Knowing China

by

Gregory C. Chow

Princeton University, USA

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To

Milton Friedman

Paul Samuelson

Zhao Ziyang

from whom I have learned economics

About the Author

The author is Class of 1913 Professor of Political Economy and Professor of Economics, Emeritus, at Princeton University. He attended Cornell University (BA, 1951) and the University of Chicago (MA, 1952, and Ph.D., 1955). He was Assistant Professor and Associate Professor at MIT and Cornell University respectively before becoming a Research Staff member and Manager of Economic Research at the IBM Thomas J. Watson Research Center, from 1962 to 1970.

Between 1970 and 1997, He was the Professor of Economics and Director of the Econometric Research Program at Princeton University. In 2001, the Program was renamed the Gregory C. Chow Econometric Research Program in his honor.

Professor Chow has advised top government officials in Taiwan and mainland China. His previous books include *Demand for Automobiles in the United States: A Study in Consumer Durables* (1957); *Analysis and Control of Dynamic Economic Systems* (1975); *Econometrics* (1983); *The Chinese Economy* (1985); *Understanding China's Economy* (1994); *Asia in the Twenty-first Century* (1997); *Dynamic Economics: Optimization by the Lagrange Method* (1997) and *China's Economic Transformation* (2002).

Preface

The September 22, 2003 issue of *Financial Times* carried a major article with the title “Why Europe was the past, the US is the present and a China-dominated Asia the future of the global economy” [sentence added at page proof]. China has gained large economic and political influence in the world but few outsiders know it well. It is the main purpose of this book to fill the gap. China has an intriguing and fascinating history. Its culture makes the Chinese people talented and resourceful. Its economy is capitalistic and not as poor as many imagine it to be; it will overtake the US economy in total output in about 2020. It does not have a population problem; in fact, there are advantages in having a large population. It does not have a well-developed legal system in Western style but has a moral-legal system that works if one knows the rule of doing business. The Chinese education system has strengths as well as weaknesses. Science is quite advanced and there is a high-tech explosion in China. The Chinese people are quite happy and free. Its government officials are capable people, and the government has done a lot for the people in the last 25 years, after having made serious mistakes in the two decades before. Most Chinese support their government. Shanghai and Hong Kong are very dynamic modern cities. In many ways, Shanghai is more advanced than New York, as former Treasury Secretary Robert Rubin remarked in a speech in Princeton on March 28, 2003. China has many interesting places for tourists to visit. The country

is like a large park or museum. Partnership with China is good for the United States in assuming its world leadership. The above themes will be elaborated upon in this book as it guides the reader through the many facets of China that he needs to know.

People who have traveled to China in recent years realize that China is a remarkable country in many ways and are likely to agree with most of what I have to say. People who intend to visit China for the first time will find this book useful. For the remaining residents in the United States and the rest of the Western world, the presence of China will be increasingly felt in their daily lives as more Chinese products appear in their home markets, more business opportunities in China become available and recognized, more Chinese travel elsewhere and as the US government will be more involved with China in assuming its leadership role in the community of nations.

Having spent my early years in China, until the completion of my freshman year in 1948, I was first exposed to a Chinese way of thinking. Much of that thinking has been modified and integrated in the last 55 years of living in the United States. As an economist, I tend to think in economic terms. Economic thinking has affected my way of looking at other subjects such as culture, as can be seen in the beginning of Chapter 2 for example. Economists appreciate the working of the invisible hand, often side with the market rather than the government, and prefer freedom to government intervention, provided that law and order is assured. As an academic, I have published 11 other books, most of them academic. This is the first book that I have written mainly for the general reader, although I would not object if some professors assign it for their courses. I am also a realist and do not think like a typical academic in many ways partly because I worked for IBM for eight wonderful years, and partly because I had to deal with real-life economic and political problems.

I have become more of a realist after serving as an advisor to leaders and top government officials in Taiwan from the 1960s onward and in Mainland China from the 1980s. I am still active in

both areas, interacting with people in the governments, in business and in educational and research institutions. Since the early 1980s I have taken two to three trips per year to mainland China/Hong Kong/Taiwan, spending a total of six to eight weeks per year. In discussing China I am not only an observer, but also a member of its community. As a result I have learned a great deal about China, some from working experience with top and middle-level government officials as discussed in Chapter 6.

The content of this book is easily seen from the titles of the nine chapters in it. Chapter 1 can be read first. The remaining chapters can be read in any order according to the interest of the reader. Each chapter will provide some general information as well as my own insights on the topic concerned.

In writing this book I am indebted to many persons. When only the first draft of several chapters was completed I circulated it to and received helpful suggestions from Gary Becker, James Chow, Peter Dougherty, Paula Duffy, Wen Fong, Milton Friedman, Bruce Gilley, Michael Intrilligator, Susan Solomon, Jack Tchen and Robert Venturi. For the later drafts of the manuscript, I have received helpful comments from Paula Chow, Hu Shouwei, Harvey Lam, Jianping Mei, Ivan Png and Pei Zhu. To all of them I would like to express my sincere thanks without implying that any of them necessarily agrees with the views expressed herein which are my own. The excellent work of Ms. Ho Sheo Be and Ms. Amy Liu in editing and translating the manuscript respectively is much appreciated.

Gregory C. Chow
Princeton, NJ
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