

The Chinese Growth Miracle:

Background, current problems and future prospects

1. *Introduction*
2. *Background*
3. *Current problems*
4. *Future prospects*

"Seeking truth from facts" (Deng Xiaoping)



1. Introduction

"Mao made us stand up. Deng made us rich"

From Ideology to Pragmatism

Towards the end of my presentation I will introduce some omitted variables:

- Democracy
- Rule of law
- Legitimacy



2. Background

1820s: Emperor – we have no need for your goods

1840s: Opium Wars

1978: "Open up and Reform"

For some 150-200 years China was falling behind

1978: Catch-up started

Give China another 30 years



- **Capital** (unbelievably high rate of savings)
- **Labor** (migration)
- **Technology** (FDIs, education)
- **Organization** (markets and incentives)

China has it all

Good quality of the people (Chow). Work hard. Business.



GDP – growth of about 10% annually since 1978

Early 1980s – agriculture

Then, urban developments take over

FDIs in SEZs combined with freer trade

Huge reserves accumulated and the rest of the world
must learn to live with outward FDIs from China



SOEs share in manufacturing output.

Down from 80% in 1990 to less than 50% now

"The enormous scale and intensity of China's industrial restructuring since the mid 1990s is hard to imagine and may not be fully appreciated internationally

(Bottelier and Fosler 2007)

1995-2003: 44 million jobs disappeared in state sector



1995-2003: In manufacturing labor productivity grew by 20% annually on average. On overall basis productivity grew at 7.3% from 1995 to 2004. Making room for:

1. *Falling terms of trade*
2. *Increase in real pay*
3. *Increase in profit margins*

2001: Member of WTO

2005-2007: SPs (Strategic Partneres) in SOBs

Outside enteties keeping China on track



3. Current problems

$$R + B = C + I + G + A$$

$$(A - B) = (S - I) + (T - G)$$

To reduce surplus on current account (approaching 12% of GDP), need for:

1. Domestic savings to decline
2. Public expenditures to increase

This is in China's own interest



Corruption – a grand challenge

Glue that gives Party Secretaries ability to extract economic rents

Ex: Rezoning of land – need permission

Widening income differentials because of corruption

The legitimacy of CCP at stake



Non Performing Loans (NPLs)
State Owned Banks (SOBs)

long way to go

Recapitalized to the tune of \$600 bn.
But NPLs keep coming

Depositors receive negative real return

Credit rationing and unfair redistribution through the capital market
(cf. Norway 1960s – 1990s)



Environment and Distribution

Health

Pension

Education

Harmonious society

BUT: Fractions in the making in CCP?

Li versus Xi, the fifth generation of leaders



4. Future prospects

Can CCP retain legitimacy without competition?

Democracy with Chinese characteristics, what is that?

- Participation
- Transparency
- Pluralism
- Accountability

"No theory please, we are Chinese"



Rule of law without democracy – can it work? (HK, Singapore)

What does democracy mean?

- Orderly transfer of power
- Limited period in office
- Checks and balances
 - Rule of law
 - Independent judiciary
 - Free and responsible press



How will the relationship towards the US evolve?

- Peaceful rise
- Mearsheimer – conflicts seems inevitable

No territorial claims

No ideology to export

(different from USSR)

Taiwan – a touchy issue

What is China's vision for the future?

Does it square with other countries' visions?

