



China's Economic Growth and Reform

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Katsuhiko Miyamoto*

1. Introduction

This paper explains the growth performance and the problems of the Chinese economic reform since 1978. Before the economic reform in 1978, the Chinese economy had a lot of problems, that is, inefficiency of production in the state enterprises, non-competition in the industries, shortage of the consumer goods and so on. But, after introducing the economic reform, China has overcome some of these economic problems. Now, China is going uphill to economic success.

That economic reform since 1978 included the following economic policies,

- (1) the reform in the ownership structure,
- (2) an introduction of market mechanism,
- (3) the rural reform,
- (4) the adjustment for the industrial structure,
- (5) the open-door foreign trade policy.

These economic reforms made a great progress in the Chinese economy in 1980's. Especially, from the beginning of 1990, many western countries had a lot of economic problems, that is, low growth rate, inflation, increasing unemployment, expanding government deficits, trade deficits, expanding income differentials and so on. On the other hand, China had an excellent economic performance. In 1992, the growth rate of GNP was estimated about 12.8% in China. On the other hand, the growth rate of the U.S.A. was about 2.0% and the Japanese one was about 1.2%. Thus, the recent Chinese economic performance is excellent. But, China has some economic problems, too. They are inflation, imbalanced growth in the regional economy, income differentials and so on.

In the next section, the performance of recent Chinese economy will be analyzed.

This paper is based on my presentation at Tong-Ji University in Shanghai, China, November 1992.

*Professor of Economics, School of Economics, University of Osaka Prefecture.

2. Performance of Chinese Economy

The index of national revenue since 1978 is as follows,

Table 1 Index of National Revenue

1978	100.0
79	107.0
80	113.9
81	119.4
82	129.2
83	142.1
84	161.4
85	183.2
86	197.4
87	217.4
88	242.0
89	251.0
90	263.8
91	284.6

(Source: A Statistical Survey of China, 1992)

The following table shows recent major indexes of national economy.

Table 2 Major Indexes of National Economy (Billion Yuan)

	1978	80	85	89	90	91
GNP	358.8	447.0	855.8	1591.6	1790.7	1975.9
National Income	301.0	368.8	702.0	1317.6	1488.4	1602.0
Total Social Output Value	684.6	853.4	1658.2	3451.9	3803.5	4358.4
National Fiscal Revenue	112.1	108.5	186.6	294.8	331.3	358.3

(Source: A Statical Survey of China, 1992)

3. Economic Reforms

(1) Reform of the Ownership Structure

Table 3 The Ratio of Public Sector in Industrial Production (%)

	Public Sector	Other Sectors
1980	99.5	0.5
85	96.9	3.1
90	90.2	9.8

(Source : Luo Zhaohong and Sun Jie [3])

Table 4 The Ratio of Fixed Capital (%)

	State Sector	Collective Sector	Other Sector
1989	77.6	20.2	2.2

(Source : Luo Zhaohong and Sun Jie [3])

Table 5 The Ratio of Retail Sales (%)

	Public Sector	Non-public Sector
1980	99.2	0.8
89	78.6	21.4

(Source : Luo Zhaohong and Sun Jie [3])

Thus the ratio of non-public, non-state sectors is increasing. This change accelerated the China economic growth.

(2) Introduction of Market Mechanism

China tried to combine plan with market in the economic adjustment mechanism. Some Chinese economists say that market mechanism supplements the weak point of the mandatory planning system. But the co-existence of the mandatory quota system and market mechanism brings inefficiency to the mechanism of production and distribution. This was proved in my article [4] and [5]. They proved that the perfect competition guarantees the Pareto Optimum, but the mixed economic system of plan and market does not always guarantee the Pareto Optimum.

From the other point of view, we will prove our suggestion about inefficiency in the following explanation.

- P_1 Officially Planned Price (Fixed Price)
 P_2 Market Price (Free Price)
 X Total Output
 X_1 Mandatory Quota by the Government
 $X - X_1$ Volume of Output for Market Sale
 B Profit of an Enterprise
 $C(X)$ Total Cost
 $B = P_1 X_1 + P_2 (X - X_1) - C(X)$

The condition of profit maximum is as follows,

$$\frac{\partial B}{\partial X} = P_2 - \frac{\partial C(X)}{\partial X} = 0$$

But the effect of the change of mandatory quota on profit is,

$$\frac{\partial B}{\partial X_1} = P_1 - P_2$$

The sign of the above equation is usually negative. Because, the officially fixed price (P_1) is lower than the free market price (P_2). Therefore, the manager of the state enterprise is apt to make an effort to get a low quota instead of making an effort to increase products. Thus, the mandatory quota system has its defeat in order to increase the volume of output. Therefore, the perfect free market system is better than the mandatory quota system.

(3) Rural Reform

The government introduced the responsibility system (RS) and the price adjustment system. The RS system means "output contract with the family." The price adjustment means that the price of the state purchase has been risen many times and the free price system was introduced in the market of agricultural goods exceeded the compulsory quotas. These measures gave a good impact upon the productivity of the agricultural sector.

(4) Adjustment for the Industrial Structure

From 1952 to 1978, the proportion of industrial structure considerably changed.

Table 6 Proportion of Industrial Structure (%)

	Agriculture	Light Industry	Heavy Industry
1952	56.9	27.8	15.3
1978	24.8	32.4	42.8

(Source: Luo Zhaohong and San Jie [3])

This change made a lot of problems, for example, labor movement from one sector to other, expanding income differentials, low productivity in some industries and so on. In service sector, the employed labor only increased by 4.7% from 1952 to 1978, but the population of the country increased by 48.9%. Therefore, the government invested a lot of capital to agriculture, light and textile industries, energy and material industries and transportation.

Then, the centralized planning system is gradually changing to the decentralized planning system. The following table shows that the decentralization policy is developed.

Table 7 Proportion of Central Fiscal Revenue in Total Fiscal Revenue (%)

1980	81	82	83	84	85	86	87	88	89	90	91
51.4	57.6	52.9	53.6	56.1	52.7	49.0	49.8	47.2	34.3	38.0	35.1

(Source : A Statical Survey of China, 1992)

The official prices of state purchase have risen many times, then the output of the consumer and agricultural goods increased. This reform improved the shortage of consumer and agricultural goods.

(5) Open Door Trade Policy

The foreign trade has been playing an important role in the Chinese economic growth.

Table 8 Chinese Dependence for Export & Import in GNP (%)

	Export	Import	Total
1978	4.7	5.2	9.9
79	6.3	7.3	13.6
83	7.5	7.3	14.8
84	8.3	8.9	17.2
85	9.4	14.7	24.1
86	11.1	15.4	26.5
87	12.9	14.2	27.1
88	12.6	14.7	27.3

(Source : Positive Analysis for China's Economy, 1991)

China established four Special Economic Zone (SEZ) in 1979. The success of SEZ stimulated cooperation with foreign companies and increased the volume of trade. In 1992, the foreign investment into China increased about 4.8 times compared with that in 1991. Export increased 18.3% and import increased 26.4% in 1992.

4. Economic Problems

The great economic changes have taken place in China since the economic reform, and improved people's living standard.

Table 9 People's Living Standard

	1978	80	85	89	90
Income per capita (Yuan)					
Rural Area	134	191	398	602	630
Urban Area	316	436	685	1261	1387
Consumption (Yuan)					
Peasants	132	173	324	511	522
Citizens	338	468	727	1387	1442
Average Saving Balance (Yuan)	22	41	153	457	615

(Source : Statistical Yearbook of China, 1991)

But, even now China has some economic problems.

(1) Inflation

China now is facing a monster of inflation, too. The actual inflation rate is as follows.

Table 10 Inflation Rate (%)

1978	1.5
79	4.5
80	4.0
81	2.2
82	-0.1
83	1.4
84	6.2
85	12.7
86	6.0
87	11.3
88	21.3
89	11.8

(Source : Economic Research, 1991)

This problem was brought about by many economic reasons. One of the main reasons is the government deficits. It caused the excess supply of M2.

Table 11 Government Deficits and Supply of M2

	Government Deficits (billion Yuon)	Growth Rate of M2(%)
1979	206	27.1
80	146	29.8
81	58	19.9
82	71	19.5
83	96	39.2
84	105	17.0
85	41	29.3
86	179	24.8
87	294	20.4
88	349	22.4

(Source : Positive Analysis for China's Economy, 1988)

In order to stop inflation, the government has to keep the balanced budget.

(2) Irrationality of Price Adjustment

Prices of goods and services are the indexes for the distribution of them. But the state prices are sometimes decided irrationally in the following respects,

1. price differentials between products of varying quality are inadequate,
2. prices of mineral and raw materials are relatively lower than ones of manufactured goods,
3. retail prices of major agricultural products are lower than ones paid to producers,
4. the present price control system is over-centralized.

And as we proved, the Dual Track Price System (DTPS) is not a rational price system.

(3) Expanding Income Differentials

With an increasing of non-state economy, it is natural to expand

income differentials. Some people who have managerial ability may obtain a sum of money from market. On the other hand, others get a low wage from state enterprises. Expanding income differentials usually brings instability into that society. Therefore, the government will have to carry out social welfare policies to poor people.

(4) Government Deficits

As we mentioned, recently in China the government deficits is increasing. It will bring about inflation. Therefore, in order to have a balanced budget, the government has to cut expenditure and to increase tax revenue.

Table 12 Government Fiscal Revenue and Expenditure (billion Yuan)

	Revenue	Expenditure	Difference
1978	112.1	111.1	1.0
79	110.3	127.4	-17.1
80	108.5	121.3	-12.8
81	109.0	111.5	-2.6
82	112.4	115.3	-2.9
83	124.9	129.3	-4.4
84	150.2	154.6	-4.5
85	186.6	184.5	2.2
86	226.0	233.1	-7.1
87	236.9	244.9	-8.0
88	262.8	270.7	-7.9
89	294.8	304.0	-9.2
90	331.3	345.2	-14.0
91	358.3	379.4	-21.1

(Source : A statistical Survey of China, 1992)

5. Concluding Remarks

After the 2nd World War, Japan had a lot of economic reforms to develop the Japanese economy. To contain inflation, the government had a balanced budget in 1949, what we call "Dodge Line." Japan had a Priority Production System in order to recover from the economic slump. It means that concentration of natural resources, money and human resources on the coal and iron industries. Japan also had a policy to dissolve many big companies "Zaibatsu" to a lot of small companies. That policy developed economic competition. Land reform increased number of private farmers. It brought about an increase of agricultural products. These economic reforms prompted the Japanese economic growth.

On the other hand, China had a lot of economic problems before the economic reform. Before the economic reform and during the most of the 1980's, China suffered from a shortage of consumer goods. But, at the last half of 1980's, the Chinese enterprises expanded the productivity through technological upgrading, cost reduction, export and so on. These trends are expected to grow even stronger during the 90's. The economic structural reform implemented during the 1980's has enable the market mechanism to become a leading force in the Chinese economy and the market mechanism has promoted the development of labor productivity, capital market and international competitive power.

We suppose that this trend of China's economic growth will continue during several years, even though Chinese economy has some of economic problems. In order to obtain the long economic development in the future, China has to introduce the free market competitive system into all kinds of production sectors.

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