

The Economics of China

Performance, Structural Change, and Data Part 2



Fall 2020

Growth and Structural Change

- In general, we can "classify all economic activity into three sectors":
 - ^{第一产业.} **Primary:** mainly farming (agriculture) and fishing.
 - ^{第二产业.} **Secondary:** "mining, manufacturing, construction, and utilities".
 - ^{第三产业.} **Tertiary:** mainly services "including transportation, communications...technology and education".

Growth and Structural Change

- Structural Change: Economic development usually results in less labour and higher productivity of the agricultural sector.
 - "The first obvious change during the development process is that the share of the labor force in the primary sector declines".
 - "The remaining farm laborers boost their productivity and are able to feed the entire country".
 - Successful "agricultural development supports the broader process of economic growth in a number of fundamental ways":
 - "providing food at low cost, which keeps wages economy-wide at reasonable levels".
 - "releasing workers for growing modern sectors".
 - "providing a source of finance and markets for growing modern sectors".
 - "Healthy agricultural development leads to more rapid development overall".

Growth and Structural Change

- Structural Change: From primary to secondary then tertiary activities.
 - Industrialization "grows through the initial stages of development, increasing the number and share of workers and the share of GDP".
 - "Industry does not grow forever, though. At a certain point, the industrial share of GDP levels off".
 - "The tertiary or service sector tends to increase share throughout the development process".
 - "As an economy reaches high-income status, the service sector dominates".

Growth and Structural Change

- Structural Change in China: Labour.
 - In 1978, "71% of the workforce was engaged in agriculture".
 - "Following common patterns of structural change, the share of the labor force in agriculture has declined steadily since 1978".
 - "The share of agricultural workers fell below 50% after 2002 and continued to fall steadily to only 28% in 2016".
 - "As workers left agriculture, the share of industrial and service workers increased".
 - "China is thus no longer a predominantly agricultural economy".

Growth and Structural Change

- Structural Change in China: Labour.
 - This reflects changes in the Chinese economy since 1978.
 - For example, after the early rural transitions and the growth in agricultural output in the 1980s, "millions of farmers left to take up new nonagricultural jobs, especially those in township and village enterprises".
 - In addition, more workers moved to nonagricultural jobs as "restrictions on rural-to-urban migration were reduced" in the 1990s.
 - The share of workers in agriculture further declined after 2003 (during the decade of remarkable economic growth), "attributable to investment acceleration and rapid growth of exports".

Growth and Structural Change

- Structural Change in China: Labour.
 - "China fits well with common developmental patterns".
 - First, China "underwent a process of urbanization and industrialization".
 - "After 2012, the focus of urban job growth shifted to the service sector from industry".
 - However, relative to other middle-income economies, China still has a "relatively small size of service-sector employment" and a relatively larger manufacturing (industrial) sector.

Growth and Structural Change

- Structural Change in China: GDP.
 - China built an industrial base during the Socialist Era.
 - As a result, "industry produced 48% of output in 1978".
 - After economic transitions, the share of manufacturing in GDP declined to 32%.
 - But then an "industrial boom" took place. As a result, the the share of manufacturing in GDP recovered to 47% in 2012.
 - After 2012, there were signs of an increase in the share of the service sector (tertiary activities) in GDP.
 - This increase was still relatively small though. Between 2012 and 2016, "the service sector increased its share by only 1.5 percentage points".
 - "Agriculture's share of GDP, as one would expect, has resumed its rapid decline, slipping from 31% of GDP in 1991 to 9% in 2012".

Closing Note: Official data on the Chinese Economy

- Can we rely on official data on the Chinese economy?
 - "there is no plausible alternative set of data for China".
 - "no one has ever demonstrated that the extensive Chinese numbers published are mutually contradictory or inconsistent with externally verifiable facts".

Closing Note: Official data on the Chinese Economy

- Are official data on the Chinese economy perfect? No.
 - "1. Official statistics do not adequately correct for the effects of inflation...Since 1996, prices have been stable, and the problem is less serious in the aggregate".
 - "2. New products: Statisticians have a very hard time accounting for the expanding scope of the economy".
 - "3. Politics: Many crucial data series, including GDP, are used as success indicators in evaluating local officials, who therefore have incentives to inflate or other wise distort the numbers that are reported".
- Therefore, "China's national accounts are certainly less accurate than developed-country accounts".
- "This does not mean, however, that Chinese economic growth is somehow illusory. Quite the contrary".

Closing Note: Official data on the Chinese Economy

- "some key elements of the economy are fully verifiable".
- In addition, "rapid growth and transformation correspond to the commonsense evidence of personal experience".
- "Overall, then, there is likely to be some upward bias in the official recorded growth rates, but it will not change the fundamental picture of rapid growth".
- "the maximum plausible adjustment of Chinese GDP growth would lower it 1 to 2 percentage points per year".
- "If China's actual per capita GDP growth was 1.5 percentage points lower than the official rate every year between 1978 and 2010, the long-run annual average growth rate would still be 7.3% over 32 years".
- **"This would still be the most sustained period of rapid economic growth in human history".**