China's Post-Deng Xiaoping Economy: Problems and Prospects

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China's Dynamic Growth

The Chinese economy has experienced spectacular growth since it started economic reform and the open-door policy some 18 years ago. It chalked up an average annual growth rate of 9.5% during 1978-95, and double-digit rates for four consecutive years from 1992 to 1995.

When an economy grows at 7%, it will double its GNP in about 10years. So it is not simple for a vast economy like China to achieve such high growth for a sustained period. Japan did so in the 1960s, and the four NIEs of South Korea, Taiwan, Hong Kong and Singapore did the same during much of the 1970s (Table 1). Now as these economies have become mature, they have found it more difficult to repeat such phenomenal growth.

Beyond the rise in GNP, China's high economic growth is also reflected in other statistics. Thus, in 1995, China produced 1.3 billion tons of coal (the world's number one), 465 million tons of grain (number one), 94 million tons steel (second after Japan), 20 million colour TV sets, 9.3 million refrigerators and 1.5 million automobiles.[1] Of course, one needs always to bear in mind that China is such a huge country with over 1.2 billion in population that all its statistical aggregates are inevitably in jumbo numbers. For example, China is the world's largest food producer simply because China has the world's largest number of mouths to feed!

If one takes a look at China's external economic activities (which involve foreign partners and hence more reliable economic data), one would find equally impressive results. Thus, China's exports in 1996 amounted to US$ 151 billion, about six times higher than that of India. This ranks China as the world's 11th largest exporter. On the import side, China in 1996 was a market for US$ 140 billion worth of goods.[2] China's domestic market today is actually more open than Japan's and South Korea's at their comparable stages of economic development.[3]

During the past few years, China has been the world's highly favoured destination for foreign investors, with the actual amount of total foreign investment rising from US$11 billion in 1992 to US$28 billion in 1993, US$34 billion in 1994 and further to US$38 billion in 1995.[4] Following the successful foreign exchange reform in 1994, the Chinese Renminbi has since appreciated some 6% in spite of the double-digit inflation. This in turn has led to a sharp rise in China's foreign reserves, which stood at the hefty US$ 100 billion at the end of 1996.

Since the Eighth National People's Congress in March 1993, China has officially become a "socialist market economy", which is conceptually devoid of meaning or just as contradictory as the journalistic term "Red Capitalism. But such semantics are rather insignificant. What is a "socialist market economy" for China increasingly looks like a conventional mixed economy, with government controlling the big industries.

In fact, by 1994, the prices of over 90% of China's consumer goods, 80% of her raw materials and 79% of her agricultural produce were no longer fixed by the state, but set by market forces.[5] This, along with the rapid decline of the state sector, has actually rendered the Chinese economy more and more capitalistic in operation.[6] In the long run, China will evolve its own brand of "market socialism".

In October 1995, the Fifth Plenary Session of the 14th Central Committee of the Chinese Communist Party (CCP) adopted the Ninth Five-Year Plan (1996-2000) and the Long-Term Vision of China's Economic and Social Development for 2010. It is envisaged that China's real per-capita GNP by the year 2000 will have quadrupled from the 1980 level, despite the addition of another 300 million more people. China would then have eliminated poverty and satisfied the basic needs of its people. From 2000 to 2010, China expects to double its per-capita income so that in 15 years from now it would have developed into a moderately affluent middle-income economy.[7]

Is High Growth Sustainable?

It is clear that China has become the world's most successful "transitional economy" in terms of both dynamic growth and the reform of its economic systems. Indeed, China's economic reform has gone so far that the process cannot be reversed regardless of the outcome of the post-Deng power struggle. The next question can then be posed: Is China's dynamic economic growth sustainable?

To begin with, it is not possible for any economy to repeat a double digit-rate of growth year after year without getting overheated or running into physical and economic bottlenecks. But considering the structural conditions of China's present economic growth, one can easily be optimistic about China's future growth potential.

Following four consecutive years of double-digit rates of growth during 1992-95, the Chinese economy has also become overheated, with inflation(measured by the consumer price index) rising to 21.7% a record high in 1994 and then down to 14.8% in 1995. Since the late 1995, Vice Premier Zhu Rongji, dubbed China's "economic czars", was charged with the task of bringing down the rampant inflation. Zhu introduced a number of tough macroeconomic stabilization measures including a credit squeeze and price re-control of certain essential commodities. By mid-1996, inflation was brought down to 9.2% or below the official target of 10%, with only small trade-off on economic growth -- as economic growth for the first half of 1996 was still 9.8%.[8]

In common economic parlance, the Chinese economy has achieved a "soft landing". Nonetheless, the Chinese economy has embodied certain inherently high growth features. Why?

It may be remembered that even before the reform, the Chinese economy could grow at a reasonable rate of 6% (during 1952-78), despite all its inherent socialist economic inefficiencies and the disruptions caused by Mao's political campaigns.[9] The reform has set free the latent dynamic economic and social forces to fuel further economic growth.

China's dynamic economic growth can be easily analyzed from both the demand and supply sides. In terms of technical explanation, China's high economic growth on the demand side stems from its high level of domestic investment, being matched by equally high levels of domestic savings. According to the Asian Development Bank, China's average gross domestic investment during 1981-1990 was 30.5% of its GDP while its average gross domestic savings, 30.8%. In 1993 when China had 13.4% record growth, its gross domestic investment was 43.5% while its gross domestic savings was 41.5%, being among the highest in the world.[10] In the East Asian NIEs, their past high growth was similarly due to their high levels of savings and investment.

China's enormous need for infrastructural investment like transportation and communications, and ports and airports are well known. For instance, China is planning to build 60 new airports and upgrade 25 existing ones. Guangdong province alone has 6 new airports, either just completed or under construction.

Apart from investment, China's future economic growth can also be boosted by rising consumption. With a moderately affluent middle class of nearly 100 million, mainly in the urban areas including numerous small towns, China's appetite for consumer goods is similarly enormous. In the rural areas, millions of peasants are still craving for basic household consumer durables like TVs.

Viewed from the supply side, China's economic growth can also be sustained on its own by rising a labour force and increasing productivity. As it has happened to Japan and South Korea before, productivity growth is associated with the shift of labour from low-productivity agriculture to high-productivity manufacturing. In China, the rural sector is a huge reservoir of millions of underemployed labour (i.e. Rural disguised unemployment"). Hence the continuing dynamic expansion of the township and village enterprises (TVEs) in recent years and their contribution to overall growth.[11]

One can, therefore, be justifiably optimistic about the overall growth prospects of the Chinese economy over the medium and long run. If the high growth of the East Asian economies can be of a general guide, the Chinese economy should be able to grow at around 8% per year.[12]

As a matter of fact, the Chinese economy is in many ways following the past growth pattern of the East Asian NIEs. But unlike the NIEs, China is a vast country with a huge resource base and a huge domestic market. China virtually has a whole continent for itself to develop. At present, most growth has been concentrated on the coastal region and is yet to spread out to the vast interior. Therefore, it will take a long time for China to exhaust its total development potential.

In the long run, the Chinese economy has to grow mainly on the basis of domestic demand, quite unlike the smaller NIEs whose economic growth has to be mainly propelled by export growth or external demand. Since the start of economic reform in 1978, China's exports have been growing at the average annual rate of 17%. The world market simply cannot continue to absorb such an onslaught of export goods. But it is fortunate for China that its sheer size and diversity would provide sufficient internal dynamics to generate its own growth in the long run.

Overcoming Problems and Constraints

The above favourable pro-growth scenario has to be qualified by two considerations. First, China's population growth has been slowing down considerably from the average annual rate of 1.5% during 1980-90 to 1.2% during 1990-94 as a result of the successful implementation of its "one-child policy". Accordingly, China's total fertility rate came down from 2.5 in 1980 to 1.9 in 1994, which is slightly below the replacement level of fertility.[13] This also means that China's population growth is not just slowing down in growth but will eventually reach zero after a certain time lag. But before this, the population will be rapidly ageing after the turn of this century. This will change the labour force structure and will pose an ultimate constraint on the continuing development of labour intensive industry in the longer run.

Of greater importance, China's pattern of growth in the longer term will critically depend on how China comes to grips with a number of specific problems and constraints:

Secondly, as can be seen from Table 2, China's human resource development is among the weakest in East Asia. Only 2% of the relevant age-group in China is receiving tertiary education compared to 42% in Korea and 45% in Taiwan. About two-thirds of the 220,000 or so students sent abroad for studies have not returned to China. This will in time constrain the restructuring and upgrading of the Chinese economy into more skill-intensive and higher value-added activities. In short, China's human resource gaps, in quantitative as well as in qualitative terms, could well operate to moderate its long-term growth potential.

Unfinished-Reform Constraints

In 1994 China carried out a comprehensive package of economic reform. In the areas of taxation and foreign exchange, the reform has been quite successful. Tax reform, aimed at unifying the tax code and simplifying the tax system and administration, came into effect on January 1, 1994.

It seems strange that for such a big country as China, the central government all along did not have a nationwide tax administration, with the bulk of its tax collection delegated to local governments. Thus the 1994 tax reform by separating the tax authority between central and local governments marks a truly significant move for Beijing. Henceforth, a new revenue-sharing arrangement between the central and local governments is to replace the complex contract-based intergovernmental revenue system, historically called "tax farming".[14]

The exchange reform started on January 1, 1994 with the unification of the dual exchange rate system, which operated from 1986 to 1993. With the exchange reform, China entered into a managed float system with partial convertibility of the *renminbi* broadly on the current account. This paved the way for China to target full *renminbi* convertibility (i.e. also free exchange on the capital account) by the year 2000. Recently, there were official hints that China would step up the final process in order to support its entry into the World Trade Organization (WTO).[15]

However, progress in respect of state-owned enterprise (SOE) reform and the financial sector reform is still falling short of targets. Specifically for the reform of SOEs, efforts were initially directed at improving their efficiency by restructuring the enterprise governance, including measures to define enterprise rights under law, to separate government supervision from enterprise management and so on. This culminated in the promulgation on July 1,1994 of a new Company Law, which was supposed to provide the needed legal framework for the formation of "share-holding companies", which is the Chinese way of privatization.

However, progress in corporatization has been very slow. Apart from the handful of more efficient SOEs, the majority of SOEs, are heavily debtridden, and cannot be easily corporatized into shareholding companies until they have gone through drastic financial restructuring and re-capitalization. Furthermore, mere corporatization itself, with the main focus on ownership reform, cannot ensure the efficiency and profitability of SOEs, which eventually have to go through a fundamental management reform in order to learn how to behave like true profit-maximizing enterprises. In other words, SOEs would ultimately have to operate under real "hard budget constraints". Those hopelessly unprofitable SOEs would have to be shut down. China passed a bankruptcy law as early as 1986; but the government has been extremely reluctant to allow the ailing SOEs to fold up for fear of social instability.

It should be remembered that the problem of reforming SOEs in all transitional economies is enormously complicated, involving larger political and social issues. For China, in particular, its large SOEs exist like "mini-welfare states", whose main objective is not confined to making profits but also to take care of such social responsibilities as housing, education, health-care and other services for their workers on behalf of local governments. Effective reform of SOEs must, therefore, start with decoupling their productive from their non-productive social functions. This would ultimately entail "breaking the so-called **three irons** -- iron rice bowl, iron position and iron wages, which are deep-rooted problems, politically difficult to resolve. Thus, prior to the provision of a new social safety net or social security reform, any serious attempt to reform SOEs by subjecting them to the necessary "hard budget constraint" could run the risk of throwing out millions of redundant workers to the street with the spectre of social unrest.

Beijing's latest strategy of SOE reform involves "Freeing smaller SOEs first while improving larger ones", the so-called ***Zhua-da fang-xiao*** policy. In avoiding the political risks of tackling the larger SOEs, the government is, in a sense, actually not directly attacking the SOE problem. In the meanwhile, a large number of SOEs report losses year after year. In the first half of 1996, for instance, 49% of China's industrial SOEs were reported to be in the red.[16] This means that the state banks had to help the ailing SOEs, leading to the accumulation of too many bad loans for the state banks. And the problem of bad debts hinders banking reform in China.

From the standpoint of macroeconomic management, banking reform constitutes the most vital component of the whole economic reform package. For the proper operation of a "socialist market economy", China needs an effective financial framework for the operation of its monetary policy. In other words, the government must be able to use such key monetary instruments as money supply and interest rates in a functioning financial system for maintaining macroeconomic stabilization.

Prior to economic reform, China operated a mono-bank system, which since 1984 had evolved into a two-tier banking system. The People's Bank of China (PBC) operated as the country's central bank while policy and commercial lending was assigned to the four specialized state banks -- the Bank of China, the Industrial and Commercial Bank of China, the People's Construction Bank of China, and the Agricultural Bank of China. The annual credit plan was the cornerstone of China's "monetary policy".

As economic reform took hold and the role of the market expanded, the shortcomings of such an administratively-controlled annual credit plan, both in its formulation and implementation, became increasingly apparent. In fact, the lack of a market-based monetary policy tool has been the root cause of the violent fluctuation of the Chinese economy prior to 1993. Hence the need for banking reform.

The main thrust of the banking reform includes (1) Setting up a strong and independent central bank, whose primary responsibility is to maintain monetary and exchange rate stability and (2) Commercializing the banking system in which the four state-owned specialized banks can operate on a purely commercial basis, leaving "policy lending" (i.e. loans of non-commercial nature) to the three newly created "policy banks" -- the State Development Bank, the Export and Import Bank, and the Agricultural Development Bank.

The passing of the Central Bank Act in March 1994 provided the legal basis for the PBC to operate as the country's central bank, which is now supposed to have operational autonomy for conducting monetary policy. But doubt remains, however, if the PBC has the real independence to operate as a true central bank. It is even more doubtful if the specialized banks have come near to operating like true commercial banks. This is because most of their loans are still not based on commercial criteria, and the interest rates are still not determined by market forces. A case in point is the huge amount of non-performing loans (called "triangular debt") contracted by SOEs. "By some estimates, about 70% of loans by state banks, to both industrial and other enterprises, are irrecoverable".[17] In this way, the economic woes of the near-bankrupt SOEs translate into a major problem for the banks.

As the crucial banking and SOE reforms (which are actually interdependent), have failed to achieve important breakthroughs, the government's prime objective of establishing a market-based macroeconomic management system remains unfulfilled.[18] This means that the Chinese economy, without the usual built-in macroeconomic stabilizers, will continue to experience violent fluctuations. But until the transition to a full market economy is completed, China will continue to suffer from the inefficiency of a partially-reformed economy.

Institutional Constraints

The major challenge faced by China today is not just to **transform** its economic system, but also to **modernize** its institutional structure. China's existing institutional setup and political system were developed primarily to serve the socialist economy based on central planning and dominated by the CCP. They are clearly inappropriate for a market economy.

Liberal detractors would hastily jump to the conclusion that for political reform China must necessarily call for a Western style of democracy. This is clearly unwarranted in the East Asian tradition, which has followed instead the sequence of "development first, democratization later". Furthermore, such drastic political transformation as full democratization for a big and diverse country like China is plainly unrealistic at the present stage: it will simply bring more chaos (**luan**) to China, if the democracy experiments in several Asian countries can serve as a guide. Nor will political democracy necessarily facilitate China's present economic growth and social progress. It is to be remembered that South Korea's industrial take-off took place under a military dictatorship, Taiwan's under martial law, and Hong Kong's under a colonial rule.

At the same time, however, a Marxist-Leninist state is fundamentally incompatible with a functioning market system. Market forces, operating on their own, only recognize economic signals, not the so-called "Four Cardinal Principles" of the CCP. Either the free market process of economic development would eventually undermine the Marxist-Leninist state or the rigid Marxist-Leninist system would resist crucial changes by giving way to a half-reformed market system, with all its well-known ineffciencies, as mentioned earlier. Hence the CCP must adapt and change.

Assuming that no ruling party is willing to share power on its own volition, the most formidable challenge for the CCP is how to skillfully manage institutional changes without losing total political legitimacy. On the one hand, the CCP has to step up institutional and political reform to facilitate the development of the "socialist market economy"; but on the other, it has to ensure that those changes would not undermine its own rule. Admittedly, this is a highly delicate business, which will test the true statecraft of the future CCP leadership.

First of all, for the CCP to retain power, it obviously has to renew itself by attracting more younger and better educated members. This would compromise the Party's past emphasis on the class background of workers and peasants. In the longer run, it has to transform itself into a modern, development-oriented political organization based on meritocracy rather than ideological dogma. An authoritarian regime dominated by a ruling party with a modern and pragmatic outlook can still foster economic development, but one with a rigid ideology cannot.

It has now become clear that rapid economic and social changes in China have already brought about a decay in the CCP's local organizations, especially in the rural areas. This is inevitable once the CCP lost its original revolutionary ideological fervour amidst the spread of prosperity and materialism. One possible scenario for the future is that after the passing of the old guard, the CCP might well split into factions. As China becomes more developed and the population better educated, some CCP factions may even assume new labels by calling themselves social democrats.

For the likely shape of China's future political system, scholars foresee the weakening of the authority of the CCP along with the gradual erosion of the state's direct control over the economy and society. In the longer run, while the CCP will continue to be an important institution, it is not likely to retain its dominance over the overall political system. Rather, the Party, the military, the provincial and municipal bureaucracies, the people's assemblies, and the central economic bureaucracies will all compete in a largely peaceful manner for supremacy. "None of these institutions is likely to emerge as a clear victor, resulting in a complex system of several overlapping yet competing centres of power, with the relative power of each institution varying over time and from place, to place."[19]

Whatever is the more likely scenario, political pluralization is bound to follow economic development. In the short run, however, the CCP cannot renounce its Marxist doctrines without immediately losing its own legitimacy, as happened in East Europe. The CCP has to be extremely cautious in its political reform, initially perhaps to be carried out by improving the "system of government" and separating the Party from the government, which in turn will pave the way for the establishment of a professional civil service. It should also reform its present cadre system, with professionals and technocrats gradually replacing the old "socialist bureaucrats", who are appointed by the Party's organization department, not by open recruitment based on competition. The role played by technocrats in managing successful economic development in the East Asian NIEs is well known to the Chinese leadership, which has also started to stress the importance of civil service reform.

All these political reforms may weaken the CCP's monopoly of power. But at the same time, the CCP is also buying time as the resultant improvement in administrative efficiency and government performance will also help the CCP to stay in power. The potential gain in popularity for the party as a successful modernizer can offset the loss of its old legitimacy. In the process, a lot still depends on whether or not the top leadership possesses the political skills of the CCP in managing those changes.

For the immediate future, however, other institutional changes involving legal reform are more urgently needed. All modern states have clear rules and regulations to set out the limits of authority and to define the general behaviour of market participants. The absence of the rule of law is the weakest link of the Chinese political system due to the Chinese tradition of "rule of man". Needless to say, a strong and transparent legal framework can definitely promote business and foreign investment by reducing transaction costs in the form of rent-seeking and corruption activities.

Since economic reform, China has enacted over 160 new laws, over half of which are related to commercial laws. But legal reform goes beyond the simple process of law making or setting up law courts. It has to pave the way for an effective legal infrastructure with an independent judiciary (i.e. one that is free from the Party control). Furthermore, China, as a primarily Confucian state with no Greco-Roman legal traditions, needs to undertake greater efforts to foster the necessary "legal culture".

Again, legal reform is not without its political risk for the CCP. The end result of the legal reform could lead to the weakening of the communist rule, as it means that the Party can no longer remain above the law. The climax of legal reform will be reached when the CCP agrees to write a new constitution for China, which will remove all its special privileges. All in all, political and institutional changes will hasten the emerging of some kind of democracy in China.

Social Constraints

As China shares the mainstream East Asian cultural tradition of Confucianism, it obviously also has similar inherent social capability to sustain economic development as the other East Asian NIEs. For the Chinese people in general, there is no lack of such growth-inducing social traits as "savings ethics", "learning ethics" and other similar behaviour patterns that can foster economic growth.[20]

On the other hand, China's rapid economic growth in recent years has given rise to "negative social externalities", from rising social expectations and widespread social envy to rising crime. These developments have worried the Chinese leadership. A sense of a general "moral crisis" is sweeping China. To be sure, such a moral crisis is also prevalent (or actually worse) in Russia and other Eastern European countries. How far does it represent a transitional phenomenon? Will it go away by itself once these former socialist countries have completed their economic and social transition?

Most China experts take the view that many of those negative social externalities may create frictions in the economic growth process, but they will not on their own be serious enough to disrupt the process. The Chinese authorities understandably place a high priority on maintaining social order, on which economic growth and economic reform are dependent. It is often the case that the best way to deal with the by-products of rapid economic growth is to continue with rapid economic growth, which will generate more resources to deal with social problems.

Take the case of employment. Between 1978 and 1993, China's labour force increased by 213 million, 75 % of whom were employed in manufacturing and services. This means that as a result of high economic growth since the reform, a majority of all new entrants into the labour force found productive employment outside of agriculture. If the Chinese economy were to grow at 8 % or 9 % a year, unemployment would be reduced.

However, there are other critical problems which will create strains in Chinese society even with continuing high economic growth. First, the leadership must mobilize all its institutional resources to combat corruption, which is rampant in China today. Economic reform in all transitional economies generates opportunity for rent seeking, profiteering and open graft and corruption. The problem is getting so serious that it threatens to undermine the social fabric of the country as well as the moral authority of the CCP. So far there has been much official rhetoric on the problem of corruption from the Chinese leaders, who have yet to demonstrate a determined political will to tackle this issue. The Chen Xitong affair is manifestly more an outcome of a high-level power struggle than a deliberate attempt by the leadership to crack down on the widespread corrupt practices of its high officials.[21]

More than a mere social evil, corruption is actually an anathema to economic growth by increasing transaction costs and reducing effciency. Rampant corruption can also slow down trade and investment. All the four NIEs have made serious attempts to tackle the problem of corruption. China too must manage this problem properly before it can develop into another NIE in future.

Secondly, another macro social issue with serious economic and political consequences is the growing income disparity between the fast-growing coastal zones and the backward interior provinces, between urban and rural areas, or between industrial and agricultural sectors. The recent Ninth Five-Year Plan, 1996- 2000, has emphasized the need for a new development strategy to narrow the various developmental disparities in China, indicating that Beijing can no longer shrug off this problem.

Underlying these regional development disparities is deep-rooted inter-regional political rivalry on the one hand, and political tension between the centre and provinces on the other. Both can pose a threat to China's national unity. Some provinces have from time to time undertaken unilateral measures to protect their vested economic interests by obstructing the interflow of resources (e.g. interprovincial "trade wars"), and this affects the efficient operation of the Chinese economy as a single market.[22] Suffice it to say that China needs greater political and economic integration to boost its economic growth, and this in turn depends on its ability to eliminate regional development disparities.

Thirdly, China has to step up social security reform, which was actually one of the unfulfilled key areas in China's 1994 reform package. As pointed out earlier, the crucial SOE reform could not take off basically due to the lack of a new social safety net. China's old social security system is based on the **danwei** (or work unit), which was developed for the highly regulated society under Mao's time. But the reform has since eroded the **danwei** system before a new social security system to suit the market economy could be established. A new social security system is needed to deal with such problems as labour mobility, ageing population and so on.

Resource Constraints

China is admittedly a huge country with a vast and diverse natural resource base. But China also has a huge population of 1.2 billion. Continuing economic growth in future will certainly stretch China's natural resources to the limits, giving rise to acute supply and demand imbalances.

Agriculture is now worrying the Chinese leadership, as a result of a 2.6% drop in grain production in 1994. Is China "starting to lose the capacity to feed itself", as recently warned by the American environmentalist Lester Brown?[23] There are at present no concrete signs that China is heading for a full-blown food crisis. Following Brown's recent sensational statement, Chinese specialists have recently re-assessed China's agricultural resource base and its technological foundation, and they have concluded that China by and large will be able to feed itself.[24] However, the Chinese government still has cause for real concern over the current state of

Chinese agriculture, not least because of rising peasant discontent.[25]

As China is the world's largest producer of grain, it is correct to say that China's food problem can also become a world food problem. If China were to import 5 % of its consumption needs, this would amount to the total grain trade of the EU; and a 10% import would seriously disrupt the world grain market! In other words, China must maintain its high level of food self-sufficiency, as it is simply too big to specialize in manufactured exports and to import food, as in the case of Japan or the NIEs.

Chinese agriculture really faces a number of daunting challenges. China's 1.2 billion population will increase by a further 200 million by 2010, and some 300 million by 2025. With continuing urbanization, rising per-capita income and hence changes in food consumption patterns, China will have to increase its grain production from its present level of 450 million tons to well over 600 million tons by 2020. The increased production has to be done with no substantial increase but more likely a decline in arable land.[26]

For an effective long-term solution of the agricultural problem, however, the government has to properly manage agricultural development amidst rapid industrial growth -- the agricultural sector is set to decline once industrialization gets under way. There should be a balanced agricultural development strategy which will not squeeze farmers too hard and too fast whilst promoting agricultural productivity by stepping up technological progress.

China's present consumption of energy on per-capita basis is still very low, e.g. its per-capita energy use for 1994 was only 647 kg (oil equivalent), compared to 3,825 kg for Japan and 3,000 kg for South Korea. Also, China's total energy demand grew at the annual rate of only 5.5% during 1980-90, which is significantly below its GDP growth.[27] However, further economic growth in future will certainly raise China's overall energy consumption level, with serious implications for the world energy market because of China's huge demand potential. China's share in world primary energy demand will increase from 8.9% for 1993 to 10.9% for 2000.[28]

By comparison, China's energy sector is giving out an early warning signal, even though energy is less important than agriculture in socio-economic terms.

Despite being the world's sixth largest oil producer (146 million tons in 1994 or 5% of the world's oil output), China has become a net importer of oil since 1993. China may have to import 50 million tons of crude oil a year by 2000. Beyond 2000, the situation will depend on China's investment in oil and gas exploitation.

Similarly, China's dynamic economic growth is already exerting pressure on China's existing water and land resources as well as on its environment. Chinese themselves will mainly bear the costs of pollution as only about 20% of industrial waste and 15% of sewage flowing into China's rivers is treated. But there is also considerable cross-border pollution due to China's heavy reliance on coal for most of its energy needs. In many parts of China, airborne levels of sulphur dioxide in winter have exceeded World Health Organization guidelines.

Accordingly, the Chinese government has started to pay serious attention to the environmental issue. But its investment in pollution control is only a small fraction of government expenditure and enforcement is lax especially in the rural areas. In the long run, China's economic development is much like a race, whereby new resources have to be quickly created to manage the by-products of development as pollution.

Muddling Through?

Each of the above constraints presents a formidable challenge to the Chinese leadership, and they all can, in varying degree, operate to moderate China's long-term growth capability. It is not certain as to how the Chinese leadership will exactly respond to the above problems and constraints, or how long it will take it to overcome those problems. Many China experts take the view that China could somehow be able to "muddle through."

The point is that China's dynamic economic growth can be slowed but cannot be stifled. Given continuing peace and stability, China will ultimately realize its major economic development objectives, certainly by the first quarter of the 21st century if not by 2015. By then China will clearly be a middle-income economy in terms of its per-capita income but its total GDP will make it the world's largest economy.

It is therefore important for all international organizations to start engaging China now on all important global and regional issues. Singapore and many other Asian countries support China's bid to join the World Trade Organization, so China will learn to play by global rules.

Table 1 China and the Other Asia Pacific Economies

	Area (1,000 sq m)	Population 1993 (million)	GNP per-capita 1994 (US$)	PPP extimates of GNP per-Capita 1995 (US$)	Real GDP growth (%)						Annual Export Growth (%)			Mfg export as % of total exports 1993	Export GDP Ratio, 1993 (%)
					1960-70	1970-80	1980-90	1994	1995	1996	1970-80	1980-90	1990-94		
China	**9,561**	**1,178.4**	**539**	**3,100**	**5.2**	**5.8**	**9.5**	**11.8**	**10.2**	**9.9**	**8.7**	**11.4**	**14.3**	**89**	**21.6**
Japan	378	124.5	34,630	24,140	10.9	5.0	4.1	0.7	0.8	3.3	9.0	5.0	0.4	97	8.6
<u>NIEs</u>															
S. Korea	99	44.1	8,260	11,900	8.6	9.5	9.7	8.3	8.2	6.7	23.5	13.7	7.4	93	25.0
Taiwan	36	20.9	11,600	13,200	9.2	9.7	7.1	6.5	6.4	5.5	28.5	-	-	93	38.5
Hong Kong	1	5.8	21,650	23,900	10.0	9.3	7.1	5.5	5.0	5.1	9.7	15.4	15.3	93	150.7
Singapore	1	2.8	22,500	22,600	8.8	8.5	6.4	10.1	8.2	7.0	4.2	12.1	16.1	80	134.4
<u>ASEAN</u>															
Brunei	6	0.3	[21,000]	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Indonesia	1,905	187.2	880	3,800	3.9	7.6	5.5	7.4	7.5	7.5	7.2	5.3	2.1	53	23.3
Malaysia	330	19.0	3,480	10,400	6.5	7.8	5.2	8.5	9.2	8.5	4.8	11.5	17.8	65	73.1
Philipines	300	64.8	950	2,800	5.1	6.3	0.9	4.3	5.5	5.9	6.0	2.9	10.2	76	20.5
Thailand	513	58.1	2,410	8,000	8.4	7.2	7.6	8.5	8.8	6.5	10.3	14.3	21.6	72	29.5
Vietnam	332	71.3	200	-	-	-	-	-	8.5	9.0	-	7.5	12.7	-	-

Source: *World Development Report 1996* and earlier years; for Taiwan, *The Statistical Yearbook of the Republic of China 1996*; and ADB, *Asian Development Outlook 1996 and 1997*.

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Table 2 China and Other Asia Pacific Economics: Social Indicators

	GNP per capita, 1994 US$	Total fertility rate, 1994 (%)	Life expectancy at birth (years) 1994	Infant mortality rate, 1994 (per 1000 births)	Population per doctor, 1993	Adult illiteracy (%) 1995	Percent of age group in male enrolled education 1993			Human Development (1992)	
							Primary	Secondary	Teritiary	Index*	Ranking in developing world
China	530	1.9	69	30	1,060	19	120	60	4	0.644	34
Japan	34,630	1.5	79	4	609	5	102	95	30	0.929	NA
NIES											
South Korea	8,260	1.8	71	12	950	5	100	93	48	0.859	4
Taiwan	11,604	1.5	74	5	807	8	102	95	45	-	-
Hong Kong	21,650	1.2	78	5	919	8	-	-	21	0.875	2
Singapore	22,010	1.8	75	5	720	9	-	-	20	0.836	10
ASEAN											
Brunei	21,000	-	-	-	-	-	-	-	-	-	-
Indonesia	880	2.7	63	13	4,910	16	116	48	10	0.586	41
Malaysia	3,480	3.4	71	12	2,410	17	93	56	-	0.794	17
Philippines	950	3.8	65	40	6,700	5	-	-	26	0.621	38
Thailand	2,410	2.0	69	36	4,420	6	98	38	19	0.798	16
Vietnam	200	3.1	66	42	2,300	6	-	-	2	0.514	51
Average of low-income countries	380	3.3	63	58	5,630	34	112	55	-	-	-
Average of middle-income countries	2,520	2.8	67	40	1,730	-	105	65	-	-	0

* Human Development Index combines life expectancy, educational attainment and income indicators to give a composite measure of human development.

Sources: *World Development Report 1996*; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 1995; Human Development Report 1994*; and *Taiwan Statistical Data Book 1995*; and national sources. :\AP-Soc96.doc

Endnotes

[1] "State Statistical Bureau's Statistical Communique of China's Economic and Social Development in 1995", *Renmin Ribao (People's Daily)*, Beijing, March 7, 1996.

[2] "China records 23-b trade surplus for '95", *Straits Times*, Singapore, January 4, 1996.

[3] See Nicholas R. Lardy, *China in the World Economy*, D.C. Institute for International Economics, Washington, 1994.

[4] MOFTEC, *Zhongguo Duiwai Jingji Maoyi Nianjian 1995 (China's Foreign Trade Yearbook 1995)*. For 1995 figures, see "Investment to be steady", *China Daily Business Weekly*, Beijing, January 28 - February 4, 1996.

[5] *Zhongguo wu-jia nian-jian 1994 (China Price Yearbook 1994)*, 1995, Beijing.

[6] It may be noted that since the second part of 1994, the government has taken measures to re-control the prices of certain food or important consumer items as a means to fight the rampant inflation. Such stabilization measures are not anti reform in nature. According to the data released by the State Planning Commission, the number of industrial products to be produced under state mandatory planning decreased from 120 in 1980 to 29 in 1995; and in value term, from 40% of the total industrial output in 1980 to 4.5% in 1995. For price control, the "overwhelming majority of commodities now (by 1995) have their prices formed by the market". By the end of 1995, only 74 important commodity items of heavy industry were still subjected to state control, of which 51 items were on "state-guided prices", *China Economic News*, Beijing, No. 48, December 11, 1995.

[7] For the full text of the Plan in English, Xinhua News Agency, Beijing, October 4, 1995, 0702 GMT.

[8] "State GDP grows 9.8% in past six months", *China Daily*, July 20, 1996.

[9] This official growth rate tends to overstate China's actual growth as it was estimated by revaluing Chinese GDP at 1980 prices rather than earlier prices and hence inflated the contribution of industry to GDP growth. A more realistic average growth should be around 4.5-5.0%, which is still quite a respectable growth performance, at least higher than that of India.

[10] Asian Development Book, *Asian Development Outlook 1996 and 1997*, 1996.

[11] For a discussion of the dynamic nature of China's TVEs, see John Wong, Rong Ma and Mu Yang, *China's Rural Entrepreneurs: Ten Case Studies*, Times Academic Press, Singapore, 1995.

[12] See Dwight H. Perkins, "China's Future: Economic and Social Development Scenarios for the 21st Century", paper presented for the OECD Conference on "China in the 21st Century: Long-Term Global Implications", Paris, January 8-9, 1996.

[13] World Bank, *World Development Report 1996*.

[14] See Ma Junlei and Luo Liqin, "Important Reforms in China's Tax System", *JETRO China Newsletter*, No. 110, Tokyo, May-June, 1994.

[15] Dany Yee and Shan Li, "Transparency Is Key to Convertibility", *Asian Wall Street Journal*, Hong Kong, July 15, 1996.

[16] "China's Economy Was Stable in First Half", *Asian Wall Street Journal*, July 22, 1996.

[17] "How to save Chinese banks without bringing down the system", *Asia Times*, Bangkok, July 30, 1996.

[18] For a more detailed review of China's economic reform progress, see John Wong, "Assessing China's Economic Reform Progress in 1994", *JETRO China Newsletter*, No. 112, Tokyo, Jan.-Feb., 1995.

[19] Michel Oksenberg, "China's Political Future", *JETRO China Newsletter*, No. 120, p.2, Jan.-Feb. 1996.

[20] For a more detailed discussion of the role of Confucian values in economic growth in East Asia, see John Wong, "Promoting Confucianism for Socioeconomic Development: The

Singapore Experience", in Tu Wei-ming, ed. *Confucian Traditions in East Asian Modernity*, Harvard University Press, Cambridge, 1996.

[21] Chen Xitong was the Beijing Party Secretary and a member of the Poliburo. So far Chen was the highest official to be disgraced for corruption.

[22] According to a recent World Bank study, China's economic fragmentation is very serious, as manifested in its lower degree of industrial specialization and market integration as compared to the EC and USA. (The World Bank, *China: Internal Market Development and Regulation*, Washington, DC, 1994).

[23] Brown argues that with China's population growing by 14 million a year and increasing meat consumption amidst the rapid shrinkage of croplands, China by 2030 could face a serious grain shortfall of 384 million tons or at least 263 million tons, which would exceed the world's entire grain exports of about 200 million tons in 1993. Lester R. Brown, "Question for 2030: Who Will Be Able to Feed China?", *International Herald Tribune*, September 28, 1994 and "When China's Scarcities Become the World's Problem", *ibid.*, September 29, 1994.

[24] John Wong, "Why Is the Chinese Government So Concerned About Agriculture?", *IEAPE Background Brief*, No. 87, Singapore, May 18, 1995).

[25] China's agricultural economists have since made more realistic demand projections, which show that China's import demand will rise steadily. By 2000, imports are expected to reach 40 million tons, which will impact upon the world grain market by ending the historical decline in grain prices but will not disrupt the world grain market itself. After 2000, China's grain imports are expected to stabilize on account of China's declining population growth and increases in grain supply from higher productivity.

[26] See Justin Yifu Lin, Jikun Huang and Scott Rozelle, "China's Food Economy: Past Performance and Future Trends", paper presented at the OECD Forum "China in the 21st Century: Long-Term Global Implications", Paris, January 8-9, 1996.

[27] World Bank, *World Development Report 1996*.

[28] See Robert Priddle, "China's Long-Term Energy Outlook", in OECD Forum: "China in the 21st Century: Long-Term Global Implications", Paris, January 8-9, 1996.