Lecture 2. THE CHINESE ECONOMY
Geography & History
(How they shaped the Chinese people, leaders,
Their thinking and behaviors?)

THE GEOGRAPHICAL SETTING

- The most populous nation, one of the largest countries
  - The third-biggest landmass after Russia and Canada.
  - Big, rugged, and diverse
  - Most of the land is inhospitable, arable.
  - Reflecting these geographic conditions, China’s traditional economy was inwardly oriented
  - The west lags economically and the coast surges ahead
  - Increasingly polluted, hard to restore!
THE LANDFORMS

• Three great “steps” in elevation
  • The top step is made up of the frigid Tibetan Plateau
  • The second step consists of a series of plateaus and basins
  • The third step consists of the plains and low hills

• Three most important rivers
  • Yangtze (Changjiang)
  • Yellow (Huang)
  • Pearl (Zhujiang) rivers

• Population
  • Only 6% of the population lives in the dry mountainous west
  • 94% lives in the eastern half of the country
  • Aihui-Tengchong line, diving the east and west of China
CLIMATE AND WATER

• Cultivation
  • 15% of China is arable
  • Per capita arable land in China is only 1/5 hectare

• Weather
  • Dominated by the southeast monsoon
  • Wet/hot summer and dry winter
  • Coast stays cool, inland basin stays hot
  • Arid country overall

• Environmental issue
  • Short of arable land, forests and water
  • Inevitable and permanent environmental crisis for the next 50 years
  • Economic growth will push up against the limits of what the land can support
PROVINCEs AND REGIONS

- 34 province-level administrative units
  - North China Plain-Beijing-Tianjin metropolis
    - Dependent on unreliable rains and subject to periodic droughts and floods
    - 27% of total population produced 30% of industrial and 31% of the crop output (2003)
  - Lower Yangtze mecoregion-Shanghai
    - Yangtze River Delta, intensively cultivated country side
    - 10% of total population produced 21% of China’s GDP and 10% crop output (2003)
  - Pearl River Delta Area- Guangdong, Hong Kong, Macau Big Bay Area
    - Manufacturing, trade, and high tech
  - Northeast China-Shenyang, Liaoning
    - Heavy industry, Rich reserve of iron ore, coal and petroleum
    - 9% of the population produced 10% of GDP (2003)
  - 3 major regions make up the bulk of Chinese economy
REGIONAL DIFFERENTIATION

• Coast-inland gap
  • Coastal areas densely populated ~ 94%!
  • Chinese government began to extend preferences to central and western areas
  • The fundamental shift that is occurring from traditional inward orientation to its new globalized and outward economy
  • Environmental, social, and economic problems all come together in west

• Geographical conditions and environmental challenges
  • Shape China’s developmental challenges and possibilities
  • Environment is continuously being rebuilt through ceaseless economic activity

• Ethnic diversity
  • 56 ethnic groups
  • Diversity in language, culture, food, etc.
THE CHINESE ECONOMY

Before 1949
THE GREAT DIVIDE

• What The Ancients Did For Us: The Chinese (History Documentary)
  • http://www.youtube.com/watch?v=YHKE1xJBGqc
• Long uninterrupted civilization (5,000 years of documented history), through numerous dynasties since 200BC
• Paper, gun power, silk, compass, typesetting, tea, etc.
• A turning point at 1949
  • Tradition society has being crippled by unfair distribution and corrupt political power, has failed in the 19th and early 20th century
  • Since 1949, China’s economy has grown rapidly
  • The result of a social as well as the economic revolution
  • A sudden acceleration
  • http://www.ted.com/talks/hans_rosling_asia_s_rise_how_and_when.html

Chinese history

• 2 Ancient China
  • 2.1 Xia Dynasty (c. 2100 – c. 1600 BC)
  • 2.2 Shang Dynasty (c. 1700 – 1046 BC)
  • 2.3 Zhou Dynasty (1046–256 BC)
  • 2.4 Spring and Autumn Period (722–476 BC)
  • 2.5 Warring States Period (476–221 BC)
• 3 Imperial China
  • 3.1 Qin Dynasty (221–206 BC)
  • 3.2 Han Dynasty (202 BC–AD 220)
  • 3.3 Wei and Jin Period (AD 220–420)
  • 3.4 Wu Hu Period (AD 304–439)
  • 3.5 Southern and Northern Dynasties (AD 420–589)
  • 3.6 Sui Dynasty (AD 589–618)
  • 3.7 Tang Dynasty (AD 618–907)
  • 3.8 Five Dynasties and Ten Kingdoms (AD 907–960)
  • 3.9 Song, Liao, Jin, and Western Xia Dynasties (AD 960–1234)
  • 3.10 Yuan Dynasty (AD 1271–1368)
  • 3.11 Ming Dynasty (AD 1368–1644)
  • 3.12 Qing Dynasty (AD 1644–1911)
• 4 Modern China
  • 4.1 Republic of China (1912–1949)
THE TRADITIONAL ECONOMY, 1127-1911

• High-productivity traditional agriculture
  • Chinese traditional society was overwhelmingly rural
  • 90% of the population living in the countryside (to 50% now)
  • A traditional triad of farm technology: selected seed varieties, organic fertilizer and irrigation
  • The average product per unit of land was high, but the average product per unit of labor input was low
  • Income and consumption standards remained low
  • China’s population grew at a rate of 0.4% per year over this long period
  • By 1820, China accounted for an estimated 36% of total world population and a third of world GDP

Is China Returning to its Historical Global Economic Position?

THE TRADITIONAL ECONOMY, 1127-1911

• The Commercialized countryside
  • The densely populated countryside supported a thick network of markets
  • The Lower Yangtze and Pearl River deltas- great system of water transport
  • Highly commercialized pre-modern economy
    • Sophisticated institutions
      Widespread use of “paper” money
      Large formal organization
      Advanced commercial procedure
      Legal and customary institutions
    • Competitive markets
      Products
      Land and labor
      Substantial social mobility
  • Small scale “bottom-heavy” economy
    Tea export
THE TRADITIONAL ECONOMY, 1127-1911

• The Crisis in the last Qing dynasty
  • Good development of agricultural and commerce, until 1820s
  • Population growth placed an increased burden on resources
  • Natural disasters strike, drought and flood
  • The government was incapable of mobilizing the funding or manpower needed to support the economy
  • Income inequality was significant
  • Ecological exhaustion deprived the economy of readily available materials
  • China entered a century-long period of decline just as the European countries were entering an unprecedented period of economic and population growth.
  • Concentration of land, 24% owner-tenants, 30% tenants, high rents (45%)
  • Taiping rebellion 1860 (similar to the past change of regime)

THE TRADITIONAL ECONOMY, 1127-1911

• The failed responses to the West and Japan
  • The political and military challenge from the West
  • Opium as the replacement of silver paid and the social problem of opium addiction
  • Opium War, East India Co. (Jardine), and trade balance (deficit wiped out)
  • Ceded Hk to Britan in 1942, after Nanking Treaty
  • Tried to reform, industrialize, and build modern industries (including Navy)
  • After Meiji restoration, Japan took over the role of foreign encroaching
  • Sino-Japanese war 1895 and three others wars lost
  • Boxer rebellions and the “Eight country” Allied forces 1901
  • Government was unable to mount a powerful response
  • The GDP dropped dramatically from 1820 to 1913
  • Impact of the West turned out to be highly traumatic.
  • A series of wars and humiliating treaties (Hong Kong and Taiwan)
  • Treaty port: more than 80 Treaty ports at the peak
  • Forced to open and reform (32% of world GDP in 1820 to 9% in 1913)
The “Middle Kingdom” has been locked to outsiders for 5,000 years, and Western traders since the 18th century have been struggling in search of the keys. Lord George McCartney left Great Britain in 1793 heading east aboard the gunship Jackal. Under his command was an illustrious assembly of 700 British scholars, diplomats, scientists and aristocrats carrying a treasure of imperial gifts and scientific innovations. McCartney’s mission: open China to British trade. Leading the British team to negotiate concessions from the Chinese Emperor, McCartney had reason for optimism. England was at its peak of power, boasting awesome naval strength and trading prowess. China – the final frontier of British mercantile expansion – was ready to be opened. But shortly after reaching China in 1794, McCartney suffered a crushing defeat. Emperor Qialong rejected all British requests, including one for a permanent British embassy in Peking. King George’s precious gifts to the Chinese emperor, meantime, were also refused.


THE BEGINNING OF INDUSTRIALIZATION

- The beginning of industrialization 1912-1937
  - Post Qing dynasty: new phase of political and economic change
  - Modern transportation and communication links
  - 1911 warlord domination and the civil war
  - 1927 Nationalist Party unified the nation
- Industry
  - Treaty Port industrialization (semi-colonies) and Manchurian industrialization (by Japan)
- Evaluation
  - Vibrant society
  - Improvement in literacy rate
  - Open to foreign influence
  - Moving forward rapidly: railroad, textiles, customs, overseas students, etc..
  - Spillover to locals, Chinese owned firms (Rong in Shanghai)
WAR AND CIVIL WAR

- WWII and Civil War 1937-1949
  - War brought mass suffering to the population and serious damage to the economy
  - The war against Japanese invasion and the civil war between Nationalist and Communist
- The rise and fall of a Japan-Centered East Asian Economy
  - Rapid military industrialization in Manchuria under Japanese sponsorship
  - The rise of Manchuria: the majority of China’s industrial capacity was in there
- Increased state intervention
  - State-run firms accounted for 70% of the capital and 32% of the labor
  - By 1947, the government controlled 90% of the iron and steel output, 2/3 of electricity and 45% of cement
  - Major banks and transportation companies were government controlled.
- Inflation
  - The Nationalist government turned to printing money to finance and the result was hyper inflation

THE LEGACY OF THE POST-1949 ECONOMY

- The legacy of the socialist Era (1949-1978)
  - Extreme disruption and serious damage
  - Opium War and anti-Japanese war caused deep suspicious of western world
  - Close-door socialist development strategy
- The legacy of the Post-1978 Market Economy
  - Began to open up
  - Familiarity with the traditional household-based economic system provided a robust potential to adapt to new economic opportunities.
  - Industries
  - Township and village enterprises
  - The return of tradition: Commercial and entrepreneurial networks and behaviors, rooted in the past, have a new-found relevance and provide a positive legacy for the future
  - Foundation for further development after 1949 and 1979