

CHINA - The Growth Engine of Asia

Despite much of the difficulties that the economies of Asia had to endure over the past years, China has been able to sustain itself without yielding to any major economic crises or social or political calamities. For the past two years the major economies of Asia (Japan, South Korea, Taiwan, Singapore, Indonesia, Thailand, Malaysia, Brunei and the Philippines), experienced serious set backs in whilst China managed to sustain a high rate of growth almost as high that during the pre-crises years.

At present, however, as the Asian crises seem to be ebbing away (at least for Asia excluding Japan) and new investments are seeking to the Asian markets, China seems to be emerging as a major economic power in the region. This is indicated by, amongst other things, much of the foreign investment capital that is seeking into China at the same time as many traders (both the importers as well as exporters) who are seeking to establish trade links with that country. In this connection one should even remember the pending issue of China's membership in the WTO. What one experiences may not be a mere cyclic upward shift of the economies of Asia but a Kondratief cycle.

At a juncture like this it is important for the other economies of Asia like Sri Lanka to clearly define their economic policies in a regional (Asian) context which encompasses the emerging role of China as one of the regional economic powers. In this respect, the main issue of importance is to attempt to understand the dynamics of the economy of China. Thus, this article is in place.

INTRODUCTION

Since about the beginning of the 1980s, the economy of the People's Republic of China has been growing at an accelerated rate. For the most part, the growth rate has been within the proximity of 10%. For some years, especially 1995 and 1996, the figure was over and above 10% mark.

The growth in the economy has accompanied the growth of jobs. More than 20 million jobs were created only during the first half the 1980s (Qin Shi 1995). Much of these job opportunities have been created in the industrial and construction firms newly established in the south-eastern corner of the country (Bernard-Shenkar 1993).

The high rate of growth in the economy has also been marked by the flurry in investment activity. It is not only the Chinese resources that have been mobilised in the China but also the foreign capital. The accumulated volume of foreign direct investment in China by 1996 had exceeded US\$ 200 billion mark (Seo 1993). The most important foreign investors in China have been Hong Kong, Japan, Taiwan and USA.

There is no any consensus about the factors that lie behind this growth. There are several controversies about it. Some of the controversies are more glaring than others. Krugman (1994), for example, maintains that the accelerated growth of China has to do with nothing other than the increased input of machinery, infrastructure and education. The rewards that China receives from the mobilisation of resources are no more than what the conventional economic theory would lead us to expect. Krugman's analysis ignores the social organisation, institutional structure and the governmental policies that have made it possible to mobilise these resources.

Then there are others like Gunnarsson and Rojas (1995) who beg to differ with Krugman. They maintain that the success story of the Asian countries like China have to do with a unique way of pragmatically combining a strong state - which can be successfully challenged powerful, vested interests and put the country's long-term interest in focus - with a highly competitive market economy. Due to forceful policies of the state, it is the market economy based on a comparatively equal distribution of the productive resources, which gives the majority of the inhabitant's possibility to actively take part in the development.

The aim of this paper is not to delve into this controversy but to attempt to examine why the government of China was motivated in promoting economic development. The aim here is to survey the main factors that have contributed to this remarkable growth of the economy of China.

It is important, but not least from the theoretical point of view, to grasp the factors that have contributed to accelerated economic growth of China. Such a study, first of all, should help us to evaluate the plausibility of the existing development hypotheses. There are those who maintain that the involvement by the institution in the spheres of the economy should be reduced whilst the others maintain the opposite. This also should help the less developed coun-

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tries (LDCs) in pursuing their development endeavours.

BACKGROUND NOTE

The Pilot Plan Project for accelerated economic growth of China is about 15 years old. This programme was initiated with the "Open Window policy" proposed by Deng Xiao Ping at the National People's Congress of 1978. Over the subsequent years this policy proposal was incorporated in the National Economic Development Plan of the Sixth Five-Year Plan, the details of which later discussed in various platforms (Qin Shi 1995).

On July 1979 the National People's Congress and the State Council of Guangdong approved the establishment of an Export Processing Zone (EPZ) in Guangdong province. On April 1980, the State Council transformed Export Processing Zone into Special Economic Zone (SEZ) of Guangzhon. The Fifteenth Session of the National People's Congress of China adopts in August 1980 the establishment of the Special Economic Zone Policy.

In one sense, this policy proposal appears to have been quite unusual, particularly if one concentrates on China's degree of openness (or the lack of it) in the years prior to the 1980s. From another perspective, however, we one can see that the policy shift is part of a larger pattern of a move. In fact, these oscillations are not random and inexplicable; rather they are the result of the Chinese leadership's attempts to grapple with the problems of modernisation of the economy and society. The factors that contributed to facilitating accelerated economic growth of China have to be examined within this constraint.

3. INTERNAL AND EXTERNAL FACTORS

There are several factors that may be considered as most conducive for accelerated economic development of China. One concerns the population structure and demog-

raphy, and boom in education, whilst the other concerns the external factors.

Population Structure and Demography of China

Over the years from 1950s onwards the population of China has been growing very rapidly. The population of China in 1949 was estimated at about 541 million, which grew, by 1994, to over 1.198 billion. Over the period until about the middle of the 1970s the annual average population growth rate was over 3%. However, this started to slow down since, in 1978, China started with a strict family planning programme. By the end of 1994 the birth rate dropped to about 1.75% from more than 3.4% in 1969 and natural growth rate declined to 1.1% in 1994 from 2.6% in 1969. This amounts an average to 2.7%, per annum (Qin Shi 1995:24). The population growth for the earlier part of the 1990s has recorded less than 2%. For 1995 for example, it was 1.8% (UN Demographic Data, 1995).

Population growth of this calibre has bearings on the shape of its population pyramid. The share of the population that was under the age of 30 years in 1980 was more than 63%. The share of the population that was under the age of 20 years of age was 49% of the total population and those above the age of 65 years was 5%. This denotes the population pyramid to be rather flat. As such, in order to be able to keep up with the growth of the labour force, China has created over six million jobs per annum. This constitutes one major challenge that China faces since mid 1980s.

Boom in Education

The changing structure of the Chinese labour force has influence on the growth of the economy of China. Over the years until about the middle of the 1970s the Chinese labour force consisted of (predominantly) peasants and un-qualified or semi-qualified workers. About 70% of the labour force of the country during this period was engaged in agriculture. A significant share of this labour force lacked any (major) formal education. There were quite a few among the older generations of the population who were illiterate.

However, the situation improved dramatically over the years. Those above 12 years of age and were illiterate or semi-illiterate in 1952 was 23.5% of the total population (Qin Shi 1995). The children to be born after the middle of the 1960s were facilitated with the chance for education. The elementary education was made compulsory. But for one

reason or another, a significant number of the youth did not stop in educating themselves after they had acquired the formal education. They aspired for higher education.

In the years after 1990 and after the number of the young people who sought higher education amounted to over 5.5 million per annum. This records an increase by 47% from the figures for 1980s (SEC 1996). The college enrolment of the students of the age group 18-21 reached 6.5% (SEC 1996). The annual average enrolment at the upper secondary level in the 1990s was over 21 million. Then, the enrolment in vocational schools is over 12 million. Further the annual average enrolment at vocational schools at upper secondary stage is over 12 million. This indicates an annual average increase from 1980s by 6% (SEC 1996).

This boom in education constitutes the second major challenge that China had to face. China required restructuring its employment organisation. It had to create new employment opportunities in the qualified fields. The growing number of youth with their formal education or vocational training in various fields was not ready to take up employment in traditional fields of production such as agriculture and use the traditional implement of agriculture. Further, the students themselves and the political leadership of the country regarded such a return to be a sheer waste of the human capital resources (SEC 1996: 26). They required restructuring of the labour market of China.

External Dynamics

The shift in the external conditions amounted to another challenge that China had to face. This refers to the overall restructuring of the economy required so as to facilitate reunification of Hong Kong and Macao with China. This was in many ways a welcome challenge for China.

Hong Kong is a city-state that flourishes as a booming economy in the region. The GNP of Hong Kong in 1993 was at US\$ 59.7 billion. Its export of industrial goods as a share of the total volume of goods in 1980s amounted to 60%. Further, its trade as a share of the world trade in 1980s amounted to 3.2% (Marcus-Noland 1990).

Then the rate of growth this economy was high at 9% per annum for the period 1970-1979 and 8% per annum for the period 1980-1985. As a result, despite the fact that the population growth rate of Hong Kong was rather high (mainly due to immigration from China) unemployment of the labour-force was near nil. Thus, well being of the people of this economy depends to a large extent on the business activities of Hong Kong

(Marcus-Noland 1990).

The challenge that China faced was not to scare off this business community from Hong Kong in the face of its reunification with China. In fact, if the business community of Hong Kong was to leave Hong Kong in face of its reunification with China, China would have lost a necessary external stimulant that it would have required in alleviating some of its internal problems, particularly those in regard with the industrial sector development and youth employment. Therefore, in order to facilitate the reunification of Hong Kong with China without scaring off its business community and the entrepreneurial class, China had to make some accommodations. It had to adjust and restructure its economy in order not to repel the business and entrepreneurial community of Hong Kong.

In attempt to meet all these challenges (population growth, demographic shift, growth in education, Hong Kong and Macao reunification with China) successfully the Sixth Five-Year Plan proposed in 1978 a programme for accelerated economic growth for the country. In line with this proposal, already in the early part of the 1980s China established four Special Economic Zones. These were in Guangdong province and Fujian province districts. Each of these zones encompassed an area of 338.4 km² that over the ten years subsequent to the policy implementation provided over a million new employment opportunities. Most of these, of course, at the beginning was in the construction sector.

Followed by 1979, over the period up to 1990, there was further one zone that was established, totalling the area of land under PPP programme to 0.35 million km². According to the statistics for 1996, there were over ten million workers who had secured employment opportunities in these zones. The total volume of capital invested under the PPP programme amounted to huge sums of which the Foreign Direct Investment for 1978-1998 amounted to US\$ 185 billion. A major part of this, that is to say, 65% (in total US\$ 120 billion) came from Hong Kong.

CONCLUSIONS

The accelerated growth of the economy of China has been facilitated by many circumstances and situations. First, the population growth required China to create over six million new employment opportunities on annual basis. At the same time, as most of the youth was acquiring high education and job skills, the employment opportunities required had to be in the field of high-tech. Much of the youth

that had acquired further education and skills refused to go to the countryside and take up jobs in the traditional sector.

This required the government to modernise the economy and new create employment opportunities in the high-tech, modern sector. In order to facilitate this, the government required to open the economy for foreign capital and other investment funds. The government made this possible by establishing EPZs. Most of the EPZs were established in regions nearest to Hong Kong and Macao, thus closely integrating the Hong Kong and Macao economies with that of China. It was mostly Hong Kong money that fluxed into to the EPZs of China. Closer integration of the economies of Hong Kong and Macao with that of China also meant to facilitate reunification of Hong Kong and Macao with China.

Thus the accelerated development of the economy of China has not been a product of the wish of an institution or an individual, may it be the central government or Deng Xiao Ping himself. It instead has been caused by the interaction of a number of circumstances and situations unique for China at its present times.

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