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ESADEgeo-CENTER FOR GLOBAL ECONOMY AND GEOPOLITICS

5 Book Reviews on global economy and geopolitical readings

ESADEgeo, under the supervision of Professor Javier Solana

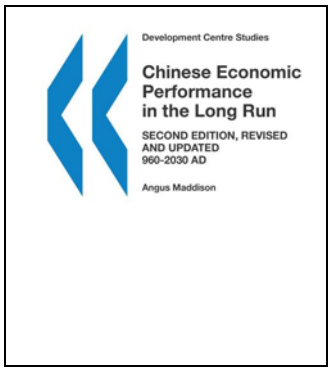
and Professor Javier Santiso

Fundación REPSOL

Obra Social "la Caixa"

Chinese Economic Performance in the Long Run - Second Edition

Angus Maddison (2008), OECD.



"China es todavía un país de renta relativamente débil, pero esta situación más bien le supone una ventaja de cara a alcanzar rápidamente a los demás. El hecho de que su renta sea todavía muy inferior al de Corea del Sur, de Hong Kong, de Japón, de Malasia, de Singapur y de Taiwán significa que todavía tiene un gran margen de maniobra para aprovechar las ventajas de su retraso y que el período de crecimiento acelerado que está experimentando puede durar por más largo tiempo de lo que duró en estos otros países." (p. 60)

Premise and opinion

Chinese Economic Performance in the Long Run, 960-2030 AD (Second Edition) is the 2008 revised edition of the book Maddison published in 1998 about the history of the Chinese economy and its medium term performance. This in-depth study of China's economic growth over the last one thousand years, from the onset of the Song dynasty (10^{th} C) until the reforms undertaken by the People's Republic that followed Maoism, relates the country's political history in conjunction with an analysis of the key growth factors of each historic period. Looking forward in the last chapter, the author posits his hypotheses about China's growth by 2030 and discusses the main difficulties the country must deal with if its current success in economic development is to be sustained.

The broad period of history spanning the study and its forecasts make one realize that when China becomes the world's No. 1 economy - in around 2015 according to Maddison – it will in fact be merely regaining the position it held for two thousand years until as recently as 1890. This analysis, now considered to be a classic in economic historiography, triggered a fierce debate in its day about the comparative

strengths and weaknesses of the economies of Europe and China. The book is accompanied by a wealth of statistics in six appendices and more than 110 data tables.

The author

Angus Maddison (1926-2010), British historian and economist, was of the greatest experts in the economic history of the world. Professor at the University of Groningen, he was one of the most influential authors on the historic and comparative analysis of economic growth. Maddison is now acknowledged to be the foremost researcher in this realm. His databases are one of the most important sources of information for growth analysis. RAF pilot in World War II. Appointed assistant director of the economic development division of the OECD in 1963. Collaborator with the *Centre for International Affairs* at Harvard since 1969, and economic adviser to many countries (Ghana, Pakistan, Brazil, Guinea, Mongolia, USSR and Japan).

China's economic development over the last one thousand years

China's economic development in the last millennium can be divided into six periods:

1. 960-1280 (Song dynasty). Period of intensive and extensive growth as a farming economy which enabled the GDP per capita to increase by one third whilst the population doubled. Whereas in the 8th century, 75% of the population lived in the northern regions of China and grew non-irrigated crops (wheat and millet), by the late 13th century 75% was living to the south of the Yang-Tse river where irrigated rice growing boomed against the backdrop of an economy open to foreign trade. In the 10th century, China was the world's foremost economy in terms of GDP per capita and outstripped Europe in terms of technology, use of natural resources and its ability to manage its vast imperial empire.

China invented the civil service. In the 10th century it was already recruiting qualified civil servants on the basis of merit. The bureaucratic machine, based on Confucian philosophy, was its main tool for keeping social and political order, and ensuring the unity of the state throughout its immense territory. This machine brought great economic benefits for agriculture: it built water infrastructures, diffused the most advanced farming techniques across the territory in illustrated farming manuals, introduced new crops and enhanced seeds enabling harvests to treble, etc. The lack of arable land was offset by the intensive use of labour and an increase in irrigated land. The upsurge in farming productivity released part of the workforce and enabled handmade textiles to flourish: a decisive factor in improving the population's standard of living. Indeed, it was not until the 20th century that Europe managed to attain the level of farming development that China had had in the 12th century.

2. 1280-1700 (Mongol dynasty and Ming dynasty). The population quadrupled in this period but China managed to maintain a steady GDP per capita. However, despite its naval technology outclassing that of Europe, China withdrew and turned its back on the world economy. An era of economic stagnation with the occasional dip in economic growth.

Although the bureaucratic system had advantages for agriculture, it prevented an independent industrial and trading middle class from developing as had happened in Europe. Urban life was controlled by civil servants and gentry who tended to regulate even the smallest details of life in society: all private gainful activity was subject to pressure from the administration. The large companies were public monopolies. Traders and bankers did not have the legal protection afforded by the "town charters" in force in the European cities of that time: whereas European cities were controlled by traders, Chinese cities were controlled by the empire's civil servants. China lacked the circumstances that fostered the emergence of modern capitalism in Europe. Traditional Chinese education linked to the bureaucratic system prevented the permeation of the western scientific revolution, whilst resistance to foreign trade curbed competition and innovation. As a result, fifteenth-century China lost its economic advantage over Western Europe in terms of GDP per capita.

3. 1700-1840 (Qing dynasty). The population trebled and yet GDP per capita remained constant thanks to a considerable expansion in farming, based on the spread of non-irrigated crops imported from America (corn, potato, etc) making it possible to farm previously non-arable land. Despite the empire's territorial expansion in this period (Mongolia, Tibet, Central Asia, Siberia) and the creation of a girdle of tributary states (Korea, Siam, Burma, Nepal), China remained isolated from the rest of the world and, therefore, unaffected by the industrial and economic revolution taking place in the West.

4. 1840-1950 (decline of the Empire, onset of the Republic). This is the era of economic decline and political humiliation vis-à-vis foreign powers. In this long century, China was plunged into a state of continuous turmoil: the first British incursion (1840), the Taiping Rebellion (1850-64), the wars against France and England and against Russia (1858-60), the First Sino-Japanese War (1894), and the Boxer Uprising (1900) resulted in the forcible opening up of China's ports to foreign trade, the installation of foreign factories, the annexation of great expanses of national territory (Manchuria, eastern Siberia, etc) by those same powers and the loss of dominions along the border states. The last years of the Qing dynasty and the early years of the Republic (1900-16) – punctuated by the power of general Yuan Shikai, the era of the Kuomintang government (1928-73) led by Sun Yat-sen and Chiang Kai-shek, the Second Sino-Japanese War (1937-45) and the civil war between the Kuomintang and the Communist Party (1945-1949) – are the saga of the collapse of an age-old imperial regime. The aristocratic elite of the civil service was unable to foster true reforms designed to modernise the country because of their thoroughly conservative

outlook and refusal to relinquish their privileges and social standing; but neither was the Kuomintang (KMT), despite its nationalist, republican and pro-socialist project, capable of bolstering a new and truly modern political and economic order.

So during this protracted period, China's economy dwindled dramatically whilst the outside world experienced an unprecedented economic boom. Whilst political upheavals were wreaking havoc in China, the world's GDP multiplied eightfold and the world's GDP per capita trebled. Consequently, China's GDP per capita plummeted from 90% to less than 25% of the world's average and its GDP shrank from almost 33% to just 5% of the world's GDP. In the 1890s, China's GDP fell behind that of the USA, and China ceased to be the world's No. 1 economy (in terms of GDP) for the first time in almost two thousand years.

5. 1949-1978 (Maoism). The People's Republic constituted a clean break with the recent past. The new regime succeeded where the Qing Dynasty and the KMT had failed; it put an end to internal strife and foreign interference. Once political stability was restored, it was able to build a new model of public administration, create a new elite and implement a centrally planned economy directly inspired by the Soviet system. As a result, China's growth rate rocketed between 1952 and 1978: GDP trebled and GDP per capita climbed by 80%. The economic structure changed radically with industry's contribution to GDP soaring from 8% to 30%. Physical and human capital increased enormously, whilst significant advances in health and education enabled great improvements to human resources.

Productivity, however, failed to keep pace with this undeniable advance in industrialisation, and grew by just 58%, to a great extent because of several social and economic disasters, such as the Great Leap Forward and the Cultural Revolution, and the Korean and Vietnam wars. Whilst the world's GDP per capita grew by 2.6%, China's GDP per capita increased by just 2.3%. During these decades China suffered almost complete autarchy and economic isolation – the USSR was its only source of technical and financial aid. Its contribution to world trade plummeted and foreign investors fled the country. With resources located according to state directives and market forces almost completely sidelined, the Chinese economy lost the battle for manufacturing efficiency.

6. 1978-2003 (economic reforms). In 1978, China cast aside its centralised planning system and embraced market forces, and quickly began to participate in the world economy, so much so that it was the fastest growing country in that period, far faster than any other. To be precise, China's GDP increased almost sevenfold in those 25 years. Hence the Chinese economy, which had accounted for just 5% of the world's GDP in 1978, increased to 15% by 2003: second only to the USA. The GDP per capita grew by 6.6% p.a. – far more than the 1.8% growth recorded in the USA and Europe in the same period, and four times higher than the world's GDP per capita, i.e. a fivefold

increase. Consequently, the GDP per capita rose from 22% to 74% of the world average.

Farming efficiency increased enormously in this period with a reduction in the size of farms: the 6 million production teams active in 1978 (with an average of 30 workers) had become 250 million family farms by 2003 (with an average of 1.4 workers). Likewise, small private industries flourished, up from 384,000 companies with an average of 175 workers in 1978, to 8 million companies with an average of 8 workers in 1995. Capital stock quickly increased but the key to success was the better use of production resources and a sharp increase in the overall productivity of the factors – the productivity of the work force quadrupled. In addition, foreign trade soared, to the extent that China (including Hong Kong) is now the world's No. 1 exporter: its exports have increased by 28 between 1978 and 2003 and its weight in world trade, by 10 (up from 0.8% to 8%). The creation of special free-trade zones has speeded up the assimilation of foreign technology thanks to massive foreign direct investment (FDI): between 1979 and 2005 China received FDI of more than US$ 620,000 m.

Future prospects (2003-2030)

Despite the remarkable success of the period of reforms, China is still a relatively poor country: its GDP per capita is currently 23% of the USA's, 23% of Japan's, 28% of Taiwan's and 31% of Korea's. Countries that are lagging behind somewhat and still some distance from the technological frontier, could develop quickly if they take the road China has followed in recent decades. Hence Maddison's forecast that China will continue to catch up with other developed economies in future decades, although the pace will slow as China approaches the technological frontier.

So an average increase in GDP per capita of 4.5% p.a. is envisaged between 2003 and 2030: 5.6% at the beginning and 3.6% at the end of the period. By 2030, China's GDP per capita will be the equivalent of Europe or Japan's GDP per capita in c. 1990 – the time when these economies caught up – and will be about one third higher than the world's GDP per capita. As China approaches this level, technical progress will be increasingly expensive because imitation must give way to innovation. Although its GDP per capita will be just one third of the USA's, China will be a giant in the global geopolitical scene: according to Maddison, China will regain its position as the world's No. 1 economy (a position it held for two thousand years) by 2015, the year that China's GDP will edge ahead of the USA's. Back in 1978 China generated for 5% of the world's GDP: by 2030 it will account for 23% (in comparison with the USA's 17%).

Immediate and future challenges. In the first edition of his book (1998), Maddison pointed out three possible obstacles to catching up: (i) *the excessive burden of inefficient state companies* with enormous deficits, a challenge that has now been satisfactorily dealt with (in 1993 they employed 35 million workers and in 2005, a mere 5 million); (ii) *the weakness of the financial system* characterised by an exponential

increase in household savings but undermined by a public banking system weighed down by state enterprises; and (iii) *the precarious finances of central administration*: revenue fell from 31% of GDP (in 1978) to 10% (in 1995), and is now (17% of GDP in 2005) insufficient to bolster health and education infrastructures.

Looking ahead, the main obstacles to sustaining current growth are:

- *Energy sources and their environmental impact.* Electricity production increased tenfold between 1978 and 2005, and cars in China will increase from 17 million in 2006 to 300 million in 2030. Energy efficiency trebled between 1973 and 2003 and will double by 2030. Despite this improved efficiency, the environmental impact of the Chinese energy model will nonetheless be dramatic: 60% of energy consumption uses the coal so very abundant in the Chinese subsoil. The ratio of CO_2 emissions to energy consumption in China is the worst of all the world's foremost economies.

- *The legal system and private ownership rights.* The legal system poses no obstacle to the growth of private companies, but land and earth are still state-owned or collective property, and town planning officers have many instruments for expropriating the land or homes of peasants and the poor in exchange for very little compensation.

- *The very pronounced inequalities between different regions, and between town and country.* The average GDP per capita in the richest regions is ten times higher than in the poorest regions, a situation that has improved little since 1978. Inequalities between town and country are more pronounced in China than in any other Asian country due to the Maoist census registration still in force, a system created to control the movements of the population. In addition, migrant workers working illegally in cities account for one sixth of the urban population.