Lecture 2

Geography, demography, social culture and political economy in China

The Geographic 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.
  • Reflecting these geographic conditions, China’s traditional economy was inwardly oriented
• The west lags economically and the coast surges ahead
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
Climate

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

• Weather
  • Dominated by the southeast monsoon
  • Wet 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

Province and Regions

• 31 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% industrial and 31% of the crop output (2003)

• Lower Yangtze marcoregion-Shanghai
  • Yangtze River Delta, intensively cultivated country side
  • 10% of total population produced 21% of China’s GDP and 10% crop output

• Pearl River Delta Area
  • Guangdong, HK, Macao, opened up first, export-oriented economy
  • The Greater Bay Area, poised for innovation and high tech manufacturing
Regional Differentiation

- Coast-inland gap
  - Coastal areas densely populated ~ 94%!
  - Chinese government began to extend preferences to central
  - 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..

Political Economy: The Great Divide

- Long uninterrupted civilization (5,000 years of documented history), through numerous dynasties since 200BC
  - Paper, gun power, silk, compass, typesetting, tea, etc.
- Last Qing Dynasty weakened by colonial powers
- Republic period, WWII, and Civil War
- A turning point at 1949
  - Tradition society 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, then brought to the brink of bankruptcy by central planning!
Demography

- The demographics of the People's Republic of China are identified by a large population with a relatively small youth division

- Labor force
  - In 2012, the number of people theoretically able to enter the Chinese labor force (individuals aged 15 to 59), shrank slightly
  - This trend, resulting from China's demographic transition, is anticipated to continue for at least the next 20 years, to 2030
Demographic Transition

• The world’s most population nation
• Transition
  • The process—from low through high to low population growth is called demographic transition
• Great Leap Forward
  • The crisis caused about 30 million excess death from starvation or disease condition
• Urban-rural difference
  • Large differences in fertility dynamics in cities and countryside
  • Caused by target family size: modernization lead families to prefer smaller size (greater investment, productivity, wealth and smaller families)
• One-child policy
  • Family planning
  • Much more intense in urban areas
  • Total fertility rates were cut in half

Consequence

• The most important side effects of the One-Child policy: preference for boys
• Unbalanced sex ratio and asymmetric investment in education
• Changing age structure of the population
  • Opportunity: China has the advantage of a young population with low dependency
  • An age structure of this sort has both tangible and intangible benefits
  • A “demographic dividend” 人口红利: abundance of labor
  • Future aging is a serious issue
  • Implications for future economy, business and marketing!
Chinese Labor Force

- The Labor Force
  - The number of employed persons in China was 774 million at the end of 2015
  - China has an exceptionally young and economically active population
  - Young work force has shown enormous adaptability to the changes brought by economic transition

- Employment: Ownership and Labor Mobility
  - No labor mobility in command economy system
  - State ownership loomed large in the overall employment picture
  - In mid-1990s this whole institutional setup changed dramatically
  - China has now created a flexible, diversified employment system
  - Abandonment of the Hukou (户口) household registration system, which divide the society into a two-tier system and resulted in serious rural-urban divide
  - Immigrant workers in the hundreds of millions to the urban areas
  - Left-behind children

The Transformation

- Emerging Dualism Within Urban Labor Markets
  - A large proportion of laid-off workers found work in the urban informal sector (下岗, 下海)
  - The informal sector is broadly defined to include private, self-employed, and others
  - Migrants and urban dwellers

- Rural Labor Markets
  - China’s rural labor markets showed a dramatic expansion in nonagricultural employment through the 1990s
  - Off-farm jobs were increasing
  - A generation of rural residents is leaving the land, and the process appears to be accelerating (进城打工)
How Well Do Labor Market Function

• Returns to Education （教育回报率）
  • The socialist system did a fairly good job of providing basic education
  • But education did not significantly increase income
  • The rate of return to education began to climb in the early 1990s
  • Consistent with increasingly competitive labor markets
  • During the 1990s market forces reshaped the way that workers were rewarded
  • Drive China forward into an increasingly skill-intensive economy.

• Human Capital and Educational Attainment
  • Educational attainment in China has been increasing very rapidly
  • From the mid-1990s, the government began to place more emphasis on basic education but the ultimate outcome is not yet clear
  • Total outlays for education in China were at 3% of GDP, still very low
  • China’s educational structure overall is very much that of a developing country
  • Migrants’ children and girls are the most vulnerable group

Conclusion

• The One-Child Policy forced China through the demographic transition at an accelerated pace and created an exceptional demographic window of opportunity for growth during the reform era.
• At the same time, the One-Child Policy is responsible for the exceptional severity of problems that will challenge policy-makers in the immediate future.
  • [Video Link](https://www.youtube.com/watch?v=S4LgZRYfAqc)
Social Culture

• Religion
  – About a quarter of the people practice Taoism and Confucianism and other traditional religions. There are also small numbers of Buddhists, Muslims and Christians.

• Language
  – Mandarin dialects are spoken by 71.5 percent of the population, followed by Wu (8.5 percent), Yue (also called Cantonese; 5 percent), Xiang (4.8 percent), Min (4.1 percent), Hakka (3.7 percent) and Gan (2.4 percent).

• Arts
  – Ancient Chinese were avid writers and philosophers and that is reflected in the country’s rich liturgical history.

Social Culture

• Value
  – The traditional cultural values that influence the psyche of the Chinese people are Harmony but not uniformity, benevolence, righteousness, courtesy, wisdom, honesty, loyalty, and filial piety

• Social Ties
  – Family
  – Deference and obedience to one's elders

• Collectivism vs. Individualism
  – In general, the Chinese are a collective society with a need for group affiliation
  – They are willing to subjugate their own feelings for the good of the group.
  – This is often observed by the use of silence in very structured meetings

2020/9/14
The Reform of economic system: From planning to market: 经济体制改革：从计划到市场

- Central planning permeated every aspect of the economy, from the types of products, quantities, channels to pricing.
- Market reform is the beginning of the reform process to continuously increase the role of market in economic resource allocation.
- Two periods for the innovation:
  - In the 1980's, the domestic adjustment and innovations are the key concerns;
  - After the 1990's, the opening policy drives the innovation, the coastal cities set examples for the inner ones, leading to innovations in policies and theories, and the economic activities stimulate the social and political changes.
Shift to market-based systems

- Economic Reforms since 1979, rural agriculture, urban industry, service, government, public administration
- Focus on the improvement of corporate governance, the promotion of the non-state sector and the protection of property rights.
- Building up further a market oriented behavior by regulations and laws (instead of orders from government).
- The growth of foreign direct investment, import of equipment, technologies, management know-how, and new business concepts as well as ideas and lifestyles.
- Private ownership has become a fundamental building block of the economy.
- Now 60%-70% market economy, p.21.
  - Greater reliance on market factors and consumer trends,

The results

- Ingenuity and energy of people released
- Rapid economic growth: in output, brands, and distribution outlets.
- Unprecedented improvement in productivity and creativity!
- Rise of standards of living and quality of life: consumption waves and upgrade
- Under-developed legal systems, thus many loop-holes for the opportunism and corruption!
- Policy swings and over-corrections, and constant adjustment!
Still in transition

- From central planning to market forces
- From an economy of scarcity to oversupply (seller’s market to buyer’s market)
- From the dominance by SOEs to the co-existence of several modes of ownerships with an increasing proportion of private businesses
- Aging population, diminishing demographic dividends (人口红利), lower growth, and possible stagnation!
Market economy with Chinese (socialistic) characteristics?

- The Walder article
- 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
CONCLUSION

• China is a vast diverse nation with a large manufacturing sector, highly developed urban centers, a lagging service sector, and underdeveloped rural areas