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China's Industrial Revolution and Economic Presence

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(Rutgers, The State University of New Jersey, USA)

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by Manoranjan Dutta (Rutgers, The State University of
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China's Industrial Revolution and Economic Presence

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To

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The 1980 Nobel Laureate in Economics
who taught economics and econometrics to me

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PREFACE

My study of the Chinese economy was inspired by my friendship and communication with Professor Chang Peikang of Huazhong University of Science & Technology (HUST), Wuhan, China, who came to attend the International Economic Conference on US-Asia Economic Relations, held at the New Brunswick campus of Rutgers, The State University of New Jersey in April 1981. At his invitation, I visited his University in 1986. Six international conferences on the same theme in China soon followed. HUST and the American Committee on Asian Economic Studies (ACAES), an inter-university program with an exclusive focus on studies in economics in the context of the new emerging paradigm of US-Asia economic relations and founded in 1982, cosponsored the first one held at the Wuhan campus of HUST in 1987. The next four conferences were sponsored jointly by ACAES, Shanghai Academy of Social Sciences (SASS), and Chinese Academy of Social Sciences (CASS), three at the SASS campus in Shanghai in 1988, 1990, and 1994, and one at the CASS campus in Beijing in 1992. The sixth conference held at Peking University campus in 2002 was sponsored by ACAES in collaboration with Peking University School of Economics and China Reform Forum. In addition, I had occasions to undertake academic visits to China on five other occasions between 1986 and 2004.

Over the years I had as many as 35 occasions to give invited lectures and seminars, make scholastic presentations to assemblies of professional economists, and address general meetings of students and professional groups at various institutions, universities, and academies of social sciences. Special conferences with the officials of the People's Bank of China (PBOC) and of various government ministries inclusive of the macroeconomic group at China's State Planning Commission helped my field research. In addition to HUST, SASS, and CASS, I had occasions to

visit China Reform Forum, Peking University, Fudan University, Wuhan University, Sinopec Research Institute, North China University of Technology, China-US Business University, The City University of Hong Kong, and The Chinese University of Hong Kong.

These gave me an ample opportunity to interact with a large number of my fellow economists in China and also with many economic policy-makers in both government and business sectors of China even though I had to do all my field work without the knowledge of the Chinese language. Friendly help from my hosts in China proved immensely useful and my pursuit of professional work on China progressed substantively.

In 1981, *The New York Times* published in a multi-column headline: For The First Time In The History Of The United States, The Trans-Pacific Share Of Its Trade Became Larger Than The Trans-Atlantic One. Indeed, my research has shown that it actually happened in 1980. For many years, Asian economic studies in the United States have remained fractured. Normalization of relations with the People's Republic of China came only as late as 1978. India and other South Asian economies continue to be treated as disjointed units of Asia's continental map. ACAES and the Journal of Asian Economics, sponsored by ACAES in 1990, have worked to bridge the gap.

China's Industrial Revolution and Economic Presence is an output of my studies of the Chinese economy. With a 1.3 billion strong population base, China is world's most populous economy. Population relates to the twin blades of the economic scissor, labor supply and consumption demand. China's economy has a relatively abundant endowment of natural resources. Indeed, over the past 25 years, China has accomplished an economic miracle, its annual rate of growth of Gross Domestic Product (GDP) averages over 9 percent and China has emerged as a competitive industrial economy, with trading partners in nearly all continents.

The book has seven chapters, each with a specific focus. A large number of tables and figures lend support to the analytic expositions in each chapter.

Chapter 1 reviews China's accelerated rate of industrialization and growth of GDP since the 1980s, and examines the issue of the

sustainability of this rate of growth for the years to come. Is a period of softening in order? Specific issues of bottlenecks China may face are discussed. Resource bases are limited for any economy; however, Chinese authorities have made intensive and extensive efforts to find relief. Exploration of oil bases in China's offshore regions in the Pacific and alternative energy sources inclusive of electricity, hydroelectricity, coal, and acquisitions of interests in petroleum reserves in Kazakhstan have all been noted. Can China lead the world in exploring solar and wind power? For other industrial raw materials, China is ready to make good use of its ever increasing foreign exchange reserves and be a currency broker in the world market. For zinc, China has been active in neighboring Mongolia and has gone as far as Cuba in Latin America. For chemicals, iron ore, and steel, China has expanded her trade relations with her Southern neighbor, India. The inter-sectoral imbalance has been another issue. China's industrial/secondary sector has grown immensely while the tertiary sector, consisting of service items inclusive of money and banking and financial institutions lag behind. China has been paying serious attention to this (Chapter 5).

A more serious gap in China's tertiary sector relates to education, research, and health care. To sustain the rate of growth at its very high rate, China must be able to build up the necessary stock of human capital. In the global context, China is far from a competitive position. It has been argued that in the absence of careful planning in this regard, China will face a real challenge.

Chapter 2 deals with China's economic presence. China's global economic presence has become a reality and its economic competitiveness warrants careful and thorough recognition. Indeed, economic cooperation with China will maximize economic welfare for the peoples of China and the rest of the world.

Chapter 3 is an exposition of the theme that China must develop a framework of economic cooperation with her neighbors in Asia. The continental map of Asia is as real as the continental map of Europe. China's economic cooperation with the economies of Northeast, Southeast, and South Asia has made spectacular progress. China has also developed a proactive economic cooperation agenda with her neighbors to the North including Mongolia and Russia. Lessons of history based on

regional conflicts must be carefully learned. The one economic market of Europe is a new paradigm of continental economic cooperation. China can lead the Asian economic cooperation agenda as a member of the 3 plus 5 model, recently expanded to the 4 plus 10 model.

Chapter 4 is an extensive exposition of the role of foreign investment in China's industrialization and economic growth. Indeed, as Phase 3 of China's open invitation to foreign investors in 1992, China has been the recipient of huge volumes of foreign investment, earning her the recognition as being the most foreign investment friendly country in the world. We have analyzed the six specific points how foreign investment contributed to China's transformation into a global economy. We have argued that the Chinese model is one of import-export led growth, not one of export-led growth. China's exports became a necessity for the repatriation of profits home by the foreign investors in China. This only stimulated more investment; China's foreign exchange reserves soared and her international credit rating went up.

Chapter 5 discusses China's financial market. If, in the earlier decade, the secondary sector received priority and manufactures became the dominant share of China's GDP, now is the time to build up the financial services in the tertiary sector to support the manufacturing industries in the secondary sector. Delaying this attention will force China to face the consequences of the severe imbalance between the two sectors. It is evident that the Chinese planners have ascertained their priority for the financial market inclusive of banking, insurance institutions, and related services. Overseas banks and financial institutions from the USA, Canada, Germany, UK, Switzerland, France, the Netherlands, and others, are out to buy stakes in China's government-owned banks and financial institutions.

In Chapter 6, the foreign sector of the Chinese economy is analyzed. China's trading partners cover a large number of economies in all populated continents. China has not limited her trade relations to a select group of large economies with relatively larger economic dimensions based on GDP or with the availability of much-needed resources. China's agenda is simply to be engaged in economic partnership with as many economies as possible.

Finally in Chapter 7, we review selected issues of concern to the Chinese economy in the post-Industrial Revolution regime. Is China yet a mature industrialized economy? Can China bridge her interregional economic gaps by a planned and progressive industrialization of the remote provinces to the west? How does China rate for income distribution based on the Gini coefficient index? For health, transportation, technology, education, science, and telecommunication, a comparison based on four economies, the two most populous, China and India, and the two richest economies, USA and Japan, has been a part of this chapter. I have argued against the thesis “Walls, Walls, and more Walls”, advocating that China has no grand designs to dominate the world economy. The history of the collapse of the imperial economic hegemony has been all too pronounced. China will work with its socialist market economy and will continue to ensure her place in the world economy by the open route of free market competition. The failure of the communist economy was very much attributed to the absence of competition. “To Be Rich is Glorious” will remain China’s economic agenda. In my final remarks, I venture not to offer any conclusion in recognition of the fact that eventful changes in the dynamic process of progression of China’s Industrial Revolution must continue to occur. Indeed, Change has been observed to be the only constant in our world. It is thus so for China’s Industrial Revolution.

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MAP OF CHINA

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