<ARTICLE>Comparative Analysis on Economic Transitions of Russia and China

Comparative Analysis on Economic Transitions of Russia and China*

Katsuhiro Miyamoto and Chi Han

1. Introduction

In 1986, Gorbachev started the political and economic reforms in the USSR, what we call "Perestroika". In 1987, the USSR enacted many economic laws through which all state and collective firms got the right of management. In this year, collective farms also got the right of management. In 1992, Yelitsin conducted free economic policy and market economic policy by shock therapy. The economic reform included the introduction of the free price system, the liberalizations of exchange rate and foreign trade, the privatization of land, the abolition of many kinds of subsidies to state firms, and so on.

On the other hand, China started free economic policy since 1978. First, China introduced free economic policy into agriculture sector. In 1982, China abolished the people's commune system and made a contract with farmers about agricultural production. As the economic reform in agriculture sector succeeded, a series of economic reforms in industry sector was simultaneously conducted in China. In 1980, China established four economic special districts to actively introduce foreign investment and put very lower tax on foreign investment enterprise than on state enterprise. The corporate tax of foreign investment enterprise was only 15% in the four economic special districts and 33% in other areas except for the four special districts until 1993. On the other hand, the corporate tax of China's state enterprises was as high as 55%. In 1984, The China's state industrial reform began to be conducted. From this year, the right of management of state enterprises have gradually expanded. Consequently, in 1992, China officially decided to conduct Socialism Market Economy. This means that the Communist Party is only a political party and the economic system is not a planning system but a market economic system in

*This paper is financially supported by the Grant-in-Aid for Scientific Research of the Ministry of Education, Culture, Sports, Science and Technology.

China. Furthermore, China has also conducted a series of policies to promote the growth of its exporting industries. China not only cut down export and import taxes for foreign and state enterprises, but also depreciated its exchange rate three times in 1986, 1990 and 1994.

From above discussion, we can find that in the first stage of economic transition, Russia conducted an economic policy to increase domestic consumer goods. On the other hand, China conducted an economic policy to introduce foreign investment and to promote the increase in export goods. The detailed analysis on economies of Russia and China are conducted in the following sections. Section 2 compares economic growth rates between Russia and China. Section 3 compares growth rates of investment between Russia and China. Section 4 compares industry structures between Russia and China. Section 5 compares trade policies and industry structures between Russia and China. Section 6 summarizes what caused the economic transition difference between Russia and China and then provides some suggestions for Japanese economy.

2. Economic growth rates of Russia and China

The real economic growth rates of Russia and China from 1990 through 2000 are shown in Table 1.

Table 1 Real economic growth rates (%)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Russia	-2.5	-5.0	-14.5	-8.7	-12.7	-4.1	-3.4	0.9	-4.9	5.4	8.3
China	3.8	9.2	14.2	13.5	12.6	10.5	9.6	8.8	7.8	7.1	8.0

Sources: Global Development Network Growth Database (The World Bank), and data announced by Russian State Statistics Committee.

Russia's real economic growth rate has fallen into negative from 1990 through 1998 except for 1997. Consequently, the Russia's GDP in 1998 was only the half of that in 1989. On the other hand, China's real economic growth rate has risen gradually from 1980's, and has recorded beyond 10% no less than 4 times in 1990's. Consequently, the China's GDP in 2000 was about 2.5 times higher than that in 1989. The details and comparisons of both countries are discussed in sixth section, in which we will discuss what caused the different economic transition results in both countries.

3. Growth rates of investment of Russia and China

Investment is indispensable for transitional economies to keep their economic growths when they take off old economic system, since investment can not only increase domestic effective demand but also expand domestic production. Therefore, it is important for transitional economies to obtain investment funds. In this section, we discuss the relationships between economic growth and investment growth between Russia and China.

The growth rates of Russia's investment from 1991 through 2000 are shown in Table 2. Until the positive growth rates of investment are achieved from 1999, the negative growth rate of investment lasted for 8 years in Russia. Consequently, the fall of GDP in 1992 recorded no less than 40% in the pair previous year. The tragic decrease in Russia's investment is one of the main causes why Russia's GDP has fallen dramatically for this 8 years.

Table 2 Growth rate of investment in Russia (%)

year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
growth rate of investment	-15.0	-40.0	-11.6	-24.0	-10.0	-18.0	-5.0	-6.7	5.3	17.4

The growth rate of China's investment is shown in Table 3. From this table, we can find that the changes of the growth rates of China's total investment and total fixed investment from 1978 through 1998 were bigger and the growth rates were positive in almost years except for 1981, 1989 and 1990. This higher positive growth rate of investment is one of the main causes of China's economic growth, since through which China's higher economic growth rates are supported. In addition, the total investment and its growth rates from abroad to China are shown in Table 4. In 1992 and 1993, extremely higher growth rates no less than 100% are recorded. The rapid increase in foreign investment is one of the main causes of China's rapid economic developments. Therefore, the dramatic decrease and increase in investment are a main reason why Russia has experienced economic stagnation in 1990's and why China has experienced higher economic growth from 1980's.

4. Industry structures of Russia and China

In this section, we consider the changes of industry structures of Russia and China. As two large economic transition countries, Russia and China have been attempting to achieve the advance of their industry structures so as to catch up to developed countries. In Table 5, the ratios of Russia's primary, secondary and tertiary industries to GDP from 1992 through 1998, that is the ratios of industry structures, are shown. Compared to 1992, the ratio of Russia's primary industry has increased a little; the ratio of its secondary industry has decreased; and the ratio of its tertiary industries has increased.

In Table 6, the ratio of China's industry structure from 1978 through 1998 is shown. After the economic reform conducted in 1978, the ratio of China's primary industry has risen temporarily due to the increase in income of the farmhouse by the agricultural liberalization, but it shows a decline tendency in the long run as the economic reform conducted deeply. The ratio of the secondary industry has decreased after the economic reform and the decline tendency went on until 1990. However, the ratio of the secondary industry has increased by 10% from 1991 through 1999. The increase in the ratio of the secondary industry means that the development of China's manufacturing industry. Furthermore, this table also shows that the ratio of the tertiary industry has risen gradually after the economic reform. This means that the territory of China's service industry has been expanding too.

Table 3 Growth rates of China's total investment and total fixed investment (%)

year	total investmentt	otal fixed investment
1978	25.1	17.2
1979	3.4	4.9
1980	5.5	11.1
1981	−3.2	−7.9
1982	8.8	16.5
1983	11.1	11.7
1984	18.9	19.5
1985	28.5	15.9
1986	7.1	10.2
1987	5.9	14.8
1988	11.7	8.9
1989	1.2	−13.5
1990	−0.2	3.4
1991	8.2	15.7
1992	12.9	23.9
1993	24.9	24.8
1994	15.6	17.7
1995	15.5	13.6
1996	8.2	10.6
1997	7.6	6.0
1998	7.6	14.2

Source: World Development Indicators CD-ROM (2000), The World Bank

Table 4 Total investment and growth rate from abroad to China

(USD 100 million, %)

year	total investment	growth rate
1982	4.3	–
1983	6.4	47.9
1984	12.6	97.8
1985	16.6	31.9
1986	18.8	13.0
1987	23.1	23.4
1988	31.9	38.0
1989	33.9	6.2
1990	34.9	2.8
1991	43.7	25.2
1992	111.6	155.5
1993	275.2	146.6
1994	337.9	22.8
1995	358.5	6.1
1996	401.8	12.1
1997	442.4	10.1
1998	437.5	−1.1

Source: World Development Indicators CD-ROM (2000), The World Bank

Table 5 Russia's industry structure

year	primary industry	secondary industry	tertiary industry
1992	7.1	41.3	51.6
1993	8.0	42.9	49.1
1994	6.3	42.5	51.2
1995	7.9	39.2	52.9
1996	7.5	36.7	55.7
1997	7.3	35.3	57.3
1998	7.3	35.3	57.4

Source: 2000 World Development Indicators CD-ROM, The World Bank

Table 6 China's industry structure

year	primary industry	secondary industry	tertiary industry
1979	31.2	47.4	21.4
1980	30.1	48.5	21.4
1981	31.8	46.4	21.8
1982	33.3	45.0	21.7
1983	33.0	44.6	22.4
1984	32.0	43.3	24.7
1985	28.4	43.1	28.5
1986	27.1	44.0	28.9
1987	26.8	43.9	29.3
1988	25.7	44.1	30.2
1989	25.0	43.0	32.0
1990	27.0	41.6	31.3
1991	24.5	42.1	33.4
1992	21.8	43.9	34.3
1993	19.9	47.4	32.7
1994	20.2	47.8	31.9
1995	20.4	48.8	30.7
1996	20.4	49.5	30.1
1997	19.1	50.0	30.9
1998	18.6	49.4	32.1
1999	17.3	49.7	32.9

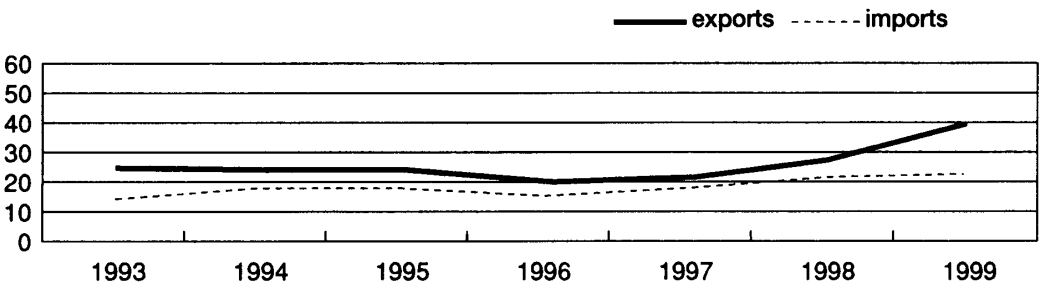
Sources: China's Statistical yearbook (1999) and Statistical Survey of China (2000)

5. Trade policies and industry structures of Russia and China

International trade is necessary for economic transition countries to develop their economies, since trough which they can obtain their necessary capital, raw materials, machinery, technology, information, and so on. In this section, we consider the pattern of the international trade of Russia and China, in which their economies translate from the old economic system into the liberalism economic system.

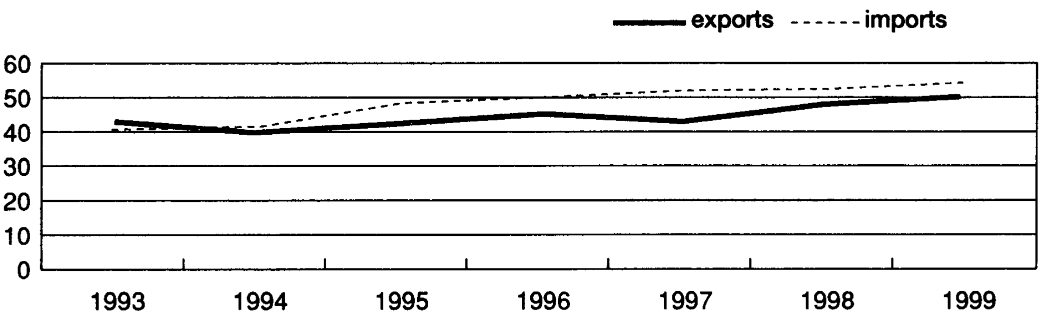
Figure 1 shows the ratios of Russia's exports and imports to GDP from 1993 through 1999. Figures 2, 3 and 4 show the ratios for Czech, Hungary and China, respectively. In Czech and Hungary, the ratios of their exports and imports to GDP have been reaching a level beyond 50% recently. In Russia and China, though the ratios are not as higher as Czech and Hungary, we can find that the importance of trade has been rising in the both countries from Figures 1 and 4. Figure 5 shows the construction of Russia's exports. The Russia's export of the primary goods has kept more than 50% of its total export from 1995 through 1999. Furthermore, the ratio has increased gradually. Figures 6 and 7 show the constructions of Russia's primary and secondary goods exports from 1995 through 1999, respectively. From Figure 6, we can find that about 80% of the primary goods exports were fuel – petroleum, coal and natural gas, and electric power. From Figure 7, we can find that the ratio of the products by raw materials has decreased, and the ratio of metal products has risen. Figure 8 shows the construction of Russia's imports. From this figure, we can find that the ratio of the secondary goods imports was overwhelmingly high and always has kept more than 80% of the Russia's total imports. Figure 9 shows that the ratio of foods has kept 80-90% of Russia's primary goods imports. Figure 10 shows that the ratio of the machinery has declined gradually in Russia's secondary goods imports.

Figure 1 Ratios of Russia's exports and imports to GDP



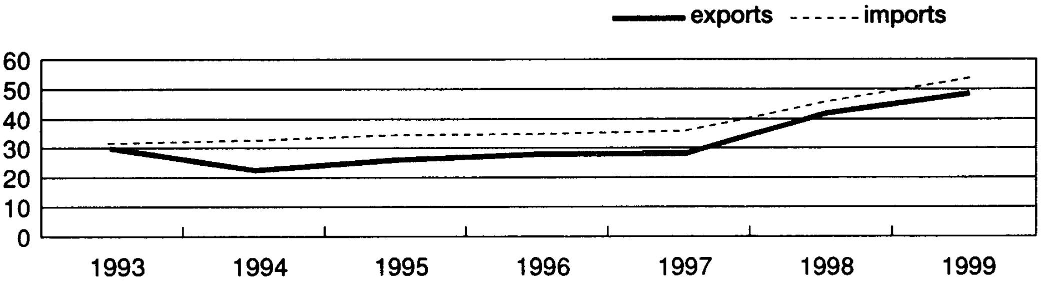
Source: World Statistics 1997-2001

Figure 2 Ratios of Czech's exports and imports to GDP



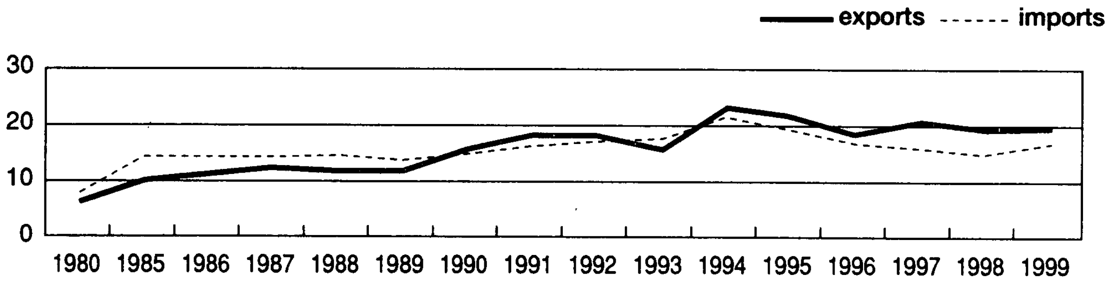
Source: World Statistics 1996-2001

Figure 3 Ratios of Hungary's exports and imports to GDP



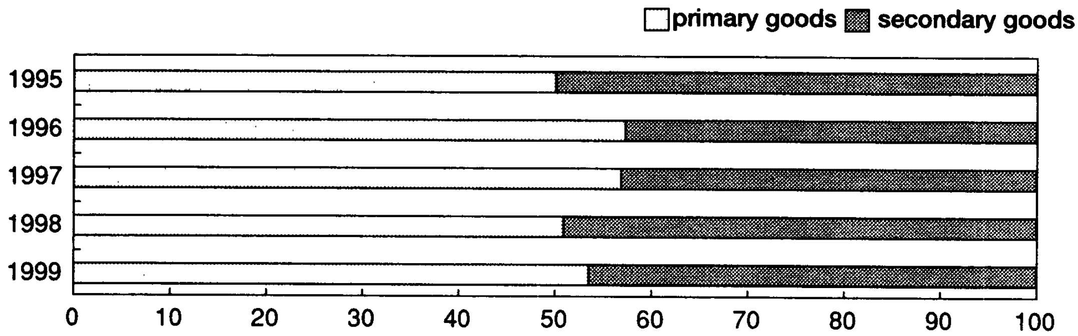
Source: World Statistics 1995-2001

Figure 4 Ratios of China's exports and imports to GDP(%)



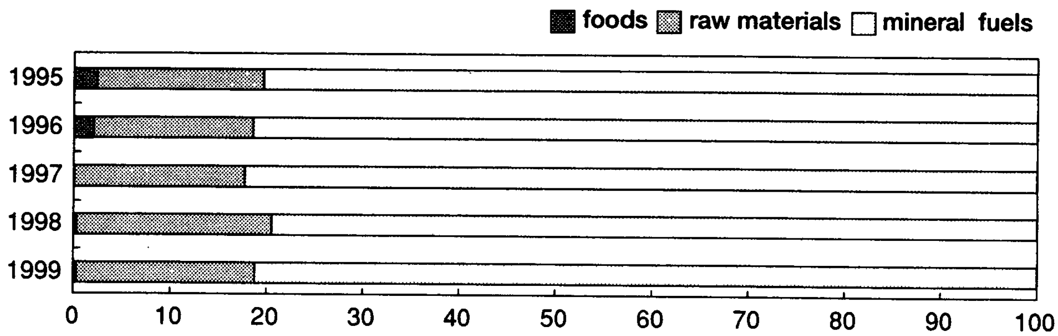
Source: Statistical Survey of China (2000)

Figure 5 Construction Russia's exports(%)



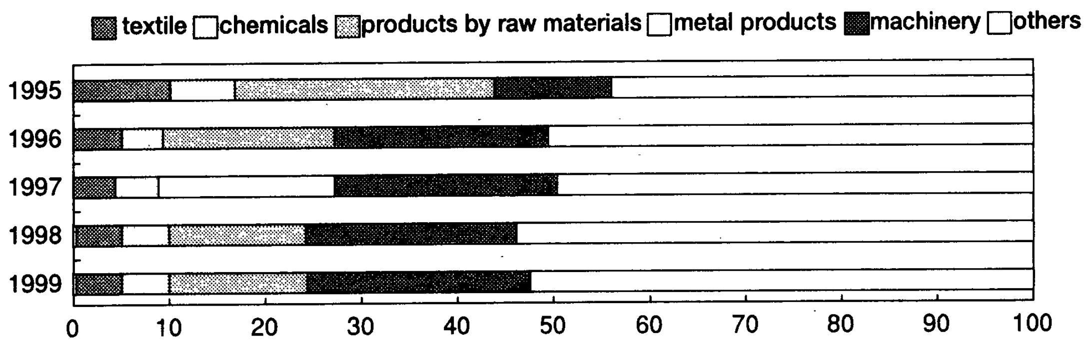
Sources: Interfax foreign trade report (1996.1.26、1997.2.18、1998.2.25), and the documents compiled by The Business Institute attached to The Ministry of Foreign Economics of Russian Federation

Figure 6 Construction of Russia's primary goods exports(%)



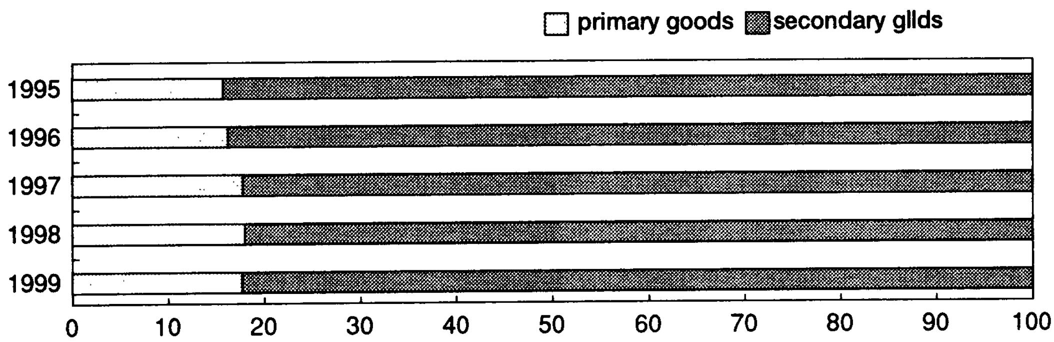
Source: See Figure 5

Figure 7 Construction of Russia's secondary goods exports(%)



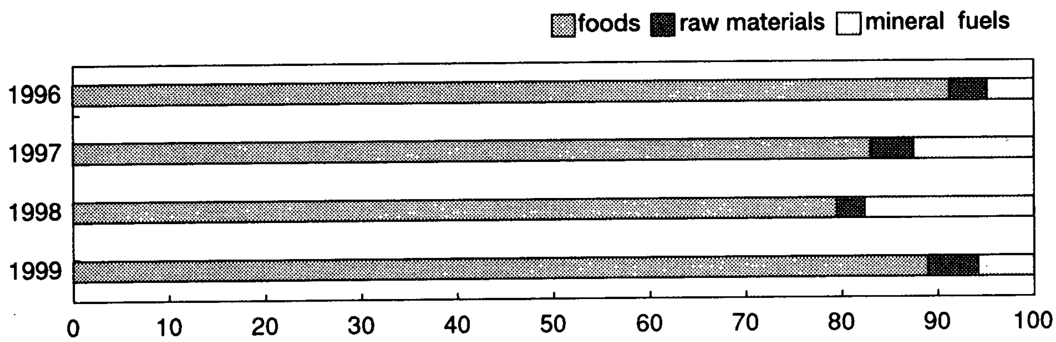
Source: See Figure 5

Figure 8 Construction of Russia's imports(%)



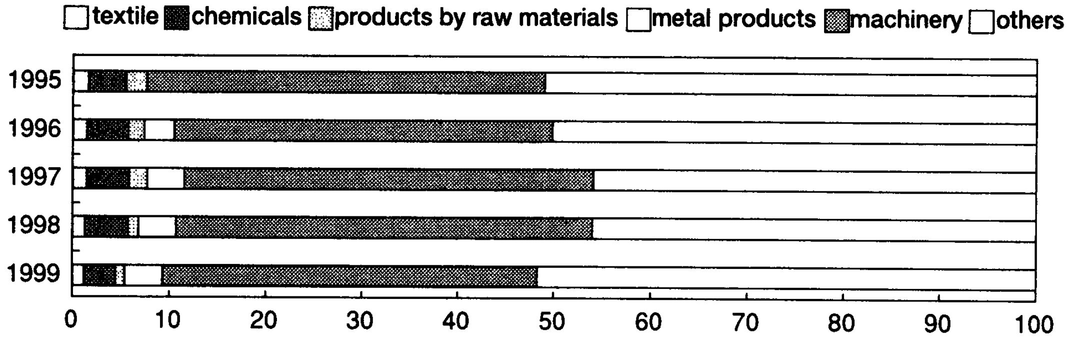
Source: See Figure 5

Figure 9 Construction of Russia's primary goods imports(%)



Source: See Figure 5

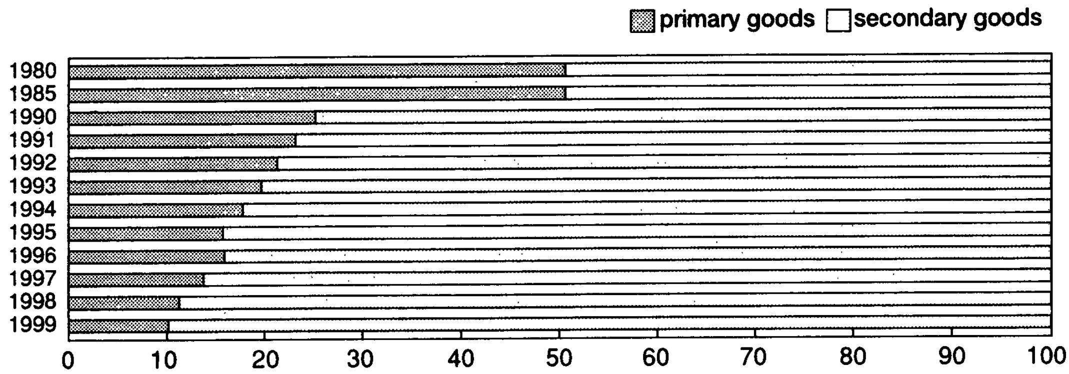
Figure 10 Construction of Russia's secondary goods imports(%)



Source: See Figure 5

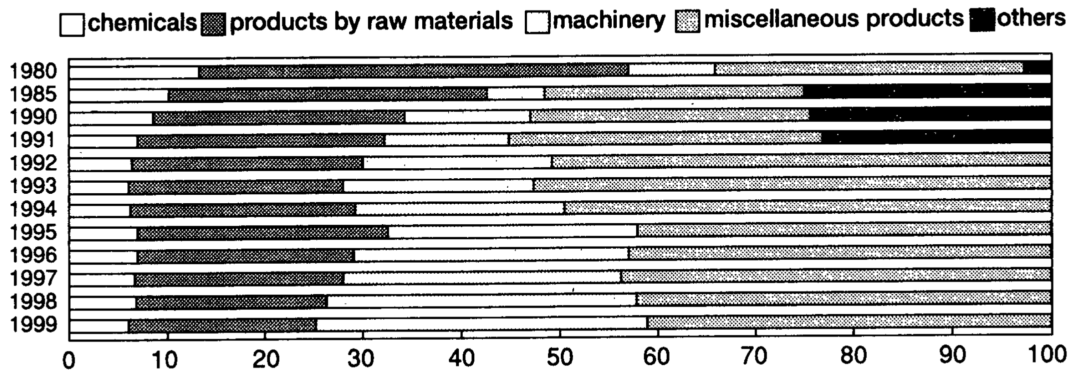
In turn, we consider the performances of China's exports and imports. Figure 11 shows the construction of China's exports. From this figure, we can find that China's exports are different from Russia's, in which the ratio of the secondary goods exports has increased year by year. Figure 12 shows the construction of China's secondary goods exports. From this figure, we can find that the exports of the products by raw material and chemicals have decreased year by year, and the export of machines has increased. Figure 13 shows the construction of China's imports. From this figure, we can find that though a big change is not seen in this table, the ratio of the secondary goods imports has risen gradually. Figure 14 shows the construction of China's secondary goods imports. From this figure, we can find that the ratio of machinery import has increased. This means that the import of machinery necessary for the advance of China's industry has increased.

Figure 11 Construction of China's exports(%)



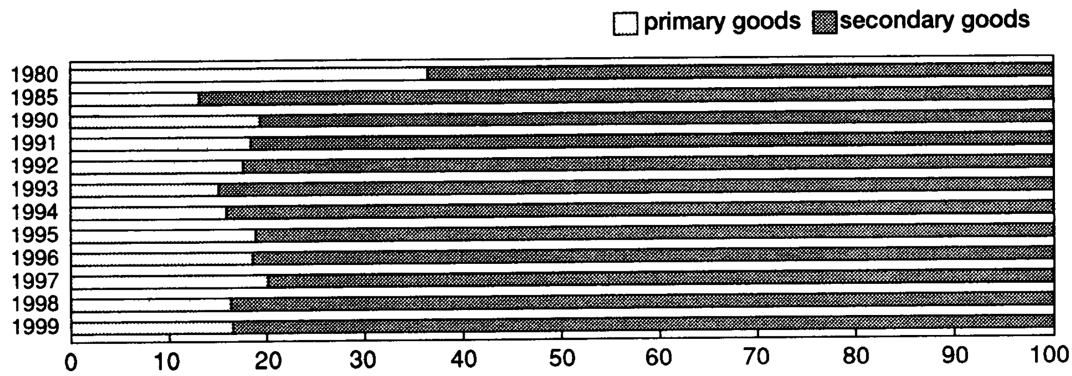
Sources: Almanac of China's Foreign Economic Relations and Trade (1994-2000), and China's Customs Statistics (1999)

Figure 12 Construction of China's secondary goods exports(%)



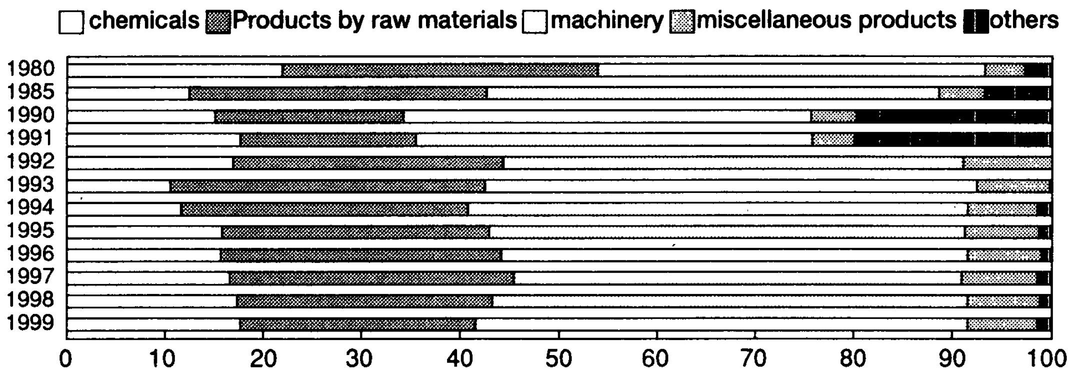
Source: See Figure 11

Figure 13 Construction of China's imports(%)



Source: See Figure 11

Figure 14 Construction of China's secondary goods imports (%)



Source: See Figure 11

6. Conclusions

From above discussions, we found that China excelled Russia in economic development. The difference in the two economic transition countries can be thought to depend on many conditions, such as geographical, natural, historical and initial conditions, and economic and political policies, education, and so on. These differences are summarized in Table 7.

Table 7 Comparison of the economic differences between Russia and China

	Russia	China
Central planning system	74 year	43 year
Political and economic reforms	ahead of economic reform	after the economic reform
The beginning of reform	in 1986	in 1978
The beginning of market economy	in 1992	in 1992
Reform method	big-bang, shock-therapy	gradual, experimental
The object of economic reform	capitalism market economy	socialism market economy
Major sector before economic reform	industry	agriculture
Major industry after economic reform	industry necessary for sadisfying domestic demand	export industry
The reform of state enterprise	privatization	protection
International connection before economic reform	CMEA	Non-CMEA countries
Export	raw materials	textile, maxhinery
Foreign investment	little	much
Capital mobility	outflows into abroad	inflows from abroad
A ruler behind the economy	mafia	bureaucracy
The power consciousness	very strong	strong
A degree of understanding of market economy	a little	to a certain extent
Division	division is still remaining inside of enterprise.	division is developing outside of enterprise

The above analysis can be summarized as follows.

(1) Though the economic reforms of Russia and China depend on their fundamentally different initial conditions stated in Table 7, the essential difference are that different economic policies has conducted in both countries, where the economic structure reforms for satisfying domestic demand in Russia and for promoting export in China are conducted respectively.

(2) The differences in the trade and investment policies in both countries are indirect reasons why Russia and China had different economic performances discussed in previous sections.
(3) Russia exports its resources. On the other hand, China attempts to export its advanced industry products.
(4) The China's exchange rate policy that its exchange rate is pegged to U.S. dollar contributed to its export growth and economic development.

Based on the comparative analysis on Russia and China, we provide the following suggestions to Japanese economy:
(1) Since the rearing of domestic industry and the introduction of foreign investment are necessary for preventing the cavitations of domestic industry, the deregulation and the structure reform are indispensable for Japan.
(2) Though China has opened its current account balance, China also should open its capital account balance as China became a member of WTO.
(3) Japan should not protect its old industry, but attempt to rear its new industry by the cooperation among industry, research organization and government.

Preferences

Almanac of China's Foreign Economic Relations and Trade, 1994-2000. Compiled by Committee of China's Foreign Economic Relations and Trade.

China's Customs Statistics, 1999. Compiled by General Administration of Costumes of the People's Republic of China.

China's Statistical yearbook, 1999. Compiled by National Bureau of Statistics, People's Republic of China. China Statistics Press.

Keizaisokuhou, 1999, No. 1118-2001, No. 1209. Japan Association for Trade with Russia & Central-Eastern Europe. Institute for Russian & East European Economic Studies.

Monthly Bulletin on Trade Withrussia & East Europe, 1992.1-2001.6. Japan Association for Trade with Russia & Central-Eastern Europe. Institute for Russian & East European Economic Studies. Published by Tsunenobu MIYAZAKI.

NCTAD, World Investment Report, 1999.

Statistical Survey of China, 2000. Compiled by National Bureau of Statistics, People's Republic of China. China Statistics Press.

Vneshneekonomicheskie Sviazi: Statisticheskii Sbornik, 1995. Compiled by Statistical Committee of Commonwealth of Independent States.

World Development Indicators CD-ROM (2000), The World Bank.

World Statistics, 1995-2001. Compiled by Statistics Bureau of Ministry of Public Management, Home Affairs, Posts and Telecommunications of Japan.