Lecture 1
Introduction to the Chinese Society

Transition and Growth
(How to view China?)

FROM TRANSITION TO DEVELOPMENT

• Unmatched dynamism and unrivaled complexity
  • The most rapidly growing economy on earth, growth rate of 9.9% from 1978 through 2005
  • Population surpassed 1.3 billion people in 2004
  • Become the world’s second-largest economy
  • Yet still struggling to emerge from poverty
  • GDP is only about 1/2 size of U.S., population is about 4 times
  • Diverse regional economies that range from extreme poverty to relative prosperity

• Diversity and Transition
  • Difficult to see China as a whole
  • Transition from bureaucratic socialism toward a market economy
  • The protracted transformation from a rural to an urban society.
THE DISTANCE TRAVELED

• Unusual and tumultuous development
  • Passing through revolution, socialism, and Maoist radicalism, and then gradualist economic reform and rapid economic growth.
  • Economic and political ideologies have changed completely
  • Chinese approach of incremental reform and steady economic progress has succeeded in practice, in comparison to Big Bang or shock theory of Soviet Union
  • From isolated socialist states to a powerhouse of the global economy
  • A middle income (US$8000 on a PPP basis) country, with a low human development index (HDI)
  • Increasing disparity and unfair
  • Demographic dividend (人口红利) ended, rising cost, aging society
  • Need more development of institutions, human capital, and capabilities


1977
Deng came to power and began reform, first in the countryside.

1980
Special Economic Zones (SEZ) established in Shenzhen, Zhuhai, Shantou, and Xiamen.

1983
Anti Bourgeois Spiritual Pollution.

1986
China passed law on foreign capital enterprise.

1989
Gang of Four sentenced. Reformers consolidated power.

1991
President Jiang visited the U.S. China began bid for WTO membership.

1995
Tariff reduction for 5000 items. Preferential tax treatment ended.

1997
Fiftieth Anniversary of PRC. Reform began in housing, healthcare, social welfare, etc.

1999
WTO schedule in force. Macau reverted to China.

2001
PNTR passed in U.S. Congress. WTO
THE DUAL TRANSITIONS

- From socialist command economy to market economy
- From a rural society to an urban economy
- The challenge of the development:
  - The need to invest in human skills and physical infrastructure
  - The need to create effective institutions (government and laws)
  - The need to protect underprivileged and vulnerable sections of the population
- Growth has changed the standards
  - Urban Chinese: unemployment and a health insurance system
  - Rural Chinese: more precarious economic environments
  - Society is perceived as unfair

GDP Growth, 1980-2010

- Tiananmen
  Avg growth 1987-91: 6.2%
- Asian crisis
  Avg growth 1997-2001: 6.3%
Table: General and Financial Indicators of the People’s Republic of China

(All figures are in billions of RMB or percent unless otherwise indicated)

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<tbody>
<tr>
<td><strong>Gross Domestic Product (GDP)</strong></td>
<td>7,897</td>
<td>8,440</td>
<td>8,968</td>
<td>9,922</td>
<td>10,966</td>
<td>12,033</td>
<td>13,582</td>
<td>15,988</td>
<td>18,282</td>
<td>21,766</td>
<td>63,646</td>
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<td><strong>Real GDP growth</strong></td>
<td>9.8%</td>
<td>8.8%</td>
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<td>8.9%</td>
<td>10.1%</td>
<td>11.4%</td>
<td>10.2%</td>
<td>12.0%</td>
<td>10.4%</td>
<td>7.4%</td>
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<td><strong>Consumer price index</strong></td>
<td>3.3%</td>
<td>1.1%</td>
<td>0.7%</td>
<td>0%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.7%</td>
<td>2.1%</td>
<td>2.4%</td>
<td>2.8%</td>
<td>2.5%</td>
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<td><strong>Urban per capita disposable income (RMB)</strong></td>
<td>5,160</td>
<td>5,425</td>
<td>5,654</td>
<td>6,280</td>
<td>6,660</td>
<td>7,703</td>
<td>8,472</td>
<td>9,422</td>
<td>10,493</td>
<td>11,759</td>
<td>28,647</td>
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<td><strong>Rural per capita net income (RMB)</strong></td>
<td>3,090</td>
<td>2,162</td>
<td>2,120</td>
<td>2,253</td>
<td>2,366</td>
<td>2,476</td>
<td>2,622</td>
<td>2,906</td>
<td>3,255</td>
<td>3,597</td>
<td>8,896</td>
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<td><strong>Unemployment rate</strong></td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
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<td><strong>Financial indicators</strong></td>
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<td><strong>M0 supply</strong></td>
<td>1,018</td>
<td>1,120</td>
<td>1,346</td>
<td>1,465</td>
<td>5,967</td>
<td>7,088</td>
<td>8,412</td>
<td>9,597</td>
<td>10,728</td>
<td>12,603</td>
<td>34,000</td>
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<td>% growth over previous year</td>
<td>16%</td>
<td>10%</td>
<td>9%</td>
<td>7%</td>
<td>10%</td>
<td>14%</td>
<td>9%</td>
<td>12%</td>
<td>13%</td>
<td>26%</td>
<td>26%</td>
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<tr>
<td><strong>M1 supply</strong></td>
<td>3,483</td>
<td>3,895</td>
<td>4,584</td>
<td>5,315</td>
<td>5,967</td>
<td>7,088</td>
<td>8,412</td>
<td>9,597</td>
<td>10,728</td>
<td>12,603</td>
<td>34,000</td>
</tr>
<tr>
<td>% growth over previous year</td>
<td>22%</td>
<td>12%</td>
<td>16%</td>
<td>13%</td>
<td>17%</td>
<td>19%</td>
<td>14%</td>
<td>12%</td>
<td>18%</td>
<td>10%</td>
<td>16%</td>
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<tr>
<td><strong>M2 supply</strong></td>
<td>9,100</td>
<td>10,450</td>
<td>11,990</td>
<td>13,461</td>
<td>15,830</td>
<td>18,501</td>
<td>22,122</td>
<td>25,321</td>
<td>29,876</td>
<td>35,558</td>
<td>110,000</td>
</tr>
<tr>
<td>% growth over previous year</td>
<td>20%</td>
<td>15%</td>
<td>15%</td>
<td>12%</td>
<td>18%</td>
<td>17%</td>
<td>19%</td>
<td>17%</td>
<td>19%</td>
<td>20%</td>
<td>10%</td>
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<tr>
<td><strong>Exchange rate (RMB/$)</strong></td>
<td>8.0</td>
<td>8.0</td>
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<tr>
<td>Foreign exchange reserves (US$ billion)</td>
<td>140</td>
<td>145</td>
<td>155</td>
<td>166</td>
<td>212</td>
<td>286</td>
<td>403</td>
<td>610</td>
<td>819</td>
<td>1,066</td>
<td>3,843</td>
</tr>
<tr>
<td><strong>Government deficit</strong></td>
<td>58%</td>
<td>92%</td>
<td>174%</td>
<td>249%</td>
<td>252%</td>
<td>315%</td>
<td>294%</td>
<td>209%</td>
<td>228%</td>
<td>NA</td>
<td>1,336</td>
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<tr>
<td><strong>Domestic debt</strong></td>
<td>248%</td>
<td>301%</td>
<td>372%</td>
<td>418%</td>
<td>460%</td>
<td>568%</td>
<td>561%</td>
<td>688%</td>
<td>692%</td>
<td>NA</td>
<td>14,257</td>
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<tr>
<td><strong>Foreign debt ($ billion)</strong></td>
<td>13%</td>
<td>146%</td>
<td>152%</td>
<td>146%</td>
<td>170%</td>
<td>171%</td>
<td>1,936</td>
<td>229%</td>
<td>281%</td>
<td>NA</td>
<td>895.5</td>
</tr>
</tbody>
</table>

Sources: PRC National Bureau of Statistics (NBS), China Statistical Yearbook, 2014; The People’s Bank of China

Notes:*According to official SSB figures, which do not include underemployment or the migrant population, NA = not available

**CHINA’S GROWTH & PERFORMANCE**

- Growth accelerated with the opening of markets and competition.
  - China invests a high proportion of national income annually
  - Fueled by high saving rate and large infrastructure projects
- Labor-force growth comes from the “demographic dividend”
  - A large, young population supplying cheap labor to export-oriented and foreign-invested labor intensive manufacturing operations.
- Inputs of physical capital, labor, and human capital are all increasing rapidly

- Benefit from the revival of traditional economy
  - Private businesses, network relationships, and entrepreneurs in trade, commerce and manufacturing
  - Traditional commercial ties with Hong Kong, Taiwan, and Southeast Asia.
  - Labor-intensive manufacturing and service industries provide opportunities for labor-abundant economies
MARKET ECONOMY WITH CHINESE (SOCIALISTIC) CHARACTERISTICS?

+ Gradualism: gradual reforms over time across regions and industries (unlike the shock therapy in Russia)

+ Dualism: a mix of market forces and government planning depending on industry (capitalism + socialism), thus mixed forms of enterprises (SOEs, collective, private, stock, FDI), with government playing a major role, but more flexible and decentralized

+ Constant changes in laws and policies due to the gradual reforms, creating instability as well as windows of opportunity and boom-bust cycles caused by the switching between laissez-faire and austerity programs

+ Incomplete or partial reforms: political reforms and legal development still lagging behind, only recently recognized private ownership of assets

THE (DIS)ADVANTAGES OF GOVERNMENT CONTROL

+ After 40 years of reforms and innovation, Chinese market changes from a pure planned economy to a mixture of resource allocation by both market forces and the government.

+ Government can directly interfere the market economic activity

+ Some disadvantages of government interference: Negative influence on stock market and taxation, some authorities are reluctant to give up their powers for the sake of benefit, and the local protectionism.
UNEQUAL (FAIR) FINANCING ENVIRONMENT

+ Because of the local protectionism, the financial market treats corporations differently.
+ The financial market only offers low cost fund to state owned enterprises.
+ The split of financial market is mainly caused by the government interference of taxation and resource allocation.
+ China is attempting to break the split of areas, politics, industries, and management (banking reform).
+ External pressures, from U.S. and the recent trade war

SIGNIFICANT DIVERSITY AND DIFFERENCES

+ There are tremendous regional differences and market segmentation due to the local economic, political and cultural factors.
+ Difference between rural and city markets
+ Different behaviors of old and young generations of consumers.
BECOMING A “NORMAL” COUNTRY

• Before 1978, economy under socialism were utterly distinctive
  • Outlier among developing countries: large industries and investment but low income (due to the large population)
  • Big and isolated
  • Uniquely shaped by its own history and economic system

• After 1978, getting closer to normal pattern
  • Open and easier to analyze
  • Growth is rapid and persistent
  • Investment rates are very high
  • The contribution of manufacturing to GDP and to growth is very high
  • The increase in China’s participation in the world economy is dramatic
  • A word factory, but poor environment
  • Severe distortions, need “normal” institutions!

THE DILEMMA OF CHINA

• 2ND largest economy, but not a developed country, not a democracy, with a one party system, no real freedom, not enough influence or responsibility in world affairs to match
• An ancient civilization, but a relatively backward society, trying desperately to modernize!
• Rapid economic growth, begin to slow down
• Free-wheeling capitalism, but with a communist party in control, and then a lot of government intervention AND corruption!
• Known for its nouveau riche, but really a country with a lot of poor people, great disparity and increasingly unfair
• Great diversity from post-industrialist metropolis (e.g., Shanghai) to remote mountain villages
CHINA TO THE FUTURE

- The challenges are still serious and mounting
  - Developed recently and rapidly, but established on shaky foundations
  - Inadequate human and physical capital
  - Education and technology levels are low
  - Transportation and infrastructure are much better and remain to be built

- Obstacles have been removed
  - There have been as many failures as successes in economic and transition policy
  - Managed to allow the process of reform and development to go forward amid internal strife

- Contributions to world welfare
  - Over the next century, scientific and medical discoveries, new products and services, and a revitalized cultural contribution will come out of China

GROUP PROJECT A: INDUSTRY/SOCIAL ANALYSIS

- Focus on a single industry/problem or social issue: education of migrant workers’ children, healthcare for the elderly, environmental protection and economic development, clean water, etc.
- An updated and detailed descriptions of the current situation, improvements as well as problems with symptoms, severity and patterns
- Historical (context) review of its progress
- Effects of institutions and policies (government initiatives)
- Other causes and contributing factors (economic & social trends)
- Effects on the industry or social development
  - (growth, problems, symptoms)
- Implications for policy makers, businesses and consumption trends
- Potential pitfalls and solutions
- http://tedxthegardenbridge.com/lifestyle/factorygirls
GROUP PROJECT B: BUSINESS CONSULTATION & PLANNING

+ Given the above analysis, propose a realistic and viable policy initiative and/or business solution (product or service, including that for a government agency, NGO, or social enterprise) to address the above problems

+ Given your proposed solution, conduct the market research: trend, demand, competition, technology, sales forecast

+ Identify one market/segment (i.e., location and people) and develop target population profile (businesses or consumers)

+ Develop objectives and goals (social benefits and impact)

+ Business strategies and planning
  - Location and method (sources of funding & subsidies, in-kind)
  - Marketing mix strategies
  - Promotion and communication strategies
  - Implementation and contingency
  - Sustainable and financially self-sufficient

FORM THE GROUP AND PROPOSE TOPICS IN 2 WEEKS

THANK YOU.