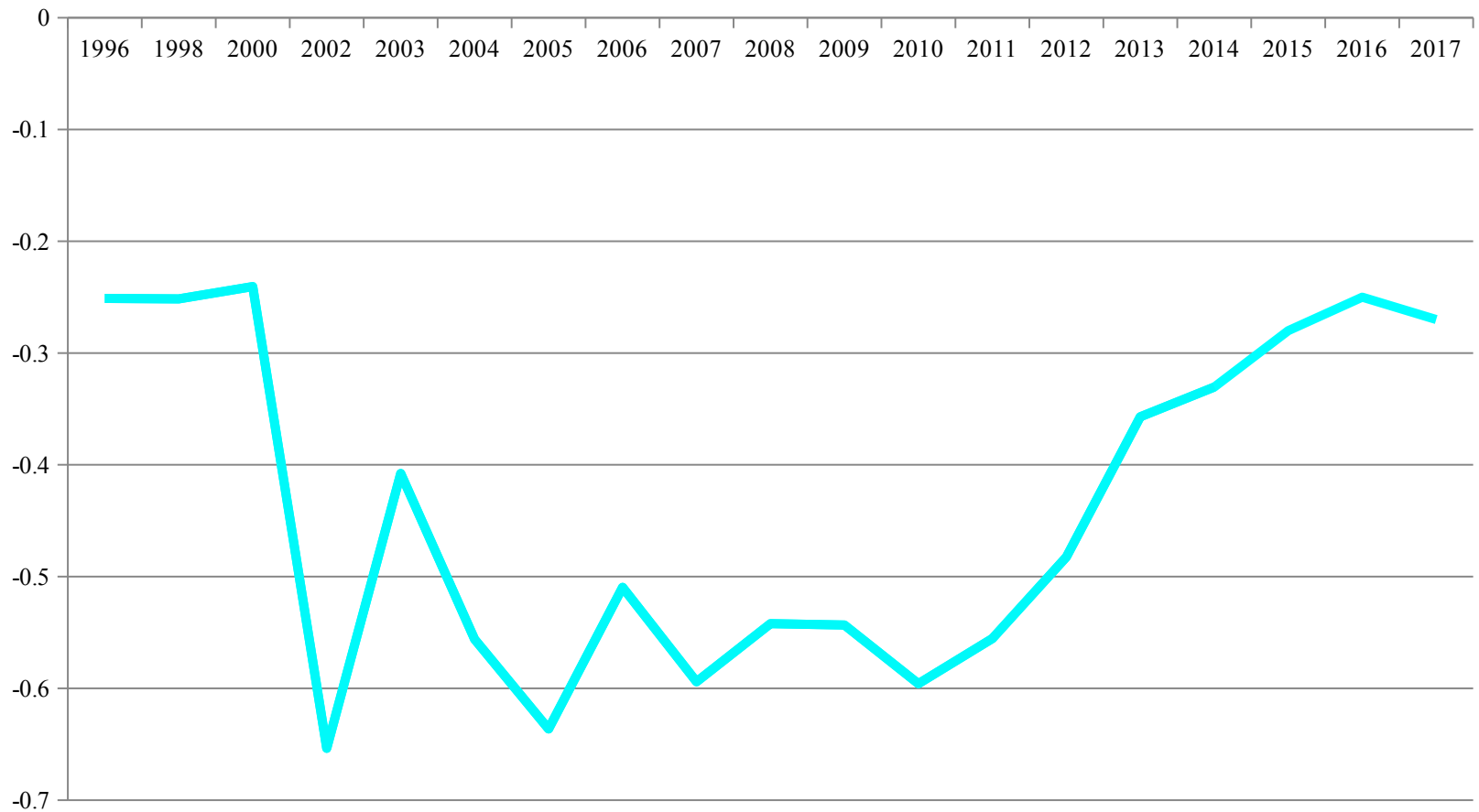
CORRUPTION PERCEPTION INDEX 2018

POLITY	Score	rank			
Denmark	88	1	Serbia	39	87
New Zealand	87	2	Bosnia and Herzegovina	38	89
Finland	85	3	Indonesia	38	89
Singapore	85	3	Mongolia	37	93
Sweden	85	3	Brazil	35	105
Canada	81	9	Pakistan	33	117
Germany	80	11	Vietnam	33	117
United Kingdom	80	11	Ukraine	32	120
Australia	77	13	Djibouti	31	124
Austria	76	14	Gabon	31	124
Hong Kong	76	14	Kazakhstan	31	124
Ireland	73	18	Laos	29	132
Japan	73	18	Myanmar	29	132
France	72	21	Paraguay	29	132
United States of America	71	22	Iran	28	138
United Arab Emirates	70	23	Russia	28	138
Taiwan	63	31	Nicaragua	25	152
Korea, South	57	45	Tajikistan	25	152
India	41	78	Eritrea	24	157
Kuwait	41	78	Mozambique	23	158
Lesotho	41	78	Uzbekistan	23	158
Trinidad and Tobago	41	78	Zimbabwe	22	160
Turkey	41	78	Cambodia	20	161
Argentina	40	85	Iraq	18	168
Benin	40	85	Venezuela	18	168
China	39	87	Korea, North	14	176
			Somalia	10	180



Embed this map

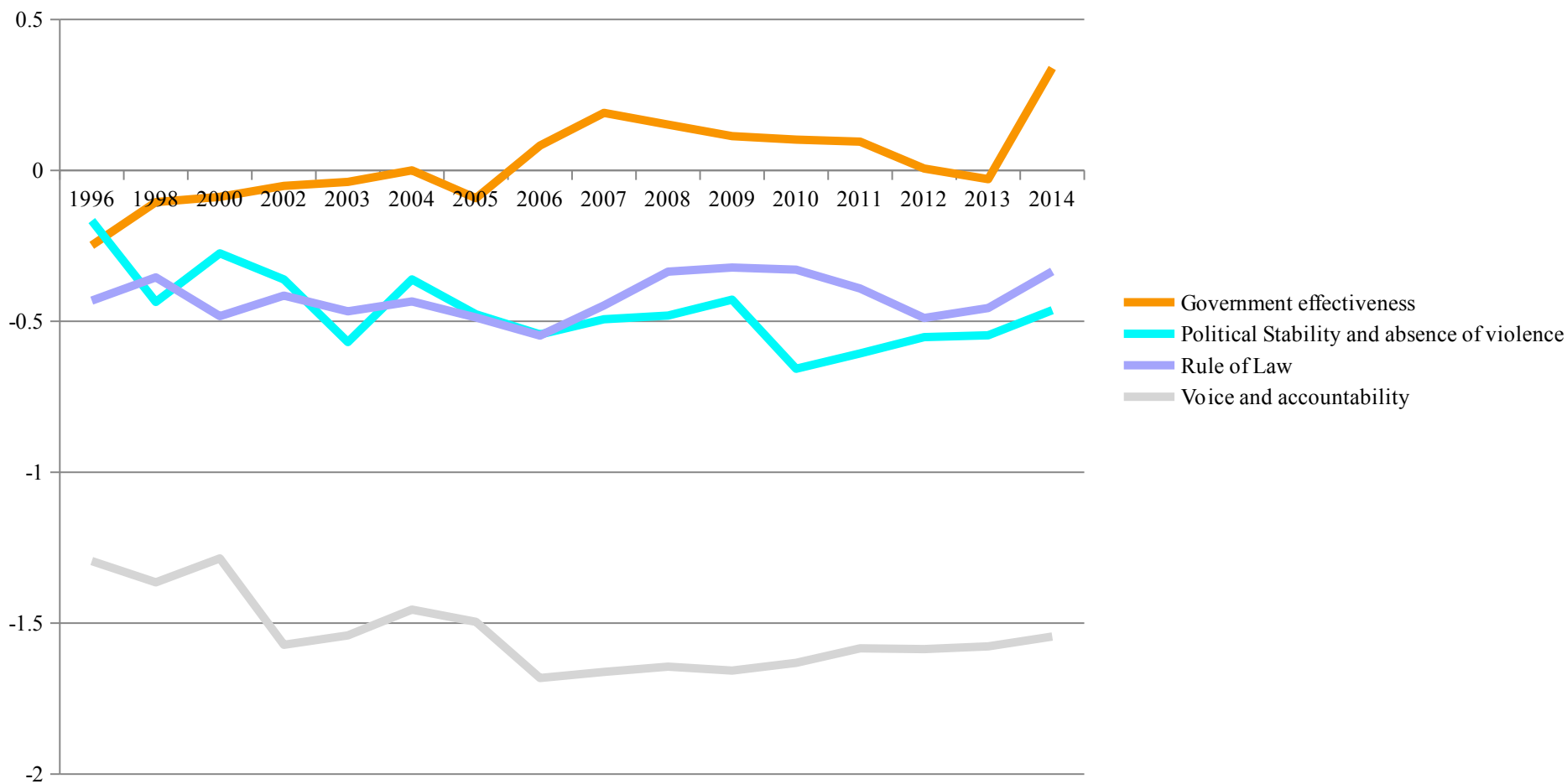
China: Control of Corruption (1996-2017)



No institutional convergence

- Even though China passed spectacular milestones in the direction of the market economy, there is no desire to introduce institutions of rule of law like in advanced market economies or even more transparent, accountable and democratic forms of government.
- However, China has strong state capacity and unique government institutions.

Institutional dynamics (World Bank WGI)



Evolution of institutional percentile rank

Percentile rank	1996	2014
Control of corruption	44	47
Rule of law	36	43
Political stability and absence of violence	41	30
Government effectiveness	47	66

Autocratic Political institutions.

- Freedom House index for China: Not free (score of 7 for political rights and 6.5 for civil liberties on scale from 1 to 7)
- Polity score stable at -8 (see next slide)
- No prospect for change.
- Prospect of gradual political reform mentioned in the 90s.
- Xi Jinping is instead tightening repression.

Authority Trends, 1946-2013: China

