China’s Economy and Global Interactions in the Short and Long Run

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Contents of the Paper

• Chronological survey
• Analytic themes
  – Global silver trade and China’s monetary system
  – Cultural factors and China’s economic growth
  – Impact of external forces on China’s domestic economy

Presentation focuses on these themes, beginning with culture.
Zheng He Expeditions, 1405-1433
Chinese Map of South and East Ocean Sea Routes from 1712-1721
Chinese Culture – no obstacle to growth

• “late-traditional Chinese values and ideas were in most respects already suitable for modern economic growth.” Mark Elvin (1984)

• My view: culture and values in Chinese village communities unusually, perhaps uniquely favorable for modern economic growth
Village Economic Culture in Imperial China

- Bimetallic currency with many variants
- Extensive markets for land, labor, & capital
- Management of complex organizations
- Dealings with bureaucracy
- Vast array of contracts
- Shareholding, financial guarantors
- Widespread basic literacy
- Economic imagery permeates religion
- Extensive participation by women
Consequences of Chinese Advantage

1: Outside China

• Chinese dominate Asian trade – e.g. Siam’s royal trade managed by Chinese

• Chinese dominate domestic commerce in many Asian regions

• Chinese crucial to operation of European spheres of influence: Manila, Batavia, Singapore, China/Japan treaty ports etc.
Consequences of Chinese Advantage 2: Within China

• Skinner: “development of foreign trade in south China. . . lent a mercantile, money-conscious, and slightly urbanized distinctiveness” to regional sub-culture

• Overseas Chinese feedback deepened domestic regional disparities in business skill – clearly visible in PRC even after 40 years of reform & opening
Legacy 1: Rural Management Skills

• 1950s-1970s: Over 50,000 communes; 750,000 brigades, 7 million teams.
• 1976 ≈ 1.1 million rural enterprises
• 1986 ≈ 12 million rural “TVE” firms
• NO LACK OF MANAGERS & ACCOUNTANTS
• Where did managers come from? Who kept the books?
Legacy 2: Cultural Coast/Inland Cleavage

- Wanxiang auto parts: interior → low quality
- Shaanxi exec: only nanfangren do such things
- Chen Yun 1970s: no SEZ in LY region because Shanghai/Zhejiang home to “opportunists. . . with. . . consummate skills [who will] emerge from their cages if given the slightest chance”
- Minister of Commerce 2008 comment: let’s “train business brains in East China for the central region”
## Estimate of Average Annual Silver Flows

To/From China, 1500-1910

<table>
<thead>
<tr>
<th>Period</th>
<th>Years</th>
<th>Average Annual Flow</th>
<th>Million Chinese $</th>
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<tbody>
<tr>
<td>1500-1700</td>
<td>200</td>
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<td>1721-1800</td>
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<td>1856-1886</td>
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<td>1888-1910</td>
<td>22</td>
<td>11.7</td>
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</tbody>
</table>
Qing Monetary Trends, 1720-1910

• No long-term rise in per capita silver stock
• Gradual increase in the share of bank money
• Per capita money stock may have risen by 30%
• Lower Yangzi (silver) rice prices rose by 300%
• So real per capita money stock declined

• Historians report big expansion of commerce and specialization → big rise in velocity?
Long-term Growth of International Linkages

- Long history of trade in luxuries
- Silver imports transform money stock, 1500-
- Trade & migration influence coastal regions
- Growth of trade/imperialism accelerates spread effects
- Steamship, telegraph, railway deepen impact in inland regions
- Price integration evident from 1880s [Brandt]
China’s Trade Ratio, 1931-36 and 1955-2007
Exports + Imports as percent of GDP
Short-Term Impact of Global Shocks - 1

• 19th century – no clear picture

• World War I – European retreat from Asian markets encouraged short-term industrial boom in both China and Japan – “Golden Age”

• Great Depression – impact debated
  – Expansion of banknotes cushioned downturn [Rawski]
  – China could not avoid big economic decline [Shiroyama]
Short-Term Impact of Global Shocks - 2

• Oil shocks of 1970s – no effect on isolated PRC

• Asian Crisis of 1998
  – Official picture: little impact
  – Critical perspective: unacknowledged slowdown

• Financial Crisis of 2008 - similar story
  – Official picture: growth declines, but remains high
  – Critical perspective: China joins world in recession
2008 Global Shock Affects All Regions

• Shaanxi Provincial Statistics Bureau:

今年年初，金融危机对实体经济影响进一步显现，工业开局下行，1月份，呈建国以来罕见的负增长。

At the start of 2009, the crisis impact deepens. Industry experiences a decline in January – a phenomenon rarely seen since 1949.
Further Evidence of Crisis Impact

- Layoffs surpass 40 million – i.e. over 5 percent of the entire labor force [Cai Fang]
- 670,000 small firms closed [Chen Quansheng]
- Big double-digit decline in exports
- Big decline in imports, evidently due to
  - Falling exports (don’t need imported components)
  - Shrinkage of domestic demand (??)
Why Manipulate Macrodata?

• Akerlof-Shiller, *Animal Spirits*, see “the link between changes in confidence and changes in income as being especially large and critical when economists are going into a downturn, but not so important at other times” (p. 17)

• Perhaps Chinese policymakers anticipated, and acted upon this idea in 1998/99 and again in 2008/09.
Incongruous reports undercut macrodata

- NBS Director MA Jiantang visited factories in Xi’an and Baoji on May 30 and June 1, 2009. His question to workers: 今年和去年相比，5月份前几个月相比，产品销售情况如何？实现工业产值、利润是多少？同比增长还是下降了？订单、销售价格有没有变化？

May 2009 Shaanxi Industry v.a. +14.9% vs. May 2008 – so why ask such questions?

Industrial power use rose 0.7% in 1st half of 2009
Shandong Macrodata 2009 Q1&2

- GDP +9%
- Industry VA +12%
- Industry power use -3.14%
- Freight turnover (Jan-May) -11.1%

• These data are not credible
Industrial Output and Electricity Use, 2005-09, Seasonally Adjusted (World Bank)
China Elasticity of Power Output vs. Real GDP, NBS Data, 1990-2009Q3

Elasticity: %ΔPower / %ΔGDP

Average Elasticity
1990-2008Q2
Final Thoughts

• China reaps huge gains from globalization
• External shocks deliver sharp short-term setbacks in 1998/99 and again in 2008/09
• China’s economy now pulling out of recession
• Medium- and long-term growth prospects remain strong despite many institutional weaknesses
• Growth depends on access to world markets
THE END
Nominal Investment: Q1 as Percent of Prior Year's Q4, 1975-2009
Nominal GDP: Quarterly Fluctuations in Four East Asian Economies, 1999-I - 2003-IV
Nominal Fixed Capital Formation: Quarterly Fluctuations in Four East Asian Economies, 2000-2003
Commentators vs. Data (1)

- NDRC Jan 09: “declining oil demand brought by recession. . . . dwindling demand” [for refined products] [CD 1-13-09 p.13]

- Sharp conflict with official reports on

  GDP: +6.8% in 2008 Q4, +6.1% in 2009 Q1

  Industrial value-added: +6-7% in 2008 Q4
  +5.1% in 2009 Q1
Commentators vs. Data (2)

Peking Univ. Prof. YAO Yang June 09: Small & medium enterprises “living through their toughest times with limited access to funding and diminished business opportunities”  

[CD-US 6-29-09, p. 14]

Officially reported value added by private industry up 16.3% in December 2008 (year-on-year), 20.4% for entire year
Commentators vs. Data (4)

• “No ‘business as usual’. . . . Coastal region took a major beating from the global financial crisis” [CD-US 6-15-09, p. 7].

• “widespread closure of factories in southern China” [Economist 1-3-2009 p. 54]

• BUT look at official data for Guangdong heartland of south China’s industry:
2008年1-12月工业增加值累计同比增长（%）

Guangdong Monthly Industrial Value Added Growth, 2007-08
NBS Picture of Guangdong Industry in 2008

• Value added up **12.8%**
• Very mild slowdown – hardly visible on chart
• VA in energy-using industries up **9.4%**
• Industrial use of electricity up **1.3%**
• Possible unmeasured decline in power supplied from small generators
• “manufacturing sector... has shrunk”
• ➔ Output data seem questionable