THE CHINA BOOM AND ITS DISCONTENTS

THE CHINA BOOM AND ITS DISCONTENTS

Ross **Garnaut** and Ligang **Song** (eds)

THE AUSTRALIAN NATIONAL UNIVERSITY

E PRESS

Asia Pacific Press at
The Australian National University

Co-Published by ANU E Press and Asia Pacific Press
The Australian National Unversity
Canberra ACT 0200, Australia
Email: anuepress@anu.edu.au
Web: http://epress.anu.edu.au

National Library of Australia Cataloguing-in-Publication entry

The China Boom and its Discontents.

Includes index.

ISBN 0 7315 3727 0
ISBN 1 9209 4241 6 (Online document)

1. Industrialization - China. 2. China - Economic policy - 2000- . 3. China - Commercial policy. 4. China - Economic conditions - 2000- . I. Garnaut, Ross. II. Song, Ligang. III. Title.

338.951

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying or otherwise, without the prior permission of the publisher.

Editors: Davina McConnell and Bridget Maidment, Asia Pacific Press
Cover design: Annie Di Nallo Design
Printed by Digital Print Australia, Adelaide

First edition © 2005 ANU E Press and Asia Pacific Press

Contents

Tables vi
Figures viii
Abbreviations x
Contributors xi
Acknowledgments xii
1. **The China boom and its discontents** xiii
Ross Garnaut
2. **The risks of investment-led growth** 1
Ross Garnaut and Yiping Huang
3. **Exchange rate flexibility** 19
Jianping Ding and Ying Zheng
4. **China's demographic transition: implications for growth** 34
Cai Fang and Dewen Wang
5. **Political institutions and economic growth** 53
Tao Kong
6. **Rural-urban labour migration and regional income disparity** 87
Xiaolu Wang
7. **Rapid urbanisation and implications for growth in China** 105
Ligang Song and Yu Sheng
8. **Corporate governance and firm performance** 128
Mei Wen
9. **Restructuring state-owned enterprises:labour market outcomes and employees' welfare** 139
Xin Meng
10. **Foreign banks: can Chinese banks compete?** 158
Zhenya Liu, Hanene Hamdoun and David Dickinson
11. **How are equity markets performing in China?** 174
Ted Rule
12. **Recent developments in the social security system** 196
Tim Murton
13. **Components trade and implications for Asian structural adjustment** 215
Prema-Chandra Athukorala
14. **China's trade expansion and the Asia Pacific economies** 240
Kunwang Li and Ligang Song

Index 263

Tables

2.1	Saving and investment shares in the world, 1994–96 and 2002–04	7
3.1	Trade weights of China's trading partners, 2003	22
3.2	Ratio of foreign investment, 2002	22
3.3	Comparison of GDP growth rates	24
3.4	Granger test of nominal exchange rate	25
3.5	Estimated width of bands for the RMB	28
3. 6	Uncertainty about the currency band width	28
3.7	The Japanese and Chinese foreign exchange markets	28
3.8	Augmented Dickey-Fuller test for the data	30
3.9	Johansen cointegration test	31
3.10	Normalised cointegrating coefficients	31
3.11	Pairwise Granger causality tests	31
4.1	Growth rates and dependence ratios in East Asia	35
4.2	Comparison of international savings rate	41
4.3	Regression results of the demographic transition on savings rate	44
4.4	Regression results of economic growth versus demographic transition (OLS)	48
5.1	Basic relationship between political institutional structure and governance quality	63
5.2	Estimation results of the relationship between optimal political institutional structure and levels of economic development	65
5.3	Growth regressions: growth effects of political institutional structures	68
6.1	Changes in regional GDP per capita	88
6.2	Regional disparity in urban disposable income per capita	89
6.3	Regional disparity in rural net annual income	89
6.4	Cross provincial 'floating population' by region, 2000	90
6.5	Cross-provincial 'floating rural labour' by region, 2000	90
6.6	Population density in major world urban centres	102
7.1	Employment of rural migrant workers in urban areas by ownership, 1995–2002	110
7.2	Infrastructure development in urban areas, 1990–2003	111
7.3	Determining the pace of urbanisation from supply and demand perspectives, 1960–2003	115
7.4	Three scenarios for urban labour force forecasts, 1995–2020	120
8.1	Average pre-*gaizhi* labour productivity	132
8.2	Average pre-*gaizhi* profit-asset ratio	132
8.3	Average pre-*gaizhi* (profit+tax)-asset ratio	132

8.4	Average change in labour productivity	134
8.5	Average change in profit-asset ratio	134
8.6	Average change in (profit+tax)-asset ratio	134
8.7	Determinants of change in enterprise performance	135
9.1a	Summary statistics of the three samples	145
9.1b	Distribution of the forms of the restructuring	146
9.2	Estimated labour demand equation	148
9.3	Estimated wage determination equation	149
9.4	Differences in various welfare measures before and after the restructuring	152
9.5	Fixed-effects estimation of SOE restructuring on employees' welfare	153
10.1	Assets structure of major banks	160
10.2	Deposits structure of major banks	162
10.3	Loans structure of major banks	163
10.4	Profits structure of major banks	164
10.5	'Big-four' concentration ratio	165
10.6	Market structure	166
10.7	Herfindahl index	167
10.8	Regional distribution of foreign-funded bank branches in China, end of 1999	168
10.9	Regional distribution of foreign-funded bank branches in China, end of 2003	169
10.10	Comparison between Chinese and international banks, 1998	171
10.11	Comparison between Chinese and international banks, 2003	172
11.1	Funds raised by the market 1993–2004	185
11.2	World markets by number of listed companies, 2004	187
13.1	World trade in parts and components, 1992–2003	218
13.2a	Parts and components in the manufacturing trade, exports	221
13.2b	Parts and components in the manufacturing trade, imports	222
13.3	Composition of parts and component trade by 2-digit SITC Categories	225
13.4	Share of parts and components in manufacturing trade of East Asia, China and Japan, 1992, 1996 and 2003	227
13.5	Share of East Asia in Chinese exports and imports of manufactured goods, 1992, 1996 and 2003	231
13.6	Share of East Asia in total Japanese exports and imports, 1992, 1996 and 2003	233
13.7	China and Japan: net trade with East Asia, 1992, 1996 and 2003	234
14.1	Sources of China's imports from selected economies, 1990–2003	243

14.2 Commodity composition of exports to China from the regional economies 244
14.3 The bilateral export similarity index between China and ASEAN countries, 1995–2003 246
14.4 Impact of '10+1' gain in regional economies' exports to China 247
14.5 Decomposition of export growth of the regional economies 249
14.6 China's contributions to the demand effect of export growth of the regional economies in comparison with the United States and Japan 252
14.7 Indexes of international division of labour (IDL): China versus its trading partners 255

Figures

2.1 Share of gross fixed capital formation in GDP in China, 1952–2004 2
2.2 Contribution to GDP growth by different factors, 1979–2004 4
2.3 Gross fixed capital formation by investor ownership, 1996–2004 4
2.4 Growth of fixed asset investment in China 6
2.5 China's investment share in East Asian and international context 8
2.6 Inflation rates by product groups in China, January 2001–May 2004 14
2.7 China's widening trade surplus 14
3.1 Historical 'crawling' of RMB 20
3.2 Timing options for the adjustment of parity in 'crawling' exchange regimes 26
3.3 Market speculations against RMB at NDF rates 27
3.4 Comparison of interest rates across relative economies 30
4.1 Changes in the population dependence and savings rate 39
4.2 Economically active population, employment, and labour force participation 40
4.3 Trends of savings rate and per capita GDP 42
4.4 Predicted child-dependence ratio, aged population-dependence ratio and rate of population ageing 49
5.1 Illustration of the regression results on the relationship between political institutional structure and governance quality 64
6.1a Distribution and origin of 'floating population' 91
6.1b Distribution and origin of 'floating labour' 91
6.2 Effects of cross-regional labour flow on income disparity 93
6.3 Provincial comparison of emigration and total rural labour 100
6.4 Provincial comparison between the number of immigrants and total urban employment 101
7.1 Urbanisation in China, 1960–2003 109

7.2 Rising per capita income gap between urban and rural areas in China, 1978–2003 115
7.3 The disequilibrium analysis on urbanisation in China, 1960–2003 117
7.4 Industrial structure of the economy, 1978–2003 119
7.5 Employment structure of the economy, 1978-2003 121
7.6 Growth rate of urbanisation in China 1960–2003 121
7.7 Growth rates of agricultural outputs, 1961–2003 122
9.1a Distribution of region, ownership and industry for three samples, regions 143
9.1b Distribution of region, ownership and industry for three samples, ownership 144
9.1c Distribution of region, ownership and industry for three samples, industry 144
9.2 Effect of the restructuring on demand for labour 147
9.3a Welfare comparisons between restructured and non-restructured firms, proportion of retrenched workers 151
9.3b Welfare comparisons between restructured and non-restructured firms, arrears of wages 151
10.1 An index of progress in China's banking system 170
13.1 China's trade in parts and components 220
13.2 China's regional manufacturing trade 230
13.3 China and Japan: Trade with East Asia 236

Appendix tables

A7.1 Urban and rural population and their proportions in total population (urbanisation) in China, 1960–2003 125
A7.2 Urban and rural employment and their proportions in total employment, 1952–2003 126
A7.3 Comparison of urbanisation by region: 1990–2000 127
A9.1 Labour demand equation for a sample of firms without restructuring 156
B9.1 Effect of the restructuring on value-added 157
B14.1 Listed industries by sectors 260
C14.1 The trade matrix of the regional economies 261

Abbreviations used in tables

n.a. not applicable
.. not available
- zero
. insignificant

Abbreviations

AFTA	ASEAN Free Trade Area
ASEAN	Association of Southeast Asian Nations
CCP	Chinese Communist Party
CIP	covered interest parity
CPI	Consumer Price Index
CSRC	China Securities Regulatory Commission
ETC	economic and trade commission
EU	European Union
FDI	foreign direct investment
FTA	free trade agreement
GATT	General Agreement on Tarriffs and Trade
GATS	General Agreement on Trade in Services
GDP	gross domestic product
HRS	Household Responsibility System
IMF	International Monetary Fund
IPO	initial public offering
MLSS	Ministry of Labour and Social Security
MNE	Multinational enterprises
MOFTEC	Ministry of Foreign Trade and Economic Cooperation
NAFTA	North American Free Trade Area
NBS	National Bureau of Statistics
NDFs	Non-deliverable forwards
NERI	National Economic Research Institute
NPL	Non-performing loan
NSSF	National Social Security Fund
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary least squares
OTC	over-the-counter
RMB	renminbi
SASAC	State Asset Supervision and Administration Committee
SCRES	State Commission for the Restructuring of the Economic System
SETC	State Economic and Trade Commission
SOE	state-owned enterprise
SRS	SOE Restructuring Survey
TEF	Trade and Economic Framework
TVEs	township and village enterprises
US	United States
WTO	World Trade Organization

Contributors

Prema-Chandra Athukorala is Professor of Economics, Division of Economics and Australia South Asia Research Centre, Research School of Pacific and Asian Studies, The Australian National University.

David Dickinson is Head of the Department of Economics, University of Birmingham.

Jianping Ding is Professor of Finance and Economics at Shanghai University and is Director of Research Center for Modern Finance (SUFE), Shanghai.

Cai Fang is Professor and Director of Institute of Population and Labour Economics, The Chinese Academy of Social Sciences.

Ross Garnaut is Professor of Economics, Research School of Pacific and Asian Studies, The Australian National University.

Hanene Hamdoun is a Research Assistant at the University of the Mediterranean, Aix-en-Provence, France.

Yiping Huang is the Chief Economist for Greater China at Citigroup.

Tao Kong is a PhD Candidate of Research School of Pacific and Asian Studies, The Australian National University.

Kunwang Li is Professor of International Economics and Trade at Nankai University.

Zhenya Liu is Professor of Economics at Renmin University of China.

Xin Meng is Associate Professor of Economics, Research School of Pacific and Asian Studies, The Australian National University.

Tim Murton is Acting Assistant Section Manager, Capacity Building, Department of Family and Community Services.

Ted Rule was formerly Managing Director of the Asian Infrastructure Fund. Currently, he is a company director in the high-tech sector in Sydney.

Ligang Song is Director of the China Economy and Business Program and Associate Professor at the Asia Pacific School of Economics and Government, The Australian National University.

Dewen Wang is Associate Professor at the Institute of Population and Labor Economics, Chinese Academy of Social Sciences.

Xiaolu Wang is Deputy Director and Senior Research Fellow at the National Economic Research Institute at the China Reform Foundation and a Visiting Fellow at the Asia Pacific School of Economics and Government, The Australian National University.

Mei Wen is a Senior Lecturer in the Department of Economics at the University of Sydney.

Sheng Yu is a PhD candidate at the Australia–Japan Research Centre, Asia Pacific School of Economics and Government, The Australian National University.

Ying Zheng is a PhD candidate at the Shanghai University of Finance and Economics.

Acknowledgments

The China Economy and Business Program gratefully acknowledge the financial support for China Update 2005 from the Australian government's development agency, AusAID, and the National Institute of Economics and Business (NIEB) of The Australian National University.