

Mar 30, 2018. China can transform and build on its "miracle" by focusing on the four pillars of modern growth: consumption, technology, advanced manufacturing and services.

Before the transition economy to a market economy in This from a planned to a market economy at the end article provides answers to six related ques- of the s, China had been trapped in poverty tions: Why was it possible for China to achieve for centuries. Why was China unable to attain Sub-Saharan African countries. Its trade Why did most other transition economies fail to dependence trade-to-gross domestic product achieve a similar performance? What costs GDP ratio was only 9. What should other develop- year period and annual growth in interna- ing countries do to achieve similar success? This article was questions: Why was it possible for China to prepared for the David Finch Lecture at the University of achieve such extraordinary performance during Melbourne, 4 June The manufacturing sector a similar performance? What costs does China gradually moved from very labour-intensive pay for its extraordinary success? Will China industries at the beginning to more capital- sustain a similar dynamic growth in the coming intensive heavy and high-tech industries. Can other developing countries Finally, the service sector came to dominate achieve similar economic performance? Accompanying the change in industrial structure was an increase in the scale 2. To exploit the potential that is unleashed by new technology Rapid, sustained increase in per capita income and industry and to reduce the transaction costs is a modern phenomenon. That Lewis ; Kuznets ; North ; means that per capita income in Europe took Lin , b. The dramatic surge in growth in advanced high-income countries, technological modern times is a result of a paradigm shift in innovation and industrial upgrading require technological innovation. Before the industrial costly and risky investments in research and revolution in the eighteenth century, techno- development because their technologies and logical innovations were generated mostly by industries are located on the global frontier. This shift accelerated the rate of can borrow technology, industry and institu- technological innovation, marking the coming tions from the advanced countries at low risk of modern economic growth and contributing and costs. So, if a developing country knows to the dramatic acceleration of income growth how to tap the advantage of backwardness in in the nineteenth and twentieth centuries technology, industry and social and economic Kuznets Before the eighteenth century, every In the post-World War II period, 13 of the economy was agrarian: Thus, it was natural Deng Xiaoping in , China adopted the for the social and political elites in China to opening-up strategy and started to tap the prioritise the development of large, heavy, potential of importing what the rest of the world advanced industries after the Revolution as they knows and exporting what the world wants. The exploi- economy at that time. Why had China failed to tap the potential monopoly and by subsidising them through of the advantage of backwardness and achieve various price distortions, including suppressed dynamic growth before ? This failure interest rates, an overvalued exchange rate came about because China adopted the wrong and lower prices for inputs. The price dis- development strategy at that time. Mao Zedong, Zhou Enlai and other But, the resources were mis- modern industries and achieve investment-led allocated, the incentives were distorted and the growth for one or two decades in the s to labour-intensive sectors in which China held a the s. Nevertheless, the distortions led to comparative advantage were repressed. Stagnation increase in inputs. In 1978, The symptoms of poor economic performance household consumption grew by only 2. Why Did Not Other Transition countries. But, the academic and policy commu- Economies Perform Equally Well? As a result, policy- after the s. The development of modern priority sectors would collapse, causing a advanced industries was perceived as the only contraction of GDP, a surge in unemployment way to achieve rapid economic takeoff, avoid and acute social disorders. To avoid those dependence on the Western industrial powers dreadful consequences, many governments and eliminate poverty Prebisch Transition socialist camps to adopt a development strategy and developing countries thus had even poorer oriented toward heavy industry and import growth performance and stability in the s substitution Lal and Mynt But, the and s than in the s and s capital-intensive modern industries on their Easterly Demystifying the Chinese Economy residual claimants and to set the prices for measurement of

income inequality, increased selling at the market after delivering the quota from 0. Meanwhile, household con- Lin This bottom panel in Figure 1. Such disparities are transition strategy allowed China both to the by-products of the dual-track approach to maintain stability by avoiding the collapse of transition. In addition, the dynamic growth in 60 the newly liberalised sectors created the conditions for reforming the old-priority sec- 50 tors. While it enables 0 China to achieve enviable stability and growth in the transition process, it also brings with it -2 a number of structural problems, particularly -4 the disparities in income distribution, con- Net exports sumption and savings and external accounts. With 19 1 1 1 1 1 1 2 2 2 Year rapid growth, income distribution has become increasingly unequal. National Statistical Bureau , p. A large industries, including telecommunications, trade surplus is a natural consequence of limited power and banking. This is because natural resources and service sectors so as to only big companies and rich people have access complete the transition to a well-functioning to credit services provided by the big banks and market economy. The low royalty manufacturing and service sectors; ii reform- levies of natural resources and the monopoly in ing the pension system, removing the old the service sector have similar effects. It is also timely for China to remove savings ratio will be higher. National Statistical Bureau various years. Demystifying the Chinese Economy to a well-functioning market economy as China States, and measured by the current market has changed from a poor, capita-scarce country exchange rates, China may be about the same at the onset of the transition to an upper-middle size as the United States. No country in human history has ever grown so That said, China also needs to increasingly fast for so long as China did in the past three become an innovator in its own right. However, looking forward, China still middle-income country, in many sectors that has the potential, based on the advantage of China has comparative advantage, other higher backwardness, to grow at around 8 per cent income countries have graduated, or are close to annually for another 20 years. This is for two graduating, from those sectors; for example, reasons: China can then become a The income gap between China and the United global technological and industrial leader in States indicates that there is still a large those sectors. With foresight, China will be able technological gap between China and the to gradually shift from absorbing the existing advanced industrialised countries. China can technology to becoming an indigenous innovator continue to enjoy the advantage of backward- of new technology to drive its growth. The answer is clearly yes. If China factors of production in the economy. If a developing coun- reach about 50 per cent of US per capita income. In other words, it will realising growth of 7 per cent or more for 25 or grow fast, accumulate capital rapidly and more years in the coming decades. In the process, it is desirable for 1. Unless indicated otherwise, the statistics on the Chinese the state to play a proactive, facilitating role. Through achieving that goal was a mission impossible. The remaining features are macroeconomic stability, markets and a proactive, facilitating state, a high rates of saving and high rates of investment, a market developing country can tap the potential of the system and committed, credible and capable governments. The desire to develop heavy industries existed before the tive market. Dr Sun Yat-sen, the the past 34 years also provides useful lessons. Such an approach can improve the resource allocation and tap the advantage of 6. Estimates by Perkins and Rawski suggest that the backwardness. By adopting such an approach, average annual growth of total factor productivity was 0. There are different explanations for the pervasive distortions in developing countries. Grossman and Help- liberalisation process. Demystifying the Chinese Economy 9. However, the wages were liberalised, while in China the Easterly, W. Europe in Lin , pp. In this section, I will only world economies: Before the transition, the state-owned enterprises Fei, J. The government tive, Blackwell, Malden, Massachusetts. A Book of order to subsidise the state-owned enterprises. However, the Kuznets, S. The low royalty payment was equivalent to a direct Press, New Haven, Connecticut. The Economy of Poverty, Equity, and Growth: After transition, the rapid development and fast capital accumulation after the Nations: Government continues to allow the service sector to enjoy Lau, L. Why the Maddison, A. World Bank Research Observer, vol. Chinese Economic Reform, â€”, Lin, J. Cambridge University Press, New York. United Nations, New York. A Framework Development Economics, vol. Mede, Ro- Lin, J. Analytic Narratives on Econom- Y. Rodrik, Princeton Univer- debate: The role of the state in the dynamics of Sun, Y.

"The China Miracle" provides an extensive study of the China's economic development since the establishment of People's Republic of China in 1949. Since the economic reform began in the late 1970s, China's economy grew rapid, with an average annual GNP growth rate of 10% for the past two decades.

The last three decades has witnessed miraculous economic growth of China. What has accounted for its miracle? What is the nature and future of the Chinese model? The book suggests that interlinked and relational contracts between the agents in particular, between the state and the business can compensate for flawed markets to achieve high growth. This kind of relational capitalism is significant in the investment-based stage of development, when mobilization of resources to exploit the existing technologies is key for growth. The book presents a general theory of interlinked relational contract, the workhorse model of the book. The theory highlights that effective governance is a function of market extent and market completeness. The process of economic development and modernization can be looked at fruitfully from two perspectives: Lois Gamblin Buffington Language: Lois put her heart into the writing of her first book. Traveling with her cousin to China for her cousin's adoption of a little girl was so inspiring she decided that others should enjoy her experiences while in China. The China Miracle chronicles the adoption of a beautiful little three-year-old Chinese girl. It also tells of their experiences mingling with the Chinese people as they traveled in both well-known and some unknown parts of China. This book records history of the areas traveled and tells of the experiences in hotels and restaurants. It gives the readers a look into the cultures of different provinces of China. A map of the areas traveled is included along with history of Confucius and the brief description of Confucianism, Taoism, and Buddhism. Prem Shankar Jha Language: The Fragility of the Chinese Miracle reads into the Chinese politics and economy and the disparate status and position of the two domains. On one hand, its economy has sustained a near 10 per cent growth rate for 30 years, while, on the other, trapped in an incomplete transition from a totalitarian to a democratic market economy, politically the country is still considered a fragile state. This book helps the reader resolve this incongruity through its inference. The defining features of this book are: This book makes a significant contribution to the literature on Chinese political economy over the past three decades. It is a must read for all discerning and informed readers. It will also be valuable for policy makers and students and researchers working in the areas of international relations, Chinese studies and political economy.

China has created an economic miracle since its economic reforms began in the late 1970s, becoming the fastest growing economy in the world. Gross domestic product has grown at an average rate of 10%.

Given the worldwide economic slowdown, the world needs China more than ever. Most economists and market participants believe the next century will belong to China just as the last century belonged to the U. S. In order to understand how China has grown over the last 30 years, it is important to understand how the U. S. first became the dominant player in the global market. A big component, and less understood success, of the U. S. economy has been the influence of England upon our culture which installed a firm belief in property rights and rule of law. The fact is we are a former colony of the U. K and benefited from their political and economic systems as our country was formed. We are also a Judaeo-Christian culture which underpins the governing principles in all of our dealings. The point is that in Western Culture there is an explicit understanding that in order to make money a service has to be provided that benefits the customer. This culture has been nurtured and reinforced for hundreds of years, and it is on this rock that our Nation was built. The campaign was aimed at rapidly transforming the country from an agrarian economy into a socialist society through rapid industrialization and collectivization. So, the population went to work as quickly as possible to make as much money as possible. To put that in context, the U. S. Because China is still a Socialist State, there is a collective push in everything they do. Part of this collective push has been to limit the population growth. Currently, the population in China is around 1.4 billion. In addition all actions, goals and desires are subject to the collective goals of the State which include, but are not limited to, restricting religious affiliation. Which leads to the problems in China. This tenant getting rich at all costs has become a problem for China and has led to societal erosion. Here are a few examples: She claimed that he had pushed her to the ground in an attempt to catch a bus. Her injuries cost thousands of dollars and the courts convicted him, without any evidence, because the judge ruled no ordinary person would help somebody unless he had caused the injury. In 2008, thousands of babies became sick from tainted milk powder. The company responsible for this had paid off government regulators for inspection-free privileges. Mengniu, a milk company in China operating under declining profit margins, started to add water and a chemical called melamine to hide the dilution which led to dozens of deaths and thousands of hospitalizations. Anyone with economic means avoids these products. These are just a small sample of some of the legal and business practices in China. As a result, the Chinese prefer multi-national food products over domestic products for safety reasons. You know things are bad when the Chinese themselves prefer to buy products from foreigners because they have no faith in the ethics of their Chinese brethren. Go on YouTube and search for phantom cities to see these remarkable monstrosities that exist but have no private or commercial inhabitants.! But, Americans need to be astute about what is happening in the world and realize the critical importance of cultural norms and values. They are the basis from which economic growth proceeds and is ultimately measured. Should they fail in taking that necessary next step we are all doomed. This article was inspired by these two great books on China:

Chapter 4 : China's miracle is over – now comes the nightmare

Justin Yifu Lin, Fang Cai, and Zhou Li. The tremendous success of China's economic reform, in contrast with the vast difficulties encountered by the former Soviet Union and Eastern European countries in their transition, has attracted world.

Additional Information In lieu of an abstract, here is a brief excerpt of the content: Reviews ing that Liew adds to the debate. His research interests include democratic transitions and states and markets. Development Strategy and Economic Reform. Chinese University Press, Repeated like a refrain throughout this book is a coherent and reasonable thesis. It emphasized die buildup of capital-intensive heavy industry, which in a labor-abundant, capital-scarce economy ran contrary to market forces. Viability in the investment program was achieved by suppressing interest rates, overvaluing the currency, and holding down the prices of raw materials, labor, and basic consumer goods. In such an environment, prices no longer functioned as informative signals to business managers. Thus government planners had to take over economic decision making, and, in China, directives were handed down to producers through agricultural collectives and state-owned industrial enterprises. Farmers and enterprise managers were given a degree of responsibility for economic performance and rewarded with a share of the profits. But in order for profits to be a meaningful indicator of productivity, prices had to reflect supply and demand. Price liberalization was the essential next step. Over time, the out-of-plan share of the economy grew and prices within the plan were gradually adjusted toward market levels. Even the exchange rate was eventually unified at a market clearing position by following this tack. Where the authors see the ulti- China Review International: After a decade and a half of reform , interest rates remain suppressed and investment funds continue to be allocated under state control. A cyclical pattern has emerged whereby banks are given greater lending authority, credit is diverted to the non-state sector, competition for resources heats up, the state sector is unable to vie successfully, additional credit must be created to maintain state sector operations, inflationary pressure builds, market and state-set prices diverge, increasing disorganization and corruption result, and, finally, the authorities step in to tighten credit and recentralize lending decisions. A systematic account of reform history is limited to one central chapter, which tells a wellknown story. A follow-up chapter details the outcome of reform in statistical terms using standard sources. Preceding this are two chapters that describe the pre-reform system and its failings with emphasis on the endogeneity of economic institutions given the choice of the heavy-industry development strategy. Again, standard data sources are utilized, and in the details there is nothing new. There is also a chapter contrasting the heavy-industry approach with a superior alternative , one emphasizing trade and comparative advantage as pursued by the Four Little Dragons. Other problems dealt with in the chapter are state enterprise losses and regional imbalances, both of which are rooted in the unreputed heavy-industry strategy. You are not currently authenticated. View freely available titles:

Chapter 5 : The China Miracle | Above The Fray

The tremendous success of China's economic reform, in contrast with the vast difficulties encountered by the former Soviet Union and Eastern European countries in their transition, has attracted worldwide attention. Using a historical, comparative and analytic approach grounded in mainstream.

It started with foreign policy initiatives introduced under Premier Deng Xiaoping in the late s. China gradually began moving from a passive, isolationist state to a more active player in the international arena. As it ventured out of its shell, it began to participate more in various international organizations, especially financial ones. This enabled it to gradually modernize its economy. But the sleeping giant was just beginning to arouse. Between and , China normalized or established diplomatic relations with 18 countries. It also extended its hand to Europe in and was a founding member of the Asia-Europe Meeting, which holds biannual summits and yearly meetings. China has also resolved a number of territorial disputes with at least six of its neighbors. All this diplomacy and much more, along with opening up its economy in various ways, helped China to attract more foreign direct investment and expand its economy. The quick transformation that ensued is nothing less than stunning. The prosperity is beginning to spread. In , there were no millionaires in China. China has over cities with populations of over a million. Astonishingly, almost 90 percent of urban Chinese own their homes. And there are color tvs in almost every urban home, washing machines and refrigerators in over 80 percent, air conditioners in half, microwaves in almost a third and computers in 20 percent. Moreover, in there were fewer than 5 million fixed phone lines. Now there are million. As recently as , fewer than 9 million accessed the Internet through personal computers. Now more than 69 million log on through their cellular phones! China is also the biggest market for cell phones, with million in use and growing by an average of 2 million per month. China has come a long way in a very short time! Such growth attracts even more foreign capital for those looking to profit from the so-called China miracle, especially since the Chinese yuan is pegged to the U. Chinese individuals and companies are transferring dollar savings back into China to take advantage of higher Chinese interest rates. To date, only four countries in the world have received more foreign direct investment than China, but at its current growth rate China could leapfrog into second place this year—behind only the U. These capital inflows have helped fuel investment growth in the first quarter of this year to an amazing 43 percent over last year. In January and February, 16 of 30 industrial sectors exceeded percent growth and industries such as iron, steel, cement and other construction materials grew as much as percent. In Beijing, for example, authorities are forging ahead on unprecedented construction in preparation for the Olympic Games. The Organizing Committee for the Olympic Games has had to cut the amount of steel planned for the National Stadium by 40 percent. Other construction materials will be used instead. Yes, the Chinese economy is on fire, but one of the lessons of life is that too much of a good thing can be bad. In China, the economy is overheating and in danger of meltdown, and the government knows it. One problem is the threat of inflation. In April, food prices jumped 10 percent and the cost of grain soared by more than a third. Overall, the annual rate of inflation hit a seven-year high of 3. Coupled with increasing demand for scarcer commodities, the growth in money supply is a recipe for inflation. Money supply is plentiful because Chinese banks are awash with huge cash inflows from exports, surging foreign investment that must be converted into yuan to keep its currency pegged to the U. Of course, banks are eager to lend this money to make a profit. According to Stratfor April 13 and other sources, the core problem is that banks do not allocate capital according to market forces and sound risk assessment. Loans are made based on political and social considerations. Questionable projects are financed because of shady relationships that the banks maintain with members of the Communist Party and state-owned enterprises. Those relationships are what drive the flow of billions of dollars from banks to money-losing state-run companies. These companies often invest in ill-advised projects that Communist Party officials have vested interests in. This results in a staggering amount of debt that is not repaid. Massive investment has indeed created a tremendous expansion of productive capacity, but much of it is redundant. For example, an area in Guangdong has eight airports in a region the size of Massachusetts and Connecticut. Investors have also been shoveling money into real estate. At the end of ,

estimated real-estate vacancies stood at 26 percent. Other loans have been used for projects of marginal economic utility. In China, mayors and local leaders are more likely to be promoted if they make big and obvious changes to their towns. But some of these towns have essential needs that are not being addressed, such as treatment of waste water. The government is well aware of these problems. Beijing is trying to curb bank lending by increasing the reserve requirement, cracking down on insider loans to related parties, restricting investment in the overheated sectors of the economy, placing restrictions on land use, putting a halt to wasteful projects, and other means. It has also stepped up its anti-corruption campaign with widespread arrests of managers of state-owned enterprises who were in cahoots with bank officials. Beijing knows it has a major crisis on its hands and is trying to take steps to control the situation. It worries that the overinvestment is generating unhealthy bubbles in the economy reminiscent of the mids. But will it be successful? One of the obstacles is enforcement of the reforms. Local officials, who are paid by the local province, have their own agenda to preserve jobs and social stability and to advance themselves. When the central government tries to cool down the economy, it conflicts with their agenda. These often-corrupt locals are the ones who put pressure on the banks to loan them money. For various reasons, the stock and bond markets in China are not well developed, so banks account for 85 percent of the credit created. If banks had to compete with developed stock and bond markets for capital, they would have to lend more sensibly. Unlike the Western markets, where the major source of financing comes from selling shares in businesses, the Chinese market relies almost solely on bank loans. Consequently, the banks are not as concerned about the quality of investments and return on investment as private investors would be. The situation in China is suggestive of what happened in Japan in the mids and much of the rest of Asia in East and Southeast Asia, excluding China, similarly passed from economic miracles to economic catastrophes in In both cases, the striking characteristic was the speed at which overblown Western expectations turned into disappointment. It is our view that China, which got started later than other Asian economies, is on course to be the third Asian meltdown in this generation. China has gone through boom-and-bust cycles before, but this time the stakes are much higher. The Chinese economy is interconnected with the rest of the world much more today than it was even a decade ago. The Ramifications Trouble in the Chinese economy will affect Asia most of all. In Japan, the increase in exports is helping the country finally climb out of an economy in malaise for over a decade. For South Korea, China is now its largest trading partner, and trade with China is what kept the South Korean economy from slipping into recession last year. But the shock waves would not be limited to the Asian continent. What happens if the demand for those raw materials dwindles? Take steel as an example. If its internal demand falls to that of just four years ago, steel analysts estimate there will be enough excess capacity on the market to cause a glut so rich that prices would plummet below costs and destroy overseas manufacturers. Even America may not be immune from the perils of a troubled Chinese economy. Japan and China, especially in the last two years, have been the primary funding source for the U. They have purchased hundreds of billions of dollars of U. By floating its currency, even partially, China would curtail foreign direct investment, decrease the money supply because it would not be forced to sell yuan in exchange for dollars to maintain the peg and rein in overinvestment, thus cooling the economy. On the other hand, many analysts do not believe that China will revalue the yuan because exports would decrease, likely leading to higher unemployment. China is facing some tough choices. Administratively, the government is doing all it can do and although the economy has recently shown signs of slowing down, it is still overheating. A revaluation of the yuan may not be out of the question. It remains to be seen to what extent China will be able to skillfully and effectively maneuver out of its current crisis. Even if it avoids meltdown, avoiding deterioration will be much harder. What is happening to the Chinese economy will have global ramifications. Consider this startling statement from Asia Times: It would devastate the U. The Trumpet has long discussed this fact, showing that a U. Considering how dependent the U. It is also fascinating to witness the historic transformation taking place within Asia. The Bible foretells that China is a key player in a coming Asian power bloc that will be the largest in history! Its stunning economic rise has made much of Asia more interdependent than ever before. In the past it has appeared that Japan would be the primary technology and military engine for the coming Asian power. The growth in its industry will not disappear, even if the economy browns out. China is sure to recover, as its

neighbors have before it.

Chapter 6 : The China Miracle: Development Strategy and Economic Reform by Justin Yifu Lin

China Factors offers a first-hand perspective on political and socio-economic changes in Hong Kong after the official changeover to control by China. It reflects the author's observations, personal encounters, interviews, and experiences, especially after when the changeover occurred, and.