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**Economic Development and  
Institutional Change in China:  
Still Vacillating in the Middle  
of the Crossroad**

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## 1. After the Boom: The Challenge of 1994\*

With the New Year 1995 the mood has changed regarding China's prospects for rapid growth and further change towards the market economy. Catchwords like "Lehmann Brothers", "Venturetech", "McDonalds" and "CDs" point to events that reminded many observers and business people of the still uncertain conditions in China: They have in mind the most important ingredient of the market economy, that is to say the rule of law.<sup>1</sup> For China, this issue might be even more salient than in other cases because, for instance, the Chinese as well as the rest of the world know that China's rapid growth in the future will only be possible if exceptionally large-scale foreign direct investment will ease the much-quoted "bottlenecks" of the economy, i.e. energy, transport, environment, communication, or education. But this type of FDI is different from producing shoes in China: It is intimately linked to the state of the legal infrastructure of the country. And this legal infrastructure also affects other major determinants of economic development like the role of Hong Kong as a major linkage between China and the world.<sup>2</sup> But between 1994 and 1995 other major issues of the Chinese economy have come to the fore again, like inflation and the seeming inability of the Central government to cope with the challenge in a predictable and appropriate way.<sup>3</sup> Hence, there is now a certain danger that changes in the attitude of the outside world towards China might lead to negative feedback loops with China's development, as e.g. could be the case with a possible relative decline of FDI which might otherwise contribute to easing the bottlenecks. Therefore the linkage between

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<sup>1</sup> Amongst many statements, see South China Morning Post, 9 and 22 December, 1994, Far Eastern Economic Review 12 January 1995, p. 64ff., and China Trade Report, No. 1, 1995, p. 3 ("The moneymoon is over"). It should be stressed that following some of the bad news, favourable treatment of "big ticket" investors like McDonalds by Central government intervention does also express a failure of the rule of law. Even Li Ka-shing requested the Chinese government to establish reliable procedures for resolving conflicts between Chinese companies and foreign investors, see Zhong shi zhou kan (China Times Business Weekly) 11 December 1994, p. 48.

<sup>2</sup> See Far Eastern Economic Review 26 January 1995, pp. 18ff.

<sup>3</sup> So the Far Eastern Economic Review, 9 February 1995, pp. 44f., gives some biting remarks on the different "scapegoats" of inflation, switching arguments which cause erratic movements in policies.

China's state and its perception through other eyes is a central factor of her development.<sup>4</sup> Given the many divergent views and problems of measurement, therefore one of the most basic challenges for analysis as well as practical action seems to result in getting a clear view on the fundamentals that determine medium- and long-run institutional change and growth.

Unfortunately, assessing Chinese economic development in the 1990s is an extremely difficult task because most observers will agree that it is no longer meaningful to talk about China's economy in terms of average values. Nevertheless it is still common to analyze "China's" inflation, "China's" infrastructural development or "China's" foreign economic relations. Notwithstanding, the crucial issue of Chinese economic policy today is regional development, divergent or not, but with large absolute differences between the provinces and larger regions, depending on the yardstick applied.<sup>5</sup>

This catchword covers many special aspects of economic change in China like, for instance, divergent agricultural development or regional differences in the distribution of state-owned enterprises which, however, sometimes might have nothing to do with regional development properly speaking.<sup>6</sup> Whereas in the 1980s the Chinese leadership tried to rely on an explicitly designed policy of unbalanced regional development in order to foster growth of the Chinese economy as a whole, in the 1990s important policy measures are directed at regaining a path of balanced regional growth. This change of emphasis was at least partly a reaction on the perceived failure of the "trickle down" strategy favouring the coastal regions in the 1980s.

Between 1992 and 1994 Chinese policy-making took two different approaches to a solution in sequence which we will have to assess in the following pages. After Deng Xiaoping's tour to the south in spring 1992 the whole country was firstly drawn into a quasi-maoist campaign towards the market economy which "defrozeed" many institutional obstacles against rapid change in the inner provinces. This triggered off an economic boom of remarkable speed which in the West even gained China the reputation of possibly becoming the world's next "economic superpower". However, that approach was followed by considerable problems in maintaining

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<sup>4</sup> Kokubun Ryosei, *Nichi-bei-chuu no bimyoo na doraianogaru* (The delicate triangle between Japan, the United States and China), *Seikai* (The World), August 1994, pp.46-49, therefore argues that managing the mutual perception between Japan, the US and China should be an objective of policy making for its own sake because it is an important determinant of China's future changes.

<sup>5</sup> In discussions about divergent development in China the basic distinction between differences in the rate of change of certain indicators and differences of the absolute values is often forgotten, but see Tsui Kai-yuen (Cui Qiyuan), *Cesuan Zhongguo shengji diqu chaju de wenti* (The problem of measuring the regional differences between the provinces of China), in: Liu Shucheng et al., eds., *Zhongguo diqu jingji fazhan yanjiu* (Studies in the regional economic development of China) (Beijing, Zhongguo tongji chubanshe, 1994), pp. 166-180. This point is important for setting semantics right: If we will speak about "convergent regional development" this cannot mean "convergence of growth rates" because only divergent growth could reduce the absolute distance between the provinces.

<sup>6</sup> For instance, Tsui Kai-yuen, *Decomposition of China's Regional Inequalities*, in: *Journal of Comparative Economics*, Vol. 17, 1993, pp. 600-627, argues that the rural-urban income gap (which is a nationwide as well as an intraregional phenomenon) is an important determinant of regional inequalities. This would mean that there are determinants of spatial inequality which are not spatial in essence.

overall stability in society and in particular administrative structures. Therefore between 1993 and 1994 the central government tried to "refreeze" institutions and organizations in a new mould which was described in outline by the Central Committee decision on the Socialist Market Economy in autumn 1993.<sup>7</sup>

1994 may therefore be regarded as a watershed for China's economic development and institutional change as a whole, and as we will see, the crucial problem is how to set up an institutional framework for achieving convergent regional development. After the boom China now needs to settle down in a new economic system for the next century. Many important steps in legislation have been taken in 1994 which will need a couple of years to be turned into reality. Some measures, like the new Corporate Law, will only become full reality in the next century.<sup>8</sup> If all those efforts prove to be successful, China will continue with her record of rapid growth in the long run. If China fails in terms of institution building the boom may burst as a bubble.

Hence it is the main contention of this paper that 1994 has been a decisive one for China's future in two respects: First, will China get on the track of a balanced regional development in terms of a convergence of regional development in the future? Second, will the central government be able to determine the institutional as well as the infrastructural setting of regional development, or will China "change her shape" in terms of a final decline of the role of the Centre in China's political, societal and economic dynamics?<sup>9</sup> With regard to the latter, any normative statement should be carefully avoided.

Answering those questions of course implies a great deal of crystalball-gazing. However, I will try to construct a baseline for a reasonable guess. The paper is organized as follows. In the second part I will assess the Chinese business cycle in a regional perspective until the end of 1993. Then I will have a closer look at macroeconomic development of China as a whole in 1994. Finally, we will analyze some of the most important aspects of institutional change in 1994 in order to answer the two questions raised above.

## **2. The Chinese business cycle and long-term growth: A regional approach**

### ***Assessing China's wealth in 1994: a choice from the menu***

First of all, we need to "defreeze" our view on China's growth, too. Table one (Appendix) gives a survey of different estimates of China's GDP per-capita in RMB and US\$ following

<sup>7</sup> Zhonggong zhongyang guanyu jianli shehuizhuyi shichang jingji tizhi ruogan wenti de jue ding (Resolution of the Central Committee of the CCP on some questions of building the socialist market economy), Renmin ribao, hai wai ban (People's Daily, Overseas edition), 17.11.1993. For a survey on the developments in 1993, see, of course, the relevant chapters in the China Review 1994.

<sup>8</sup> See China News Analysis, October 1, 1994.

<sup>9</sup> This expression is Gerald Segal's, The Muddle Kingdom? - China's Changing Shape, in: Foreign Affairs, Vol. 73, No. 3, 1994, pp. 43-58.

different methods of computing the exchange rate, in particular by using different approaches to the purchasing power parity concept. We learn that there are tremendous differences between different methods not only with regard to the level of GDP but also with regard to the rate of change (as, for instance between 1988 and 1989). There is a large variety in the menu of our possible perspectives on China which are linked with our choice of the yardstick. Although it is clear that one cannot use the official exchange rate in order to assess change and development, the step towards using another approach also suffers from serious methodological problems in justifying say, the choice between US\$ values of 1935,6 and 1139,7 in 1994. Such large differences have a strong impact on all other indicators for the Chinese economy, like e.g. energy intensity or level of consumption and so on.

The meaning of the differences between the PPP and the exchange rate is well known as a textbook item, but let me add a puzzle: The large gap between the exchange rate and the PPP is conventionally explained as reflecting the difference between the former being a marginal value referring to tradables exclusively whereas the latter is an average value including tradables and non- tradables. If the productivity gap between a countries tradables sector to the world average is larger than in the non-tradables sector (as in the case of services) then the PPP and the exchange rate will differ systematically. This is the normal case of a developing country. Hence one could argue that with development taking place, the gap between both should diminish. However, in the case of China there was a systematically growing gap between the PPP and the exchange rate, whereas the text book explanation should be as true for 1985 as for 1994. Two explanations come to mind, which both need to suppose that there is a large distance between China's tradables sector and the world in terms of productivity. First, the growth of the tradables sector increases its weight in determining the exchange rate, and second, the tradables sector features a growing distance from the world's productivity. Since the exchange rate is a marginal concept, I would like to discard the first explanation and prefer the second, which means that just the much acclaimed "greater wealth" of China, if assessed in terms of productivity, simply mirrors extensive growth at the expense of productivity advances.<sup>10</sup> This seems to be the necessary conclusion from the comparison between changes of the exchange rate and the PPP and can only be rejected if the argument concerning PPP as a yardstick of wealth is rejected.

Within the export sector, this fact is in a straightforward way reflected in the speed by which in China the costs of earning one dollar in exports catch up with the changes on the exchange rate. This always happened since the early eighties and was the case again in late 1994 when it was

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<sup>10</sup> This could be related to Paul Krugman's lucid arguments on a general deficit of intensive growth in the so-called "East Asian Miracle", see Paul Krugman, *The Myth of Asia's Miracle*, in: *Foreign Affairs*, November/December 1994, pp. 62-78. At least for China it seems that Krugman is right.

said that now those costs have reached 8.5 RMB/\$. Of course, the other side of the medal is the simple fact that Chinese industrial enterprises in many branches cannot compete with imports, a problem which lies at the heart of the GATT issue and the Chinese practice of heavily protectionist tariffs.<sup>11</sup>

So far as I know, there was still no analytical concern with the additional problem that our choice of the computing method might also pay attention to regional differences in purchasing power parity. If we choose one of the most simple approaches towards the concept we may simply recompute provincial figures by taking stock of regionally divergent inflation when moving from the base value (see table one, according to Taylor's method computed for the provinces) to the present. This is done in Figure one (Appendix) for 1993 (provincial figures on GDP in 1994 were not yet available at the time of writing).

We realize that there are possibly substantial changes in our view of China's economic development if such a simple exercise were to build the basis for ongoing evaluation. For example, the level of GDP in terms of provincial PPP-US\$ does not show the same magnitude in differences as compared with the deflated figures using the official data. Moreover, the relative position of provinces also undergoes change, that means there are provinces which, in terms of PPP-figures, feature a larger distance from the average of China (like Hunan in the negative or Xinjiang in the positive direction) as well as the other way round (which is very important, because this includes Guangdong, Shanghai and the rest of the rich regions on the positive side). Hence we could argue that there is no valid justification to take Chinese statistical data at face value. There is a big need to reprocess data in order to get a solid foundation for assessing state and trend of Chinese economic development. The crucial issue might be to pay respect to regional differences.

### *A view on China's regional business cycles*

But analyzing China's regional development is a task which is onerous simply because of the sheer quantity of figures. Statistical approaches may help to distill the crucial aspects but there are many problems with the coherence of data series and with the length of the period amenable to analysis.<sup>12</sup> Furthermore, one can argue that today precisely the single, maybe even unique

<sup>11</sup> The figure was quoted in *Ya tai jingji shi bao* (Asia-Pacific Business Times), 8 December 1994. On the second point see, e.g., the preference by southern Chinese consumers of steel for imported steel since local producers are much more expensive. The government hence imposes special tariffs and a consumption tax, see *South China Morning Post*, 23 December 1994. For a general overview on the productivity issue related to the GATT-Problem, see Y.Y. Kueh, *Industrial Deregulation and Economic Restructuring in China: A GATT Perspective*, in print, in D. Cassel/C. Herrmann-Pillath, ed., *China: A New Growth Center of the World Economy?* (Baden-Baden, Nomos, 1995).

<sup>12</sup> For a survey, see Hsueh Tien-tung (Xue Tiandong), *Zhongguo diqu de zonghe fazhan zhibiao tixi* (A comprehensive system of indicators of China's regional development), Liu Shucheng et al., eds., *Zhongguo*

features of change in the provinces or larger regions deserve much attention so that the notorious residuals of any statistical analysis are of greater interest than the common determinants of statistical validity.<sup>13</sup> Therefore, subsequently we need to look at the Chinese business cycle in terms of full-fledged sets of data and not in terms of regression analysis. Those data, however, have been processed a bit in order to arrive as close as possible at the real state.<sup>14</sup> We will only be able to take stock of developments until 1993. This will enable us to assess the point of departure in 1994.

After the Tiananmen incident China experienced a very pronounced swing in her notorious stop-and-go business cycle which also caused a simultaneous switch of attitudes towards China in the West. The austerity drive of 1989/90 led many observers to believe that China will enter a similar path towards economic decline as the other socialist planned economies. After Deng's effort towards mobilization, however, strong forces of growth were released which gained China the fame of being one of the most successful cases of the transition from plan to market.<sup>15</sup> Both assessments may be wrong because they follow too close with the business cycle and not with the stable long-term trends of the economy and because they do not pay respect to the considerable differences in regional development.

Unfortunately, we cannot observe the regional business cycle in GDP-figures but for the last turn between 1989 and 1993. Therefore one still needs to use MNP-National Income figures, too. In table two we use data on GNP and National income in prices of 1990 and in terms of per-capita-values. The deflator is specific for each province so that the regional differences of the inflation rate (administered or not) are included. The per-capita-values seem to be preferable to the aggregate values because we get an immediate insight into the possible welfare effects of the business cycle which, of course, feed back into the political economy of institutional change in the provinces as well as of political conflict between the provinces and between the provinces and the Centre.

The obvious and remarkable message of table two (Appendix) may be summarized with the following statements:

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diqujingji fazhan yanjiu (Studies in the regional economic development of China) (Beijing, Zhongguo tongji chubanshe, 1994), pp. 22-56.

- 13 For instance, in Song Xueming's analysis of the determinants of divergent regional development in terms of New Growth theory technical progress plays a very important role, see his Regionale Wirtschaftsentwicklung in China, 1978-1993, in print: Duisburg Working Papers in East Asian Economic Studies No., 1995. However, this is a mere statistical description of development in the true meaning of the term but not an explanation of why technical progress runs differently in the provinces.
- 14 The data are going to be published soon in Carsten Herrmann-Pillath, ed., Wirtschaftliche Entwicklung in China's Provinzen und Regionen, 1978-1992, ein statistisches Handbuch (Baden-Baden, Nomos, 1995).
- 15 One outspoken protagonist is Justin Linyi Fu, together with Fang Cai and Zhou Li, Why China's economic reforms have been successful: Its implications for other reforming economies, mimeo, January 1994, Beijing.

- the last swing of the business cycle was by far the sharpest in the history of reforms including probably an absolute average decline of per-capita social product in 1989 for the majority of the provinces.
- in the downturn the differences in regional growth increased rapidly, which was a phenomenon that did not take place in a similar dimension during the up-and-down of the mid-eighties.
- recovery until 1993 led to converging, but still very different growth rates of the provincial economies, with a remarkable gain of overall speed in 1993.<sup>16</sup>
- the common observation of regionally divergent growth may be linked with the fact that during the slump several provinces actually did not realize any progress in terms of per-capita social product for a couple of years whereas others could continue with growth.

Suffice to hint at some examples which refer to well-known facts on the institutional background of regional development. In one of the core regions of the state-industry, the North-East, the downward swing of the business cycle led to an hefty decrease of real per-capita GDP (the NMP-figures are not as pronounced). One may safely assume that between the late 1980s and 1993 the business cycle moved around a trend of almost no medium-run growth in the North-East. The North-East also showed a delayed response to the upward shift of the cycle since 1992, which, of course, has to be explained by the fact that roughly 60% of the state enterprises in that region face serious financial problems which in 1993 could only be relieved by expanding triangular debts amounting just in those three northeastern provinces over 100 Billion RMB.<sup>17</sup> This performance is shared by other provinces which feature a similarly large share of state industry in economic activity, including, however, extremes in terms of the level of income like Shanghai and Guizhou. Other regions moved on another track, in particular, of course, the notorious coastal provinces like Guangdong, Shandong and Jiangsu. In most of these cases the absolute decline of the level of welfare was not large in 1989, and the expansion of economic activity between 1992 and 1993 led to a virtual leap forward in terms of per-capita-GDP.

The point has been made by many analysts that regional differences in growth are caused by regional differences in the distribution of state enterprises as well as the degree of economic dualism between industry and agriculture.<sup>18</sup> The experience of the last business cycle could support a radical version of this view: The business cycle masks the deep cleavage between provinces where change and development takes place and provinces where this is not the case at

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<sup>16</sup> Until the third quarter of 1994, this fact has remained valid, see *China aktuell*, No. 10, 1994, p. 1047.

<sup>17</sup> See Cong Ming, *Dongbei dazhongxing qiye kaocha yinxiang* (Impressions from research into the medium and large scale enterprises in the Northeast), *Zhongguo gaige* (China reform), No. 4, 1994, pp. 25-27.

<sup>18</sup> For a penetrating analysis of those problems in the Yangzi region see Maruyama Nobuo, ed., *Changjiang ryyuiki no keizai hatten, Ajia no keizai ken III* (Economic development at the Yangzi river, Economic regions of Asia III), (Tokyo: IDE, 1993).



(e.g. Shandong, Zhejiang or Shaanxi) and others lower growth, sometimes also on a significantly lower level (e.g. Yunnan, Heilongjiang or Hubei). So the meaning of the difference between GDP and National Income-figures is difficult to evaluate.

If we look at table four (Appendix) in order to assess the other important procyclical feature of ordinary business cycles, namely investment (without including FDI), then we may reach a similar conclusion. This is important because through divergent investment activity in the regions during the business cycle the long-run trend of growth is determined. If during the upward phase of the cycle investment activity increases to a different degree in the provinces, then starting conditions for the next cycle will move in different directions. Looking at the relationship between investment and GDP during the last cycle, this seems to be the case, indeed, because there are significant differences between the provinces in terms of the level of investment activity as well as the response to the expansion of 1992 and 1993. One needs to distinguish between level and response neatly because e.g. Tianjin or Qinghai show a comparatively high level with only a weak response until 1993 whereas Guangdong features a similar level but a more pronounced procyclical change of investment activity. It is remarkable that only in 1993 the overall response was strong in those provinces which have a large share of state-owned enterprises. But there are also provinces like Shandong which show no clear reaction on the 1992-93 boom.

In order to assess the possible consequences of such a pattern for the starting conditions of the next cycle it might be fruitful to have a look at related per-capita figures. Since we cannot deflate the figures by means of regionally specific deflator for investment we have to use nominal figures for gross fixed-capital formation. Here we learn that the slump of 1989/90 even led to an absolute decrease of capital formation in all provinces which of course means an even stronger shrinkage in real terms (although high inflation in 1988 would cause a relative decrease of the reference level). The time lag until the resumption of the pre-slump level is different for the provinces. For instance, many of the Yangzi-provinces including Shanghai only surpassed the level of 1988 in 1992 which still means an absolute decrease in real terms. But since 1992 for all the provinces there was a clear response to the expansion albeit on a very different level. Since the level is measured in gross and nominal terms we might therefore assume that at least in some provinces there were no substantial net additions to the real capital stock during the last cycle. A necessary consequence will be that those provinces will not be able to raise growth rates to a degree needed for achieving convergent regional development.

***Convergent growth but divergent potential for growth: A revisionist view on regional disparities in China***

But in China the nature of the investment process cannot be evaluated if the underlying structure of property rights is not scrutinized. It is a well-established fact that the recent cycle was primarily driven by the rapid expansion of investment demand and not by consumption. Table five (Appendix) gives an impression on two aspects of the property rights structure of investment in China's provinces. First, the share of state-owned enterprises in domestic fixed-capital investment is given, and second, the inflow of FDI is related to the overall amount of domestic investment. The evidence is clear-cut.<sup>21</sup> In almost all the provinces the upward part of the cycle shows a growing share of state-owned enterprises in domestic investment, for some provinces even leading to an all-time high value (e.g. Shanxi, Liaoning or Guizhou) and for China as whole in 1993, too. This fits well to the observation that state banks still channel credit to state enterprises by priority, and hence allows to describe the last cycle as a boom without structural change in terms of institutions. This becomes obvious through comparison with the cycle of the mid-eighties when in many provinces the share of state-enterprises in investment decreased. Given the notorious troubles with economic efficiency and profitability in the state sector the recent intensification of state investment seems to be a serious problem for future growth.

Of course, the picture needs to be completed by paying attention to the relative share of FDI which in provinces like Guangdong sheds a completely different light on the relatively high share of state investment in domestic investment. This issue has become very important since the inflow of foreign capital increased tremendously in 1992. As is shown in table six (Appendix), the main problem in assessing the impact of FDI is the exchange rate. One could reasonably argue that for 1993 the better choice might be the exchange rate of the new regime of January 1, 1994 because during 1993 this rate prevailed at the swap markets and because it was the rate which was more decisive for linking China with the world economy already in 1993. But using the rate of January 1994 leads to astonishing changes in the structure of capital formation: Then Shanghai now features a share of FDI above 50%, and Fujian even received more FDI as the province has invested by itself.

However, even if we classify as "non-state" investment the sum of FDI, collective and private investment, the number of provinces undergoing structural change in capital formation during

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<sup>21</sup> I have made the following point already in my paper, *China's Transition to the Market: A Paradox of Transformation and Its Institutional Solution*, in: Hans-Jürgen Wagener, ed., *The Political Economy of Transformation* (Heidelberg, Physica, 1994), pp. 209-241. However, most observers until 1994 clinged to the view that the overall decline of the share of state industries in Gross Material Production mirrors the shrinkage of the state sector as such. Only in the wake of the boom it was realized that this indicator is seriously misleading, see *Far Eastern Economic Review*, 7 July 1994, p. 60.

the last cycle still remains a minority.<sup>22</sup> This could change if FDI continues to flow into China with a similar intensity like between 1992 and 1994, given the mentioned effects of the exchange rate for computing relative magnitudes. But endogenous change of the structure of capital formation is slow and weak.

Figures on the property-rights structure of investment can serve as an indicator of structural change in terms of institutions. Figures on employment may serve as a litmus test for real structural change. Table seven (Appendix) gives the share of agricultural employment in overall employment. In most of the provinces the slump was accompanied by an immediate rise of agricultural employment, given widespread closures of TVE's and return of migrant labours from the cities to the countryside. Since 1992 the boom speeded up structural change again. However, if we compare the figures from the mid-eighties with the figures of the nineties then we realize that the speed of structural change is different in the provinces, and that the boom between 1992 and 1993 exerted strong impact on change in the short-run. For instance, in the industrialized regions of the Northeast there is a low share of agricultural employment but also almost a standstill of further structural change (Jilin even shows a larger share even in 1993 as compared to 1985). A similar observation can be made for poor provinces like Shaanxi, Guizhou, Yunnan or even Hubei and Hunan which, however, show an acceleration of change during the boom which might be linked with migration. This picture is at the opposite of rapid structural change in Guangdong, Jiangsu or Zhejiang. Therefore we may conclude that the recent business cycle did only lead to slow structural change in the majority of China's provinces but with large differences in performance (compare e.g. Guizhou and Sichuan).

Pulling the threads of our short exercise in bird's eye statistical analysis together, it seems to be completely erroneous to assess China's business cycle for China as a whole. Economic dynamics is very different in the provinces. One should stress that this observation is of utmost importance for future development and does not refer to the past primarily. Many observers now agree that in the past decade there may have been changes in relative positions of the provinces but no rapid increase of regional inequality of economic development.<sup>23</sup> As a matter of fact, we have already mentioned that this picture might be even more pronounced within a regional perspective on PPP-figures. But even if one only looks at the National income data, a simple regression exercise shows that between 1980 and 1992 the growth rate was the higher the poorer the provinces which means that convergent and not divergent development took place (see figure two for the general relationship between wealth and growth in the average of

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<sup>22</sup> Hence I feel that the assessment by the IMF is a bit overly optimistic, see Wanda Tseng et al., *Economic Reform in China - A New Phase*, IMF Occasional Paper No. 114 (Washington DC, IMF, 1994), pp. 36ff.

<sup>23</sup> E.g. Maruyama Nobuo, note 18, pp. 40ff.

1978-92 ). The much-quoted view on growing regional disparities between the provinces is wrong if looking at the past and if looking on simple statistical indicators like National Income.

But our reflections on more complex indicators of growth and business cycles in China seems to lead to the conclusion that although this may be even true for today the picture will change in the future because the recent cycle made the structural differences of the provinces obvious, in particular in terms of the starting conditions for further development. This is the most important reason for the sense of crisis within the Chinese leadership which accompanied the last cycle through all its stages and which may not fit to the Western view of China as an "economic giant of the 21st century".

If one were to generalize a bit audaciously, China at the end of 1993 had different macroregions with separate business cycles and their characteristic institutional and real structures, like e.g. the industrialized Northeast with a high share of state-owned enterprises or the Upper Yangzi region with a dualistic economy as a legacy of the "san xian"-policy, or, of course the southeastern coastal region in the narrow sense with a great importance of integration into the world economy and the within the so-called "Greater China" economy in particular. This structural divergence of the regions was not as pronounced in the eighties and hence presented no fundamental challenge at policy making. But the question is whether convergence of growth rates actually was the result of the trickle-down approach favouring the coastal regions by economic policy.

One could put forward a revisionist position: It is well known, that those structural differences together with central economic policies triggered off regionalization in terms of policy making and even regional protectionism already at the beginning of the eighties and even more pronounced in the late eighties and early nineties. This has been evaluated in the negative by most observers, allegedly leading to frictions and possibly a suboptimal regional division of labour. But this assessment depends on the theoretical position. For instance, models of regional structural change show that barriers to integration might lead to a reduction of regional disparities, given a certain national rate of growth.<sup>24</sup> That is to say, it is by no means theoretically evident that there is a trade off between more regional equality of growth rates and higher growth national growth because this might lead to a dispersal of factors to the allegedly less productive regions. This is only true within very simple neoclassical models of regional growth but may change completely if, for instance, cumulative processes in capital formation are taken into consideration. Hence the real question is whether convergence of growth rates took place in spite of economic policies of the eighties, and cannot be attributed to that policy. There is no way to decide between possible scenario's but in the case of China there are reasons to assume that first, precisely regionalization and even protectionism contributed to a

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<sup>24</sup> On the following, see Paul Krugman, *Geography and Trade* (Cambridge/London, MIT, 1991), pp. 69-100.

convergence of growth (with possible, but not necessary losses for overall growth) and second, that possibly growing integration and less regionalization might in the future mean growing disparity, given the clear evidence on structural divergence today. Regional disparities are the challenge of the future and not of the past because China experienced convergent growth but divergent potential for growth.

Hence, meeting the challenge of structural divergence is the crucial task for economic policies of the years to come. As we shall see immediately, structural frictions and contradictions lie at the root of short-term macroeconomic development in 1994.

### 3. Inflation and regional structural divergence: "Overheating" re-revisited

#### *Applying the naive quantity theory of money*

The paramount issue of short-run economic development in 1994 was and still is inflation. Even very simple rules of thumb could have forecasted this at least since 1992 but even before. As a matter of fact, growth rates of the broad money supply did decrease in 1989 only to increase quickly just in the next year when the rate of growth surpassed the rate of 1988 by far.<sup>25</sup> In 1993 the even more rapid expansion of 1992 could be reduced considerably, but until 9/94 the rate of increase reached an all-time high level of about 37 per cent, only to be reduced towards the end of the year reaching 34.4 per cent rate of growth.

As is well established by elementary quantity theory of money, in the long run the level of prices is determined by the growth rate of the money supply relative to real output. Since in China there are still many institutional obstacles against a rapid adjustment of absolute prices to an increase of the money supply we may safely assume that there is a comparatively long lag between the growth of the money supply and changes of the price level (say, between three and four years).<sup>26</sup> Hence, inflation of 1994 is the early fruit of expansion in 1992 and since then the monetary mantle was tailored very wide so that there is still much leeway for further inflation in the future. This simple causal relation is very often obscured in the Chinese policy discussion on "overheating" because mostly emphasis is laid on the credit expansion as being the direct

<sup>25</sup> The figures on the money supply will now be published by the People's Bank quarterly. For the past, the figures have been given in the newly published "China Financial Outlook" of the People's Bank of China, quoted in *China aktuell*, No. 10, 1994, pp. 1047f. For the year-end value see *Far Eastern Economic Review*, 9 February 1995, p. 58, 63 and *South China Morning Post*, 28 January 1995.

<sup>26</sup> In Germany, the Central Bank estimates that the effect of any overexpansion of the money supply is realized up to 50% after three years and completely only after six years. See *Monatsberichte der Deutschen Bundesbank*, Januar 1992, *Zum Zusammenhang zwischen Geldmengen- und Preisentwicklung in der Bundesrepublik Deutschland*, S. 20-29. In Wanda Tseng et al., pp. 54ff., see note 22, it is attempted to apply the agnostic Granger causality approach between different macroeconomic aggregates affecting the inflation rate. The results are mixed and need to be interpreted carefully. The main problem seems to be that the institutional characteristics of China's credit sector lead to close parallel movements between the money supply and e.g. industrial production so that causality may be interpreted in both directions. So finally inflation is best explained by inflation.

lever of monetary control. However, changes in the financial sector of China's economy have loosened the relationship between credit in the narrow sense (at least as defined by the published monetary statistics) and the money supply so that both can and do change to a different degree. One reason is the growing importance of banks outside the state sector and interbank-lending which presumably both are now included in the "Others" category of the balance sheet of China's financial sector in the Statistical Yearbook.<sup>27</sup>

Of course, this assessment depends on the estimates of the growth of real output as well as on the interpretation of changes in the velocity of money. Regarding the latter it seems to be very difficult to distinguish between the different motives of holding money on bank accounts and hence between financial deepening as measured by the relation between the quantity of money and GDP and a medium-run disequilibrium value of the velocity of money. Because of the still underdeveloped structure of the Chinese financial system a certain share of deposits has to be regarded as stock of wealth and not as money finally devoted for transactions. If the financial system deepens further we can expect that the portfolio of the deposit holders will be reshuffled so that wealth is going to be held in bonds and stocks. This is actually what the very strong demand for stocks and bonds in the Chinese economy demonstrates which even leads to the emergence of illegal stock and bond trading in many places of China, including the rural areas.. However, such a change of portfolio structure does not change the quantity of money already put into circulation.

So the analysis faces the problem that changes in the velocity of money cannot be fully determined relative to a supposedly long-term stable velocity or even a stable demand for money. Evaluation always depends on the assessment of the maturity of the financial system, relative to the level of economic development and to the demand for financial services. A reasonable guess will be that China's economy is still in need of further financial deepening so that the growth of broad money partly should be interpreted as substitute for building wealth. One observation which supports such a view is the fact that only in 1992 M1 grew faster than M2. In 1994, too, M2 so far has increased at a higher speed than M1 (34.4 per cent as compared to 26.8 per cent). But we cannot give a full account of the difference in terms of the distinction between "money" and "wealth".

This problem is also related to the assessment of the development of private savings. In 1994, the trend of the former years continued with rapidly rising private savings (43 per cent growth, with a stock of now about two trillion RMB) which, of course, have been financed by the rapid expansion of the money supply in former years.<sup>28</sup> The main analytical problem is not only how

<sup>27</sup> See *Zhongguo tongji nianjian* 1994, p. 544. In Shenzhen and Guangdong, the State Special Banks now only account for less than 50% of the financial market, see Xie Ping, *Lun guojia zhuan ye yinhang de gaige* (On the Reform of State Special Banks), in: *Jingji yanjiu* (Economic Research), No. 2, 1994, p 25. The PBOC announced to control this outflow of funds from the state banking system to the different "non-bank financial institutions", see *Jingji ribao* (Economic Daily), 27 January 1995.

<sup>28</sup> *South China Morning Post*, 5 January 1995.

to explain this performance given negative real interest rates despite governmental efforts to quasi-indexing of interest rates for private deposits. Of course, unless there are no attractive alternatives, and given a certain compensation of inflationary losses, the best choice between private hoarding of money and saving simply is the latter. This seems to be particularly true for the rural population who in 1994 demonstrated a strong inclination to expand their savings deposits.<sup>29</sup> In particular the urban population is anxious about the things to come, if only the spectre of rising unemployment is mentioned.

The real problem is how to account for the artificial features of this situation where the state banks actually run a loss-making business with lower interest rates for credits than deposits, and with the PBOC subsidizing interest on deposits again since March 1994. In February 1995, this subsidy will add 10.38 per centage points to the regular interest rate. This subsidy, of course, dwarfs the meagre rise of 0.24 percentage points in interest on deposits which was implemented by the PBOC on January 1, 1995.<sup>30</sup> Any argument concerning a reassessment of private savings in terms of the money-wealth-dichotomy depends on an assessment of the stability of the financial sector. But in this regard we may argue that without the background of strong government intervention and administrative regulation the Chinese banking system simply would crash since private savings actually back a large share of credits without value.<sup>31</sup> A similar analytical mess happens when one tries to distinguish between nominal growth and the long-term trend of real output.<sup>32</sup> For assessing the inflationary impact of the growth of the money supply short-run real effects on growth (as in the last two years) should be filtered out from the analysis. However, the many changes in the economic system as well as the still short time series make it a risky estimate to construct a time series for the growth of potential output.

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<sup>29</sup> On rural deposits see *China Daily* 10 and 11 January 1995. The ABC is now the country's largest savings bank, with 837.7 billion RMB private savings deposits. However, it is well known that Chinese consumers do search for alternatives like gold, with 200% increases in internal trade volume, see *South China Morning Post*, 9 January 1995. The steep rise in personal foreign currency deposits may also be linked with such a behavior, see *China Daily*, 11 January 1995.

<sup>30</sup> *China Daily*, 6 January 1995 and *South China Morning Post*, 23 January 1995. However, at the end of the year, black market interest rates in Guangdong were reported to reach 30 per cent (however, this includes a higher risk premium), see *South China Morning Post*, 27 December 1994.

<sup>31</sup> According to a Chinese source, *Xinwen bao* (*News Daily*), 27 November 1994, currently the ample supply of deposits relieved the state banks from the problem of facing a sometimes negative gap between deposits and credits in former years (which, had to be financed by the PBOC). However, it was also mentioned that the increase in deposits means growing problems with current business earnings. One should also mention that the PBOC so far always refinanced the state banking system if the reserve ratio goes down to strongly, as in autumn 1993, only to issue credit ceilings in December. See Dai Xianglong, *Huobi zhengce jianchi* (Monetary policy sticks to stability), *Zhongguo jinrong* (*China Finance*), No. 3, 1994, p. 7. On the growing importance of private agents for the capital market and its stability, see also Wang Guogang, *Guomin: Zhongguo ziben shichang de zhongyao juece* (*The people: Important actor on China's capital market*), *Jingji yanjiu*, No. 12, 1994, pp. 19-27.

<sup>32</sup> However, Zuo Dapei, *Kornai-Koeffizient, effiziente Betriebe und Wirtschaftswachstum in China, 1978-1993*, Duisburg Working Papers in East Asian Economic Studies, 1995, No. 16, tried to estimate China's "natural growth rate" according to a simple model along new neoclassical lines. His result is a natural growth rate of about 9% which would represent long run growth of potential output.

But again I will propose a reasonable guess based on our figures on regional development. The recent boom was linked to a strong expansion of fixed investment by state enterprises. The possible effects on potential output depend on the growth of the capital stock as well as on productivity. Regarding the latter, there is now a highly diversified literature with diverging and even contradictory views.<sup>33</sup> I would simply choose the opinion which seems to fit commonsense observation, that is to say that there was and still is no pronounced growth of Total Factor Productivity in state enterprises, as compared to TVE's. Our figures on regional development fit this hypothesis because the higher the share of state-owned enterprises in a province the lesser achievements in labour productivity which would have to be based on a better and more efficiently utilized capital equipment.

If this assessment is accepted then we may guess that the recent boom did not lead to an increase of potential output that matches the short-term rates of nominal growth, a certain decrease in the velocity of money taken for granted. Hence we assume that a considerable share of the past and present growth rate of the money supply will feed inflation in the years to come. However, if one plays a bit with the figures it is evident that this cannot amount to an inflation rate, say, surpassing the level of 30% per year. Given the considerable challenges at structural and institutional change, this still seems to be a basically stable situation, in particular it there is no loss of overall control of the money supply. The crucial question of the future will not be whether macroeconomically the Chinese economy will run under equilibrium conditions but whether there will be institutional stability in the financial sector, avoiding crashes and bursting bubbles.<sup>34</sup> Doubts have already been raised regarding the interest rate structure of deposits and credits.

### *Regional development and the pitfalls of aggregate analysis*

From that perspective the importance of regional development comes to the fore again. The large differences of the nature of the business cycle in the regions of China make it extremely difficult to analyze as well as to design monetary policies. In theory, a given rate of increase in the money supply might be without any inflationary impact in a region with a strong growth of potential output and a still lagging structural change in the financial sector (hence the use of money as stock of wealth), whereas in a region with sluggish growth of potential output and a weaker demand for wealth the inflationary impact may be strong. In a fully integrated market

<sup>33</sup> Two surveys are Gary H. Jefferson/Thomas G. Rawski, *Enterprise Reform in Chinese Industry*, in: *Journal of Economic Perspectives* Vol. 8, No. 2, 1994, pp. 47-70, and Wing Thy Woo (Hu Yongtai) et al., *Zhongguo qiye gaige jiuqing huode le duoda chengjiu* (How great was the actual success of enterprise reforms in China?), *Jingji yanjiu* (Economic Research), No. 6, 1994, pp. 20-32. I follow the second line of thought.

<sup>34</sup> This is also the conclusion in Robert McKinnon, *Financial Growth and Macroeconomic Stability in China, 1978-1992: Implications for Russia and Other Transitional Economies*, in: *Journal of Comparative Economics*, Vol. 18, 1994, pp. 438-469.

economy such regional differences in the business cycle would be equilibrated through the national capital market such that rising real interest rates in the booming region would attract money from the other regions in order to support further growth, at the same time reducing the inflationary gap in the region with sluggish long-term growth. Hence we see that one crucial assumption underlying conventional applications of the quantity theory of money on a certain national economy is the existence of a national capital market with a high degree of integration. This condition is not yet fulfilled in the case of China. So far most observers agree that integration between the different regions of China is now weaker than at the beginning of the eighties, and this does also refer to capital flows.<sup>35</sup> But if there is no integrated capital market, then there is no direct link between growth of the national money supply and regional inflation. Analysis would need to assess the regional changes of the money supply and the other determinants of growth as well. For instance, since there is also a, comparatively speaking, weak trade integration between the provinces, development of potential output and hence supply on the regional market can be different. If there is a sluggish regional growth of output in a certain region or province but at the same time a strong growth of the regional supply of credit, than the inflationary impact is stronger there than in other regions. This will be felt sharply for the "non-tradables" in the context of China's regional economic structure, that is to say not only services but also a considerable share of goods because of the bottlenecks in the transportation system.<sup>36</sup>

<sup>35</sup> See Anjali Kumar, *China's Reform, Internal Trade and Marketing*, *The Pacific Review*, Vol. 7, No. 3, 1994, pp. 33 ff. See also Carsten Herrmann-Pillath, ed., *Wirtschaftliche Entwicklung in China's Provinzen und Regionen, 1978-1992, ein statistisches Handbuch* (Baden-Baden, Nomos, 1995) where it is argued that the difference between the production and the use of National Income has declined markedly relative to the level of National Income of almost all the provinces. Since this difference simply mirrors the provincial balances of trade, the decline of trade integration of course goes hand in hand with a decreasing degree of integration in terms of capital flows, however including domestic as well as international flows. Compare the results reported by He Juhuang et al. *Zhongguo guomin shouru de diqu jian liudong* (The interregional flow of National Income in China), in: Liu Shucheng et al., eds., *Zhongguo diqu jingji fazhan yanjiu* (Studies in the regional economic development of China) (Beijing, Zhongguo tongji chubanshe, 1994), pp. 292-302, where the picture is not as clear because only aggregated macroregional figures are given and not the figures for single provinces. However, since 1993 the picture might have changed because inter-bank-lending served as a vehicle for interregional capital flows of an unprecedented magnitude and which were driven by large interregional differences in interest rates, see Geng Xiao and Haiyan Gao, *The Engine of Growth and the Root of Inflation in the Chinese Economy*, *China Review* 1994 (Hong Kong, Chinese University Press, 1994), p. 9.9. We already mentioned the strong expansion in the "qita" (others) category of the state credit plan that already in 1993 featured a 175 billion RMB excess of the related credits over the related deposits. Those are the outflows which presumably moved into the South.

<sup>36</sup> The problems with assessing the Chinese inflation rate in the local context are discussed below. However, suffice to mention here that there are many local non-tradables which are administered and where at the same time the impact of inflation (as distinguished from change of relative prices) is difficult to estimate, as for example, regarding the recent price hikes in fees for public gardens, see Tang Ren, "Shui neng guan guan Beijing shi?" (Who can govern Beijing?), *Jing Bao* (The Mirror), No. 12, 1994, pp. 39-41. See also China Trade Report, No. 10, 1994, p. 3. For the considerable interregional differences of prices for many goods see Nakajima Seiichi, *Price Reform in China*, *JETRO China Newsletter* Jan-Feb 1993, pp. 6-15.

As is well known, the role of the fiscal system is no longer of importance for redistributing capital and money between the provinces.<sup>37</sup> The relative fiscal decline of the Central government during the last decade was one of the main determinants of the strong regionalization of the financial system. That is to say, redistribution of capital between the provinces occurred indirectly through the banking system simply by providing credit to regions where the (virtual) long-term real rate of interest is much lower than in other regions, thereby resulting in a de-facto subsidy for the former which is finally financed by the inflation-tax. We cannot assess the magnitude of this subsidy, but an indirect indicator is the strong pressure to redirect credit into high-growth regions which seems to be the main reason of the already mentioned rapid growth of the "Others" category in the credit plan. Hence the realization of a certain regional allocation of credit is only possible by means of administrative intervention by the Central government. Concrete mechanisms establishing this link are, for example, direct credits of the PBOC devoted to supporting the commercial state banks in their bad business with state enterprises.<sup>38</sup> It should be stressed that whether a low virtual real interest rate does not depend on the level of GDP in the provinces. Quite the other way round, as has been shown, higher relative growth could lead to higher real interest rates just in the poorer provinces. Again, the share of state enterprises might be a more important determinant of this rate. From that perspective, inflation in China is closely linked to divergent regional development. Therefore disinflating the economy is an extremely difficult task unless interregional capital flows follow the market and interregional redistribution is organized through fiscal transfers.

Our reflections on the Chinese inflation cannot be concluded without mentioning the most remarkable feature of inflation in 1994, as compared to the former years, and which has been commented upon by many Chinese observers. In 1994, tight government controls on credit led to a decrease of demand in the producers goods market. For instance, it was reported that the material distribution organizations above the county level experienced a decline of turnover of about 11% which compares to a rise of the demand for consumer goods of about 30%.<sup>39</sup> This

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<sup>37</sup> See Kojima Reetsu, *The Growing Fiscal Authority of Provincial-Level Governments in China*, *The Developing Economies*, Vol. XXX, No. 4, 1992, pp.

<sup>38</sup> *South China Morning Post* 21 December 1994, where it is reported that the PBOC has injected an additional 7 billion Yuan as a reserve into the special bank system in order to support their dealings with state enterprises.

<sup>39</sup> See *Jingji cankao bao* (Economic Information Daily), 22 December 1994. Accordingly, prices in the material goods sector were reported to change little. In July the prices for industrial inputs were reported to have fallen 8.4 per cent, see *Shenzhen tequ bao* (Shenzhen Special Zone Daily), 20 December 1994. However, this does not fit many observations where certain industries complain about the large gap between market prices for their product and planned prices, as e.g. in the case of urea and liquefied petroleum gas, see *South China Morning Post*, 24 January 1995. Therefore we cannot assess the extent by which government intervention has influenced prices in the material goods sector. At least it should be added that a similar decline of the producer's goods prices also took place mid of 1993, without any impact on the speeding up of inflation in 1994, see Hu Shaowei, "1993-1994 nian shengchan ziliao shichang xingshi fenxi yu zhanwang" (Analysis and prospects of trends on the 1993-1994 market for producers goods), *Zhongguo gongye jingji*

change of the structure of demand even led to a decline of prices for material goods in mid-1994 so that there was an immediate feed-back on policy analysis.<sup>40</sup> In particular, this kind of analysis led observers to believe that a one-time shock in agricultural prices was the most important single cause of inflation in 1994, and that hence inflation will not persist in the future. The problem with such kind of analysis is that it leaves quantity theory of money out of sight and tries to argue from the sectoral perspective. In China this is particularly misleading because there is no direct link between sectoral changes and macroeconomic variables. For instance, government intervention might indeed put a cap on further expansion of demand for investment goods without affecting other macroeconomic aggregates. We already mentioned that there is even no clear-cut relation between growth of credit and inflation.<sup>41</sup> Hence, the real question is not whether there is "cooling down" in the material goods sector but what is going on simultaneously in the other sectors. But then we are back, for instance, with the question how to assess the massive piling up of private savings deposits. I will come back on this point in section 5 and in my outlook. At this stage of our journey through 1994 I only want to stress that understanding China's inflation also presupposes to include the active role of perception by policy makers and advisors in influencing macroeconomic development.<sup>42</sup> Even if the mentioned view on inflation in 1994 is right, its main effect might be a continuing loss of control of monetary aggregates because of the response of policy makers.<sup>43</sup> The main fault is the short-sightedness not of analysis proper but of the discourse about policies.

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yanjiu (China Industrial Economics Studies), No. 3, 1994, p. 24. For problems with input price hikes see also Caizheng (Finance), No. 8, 1994, p. 42. The argument also seems to contradict the observation that 1994 still featured a strong growth of fixed-asset investment of an estimated 28.5 per cent, see South China Morning Post, 11 January, 1995. For the state-owned units there was even a figure of 49.5 per cent growth mentioned in Renmin ribao (People's Daily), 5 January 1995.

<sup>40</sup> For instance, the Chinese Academy of Social Sciences argued in October 1994 that inflationary pressures already have subsided and that macroeconomic policies should not take the current inflation rate as beacon for targeting credit policies. See "Zhongguo jingji zheng zai "ruan zhe lu" hongguan zhengce quxiang ying shedang song guimo kongzhi" (China's economy is on "soft landing", macroeconomic policies should take the stance of appropriately loose aggregate control), Zhongguo shehui kexue yuan yao bao (Urgent News by the CASS), No. 1509, 28 October 1994. Compare also the different statements in Zhongguo gaige (China Reform), No. 9, 1994, pp. 6-10. However, the data mentioned could not yet mirror the substantial increases in energy and agricultural staples prices which took place in 1994 which included, for instance a price hike for crude oil of 60 per cent.

<sup>41</sup> The results reported in Wanda Tseng et al., pp. 54ff., see note 22, strongly support this view.

<sup>42</sup> I have analyzed this at length in my *Institutioneller Wandel, Macht und Inflation in China: Ordnungstheoretischen Analysen zur Politischen Ökonomie eines Transformationsprozesses* (Baden-Baden, Nomos, 1991), pp. 131-210.

<sup>43</sup> In 1994 there was a heated discussion about an article by Zuo Dapei, "Guchui pengzhang yu liyi qudong, Zhongguo jingjixue jie ye yao fan fubai" (Propagating inflation and the profit motive, Chinese economists also should fight against corruption), *Jingji xue xiaoxi bao* (Economics Information Daily), 2 February 1994, who accused economists for talking dishonest about the dangers of inflation in order to receive some material advantages by politicians who could use their arguments in order to justify, for instance, further expansion for credits on the local level. The reaction was tough, as e.g. in the same Daily on March 10, or in *Jingji yanjiu ziliao* (Economic Research Materials), No. 3, 1994, p. 55f. and in *Gaige* (Reform), No. 4, 1994, pp. 5-8. This discussion shows that there are deep-seated problems with independence of research and the relationship between policy analysis and political decision-making. The whole story is also reported by

Given all those observations and considerations, what remains from the idea of "overheating"? Simply that this is another of the many "averages" which should be discarded from now on, and that it is a political concept without any precise analytical meaning. Moreover, since China's inflation is closely linked with structural problems and in particular divergent regional development, it cannot be controlled by macroeconomic policies at all but in the short-run. The clear-cut institutional separation between the financial and the fiscal sector within the complex context of regional development is a much more decisive means for curing inflation in the long run. Indeed, this was one of the core issues of economic reform in 1994.

#### **4. Economic policies in 1994: The Centre challenging China**

##### *Reasserting the power of the Centre by means of socialist interventionism*

In fact, the two most important innovations in economic policy of 1994 refer to the issue of "delinking" problems of regional development from the monetary sector. First, the Centre tried to reestablish its role of a pivot for interregional fiscal transfers by means of recentralizing tax income, and second, within the banking system "policy banks" were separated from the other special state banks. This attempt at centralization is quite remarkable and can also be observed in many other areas as e.g. trade or industrial policy. Therefore we may conclude that a bit more is at stake than only divergent regional development.

1994 is the year when the Centre tried to set back the socio-economic system to the conditions with a strong control of its working by the top of a unitary central state. Since many observers so far diagnosed a China "changing her shape" or being "deconstructed", this observation should not be taken to be a mere "big catchword".

However, the current strategy of the Central government is at the same time directed at regaining central control as well as at pushing the marketization further on. Hence there is a certain affinity between economic policies of 1994 and ideas of "Neo-authoritarianism" which were fashionable before 1989. From an even broader perspective, the impressive 1994 record of the Chinese government in terms of law-making and formal institution building can also be seen as an attempt to "rationalizing" the socio-economic process according to the lines of a strong national state. It should be noted that this may be the deeper reason why the new approach of the Centre seems to enjoy strong support by Beijing economist's circles, in particular of the middle generation, and indeed the relevant documents show the wording of the educated economist (with technical terms like "natural monopoly" emerging in State Council documents). There is a widespread discomfort with the "irrationality" of the current state of China's evolutionary journey to the market, and a strong demand for "conscious design" by the

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the former leading party intellectual, Su Shaozhi, in "Zhonggong zhongyang jingji huiyi biexi" (An analysis of the National Economic Conference of the CCP), Cheng Ming, No. 1, 1995, p. 33.



- Finally, China's new forex-system at the same time straightened the conditions for further marketization by means of abolishing the dual exchange rate as well as strengthened instruments for central policy intervention through the monopolization of the market by the different state banks.

As compared to the ideas of Neo-authoritarianism, therefore the message of 1994 is mixed because following the Central Committee decision of autumn 1993 there is a clear drive towards "marketization" but no clear trend to the "market economy". Hence it seems to be that the epitheton "socialist" is taken seriously.<sup>45</sup> The main reason seems to be that the Centre tries to stop the devolution of its power by asserting its control just over the market process. If this is successful the result may be an outright interventionist market economy where the Centre is one of the core players to the outside and to the inside.

### *Changing clothes: The discovery of industrial policy*

One of the most significant signs of Chinese economic policies taking this direction was the tough policy stance towards futures markets which were given high publicity just one year before.<sup>46</sup> The Centre still does forbid to trade "vital" goods like cotton or steel and, prohibited in September, of rice and oil through futures markets, and has drastically cut down the number of trading places. The main reason was that the development of futures prices did very quickly mirror the still strong distortions in the actual working of the price system and the expectations of high future inflation by the market agents. If the Central government disapproves of the results of the actual working of the market it simply resorts to price controls (price ceilings in the case of the 15 futures markets which were allowed to continue with trading).

Regarding external relations, this heavy-handed interventionist approach is already obvious e.g. regarding the policy mix in the automobile sector where a strong import-substitution

<sup>45</sup> Hence at the end of 1994 there has been widespread confusion about the direction of current economic policies, when, for instance, Li Peng called stock markets "experimental". See the comment in the Far Eastern Economic Review 29 Dec 1994/5. Jan 1995, p. 29. In fact, even Zhu Rongji cannot be called an advocate of a "market economy". He was recently quoted with a warning against "blindly adoring Western economics textbooks" He offered the view that free market prices will lead to irrational use of resources, economic inequality and injustice and all the other bads well known from marxist views of a market economy. See Shenzhen tequ bao (Shenzhen Special Economic Zone Daily), 20 December 1994. Su Shaozhi, in "Zhonggong zhongyang jingji huiyi biexi" (An analysis of the National Economic Conference of the CCP), Cheng Ming, No. 1, 1995, p. 34, also points to the fact that Zhu now even stresses planning and state ownership more than in former times and openly criticizes economists like Li Yining.

<sup>46</sup> See the survey in China aktuell, No. 10, 1994, p. 1048, and Far Eastern Economic Review, 27 October 1994, p. 29. The tight-fisted approach towards futures markets was announced to continue in 1995, see South China Morning Post, 17 December 1994 and 16 January 1995. However, Guangdong announced not to comply, see South China Morning Post 23 January 1995. In this paper there is no space to discuss the role of the emerging capital markets in 1994, but suffice to say that in this "modern" segment of the market system, too, government interventionism is rampant and continues to be official policy, like in the case of the massive financial support of the Shanghai stock market in August. See South China Morning Post, 3 January 1995. The Zhongguo zhengquan bao (China Exchange Daily), 14 December 1994, even concluded that the movements on the stock markets in 1994 were almost completely "politically motivated".

(guochanhua zhengce) policy with tightly controlled FDI is going to be realized.<sup>47</sup> Within the next five years China is expected to become self-sufficient in motorcycle production and to be able to serve over 90% of the national market by domestic production. The state wants to apply a whole arsenal of instruments in order to boost China's motor industries, including tough controls of imports and even prohibiting the import of used cars. Such an approach is fully supported by the new law on foreign trade where the infant industry argument plays an important role. The whole society is to be geared towards living with the "family car", so the State Council guidelines even include provisions on education in traffic rules in elementary schools.

Such an approach is also shared with the more general State Council regulations on industrial policy in the nineties which, for instance, on the one hand explicitly favour the development of TVE's in the middle and western regions of China, but which simultaneously assign the competence in regional and structural policies to the State Council and the State Planning Commission in particular.<sup>48</sup> The provinces are requested to develop detailed ideas on regional and local industrial policies which then have to be approved by the State Council. Those plans will then guide e.g. allocation of credit. During 1994, it became already obvious that this approach will also affect foreign trade, China's wish to enter the GATT notwithstanding. For instance, in mid-1994 it was decided to grant a monopoly of foreign trade to certain companies if vital goods are concerned which exert strong influence on national economic development. This includes important items like wool, cotton, wheat, fertilizer, steel or wood.<sup>49</sup>

In general, the future policy towards TVE's will be of interest because we already observe a strong drive at transforming those enterprises into share companies. Together with a serious application of the new labour law this could mean tight government regulation with the hidden aim of setting the conditions for state enterprises better. Furthermore, as opposed to many views that "collective" property rights in TVE's drive towards at least undercover privatization, it seems to be the case in 1994 that precisely the corporatization of TVE's will lead to an even

<sup>47</sup> The regulation on the new industrial policy and the automobile industry have been published in Guowuyuan gongbao (State Council Bulletin), Nos. 12 and 15, 1994, pp. 496-505 and 630-638. A useful survey of the current state of the industry is Ishiro Katsuji, China's new auto industrial policy, JETRO China Newsletter, Nov.-Dec. 1994, pp. 2-5. For the new law on external trade see Renmin ribao, hai wai ban (People's Daily, Overseas Edition), 14. May 1994, p. 2. However, recently the Central government announced to take a similar approach to all FDI in terms of "production strategies", see South China Morning Post, 20 December 1994. Industrial policy objectives are also mentioned in many major laws which have been released in the recent years, as for instance in the corporate law where it is asserted that the development of corporate finance should follow industrial policies of the State Council, see Guowuyuan gongbao (State Council Bulletin), No. 30, 1994, p. 1440.

<sup>48</sup> For a comment on this approach, see Jiang Lin/Gao Xiaosi, Xiangzhen qiye fazhan de zhanlue zhuan yi (Shift of the strategy regarding TVEs), Jingji yanjiu (Economic Research), No. 4, 1994, pp. 23-28.

<sup>49</sup> Liang an jing mao tongxun (Straits Economic Relations Newsletter) No. 9, 1994, p. 14.

stronger role of local governments and other public organizations in managing those enterprises.<sup>50</sup>

Can we already assess the possible success or failure of the interventionist agenda? Of course two or three years are needed to realize the true working of the new system. After having set the legal framework in 1993 and in the beginning of 1994, the State Commission for Restructuring the Economic System in April released a list of core issues for reform in 1994 which seems to work again through the treadmill of slow change in the institutional setting of China's economy.<sup>51</sup> The sequence of measures may be significant because the first item is the modernization of the state enterprise system and management, and the second refers to the ongoing changes in the fiscal and financial institutions.

### *The roots of the interventionist agenda: Redistributing power*

So far the whole set of new institutions seems to be the object of intensive bargaining between the Centre and the other agents in the economy. The main reason is that almost all the policy measures in 1994 actually focus on the relationship between the Centre and the local authorities, beginning with the provinces but running down to the grassroots level.

If one takes a closer look at some of the regulations in particular on taxation, it is evident that there are still many loopholes added even before implementation. For instance, the Centre did not manage to centralize revenue from income taxation and hence redistribution of income tax, and there are still legal means for reducing the tax load for companies. Furthermore, the whole issue of extra-budgetary funds has not been tackled by the new regulations, which means that e.g. through manipulation of taxes funds can be channelled into local coffers. But even with those legal or quasi-legal loopholes, there seems to be outright resistance against the new system on the local level. After the first half of 1994, the Centre was by far surpassed in terms of growth of tax revenue by the provinces (11,%% growth rate as compared to 39%).<sup>52</sup>

One of the crucial issues linking fiscal problems, credit and regional development is just the question of state enterprises. Many observers blame the state enterprises with being the most important cause of the recurrent loss of control of the money supply.<sup>53</sup> Indeed, one truly worrying phenomenon in 1994 was the simultaneous expansion of the money supply and the

<sup>50</sup> This process started already in 1993, when local governments implemented corporatization with the aim of boosting collective enterprises which began to suffer from competition with private enterprises, in particular with managers changing their jobs. See Ma Rong et al., eds., *Jiu shi niandai Zhongguo xiangzhen qiye diaocha* (Investigations into China's village and township Enterprises in the nineties) (Hong Kong, Oxford University Press, 1994), p. 442f. It is said that now about 10% of TVEs have been converted into so-called stock companies, see *Guoji shangbao* (International Business Daily), 4.11.1994. And there are cases of a real recollectivization, see *Far Eastern Economic Review*, 17 Nov 1994, p. 32.

<sup>51</sup> See *Guowuyuan gongbao* (State Council Bulletin) No. 14, 1994, pp. 561-566 and comments e.g. in *Zhongguo gaige* (China Reform), No. 8, 1994, pp. 6-10.

<sup>52</sup> A survey can be found in *China aktuell*, No. 9, 1994, p. 929, and No 12, 1994, p. 1188.

<sup>53</sup> In the *China Review 1994* (Hong Kong, Chinese University Press, 1994), see Geng Xiao and Haiyan Gao, *The Engine of Growth and the Root of Inflation in the Chinese Economy*.



In former times, this influence, for example, led to the much deplored diversion of credit funds from agriculture to industrial business or to the misuse of investment funds for paying wages of loss-making enterprises. But at the end of 1994, so far the news items do not convey the message that there was an immediate effect on the behavior of local governments. The resistance might have been reflected already in the slow progress in implementing the reform. But Zhu Rongji had to take up again his tough attitude towards local heads of branches in the banking system in December which at least further boosts his image of using "command economy" levers to regulate the economy. This seems still to include the use of tight credit quotas for the just designed "commercial" credit system which is part and parcel of a full-fledged attempt at gaining control of local use of funds. The newly established "State Development Bank" will also be used to achieve direct control of credit for investment finance.<sup>59</sup> Recent demands on part of the NPC to give control of the money supply to the national parliament should be interpreted as a direct counter-attack of the regional delegates against the policies of the Center.<sup>60</sup>

But even important market-oriented reforms might be redirected by local authorities, finally leading to the well-known over-expansion of credit by local branches. For instance, there were reports that speeding up the application of the bankruptcy law simply means another way to force local banks to back the credits of those companies, now only in relation to the creditors (e.g. in triangular debt chains). There are estimates that at least 20% of the outstanding credit volume are in fact defaults, and an additional 30% only are honoured in terms of interest but not return of principal. Hence about 1500 billion RMB of funds present serious problems for the state banks. Other data point to the complete hollowing out of assets of state enterprises of which almost 50% are said to be indebted more than their assets if financial claims against them were settled. Furthermore in a large scale-survey lost "triangular debts" amounted to 24.5 per cent of the capital losses (59.9 billion RMB). The stock of accumulated debt is large enough so that interest payments have become a major issue for enterprises with absorbing 40% of the net growth of earnings resulting from price increases.<sup>61</sup> So far, mortgaging and other methods of guaranteeing credits are still very underdeveloped so that the credit business in the narrow meaning continues to be the core activity of the banks. Hence, the issue of financial stability which we discussed in section 3 of this paper is closely linked with the issue of the relationship between the Centre and the local authorities.

<sup>59</sup> South China Morning Post, 7, 19, 29 December 1994, and 6 January 1995. This was actually called "state planning" by the Vice-Governor of the PBOC, see South China Morning Post, 16 January 1995. See also *Jingji ribao* (Economic Daily), 16 January 1995.

<sup>60</sup> On those demands see South China Morning Post, 28 December 1994.

<sup>61</sup> Yang Yumin/Liu Fujiang, "Dui 1994 nian gongye jingji xiaoyi zoushi de panduan" (Assessing the 1994 trends in industrial productivity), *Zhongguo gongye jingji yanjiu* (China Industrial Economics Studies), No. 7, 1994, p. 27, *Zhonghua gongshang shi bao* (China Business Times), 20 December 1994, and South China Morning Post, 10 January 1995. On a seminar at Beida in Beijing, Gao Shangquan gave the figure of the outstanding debt of the state enterprises representing 80 per cent of their net wealth.

Given the fact that one of the weakest links of the Chinese tax system so far was its decentralized structure, the reaction of local governments in county towns and medium scale cities will also be crucial for achieving the overall aim of the tax reform.<sup>62</sup> For instance, just after the introduction of the new system local authorities have begun to introduce new measures for tax refunding after a formal delivery of the tax, not to speak of the considerable problems in educating a possibly unwilling local administration in the use of the new bookkeeping procedures for implementing the VAT.<sup>63</sup> This behavior can be understood if one pays attention to the fact that the majority of medium-scale loss-making state enterprises with an excess burden of workers are located on the lower local level.

Fortunately, the new tax system was designed in a way that local authorities will realize incentives to develop small and medium scale enterprises as well as the services sector because those taxes will also belong to them.<sup>64</sup> This could be an important lever to foster activities of local authorities which will eventually lead to the creation of new job opportunities for workers in state enterprises and which will speed up structural change. But on the other hand the new approach of the Centre towards industrial policies is evidently geared towards the support of medium and large-scale state enterprises. In particular, there is a certain contradiction between the objective of the tax reform, which should abolish the practice of irregular tax allowances and of the reduction of interest before tax, and the objective of industrial policies to foster certain enterprises and industries by means of special support in just the fields of tax and credit policies. Of course it is stipulated that from now on industrial policies should be controlled by the central government, but the experience of the last decade raises doubts concerning the capability of the Centre to exert such a controlling power.

In that regard, the message of the new system to the local level may be ambivalent after all because the particular provisions for tax sharing also follow short-term industrial policy objectives, as for example in the attempt to centralize consumption taxes on industries like cigarettes, cosmetics or cars where so far many profitable local activities were realized. It is obvious that this distribution of certain taxes between the Centre and the provincial governments aims at crushing any kind of resistance against the newly designed national industrial policy which might build up because of particular fiscal interests on the local level. However, from the viewpoint of the requirements for a long-term stable redistribution pattern,

<sup>62</sup> A report from Sichuan is Liu Fengtong, "Jiceng xin shuizhi yunxing zhengchang" (The routine of the new tax system at the grassroots level), *Caizheng (Finance)*, No. 6, 1994, pp. 22-25. Cf. also *Zhongguo shuiwu*, No. 6, 1994, p. 1, and for a general evaluation *Shi chang bao (Market Daily)*, 20 December 1995.

<sup>63</sup> However, when talking about tax reform at least in a note it should be mentioned that society also strikes back: Tax authorities regarded the administration of the personal income tax a "failure", see *Hong Kong Standard*, 12 December 1994.

<sup>64</sup> For a related analysis see Qi Shouyin, "Shi xi xin fenshui zhi fang'an de zhengce daoxiang" (Trying to analyze the policy implications of the new approach towards the tax-sharing system), *Caizheng (Finance)*, No. 6, 1994, pp. 45-48.

this mix of different objectives in the tax reform will weaken local commitment to the new system.

At the end of 1994, rumours still point towards a heightened tension between the Central government and the so-called "difang zhengfu", which, as always since 1992, crystallizes around the role of Zhu Rongji, but finally the symbolic weight of Jiang Zemin was added.<sup>65</sup> Indeed, the provisions in the State Council release on the tax sharing system stipulate that the local interests should be protected and introduce certain procedures which will freeze the final distribution of taxes on the state of 1993 and will only lead to a growing Central share in the future, the tax assignment notwithstanding. This seems to give room for widespread manipulation of tax figures by the provinces. The local political resistance against the new system also lines up with certain groups in the central leadership, in particular the so-called "conservatives". Hence strong measures seem to have been taken by the central leadership during late 1994, including open criticism of "regionalism" and "factionalism".

This being said, it should be added that at the end of 1994 the many positive news on the success of the tax reform in terms of boosting tax receipts by the government still await for a more detailed evaluation. The data show a 25.5 per cent increase to 731.4 billion RMB in 1994, with the different industrial and commercial taxes representing 451.3 billion RMB.<sup>66</sup> Aside from the fact that "tax receipts" might not mean "actually delivered taxes" between the different levels of the tax administration it should be mentioned that a larger share of the rising tax income results from the increased taxation of imports. VAT and Consumption Tax income on imports amounted to 62,26 billion RMB in 1994.<sup>67</sup> Since it is by no means clear to what an extent those taxes will be refunded in the case of Joint-Ventures, and since Chinese importers have to pay the new taxes anyway, a considerable part of the so-called success of the tax reform might be explained by the increased taxation of foreign trade and investment and does not allow any conclusions regarding the internal tax administration.

In sum, there is still no solution found to the issue how to disentangle the intricate relationship between the fiscal and the financial sector. The clash between the local and the central interests continues to be the root of China's macroeconomic instability. This also means that regional

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<sup>65</sup> See Yan Hua, "Zhu Rongji tuijin fenshui zhi zao weigong" (Zhu Rongji's push towards the tax-sharing system faces attack from all sides), *Jiushi niandai* (The Nineties), No. 12, 1994, pp. 44-45, and Cheng Ming, No. 1, 1995, pp. 9ff. The problems were already rampant at the introduction of the new tax system when provinces falsified tax figures. There was a sharp statement of the finance minister before the NPC in March 1993, see *Caizheng* (Finance), No. 5, 1994, p. 3.

<sup>66</sup> *South China Morning Post*, 9 and 15 January 1995.

<sup>67</sup> *Jingji ribao* (Economic Daily), 10 January 1995. The central government will continue to tap this source of tax receipts by lifting many exemptions for Joint-Ventures, see *South China Morning Post*, 23 January 1995. Of course, this is a sensible approach in order to arrange for just competition. But no immediate conclusion follows regarding the overall success of the tax reform. Anyhow, there seem to be no data on the relative contribution of the foreign trade sector to the alleged success of tax reform, see *South China Morning Post* 15 January 1995. But there are many signs that the Chinese government is going to focus on China's foreign trade for boosting revenue, see *Far Eastern Economic Review* 26 January 1995, p. 53.

development is of utmost importance for macroeconomic stability, too, since local interests take their shape within a peculiar regional context. So much more is at stake than interests rates or inflation. Constitutional issues of allocating rights and power within the state come to the fore.<sup>68</sup> But in order to assess the challenge of 1994, another important aspect of China's economic development should be paid attention to which also closely linked to the problem of inflation.

## 5. Welfare, Growth and the Rural Question: Who will be the Winner?

### *Prices and redistribution*

Aside from the far-reaching policy measures of 1994, this year is also important for assessing the future of growth in China. Many observers do praise China for having achieved strong growth of individual welfare and they expect this to continue in the future. However, one should not forget the fragile state of individual welfare in China if only to understand the worries of the Chinese leadership about social stability. The crucial question in this regard is the interaction between the ongoing price reform and inflation. It should be stressed that the attitude of the majority of the analysts is plainly wrong who simply take Chinese figures on inflation for granted and then forecast developments of 1995, being based, for instance, on the decline of the year-to-year inflation rates at the end of 1994 (which, however, still shows a large spread between the provinces with a year-to-year index of 114.0 for Beijing and a 130.3 for Hunan).<sup>69</sup> As a rule one can suppose that the higher the inflation rate, the stronger administrative interventions and, hence, the less reliable official figures on inflation.

In 1994 price reform was pushed again in particular in order to set conditions right for upstream industries (like steel, energy etc.) and, of course, for agriculture. Both measures have had and will have a strong regional impact, too. But in the past measures favouring agriculture in particular had only an effect for a few years because the rise of free market prices of inputs in the medium run again widened the scissor's gap to the detriment of the peasants. This was the case in 1994, too, and caused the government to raise procurement prices for cotton another time in order to solve the recurrent incentive crisis. On the surface, the reaction of the relative prices was strong, however, stayed within certain limits.<sup>70</sup> But for the example of grain, where the government raised its procurement prices in June 1994, it should be noted that first, resulting overall price increases were much stronger in many inner provinces than in the coast,

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<sup>68</sup> Indeed, there were reports that mainland scholars participate in designing far-reaching proposals on regional democracy and federalism, see South China Morning Post, 19 December 1994.

<sup>69</sup> This is the common approach, see amongst many others South China Morning Post, 17 December 1995, The regional data have been published in *Jingji ribao* (Economic Daily), 21 January 1995.

<sup>70</sup> Pang Shaolin/Zou Wenhui, "Liang jia tiaozheng zhi hou" (After the regulation of grain prices), *Zhongguo tongji* (China Statistics), No. 9, 1994, pp. 43-44. On the price scissor issue, see other more recent confirming news as South China Morning Post, 29 December 1994.

probably mirroring the sluggish agricultural development as well as deficiencies in market infrastructure, second, that there was a sometimes even stronger reaction of downstream products like eggs and pork, and third, that the net result of the price increase for rural incomes can be tiny if the still rapidly growing input costs of grain production are taken into consideration. As in earlier times the impact of those changes of relative prices will depend heavily on whether the urban sector will have to adapt fully to the new prices or whether an adaptive change of the price level, namely inflation will serve to shelter the cities indirectly, finally eroding the changes of relative prices through managing the money illusion.

However, understanding Chinese price regulation in the urban sector is a difficult task because since the mid-eighties many responsibilities for price surveillance and control have been transferred to the local level.<sup>71</sup> This is particularly true for the cities where local authorities have to face directly the reaction of the urban people to rising prices. Since 1989 a complex system for indirect price control has been built which includes the local control of price ceilings and the establishment of public buffer stocks. Furthermore, special measures have been taken to guarantee the supply of the cities with cheap vegetables.<sup>72</sup> This does include the building of special sites for vegetable production for the cities (which either control agricultural output prices directly or crowd out independent peasant producers by means of subsidized prices) and a full-fledged system of price reporting (jiage shenbao) and price administration (jiage shenpi). Hence even in the case of vegetables the often quoted view that the free market has full reign might be wrong at a closer look. The many problems with preserving the agricultural land devoted to vegetable production close to the cities serves as an indicator of still distorted prices. In fact, the aim of the preservation of those areas led to the announcement of quotas for agricultural land-use with the beginning of 1995.<sup>73</sup>

At the end of 1994, the real importance of price controls for stabilizing inflation in the cities has become salient even to the ordinary visitor of China who could observe again people queuing

<sup>71</sup> I have surveyed those changes in Carsten Herrmann-Pillath, *Institutioneller Wandel, Macht und Inflation in China, Ordnungstheoretische Analysen zur Politischen Ökonomie eines Transformationsprozesses* (Baden-Baden, Nomos, 1991), pp. 371-376. To my mind, most observers do not pay enough attention to local price control and put too much emphasis on the price policies of the Central government. But then the real meaning of, for instance, the recently published guidelines for reform in *Guowuyuan gongbao* (State Council Bulletin) No. 14, 1994, pp. 561-566 cannot be grasped which in the context of agricultural prices, amongst other measures, include the "building of a system of surveillance and control" for prices of agricultural products ("jianli nongfu chanpin shichang jian kong tixi"). See also *China News Analysis*, 15 June 1994, No. 1512, p. 3. There were news on some new instruments of price regulation, like the establishment of a "price regulation fund" ("jiage tiaojie jijin zhidu") in many cities, see *Zhongguo jingying bao* (China Management Daily), 2 December 1994.

<sup>72</sup> On those "vegetable baskets" in Shanghai see e.g. Li Zishun, "Jiain jianshe xin yi lun "Cai lanzi" gongcheng" (Speedily building the new round of the "vegetable basket" project), *Zhongguo gaige* (China Reform), No. 6, 1994, pp. 28-30. This policy is still in focus in 1995, see *Jingji ribao*, 11 January 1995. One should add that there can be very strong interventions in the market. For instance, in Taiyuan there was the invention of "non-profit sales" which means that trade in vegetables is controlled by the local government and nobody is allowed to buy more than one kilogram at one time, see *Jingji ribao* (Economic Daily), 24 January 1995.

<sup>73</sup> *South China Morning Post*, 21 December 1994 and 6 January 1995.

up in front of state-owned retail stores. Representatives of the Central government even argued that the State should control between 70 and 80% of trade in grain and edible oil although this would not lead to "structural changes" in the distribution system. Notwithstanding, grain coupons have been reintroduced in many Chinese cities already in autumn 1994, receiving more publicity at the end of the year.<sup>74</sup> The relevant State Council circular refers to the role of local governments which, however, simply means that the above mentioned levers of price control have been backed and strengthened.<sup>75</sup> Furthermore, although price policies regarding cotton have led to a much acclaimed vigorous increase of production, on the other hand there are still considerable problems with realizing actual procurement which cause the government to cling to tough restrictions on cotton marketing.<sup>76</sup>

It is very difficult to assess the degree of economic discrimination against the peasants within this context but we may conclude that also in 1994 the devolution of central control of prices should not be straightforwardly perceived as a growth of the share of truly free market prices. Instead the grey area of decentrally administered and managed prices has increased considerably. Critical analysts in China point to the fact that this system still is geared towards the urban interests and discriminates against the peasants.<sup>77</sup> At the beginning of 1995, there are strong incentives to exploit this system to the disadvantage of the peasants because almost all Chinese comments on inflation agree on the crucial role of agricultural prices in pushing the inflation rate.<sup>78</sup> So the preferred cure against inflation is short-term price control and medium-term "support of agriculture" through fostering investment, supply of inputs or regulation of land use. So far, this kind of support failed in the long-run as just the current problems show which are the result of similar policy failures in the past.

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<sup>74</sup> South China Morning Post, 17, 29 and 30 December 1994, 6 January 1995. News items refer to Hunan, Anhui, Sichuan and the whole Northeast. The figure on "70-80% state control" was also provided by Jingji cankao bao, 22 December 1994, where the idea of state planning also referred to the whole agricultural input distribution system, too. However, policies towards strengthening state control on prices were already taken in mid-1994, see Liang an jingmao tongxun (Economic Relations Across the Straits Newsletter), No. 9, 1994, p. 12.

<sup>75</sup> In effect, local governments released tighter regulations on price control a bit earlier, like in Hanchuan county near Wuhan, where an explicit list on prices of important goods was released on December, see Hanchuan bao, 27 December 1994. The policy has been even more pushed in the Chinese New Year preparations, see Renmin ribao, hai wai ban (People's Daily, Overseas Edition), 6 January 1995.

<sup>76</sup> Compare e.g. Jingji cankao bao (Economic Information Daily), 8 November 1994, with Jingji ribao (Economic Daily), 10 January 1995.

<sup>77</sup> The director of the Rural Development Institute, CASS, Chen Jiyuan, takes this attitude towards the "vegetable basket" system, see the interview entitled "Chen Jiyuan tan: dangqian wo guo nongye mianlin de shen cengci wenti (Chen Jiyuan on some deep-structural problems of agriculture in our country), published in Zhongguo gaige (China Reform), No. 5, 1994, pp. 30-32. Cf. in the China Review 1994 the paper by James Kaising Kung, Peasants in a "Hot Pot": Pushing the Limits of a Biased Strategy against Agriculture?.

<sup>78</sup> See, for example, South China Morning Post, 5 January 1995.

### *The fragile state of urban wealth*

Hence the hidden clash between urban and rural interests still has not been resolved. The main reason for this can be learned if we have a short look at a survey of urban income in Beijing and Luoyang which has been released by the Taiwan-based "China Times Business Weekly" and which has been praised by the editorial as being a picture of the "consumer's revolution" in the cities.<sup>79</sup> Granted, there is a remarkable increase of the level of welfare in particular regarding the consumption of durable consumer goods. But there is, as always in China, the problem whether the glass is half full or half empty: The vast majority of the city dwellers shows a very modest state of well-being. Even in Beijing, where for instance already over 20% of the population earn between 600 and 1000 Yuan per month and capita, the high costs of living result in a consumption pattern where 85% of the population spend more than 50% on food. The majority of the population does not visit a public garden or a cinema even one times a month, and almost 40% only goes out for shopping (aside from daily necessities) up to one times a month. However, with the exception of a certain wealthy subgroup of young generation "yuppies" the consumption behavior seems to be fairly sophisticated and reasonable. This takes place against the background of a very pronounced drive at gaining status through wealth and money. That is to say, people set a high priority in assessing their personal situation according to their perceived position in the income ladder, namely in pecuniary terms.

It seems to be that spending for durable consumer goods is only possible because housing is virtually free of charge. The urban people build up their savings just because they prepare for changes in that field, but the headaches of the city planners as well as of the central leadership with changing the housing system are well-known. The figures of the survey demonstrate very clearly that the impact of inflation on the well-being of the urban population would be very strong if prices for food and clothing were liberalized completely. Actually about two thirds of the population already believe that increases in income do not match inflation such that real income is perceived to decrease. This is particularly worrisome because one of the most remarkable results of the survey is an asymmetry between the actual relative position of the respondents in the income scale and their subjectively perceived position. In particular, the so called emerging middle class systematically downgrades their position. Together with their high expectations for the future this can be an explosive mix of perceptions and reactions if increasing inflation erodes their real incomes further.

So the conditions in the cities are still difficult to manage, and the cheap supply of agricultural goods is still of utmost importance for social and political stability. However, together with a

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<sup>79</sup> See Zhongshi zhoukan bianji bu, "Da lu chengshi xiaofei geming - Beijing, Luoyang shimin xiaofei diaocha baogao" (The consumption revolution of Mainland China's cities - Report on the investigation into consumption of Beijing and Luoyang city dwellers), in: Zhongshi zhoukan (China Times Business Weekly), Nos. 154, 155, 1994, pp. 37-45, 44-51. The editorial is in the latter, p. 3. The report mirrors the situation in mid-1994.

speeding up of bankruptcy procedures concerning state enterprises there is a very high risk that the majority of most city dwellers in China might face an immediate deterioration of basic conditions for living. This is why in recent bankruptcy cases worker's resistance indeed stressed the problem of food, namely that families simply fear to be unable to maintain provision for the elementary daily needs. As a matter of fact, the strong expansion of urban wage funds in late 1994 mirrors the growing concern of the urban population about the possible decline of their real income. The new labour law, which is designed to give a legal framework for a labour market in the true sense, now actually for the first time provides a formal justification for this kind of indirectly indexing wages to inflation by means of minimum wage regulations. However, this law does only apply to the urban population and not to the rural migrants working in the cities.<sup>80</sup>

China's consumer revolution therefore is still dependent on the rural question. Although the State Statistical Bureau announces larger relative increases of rural incomes than for urban for 1994 this is only the result of a long-delayed and stepwise adjustment of procurement prices since 1993, after several years of almost stagnating real per-capita incomes in the countryside. However, the important example of the second big ticket in urban spending, clothing, shows that the true problems have not yet been tackled.<sup>81</sup> In 1994, clashes of interest regarding internal trade with cotton, silk and wool continued as in former times, including price wars,

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<sup>80</sup> For instance, the situation in Heilongjiang was very difficult in 1994, leading to hardships for many workers. In April the Governor and the Party Secretary were dismissed, presumably because of their handling of the state enterprise issue which was followed by worker's protests. See Wen You, "Gongyouzhi wei zhu" hai ku Heilongjiang (Heilongjiang's Bitterness with "Stateownership First"), Cheng Ming, No. 12, 1994, pp. 28f., and on 1994 labour disputes in general see South China Morning Post, 7 December 1994. At the end of the year there were rumours about similar dismissals in Sichuan and Hubei, see Far Eastern Economic Review 29 Dec 1994-5 Jan 1995, p. 12. The strong pressure of workers in the cities induced a complete loss of control of the wage fund which grew 31,7% in the first three quarters of 1994, with the state enterprises being the main culprits, although there was national investigation of the development of "consumption funds" since September, Zhongguo tongji (China Statistics), No. 11, 1994, p. 7. The expansion has been financed through the banking system just from the beginning of 1993, see Han Wenxiu, "1994 nian tonghuopengzhang qushi fenxi" (Analysis of the trend of inflation in 1994), Zhongguo gongye jingji yanjiu (China Industrial Economics Studies), No. 9, 1994, p. 6. For more detail see China aktuell, No. 11, 1994, p. 1125, and on regional differences including figures of 46.1% growth for Shanghai China Daily, 7 January 1995. This expansion took place with a growing share of non-wage payments to workers, according to a statement by Gao Shangquan at a seminar which took place at Beida in early January 1995. On minimum wages, see South China Morning Post, 5 January 1995. Minimum wages were established on the local level earlier in 1994, for instance in Xiamen were a year-by-year adaption to the inflation rate was introduced, see Liang an jingmao tongxun (Straits Economic Relations Newsletter) No. 9 1994, p. 18. Whether discrimination against migrant workers will also include administrative control of their movements is still unclear although there were already attempts at closing the urban labour market, see South China Morning Post 14 December 1994. It should be mentioned that in 1994, with the publication of "Looking at China from the Third Eye", urban resentment against migrants found a very sharp expression in the public, see South China Morning Post, 10 December 1994.

<sup>81</sup> See the survey in China aktuell, No. 10, 1994, p. 1049, and for a more detailed analysis of the situation at the beginning of 1994 see China News Analysis, 15 March 1994, No. 1506. However, similar controls on the grain markets have been established more earlier in the year, too, see Guowuyuan gongbao (State Council Bulletin) No. 15, 1994, p. 639. The issue is also linked with the problems of futures markets which we already discussed in section 4, cf. Far Eastern Economic Review, 27.10.1994, p. 29.

local export controls, massive attempts at cheating procurement organizations, tough administrative controls on trade and black markets and, most important, the continuation of the state monopoly in cotton trade. Without controlling cotton trade and cotton prices tightly, neither the state textile industries could survive nor the urban dwellers could enjoy a cheap supply of clothing.

One area where urban-rural clashes of interest will sharpen in the future will be the question of taxes.<sup>82</sup> Since the eighties there was a constant worry about irregular levies imposed on the peasants by the local authorities. However, so far there were only weak attempts by the local authorities to tighten the formal tax administration below the level of the county. This could be viewed as a failure of tax administration which should be remedied in the sense of reducing irregular levies and improving regular taxation instead. However, the new tax system in 1994 did not deal with the question of rural taxation in terms of a systematic local tax sharing but only with assigning the agricultural taxes in general to the local level, with the notorious black box of "difang zhengfu" reaching from the province to the administrative village. Between the counties and their villages and townships on the one hand and the cities of the county seats on the other there is still the old "contractual system" (baogan). There are already clear indications that the county governments will try to shift the burden of a higher tax share of the Centre onto the villages and townships. This is intended by the Centre because rural taxes will belong to the local level, and because there is a systematic undertaxation of certain economic activities in the countryside. Hence, if the fiscal pressure of upper-level governments on the county governments increases, this will immediately give rise to heightened fiscal tension between the counties and the "xiang" and "zhen" level governments.

In conclusion, one final point should be added which leads back to our starting point, viz. regional development. Our above considerations referred to China without any additional distinction. However, the problems mentioned are very different between the regions which also means that the political economy of price policies and inflation is different. At the end of 1994 it was reported that real incomes of urban residents took many directions depending on the city in question. For instance, urban residents in Chengdu and Guangzhou enjoyed an increase of above 20%, whereas the people in Chongqing and Xi'an had to be satisfied with a

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<sup>82</sup> See views from Jiangsu Ji Jin, "Jiakuai jianli sheying fenshui zhi yaoqiu de difang caizheng xin geju" (Speeding up the formation of a new pattern of local finance that fits the requirements of the tax-sharing system), *Caizheng (Finance)*, No. 7 (1994), pp. 16-17, and from Hebei Cheng Fengchao/Gao Zhili, "Shixing fenshui zhi hou difang caiyuan jianshe zhanlue zai xuanze de jiben silu" (Basic thoughts on new options for building local fiscal resources after the implementation of the tax sharing system), *Caizheng (Finance)*, No. 10, 1994, pp. 36-38. In the late eighties and the early nineties such a snowball effect from the provincial to the level of "xiang" and "zhen" could already be observed within the "baogan" system, see the detailed discussion in Shi Chuan/Carsten Herrmann-Pillath, *Die Krise des chinesischen Steuerstaates: Probleme des Fiskus in Kreisen und Dörfern*, Special Report of the Federal Institute for East European and International Studies (Cologne, 1992).

meagre 3%, and living in Taiyuan or Nanjing meant to face a decline of real income.<sup>83</sup> This, of course, will eventually lead to intensive haggling about the redistribution taxes and credit between the provinces.

## 6. Outlook

At the end of 1994, China's future in the short run looks darker than at the beginning. Looking at the figures commonly quoted to describe the situation of the country in 1994, this message might be overly pessimistic (see table 8, Appendix). But those figures only give a snapshot of superficial phenomena. Meeting reality means to be engaged with much more detailed and intricate, sometimes elusive items of information. In that regard, recent concern with the quality of Chinese statistical data are only the smallest of the issues at stake.<sup>84</sup>

1994 Economic Indicators		
		%
GDP	4380 bill. Y	11.8
value added of primary sector	823.1 bill. Y	3.5
value added of secondary sector	2125.9 bill. Y	17.4
value added of tertiary sector	1431 bill. Y	8.7
total grain output	444.5 mill. t	-2.5
value added of industry	1835.9 bill. Y	18
value added of light industry	766.8 bill. Y	19.6
value added of heavy industry	1069.1 bill. Y	16.5
fixed assets investment	1592.6 bill. Y	15.8
value added of traffic and transport sector	224.7 bill. Y	6
value added of post and telecommunication sector	69.3 bill. Y	50.2
value of retail consumption	1605.3 bill. Y	7.8
increase of consumption prices		24.1
export	121 bill. \$	31.9
import	115.7 bill. \$	11.2
foreign capital used	45.8 bill. \$	17.6
direct foreign investment	33.8 bill. \$	22.8
bank deposits	2932.8 bill. Y	37.1
increase of money supply (M2)		34.4

Source: Economic Affairs, FBIS-CHI-95-023, 3 February 1995

<sup>83</sup> The figures were quoted in *Zhongguo yinjin bao* (China Transfer Daily), 20 December 1995.

<sup>84</sup> There is a growing need for the Central government to implement tight administrative and disciplinary approaches against falsification of statistics on the local level, which is reportedly also related to the general difficulties in maintaining administrative procedures, see Chen Yuanchou et al., "Xiang xujia shuzi xuanzhan" (Declaring war against false figures), *Zhongguo tongji*, No. 11, 1994, pp. 10-12. Only casual observations are possible regarding the seemingly crucial problem, namely, statistics of TVE's. In some regions output figures are said to be faked to an extent of 30-40 per cent, see *Ya Tai jingji shibao* (Asian-Pacific Economic Times), 8 December 1994. However, the State Statistical Bureau recently confirmed that China's data are reliable, see *South China Morning Post*, 21 January 1995.

In many areas which we could not cover in these pages problems have surfaced which seem to accumulate to formidable obstacles against the final step out of the middle of the crossroad. For instance, China's big needs for infrastructure may not be met because foreign investors face many troubles and because of impending debt problems with a stock of 100 billion US-\$ foreign debt.<sup>85</sup> The GATT issue is still unresolved, and instead trade friction between the US and China sharpened again, after cutting the link between trade issues and human rights in 1994 and hence solving one of the most difficult aspects of US-China relations. After all, as I have argued elsewhere, GATT will also have tremendous consequences for China's regional development and may have unforeseen consequences for the capability of the Central government to deal with the political economy of domestic trade and investment.<sup>86</sup> There are already signs that existing organizations for controlling internal trade might be directed at imports from foreign countries, too. This seems to have been prepared by a somewhat campaign-like national drive against "fake" goods allegedly flooding China from the outside.<sup>87</sup> The Chinese government still has to learn what a market environment for China's external economic relation means, as, for instance, was demonstrated by the Dai Xianglong's, Vice Chairman of the People's Bank, recent insight that the new forex-system has had the consequence that the Central Bank can no longer fully control the growth of the money supply if a certain exchange rate target is pursued.<sup>88</sup> Building foreign exchange reserves now means growth of the monetary base, and maintaining a certain price level can then only be achieved if other components of the monetary base are decreased, like refinancing the special banks. The latter, of course, would produce additional pressure on credit to state enterprises. Hence, the Central Bank simply let money flow into the economy, giving much leeway to further policy cycles in the future, including, for example, widening the scissors gap of agricultural input and output prices. A way out would be the revaluation of the RMB which, of course, boosts imports and dampens exports.

But it seems indeed that China pursued a monetary policy targetted at the exchange rate, thereby endogenizing the money supply. The short-term result was the very quick shift of the trade balance with a real leap forward in exports and the switch to a positive trade balance, the

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<sup>85</sup> Far Eastern Economic Review, 10.11.1994, pp. 56-61.

<sup>86</sup> Carsten Herrmann-Pillath, Growth and the Claim to Big-Power Status in China, in: Aussenpolitik, German Foreign Affairs Review, No. 3, 1994, pp.

<sup>87</sup> In November, Fujian was reported to have established a special system of "security control" for nine import items including cars, refrigerators or air conditioning, see Liang an jingmao tongxun (Newsletter on Trade Across the Taiwan Straits), No. 12, 1994, p. 20.

<sup>88</sup> Guoji shangbao (International Business Daily), 20.11.1994. Scholars pointed to the problem earlier, pointing at the trade-off between inflation and stability of the exchange rate. See Sun Mingchun, "Lun waihui guanli tizhi gaige dui wo guo huobi zhengce de yinxiang" (On the effects of the forex-system reform on monetary policy in our country), Jingji yanjiu (Economic Research), No. 8, 1994, pp. 52-56.

medium run is inflation. It should be added that maintaining the exchange rate imposes heavy costs on state enterprises which in particular in heavy industry show a very high degree of import dependency, with e.g. imports making up almost 80% of net output value in chemical industries. So there is additional pressure on the profitability of industry in China.<sup>89</sup>

The Chinese government still has to learn that in matters of economics, conflicting targets cannot be realized simultaneously. Trade-offs have to be weighed and prudent choices have to be done. However, so far the reaction has been to resort to even more government intervention. China still moves in the middle of the cross-road.

But there may be unintended consequences of many of the different economic policies discussed in this paper. Even for the institutional level one can imagine, for instance, that tax reform in 1994 will eventually not have the result of strengthening the capacities of the Centre but will give a sort of a constitutional and administrative guarantee of the rights of the provinces.<sup>90</sup> But I think that already today the most important consequence is the continuing intensification of migration in China. There is an immediate link between macroeconomic cycles, the change of relative prices for agricultural inputs and outputs, and the incentives for peasants to leave their home. For 1994, the number of people who started to move in search of labour has been estimated a 25 million who add to the existing stock of the mobile labour force. Furthermore, as compared to former alleged "blind floating" today a large share of the migrants is well-organized, either along informal lines like family ties or through public or semi-public organisations.<sup>91</sup> The main driving force of this large-scale movement is the relative decline of rural incomes since the mid-eighties which in 1993 has led back to a similar degree of discrimination as in 1978.<sup>92</sup> That means, as compared to the old system of compulsory procurement, state planning and administered prices, today a much more complex system of exploiting the peasantry for support of the cities has been established (partly without intention) and that, notwithstanding, works with the same results as the old command economy. But as

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<sup>89</sup> Far Eastern Economic Review, 20 October 1995. On import dependency of China's industry see Xu Kangning, "Wo guo gongye jinkou yicun du fenxi" (The import dependency of the industry of our country), *Zhongguo gongye jingji yanjiu* (China Industrial Economics Studies), No. 7, 1994, pp. 36-40.

<sup>90</sup> This point is Maurice Brousseau's, see *China New Analysis*, 1 January 1995, p. 8.

<sup>91</sup> The figure was quoted in *Jingji ribao*, 21 January 1995. Recent surveys on migration are e.g. *Zhonggong zhongyang zhengce yanjiu shi nongcun zu* (Rural study group of the CCP Central Committee Policy Research Department), "Guanyu nongcun li kuaqu liudong wenti de chubu yanjiu" (Preliminary research into the interregional movement of Rural workers, *Zhongguo nongcun jingji* (Chinese Rural Economy), No. 3, 1994, pp. 3-8, and Luo Yousheng/Liu Jianwen, "Nongcun laodongli kuaqu zhuanxi: xianzhuang, chengyin yu duice" (Interregional migration or rural workers: current situation, causes and policy), *Zhongguo nongcun jingji* (Chinese Rural Economy), No. 8, 1994, pp. 3-10.

<sup>92</sup> This is the result of a detailed study by the State Statistical Bureau, see *Guojia tongji ju nong diao cong dui keti zu* (Study group of the comprehensive rural survey team of the State Statistical Bureau), *Cheng xiang jumin shouru chaju yanjiu* (A study of the income differential between urban and rural residents), *Jingji yanjiu* (Economic Research), No. 12, 1994, pp. 34-45.

compared with former times the peasants now have a choice, encircling the cities which have begun to erect walls by selling out access.<sup>93</sup>

Maybe China's true peasant revolution takes place at the end of this century. But the main challenge is not directed at the Centre. If we turn back our view we realize that social change and macroeconomic development are closely interlocked with the immense structural diversity of China's regions. This diversity is reflected in economic changes as well as in political processes. Hence migration affects the interface between the economy and the polity, and analytical approaches towards both should try to meet. Then it becomes obvious that the real political push will hit the decentralized power structure of the country, which has been called, amongst others, "cascade authoritarianism" from the political perspective and "local public ownership economy" or "regional corporatism" from the economic point of view.<sup>94</sup> The Centre, however, should invest much energy in smoothing the possible fissures, breakdowns and ruptures. To my mind, this will not be possible by means of heavy-handed interventionism but by building a new constitutional framework and the rule of law. So we are back with our basics.

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<sup>93</sup> There is now a growing concern, for instance, with the practice of cities to charge very high fees for city development on people from other places, see *Jingji ribao*, 9 January 1995.

<sup>94</sup> The phrase "cascade authoritarianism" is the Japanese political scientist Amako Satoshi's, see his "kasukeedo kata ken'i shugi" no kanoosei (The possibility of "cascade authoritarianism"), *Seikai (The World)*, No. 8, 1994, pp. 39-45. The "local public ownership economy" is Fan Gang's expression, see e.g. his *Competition between brothers: Problems of divergent regional development in China*, in print, D. Cassel/C. Herrmann-Pillath, eds., *China - A New Growth Center of the World Economy?* (Baden-Baden, Nomos, 1995) and myself I have analyzed regional corporatism in *Institutioneller Wandel, Macht und Inflation in China* (Baden-Baden, Nomos, 1991).

## A. Tables

Table 1: China's per-capita GDP according to different estimates

Jahr	BSPoff	BSPoff	BSPoff	World Bank	WPT5	Taylor	BSPtr	BSPppp
	1993 prices Yuan	current prices US\$	1993 prices US\$	current prices US\$	1993 prices US\$	1993 prices US\$	1993 prices US\$	1993 prices US\$
1978	1007	222,7	503,4	230,0	2531,8	594,2	409,3	610,6
1979	1088	265,6	539,3	260,0	2673,7	628,7	436,4	651,0
1980	1133	304,3	544,4	290,0	2878,9	657,2	445,9	665,2
1981	1165	281,5	456,2	300,0	-	679,9	456,2	680,6
1982	1226	272,1	415,6	310,0	-	729,3	479,5	715,4
1983	1333	287,5	425,5	300,0	-	791,5	526,2	785,0
1984	1531	288,4	410,3	310,0	-	893,8	604,9	902,5
1985	1697	277,2	379,6	310,0	3347,3	982,6	668,9	997,8
1986	1779	263,3	349,7	300,0	-	1044,1	700,6	1045,2
1987	1900	279,9	356,9	290,0	-	1133,8	747,6	1115,3
1988	1960	343,1	419,8	330,0	3024,5	1231,5	767,3	1144,6
1989	1860	379,7	442,9	350,0	-	1265,2	724,2	1080,4
1990	1967	325,9	361,7	370,0	-	1299,3	766,5	1143,5
1991	2145	330,3	351,4	370,0	-	1385,0	836,3	1247,6
1992	2401	379,5	390,9	470,0	-	1555,8	934,9	1394,6
1993	2663	462,2	462,2	-	-	1743,8	1033,8	1542,3
1994	2907	407,5	399,5	-	-	1935,6	1139,7	1700,3

Quoted or calculated according to the methods used in:

BSPoff: GDP according to the State Statistical Yearbook and calculated according to the official exchange rate

World Bank: World Development Report, different issues;

WPT5: R. Summers/A. Heston, A New Set of International Comparisons of Real Product and Price Levels Estimates for 130 Countries, 1950-1980, Review of Income and Wealth, Vol. 34, pp. 1-25, and Summers/Heston, The Penn World Table (Mark 5): An Expanded Set of International Comparisons, 1950-1988, Quarterly Journal of Economics, 1991, p. 352.

Taylor: J.R. Taylor, Dollar GNP Estimates for China, CIR Staff Paper No. 59, Center for International research, US Bureau of Census, Washington, DC, 1991.

BSPppp: own calculations of PPP, using Taylor's base year value of absolute PPP and calculating US\$/RMB relative inflation rates

BSPtr: own calculations of PPP, taking the 1981 US\$/RMB exchange rate as PPP.

Calculations made by Song Xueming.

Table 2: Real growth rate of per-capita GDP per cent, prices of 1990, calculated according to the current issues of the State Statistical Yearbook						Real growth rate of national income per capita, prices of 1990, per cent calculated State Statistical Yearbook and the Guo min shouru tongji ziliao huibian, 1949-85, Zhongguo tongji chubanshe														
	1989	1990	1991	1992	1993		1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Beijing	-1,5	-0,6	6,9	6,8	1,2	Beijing	*	*	*	*	*	14,6	13,7	-0,2	-1,1	10,2	6,9	1,0	5,8	13,3
Tianjin	-7,1	0,6	0,2	6,5	9,9	Tianjin	7,8	7,1	1,1	1,8	5,9	10,5	14,7	3,7	5,7	4,0	0,0	-1,6	2,7	8,6
Hebei	-4,9	3,9	12,2	12,4	18,1	Hebei	6,0	2,8	-1,2	7,6	10,6	13,9	12,1	3,9	8,4	9,7	2,2	-0,7	7,2	12,0
Shanxi	-2,2	7,1	1,7	10,8	7,1	Shanxi	15,6	-5,0	1,9	16,6	10,4	20,3	7,0	3,0	0,7	6,2	3,0	1,1	1,6	12,0
Neimenggu	-6,4	7,0	6,0	8,3	11,6	Neimenggu	3,7	-0,6	6,5	17,5	5,9	13,8	12,9	0,4	4,4	10,4	1,1	4,6	7,0	7,2
Liaoning	-8,6	-1,0	4,8	12,5	20,3	Liaoning	4,2	3,6	-4,9	2,3	11,5	15,0	11,3	6,7	8,4	9,2	1,6	-3,0	4,0	13,6
Jilin	-12,5	0,6	-0,4	11,5	14,8	Jilin	2,6	3,5	3,7	6,0	23,7	11,4	6,8	5,8	14,8	11,7	-5,8	0,8	2,6	11,7
Heilongjiang	-2,4	2,2	6,4	5,9	8,7	Heilongjiang	1,0	12,0	-1,7	5,3	9,3	8,9	4,2	7,7	5,0	6,1	2,5	2,7	1,6	3,2
Shanghai	-11,8	-3,9	4,2	12,1	18,1	Shanghai	10,0	3,2	2,7	3,0	5,4	12,2	12,1	2,3	5,5	9,7	2,0	-1,9	7,6	14,2
Jiangsu	-8,4	-0,2	5,7	24,8	16,9	Jiangsu	14,0	3,9	8,0	8,4	13,1	17,8	16,1	9,2	9,0	14,4	-1,1	1,7	6,5	26,5
Zhejiang	-8,0	4,4	12,8	14,4	15,4	Zhejiang	16,3	14,3	10,5	10,9	5,7	22,2	24,2	12,4	11,4	10,4	-0,5	3,9	15,4	15,5
Anhui	-6,2	-0,8	-8,0	10,3	16,5	Anhui	12,1	4,7	5,8	6,7	6,8	18,6	15,0	9,0	6,5	6,6	2,7	-0,3	-6,0	20,2
Fujian	-2,7	7,4	14,2	17,9	25,1	Fujian	3,3	14,1	12,0	5,3	2,2	16,2	16,3	4,5	9,8	14,1	7,1	1,5	13,1	19,9
Jiangxi	-6,9	9,2	5,9	13,3	8,2	Jiangxi	11,8	0,2	3,0	6,3	5,0	10,3	13,2	4,7	8,1	9,2	4,3	0,9	5,8	11,7
Shandong	-5,8	5,4	13,1	15,7	20,7	Shandong	5,6	*	6,7	6,7	10,2	17,6	9,4	6,5	14,1	12,2	2,6	0,9	11,6	16,5
Henan	-7,3	2,5	7,0	14,6	17,0	Henan	8,1	8,6	6,3	0,3	19,5	10,3	-13,7	4,1	13,1	6,0	2,0	-1,2	5,3	14,3
Hubei	-4,9	4,9	2,0	5,3	7,9	Hubei	15,4	3,8	7,8	8,8	5,9	19,5	15,3	3,6	5,0	5,0	0,3	-1,9	2,6	5,1
Hunan	-9,0	7,1	5,2	4,8	10,2	Hunan	8,3	2,7	3,0	8,3	5,3	8,7	10,3	6,4	4,1	9,3	1,0	1,0	5,5	5,5
Guangdong	-3,8	9,3	17,9	18,4	14,3	Guangdong	4,9	12,3	8,3	7,2	3,6	13,9	17,0	7,4	14,3	26,9	4,9	4,6	16,8	19,7
Guangxi	-5,3	8,3	10,6	17,7	11,4	Guangxi	3,9	6,2	5,0	12,2	2,0	2,5	8,5	6,2	7,4	2,4	2,3	4,4	9,9	17,8
Hainan	-10,9	3,8	7,7	17,3	26,8	Hainan	*	*	*	*	*	*	*	*	*	*	3,4	4,2	9,1	14,2
Sichuan	-11,0	9,7	7,8	7,2	11,3	Sichuan	11,0	6,9	1,6	7,3	7,8	13,8	13,3	4,4	7,9	7,0	0,3	2,4	6,1	9,6
Guizhou	-7,0	2,9	7,3	5,1	4,6	Guizhou	5,7	1,2	1,3	13,6	12,2	17,2	6,3	6,3	8,1	4,8	2,3	0,4	8,3	3,4
Yunnan	-1,4	18,1	4,6	6,8	5,5	Yunnan	1,8	6,0	4,6	12,9	7,1	12,0	10,1	2,0	9,0	16,1	4,1	6,9	4,3	6,2
Tibet	-12,7	8,5	15,2	2,6	-3,2	Tibet	*	*	*	*	*	*	10,8	-11,0	9,0	5,8	0,8	1,6	10,1	0,4
Shaanxi	-7,3	4,4	6,0	3,0	8,8	Shaanxi	7,7	-5,9	0,0	9,0	5,2	15,7	14,1	4,9	7,4	9,7	2,0	0,1	7,5	3,9
Gansu	-5,2	0,3	2,7	9,1	1,3	Gansu	-1,6	6,1	-11,4	6,7	13,8	11,7	13,7	10,8	3,9	11,3	6,3	1,2	5,2	8,7
Qinghai	-8,7	2,1	1,8	5,2	9,2	Qinghai	*	*	*	8,0	9,9	12,7	24,4	6,4	2,4	9,5	-0,9	0,3	1,8	8,0
Ningxia	-2,2	0,1	3,3	3,8	8,5	Ningxia	2,2	5,5	-3,7	2,3	13,7	13,6	12,6	7,4	3,4	9,7	5,7	-1,1	0,9	5,4
Xinjiang	-2,2	4,6	11,8	11,5	9,8	Xinjiang	9,7	5,2	8,8	7,6	11,5	10,7	14,7	7,3	6,0	9,5	3,6	3,1	11,9	4,9
China	-5,0	4,3	9,2	11,9	10,8	China	5,6	5,1	3,5	6,7	8,8	12,4	11,6	6,5	7,8	9,7	1,6	4,7	6,2	14,6

Table 3: Real growth rate of labour productivity: a) industry								b) GDP per employee					c) national income per employee								
per cent, national income per employee, prices of 1990, calculated according to								per cent, prices of 1990					per cent, prices of 1990								
the figures in the current issues of the State Statistical Yearbook																					
	1986	1987	1988	1989	1990	1991	1992		1989	1990	1991	1992	1993		1986	1987	1988	1989	1990	1991	1992
Beijing	-2,51	3,42	2,53	-3,69	-4,34	5,16	17,05	Beijing	2,91	-0,61	12,52	9,26	12,71	Beijing	-3,47	4,14	5,23	-5,86	-2,27	-3,37	12,21
Tianjin	-1,35	4,43	2,68	-5,12	0,64	-1,44	4,93	Tianjin	1,16	2,39	7,04	10,72	8,85	Tianjin	2,74	4,15	2,72	-7,88	1,07	2,21	9,69
Hebei	-0,04	5,98	0,48	1,94	3,58	4,85	12,31	Hebei	2,11	1,02	7,83	10,60	11,59	Hebei	1,43	7,21	2,21	-6,37	5,63	7,52	10,54
Shanxi	-1,26	-3,71	-5,00	4,48	-0,75	7,89	8,32	Shanxi	2,30	2,09	0,52	9,55	10,58	Shanxi	-3,46	-5,09	-0,79	-1,52	8,06	-1,71	10,94
Neimenggu	-0,77	6,22	2,24	4,41	-3,02	6,61	6,02	Neimenggu	1,54	4,84	2,90	8,48	6,80	Neimenggu	-0,89	3,17	12,18	-5,30	5,33	3,54	6,61
Liaoning	-2,01	4,95	-1,43	-1,39	-7,58	4,68	14,41	Liaoning	1,51	-0,90	2,94	9,50	11,91	Liaoning	4,23	6,14	1,49	-6,66	-2,74	2,78	13,04
Jilin	-3,56	15,91	1,94	-7,81	-3,85	0,12	15,57	Jilin	-6,86	0,82	2,58	8,42	11,75	Jilin	-1,08	11,43	-4,52	-14,14	2,88	-2,75	8,99
Heilongjiang	2,81	7,27	-1,31	-1,14	-5,26	-2,74	1,34	Heilongjiang	1,91	1,34	4,15	5,93	3,77	Heilongjiang	7,88	4,79	-3,13	-3,71	4,69	-3,07	4,15
Shanghai	-6,23	-0,88	-1,26	-7,12	-2,22	2,13	14,15	Shanghai	4,24	3,02	5,15	14,97	15,36	Shanghai	-2,73	2,71	-0,49	-9,50	-1,36	0,97	16,27
Jiangsu	0,88	2,17	-2,74	2,67	4,43	8,93	28,78	Jiangsu	0,99	3,18	8,46	24,27	16,43	Jiangsu	5,10	6,07	-1,35	-7,62	3,37	3,78	27,14
Zhejiang	2,42	3,79	-0,40	2,39	1,76	11,86	26,28	Zhejiang	-1,08	2,56	13,10	16,65	21,10	Zhejiang	6,38	7,96	1,08	-8,30	0,58	11,42	15,10
Anhui	11,44	-0,77	0,18	4,13	1,13	2,83	9,29	Anhui	2,32	0,00	-5,70	13,23	17,17	Anhui	4,21	2,84	-2,05	-5,73	-1,40	-10,09	17,67
Fujian	5,01	3,74	4,44	2,79	0,13	6,67	9,89	Fujian	4,15	3,01	7,68	14,95	18,93	Fujian	1,35	8,11	3,95	-3,20	5,06	7,27	16,81
Jiangxi	2,14	-0,59	-0,81	3,98	-4,62	8,01	12,12	Jiangxi	2,18	1,77	5,36	13,05	10,86	Jiangxi	-0,39	4,41	-2,39	-5,78	9,44	5,06	11,30
Shandong	-8,36	12,46	-1,73	4,91	4,01	4,37	19,10	Shandong	0,18	2,22	8,98	16,08	17,71	Shandong	0,15	10,76	1,40	-2,84	1,89	8,12	14,42
Henan	6,63	1,65	-2,37	-0,30	3,06	4,24	22,69	Henan	1,89	0,57	3,61	9,74	11,39	Henan	3,88	9,74	-3,71	-6,08	4,89	5,28	12,47
Hubei	-0,23	6,50	-18,98	27,36	-4,86	7,05	8,24	Hubei	0,98	0,45	2,91	11,10	9,37	Hubei	3,57	5,93	-2,41	-7,38	2,34	1,30	5,95
Hunan	-20,36	22,61	-0,62	1,79	1,49	1,45	1,11	Hunan	0,42	1,62	5,14	9,80	9,33	Hunan	4,22	3,44	-4,96	-10,30	6,78	2,73	4,56
Guangdong	-0,99	4,24	4,40	-2,47	8,27	21,00	17,07	Guangdong	4,05	7,84	12,91	18,04	16,01	Guangdong	4,00	8,41	4,41	-7,20	8,79	16,53	18,54
Guangxi	3,20	2,85	-2,66	-1,80	6,93	8,78	17,35	Guangxi	0,86	3,50	9,09	14,50	15,08	Guangxi	4,21	5,51	-2,14	-3,16	7,41	7,91	16,57
Hainan	*	*	*	-5,84	-2,62	8,36	17,77	Hainan	2,58	7,27	7,82	19,71	18,60	Hainan	*	*	*	-11,32	2,24	5,31	14,81
Sichuan	-3,15	7,55	2,18	-6,15	0,20	4,04	13,25	Sichuan	0,43	1,44	3,90	10,17	11,43	Sichuan	-1,07	6,72	3,44	-11,52	5,27	3,66	8,27
Guizhou	-28,05	22,67	13,00	-5,16	0,09	-0,86	10,62	Guizhou	-0,30	-1,02	6,38	6,19	7,03	Guizhou	2,90	4,46	1,57	-10,58	-1,09	6,10	2,35
Yunnan	10,60	11,99	15,32	6,28	10,97	3,19	3,11	Yunnan	3,55	5,27	2,79	7,86	6,77	Yunnan	-1,38	7,09	5,67	-3,82	19,11	1,68	5,17
Tibet	-23,62	7,06	4,70	67,11	-27,56	28,28	-3,50	Tibet	8,24	7,56	0,18	5,70	5,14	Tibet	-18,54	3,01	7,80	-9,59	7,57	31,65	1,20
Shaanxi	-2,85	3,64	14,05	1,94	1,69	4,02	5,96	Shaanxi	0,01	0,72	5,37	6,17	10,81	Shaanxi	0,72	4,91	4,32	-5,46	4,51	1,88	3,37
Gansu	-8,20	-3,01	-5,85	1,59	4,40	2,49	2,78	Gansu	7,25	2,53	3,40	6,87	9,07	Gansu	3,79	2,32	1,13	-5,28	5,38	0,72	7,70
Qinghai	5,79	8,89	9,56	2,51	-4,84	-5,60	4,95	Qinghai	-0,40	0,75	1,98	4,63	7,79	Qinghai	7,18	2,48	7,32	-7,05	-0,86	-2,90	6,92
Ningxia	1,85	-3,34	8,96	8,62	-5,40	-1,88	9,23	Ningxia	4,43	-0,05	1,88	4,47	6,12	Ningxia	6,32	-1,26	7,58	-1,80	-3,51	-0,51	5,04
Xinjiang	1,70	-1,36	3,71	4,87	0,26	10,26	6,54	Xinjiang	4,68	5,60	9,32	9,92	6,48	Xinjiang	-3,74	8,90	10,04	-0,63	5,87	9,97	4,64
China	-2,12	14,79	1,96	0,00	2,25	8,09	15,02	China	2,16	1,27	4,73	10,26	9,80	China	2,23	7,30	3,07	-6,58	3,58	5,03	13,69

Table 4: Investment in fixed assets in per cent of GDP							Social investment in fixed assets, per capita												
current issues of the State Statistical Yearbook, without FDI							RMB												
	1988	1989	1990	1991	1992	1993		1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	
Beijing	39,64	32,06	38,11	36,46	37,15	44,05	Beijing	545	724	984	1073	1310	1506	1406	1750	1869	2395	3427	
Tianjin	34,12	30,11	29,46	38,43	42,41	35,50	Tianjin	501	609	826	878	937	1055	992	1006	1424	1896	2046	
Hebei	35,73	28,61	22,21	25,68	27,87	27,42	Hebei	118	157	204	238	313	413	364	296	397	513	679	
Shanxi	36,92	30,08	30,25	33,80	31,42	35,62	Shanxi	174	258	337	356	385	383	377	416	495	546	764	
Neimenggu	25,08	21,67	22,67	28,28	36,63	41,45	Neimeng	147	204	255	228	250	282	263	301	416	627	904	
Liaoning	32,84	27,22	26,98	29,39	33,21	35,24	Liaoning	198	263	377	476	579	700	647	656	790	1072	1577	
Jilin	27,74	22,22	23,74	26,88	29,39	34,59	Jilin	133	185	273	282	334	394	335	377	454	598	908	
Heilongjiang	31,58	27,05	25,66	25,92	28,54	29,45	Heilongjiang	209	257	337	370	410	452	449	460	530	677	871	
Shanghai	43,05	35,06	30,50	30,12	33,44	30,45	Shanghai	639	764	974	1149	1482	2092	1908	1695	1928	2640	3410	
Jiangsu	33,62	26,42	27,47	31,01	37,43	34,61	Jiangsu	170	209	242	377	499	586	496	533	658	1071	1368	
Zhejiang	32,18	26,94	30,82	33,04	36,36	42,56	Zhejiang	111	163	262	320	450	552	505	618	774	1047	1693	
Anhui	28,96	19,47	20,64	22,51	26,07	28,15	Anhui	91	120	156	191	221	253	204	220	235	324	467	
Fujian	26,41	21,10	23,30	23,75	27,61	19,97	Fujian	100	128	203	218	278	322	303	357	430	624	652	
Jiangxi	24,88	20,17	16,94	19,75	22,20	26,26	Jiangxi	86	104	126	148	165	220	198	186	235	317	464	
Shandong	48,66	27,96	25,13	28,06	30,18	29,01	Shandong	124	182	121	287	374	459	413	394	514	694	908	
Henan	28,64	22,72	23,18	25,82	25,58	28,21	Henan	80	114	164	200	204	255	228	240	293	350	499	
Hubei	25,33	17,56	17,98	18,04	24,43	27,50	Hubei	117	153	206	205	264	300	234	262	281	439	632	
Hunan	24,29	17,43	17,13	19,90	25,48	25,11	Hunan	88	97	144	166	199	241	186	196	252	374	474	
Guangdong	36,66	29,12	27,63	28,45	40,92	37,27	Guangdong	156	222	315	361	430	679	633	640	787	1437	1818	
Guangxi	25,93	19,12	17,46	19,79	24,50	28,08	Guangxi	59	74	109	140	160	189	161	161	208	320	498	
Hainan	28,27	33,38	41,27	41,02	61,40	55,92	Hainan						337	453	594	661	1261	1799	
Sichuan	25,60	22,20	19,38	22,69	26,93	27,96	Sichuan	68	90	142	150	185	217	207	206	267	365	493	
Guizhou	24,08	16,52	17,92	18,11	20,65	24,48	Guizhou	59	78	111	103	111	158	123	139	158	204	293	
Yunnan	28,21	22,35	20,84	24,71	29,08	38,78	Yunnan	69	99	142	169	168	211	193	221	283	387	660	
Tibet	38,05	32,02	39,22	48,21	43,84	49,09	Tibet	105	250	355	230	329	371	318	436	639	635	796	
Shaanxi	32,41	27,51	26,99	27,54	26,94	81,63	Shaanxi	101	133	190	206	253	284	293	305	353	391	1458	
Gansu	28,51	21,31	23,99	25,48	27,79	27,01	Gansu	88	114	160	181	209	256	213	249	285	363	412	
Qinghai	46,89	33,63	32,47	32,98	36,30	43,41	Qinghai	267	320	393	429	500	619	461	478	531	665	977	
Ningxia	39,06	31,03	33,68	37,82	42,75	44,19	Ningxia	135	198	305	379	420	404	376	438	531	686	870	
Xinjiang	38,47	36,15	34,89	35,20	44,94	52,14	Xinjiang	206	251	328	375	390	506	542	575	703	1087	1561	
China	32,15	26,21	25,16	27,75	32,83	34,69	China	134	177	243	286	337	410	372	389	476	670	917	

**Table 5: Share of state enterprises in total social investment in fixed assets**  
per cent, calculated according to the figures in the current issues of the State Statistical yearbook, without including FDI

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Beijing	78,8	77,5	77,1	83,3	82,6	81,9	79,5	79,7	79,9	86,5	88,8
Tianjin	85,4	79,2	82,3	84,8	80,1	80,2	80,2	81,6	84,6	79,0	82,3
Hebei	66,3	56,4	55,3	55,1	48,4	46,5	47,2	60,9	51,9	62,2	68,0
Shanxi	70,0	70,6	72,9	74,7	75,0	72,2	73,9	73,6	74,6	81,1	79,1
Neimenggu	84,7	74,0	74,0	77,1	73,4	74,4	76,4	78,5	79,0	81,6	83,1
Liaoning	76,7	75,6	77,2	77,3	78,6	78,8	79,2	82,7	82,0	83,6	74,7
Jilin	75,6	63,3	60,6	67,5	70,7	74,2	72,4	71,6	75,1	80,4	83,2
Heilongjiang	90,7	82,9	79,7	82,1	82,4	84,3	81,7	82,7	85,7	88,4	91,7
Shanghai	85,6	81,9	80,7	84,3	83,4	75,4	73,2	84,6	83,5	77,3	89,8
Jiangsu	43,8	40,0	51,4	39,7	39,5	40,1	36,7	35,9	37,9	37,9	41,7
Zhejiang	48,4	42,0	37,4	38,0	32,0	30,3	31,4	30,5	29,8	35,0	35,2
Anhui	51,7	50,9	51,5	52,4	49,1	47,9	53,1	54,3	59,3	64,1	61,0
Fujian	64,3	61,3	67,3	66,7	62,6	58,4	57,2	59,6	62,3	63,7	95,1
Jiangxi	65,4	64,3	57,8	58,3	56,2	51,1	54,3	66,7	64,6	66,4	67,0
Shandong	49,7	47,5	52,0	54,7	52,3	52,0	48,2	55,1	53,2	57,3	60,7
Henan	59,5	55,5	50,8	46,4	52,0	52,3	53,1	52,1	56,2	61,0	62,4
Hubei	65,7	59,8	59,4	62,4	59,7	63,1	61,2	66,1	72,9	72,6	73,4
Hunan	47,7	42,2	50,9	48,2	48,2	48,7	54,0	56,7	58,5	62,5	65,0
Guangdong	64,0	63,2	71,8	68,3	60,8	54,9	51,3	66,3	67,4	64,0	73,5
Guangxi	64,7	58,3	57,1	55,0	63,4	68,4	62,0	60,0	60,5	66,1	76,5
Hainan						70,7	80,2	78,0	91,7	91,3	96,4
Sichuan	75,0	61,4	64,4	65,7	66,5	64,1	64,8	73,4	70,1	69,9	68,7
Guizhou	69,8	65,1	64,1	74,9	79,2	66,6	81,4	79,3	81,1	84,5	76,7
Yunnan	80,4	72,5	69,3	57,4	63,1	61,7	57,8	61,1	65,5	68,4	67,6
Tibet	96,0	94,4	89,7	94,8	57,1	60,4	63,0	69,9	64,5	81,5	90,1
Shaanxi	79,6	68,1	66,7	71,4	69,3	70,8	67,9	68,9	65,0	70,0	31,0
Gansu	85,9	83,1	75,8	79,0	82,6	80,7	82,2	82,0	81,7	78,9	78,2
Qinghai	95,8	82,8	84,3	89,7	91,5	83,8	90,0	89,2	89,8	89,9	87,2
Ningxia	91,1	81,1	86,2	83,3	79,4	72,0	72,8	78,2	80,2	78,3	75,5
Xinjiang	92,9	88,9	88,5	79,4	80,7	79,6	77,9	84,8	85,6	88,3	84,8
China	69,5	64,7	66,1	65,5	63,1	61,4	61,3	65,6	65,9	67,1	70,4

Table 6: Share of FDI in total investment by domestic investors							
per cent, calculated according to the current issues of the State Statistical Yearbook							
	1988	1989	1990	1991	1992	1993	1993*
Beijing	11,52	8,25	6,99	6,40	7,33	10,10	15,08
Tianjin	2,57	1,39	2,00	5,45	3,41	18,58	27,73
Hebei	0,30	0,77	1,17	1,22	1,94	5,32	7,94
Shanxi	0,23	0,35	0,14	0,14	1,82	2,17	3,23
Neimenggu	0,40	0,29	0,78	0,10	0,21	2,44	3,63
Liaoning	1,82	1,89	4,73	6,12	6,61	11,57	17,26
Jilin	0,39	0,47	0,90	1,48	2,75	6,82	10,19
Heilongjiang	1,64	1,37	0,83	0,59	1,63	4,22	6,30
Shanghai	3,29	6,51	3,67	2,99	7,64	39,56	59,05
Jiangsu	1,24	1,47	1,77	2,59	10,90	17,19	25,65
Zhejiang	0,71	0,96	0,91	1,54	2,98	8,23	12,28
Anhui	0,76	0,30	0,52	0,42	1,59	5,38	8,04
Fujian	5,89	14,91	14,10	18,93	40,32	80,66	120,39
Jiangxi	0,42	0,47	0,51	1,14	4,44	6,51	9,72
Shandong	0,90	1,83	2,65	2,62	9,26	13,77	20,56
Henan	1,16	0,92	0,26	0,79	0,94	3,93	5,87
Hubei	0,53	0,88	1,07	1,60	4,57	8,72	13,02
Hunan	0,34	0,78	0,56	0,87	3,12	8,42	12,57
Guangdong	11,56	13,04	18,61	20,41	21,75	36,22	54,06
Guangxi	1,00	2,99	2,49	1,89	7,16	23,03	34,38
Hainan	20,62	12,33	12,57	21,25	28,67	32,36	48,29
Sichuan	0,65	0,22	0,52	1,48	1,54	6,01	8,97
Guizhou	0,74	1,24	1,11	1,43	1,59	2,47	3,69
Yunnan	2,08	0,42	0,43	0,17	1,07	2,18	3,25
Tibet	0,01	0,00	0,00	0,00	0,00	0,00	0,00
Shaanxi	4,66	3,91	2,24	1,42	1,89	2,69	4,02
Gansu	0,16	0,09	0,11	0,39	0,02	0,71	1,06
Qinghai	0,38	0,00	0,00	0,00	0,12	0,41	0,61
Ningxia	0,07	0,00	0,06	0,04	0,06	1,58	2,36
Xinjiang	0,26	0,04	0,29	0,01	0,00	1,22	1,81
China	2,64	3,09	3,75	4,22	7,73	14,58	21,76

FDI calculated in RMB, figures for 1993 are calculated with the official exchange rate and with the exchange rate of 1 January 1994 (asterisk)

Table 7: Share of agricultural employment in total social employment										
per cent, current issues of the State Statistical Yearbook										
	1985	1986	1987	1988	1989	1990	1991	1992	1993	
Beijing	15,7	14,6	14,2	13,4	13,7	12,8	12,2	11,2	11,1	
Tianjin	20,7	19,9	19,4	18,9	19,4	19,4	19,1	18,6	18,1	
Hebei	62,4	60,7	58,3	57,2	58,2	58,8	59,2	58,3	56,9	
Shanxi	47,6	47,1	45,8	45,4	46,2	46,7	46,7	45,5	45,1	
Neimenggu	55,0	53,6	52,4	51,3	51,5	51,6	52,0	50,6	50,1	
Liaoning	33,3	33,0	31,9	31,2	31,8	32,0	32,4	31,3	30,5	
Jilin	43,4	43,8	43,4	44,6	45,6	46,6	46,1	46,2	45,2	
Heilongjiang	33,1	32,4	31,6	30,6	32,0	32,4	32,8	31,6	31,6	
Shanghai	14,5	12,6	11,4	10,3	10,0	9,8	9,0	8,6	8,5	
Jiangsu	50,2	47,5	45,6	44,7	46,1	46,5	46,8	45,4	43,4	
Zhejiang	54,4	53,3	51,9	50,7	52,2	52,6	52,0	51,0	46,6	
Anhui	70,9	70,1	68,3	67,3	67,9	68,0	68,1	66,8	63,8	
Fujian	60,1	59,3	58,5	57,7	57,5	57,2	56,7	55,2	53,1	
Jiangxi	64,5	63,6	64,2	62,8	64,2	63,9	63,3	60,7	55,7	
Shandong	65,0	62,9	61,5	60,2	60,6	60,6	61,4	59,6	58,1	
Henan	72,0	70,2	68,3	67,3	67,6	67,9	68,2	67,2	64,8	
Hubei	57,9	57,2	56,8	56,5	57,3	57,7	58,1	56,6	54,5	
Hunan	72,7	68,7	69,8	69,7	71,0	71,0	70,2	67,8	64,5	
Guangdong	57,1	55,0	52,7	51,0	50,9	49,8	48,0	45,4	42,1	
Guangxi	78,8	77,9	76,7	75,7	75,7	75,4	74,5	72,3	69,1	
Hainan	0,0	0,0	0,0	53,2	53,4	53,4	52,9	52,0	50,9	
Sichuan	74,3	73,2	72,0	71,3	72,1	72,1	71,3	69,5	66,4	
Guizhou	78,7	75,3	77,2	77,6	77,8	77,8	77,7	77,6	77,4	
Yunnan	76,6	76,5	76,4	76,6	76,9	77,0	76,9	76,6	76,3	
Tibet	79,2	78,9	78,7	78,6	80,7	79,1	78,4	78,4	76,6	
Shaanxi	63,5	61,9	61,0	62,2	62,2	62,6	62,6	62,4	61,4	
Gansu	61,7	60,1	62,4	64,1	64,1	64,4	63,2	62,6	60,0	
Qinghai	57,9	56,1	56,3	56,6	58,0	58,0	58,2	58,8	58,5	
Ningxia	61,2	60,3	59,1	58,6	58,2	58,9	59,0	58,5	58,3	
Xinjiang	48,7	45,2	44,9	44,5	44,7	44,4	43,8	42,9	43,1	
China	60,9	59,4	58,5	57,9	58,6	58,8	58,6	57,3	55,2	

B. Figures

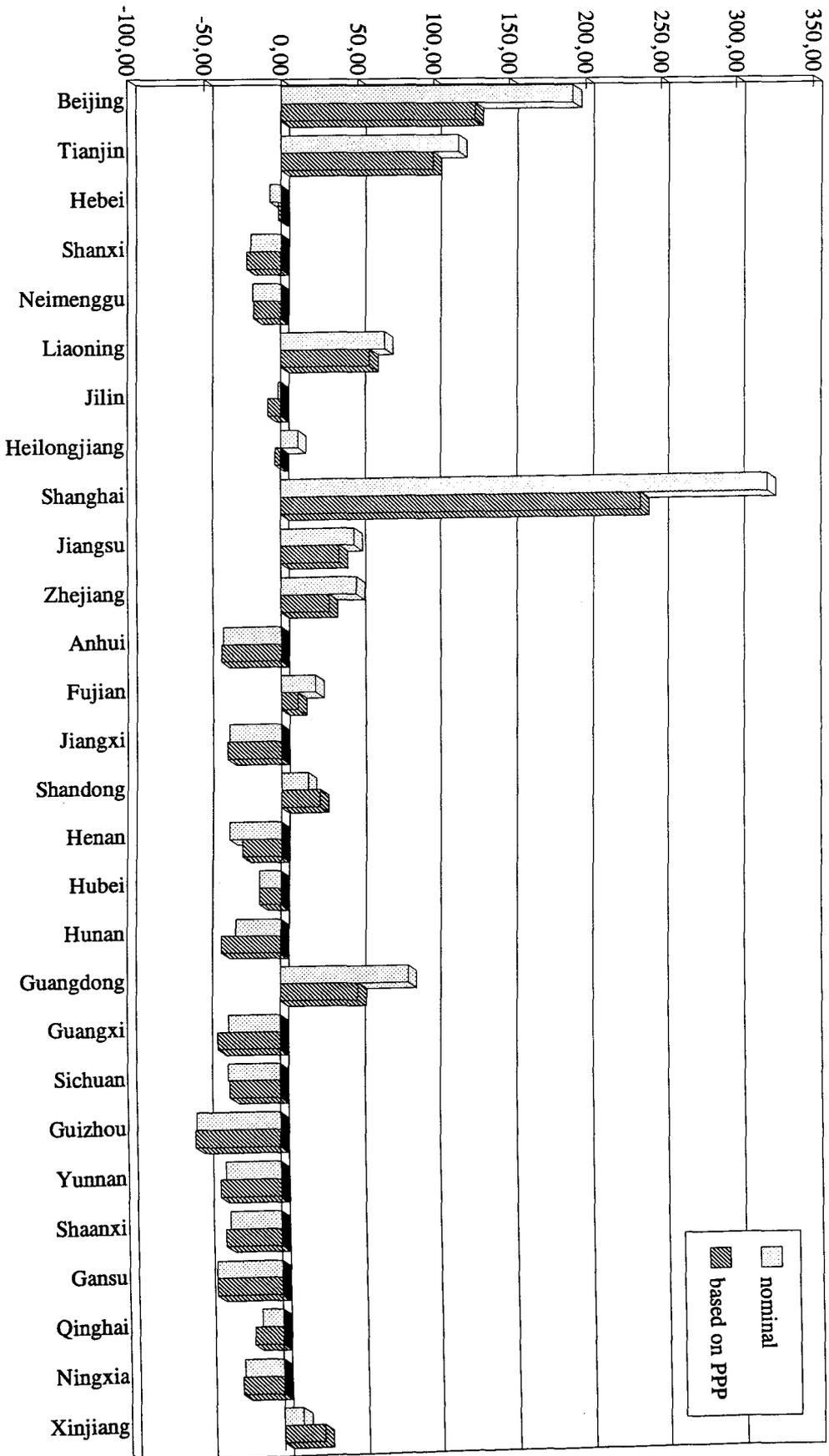
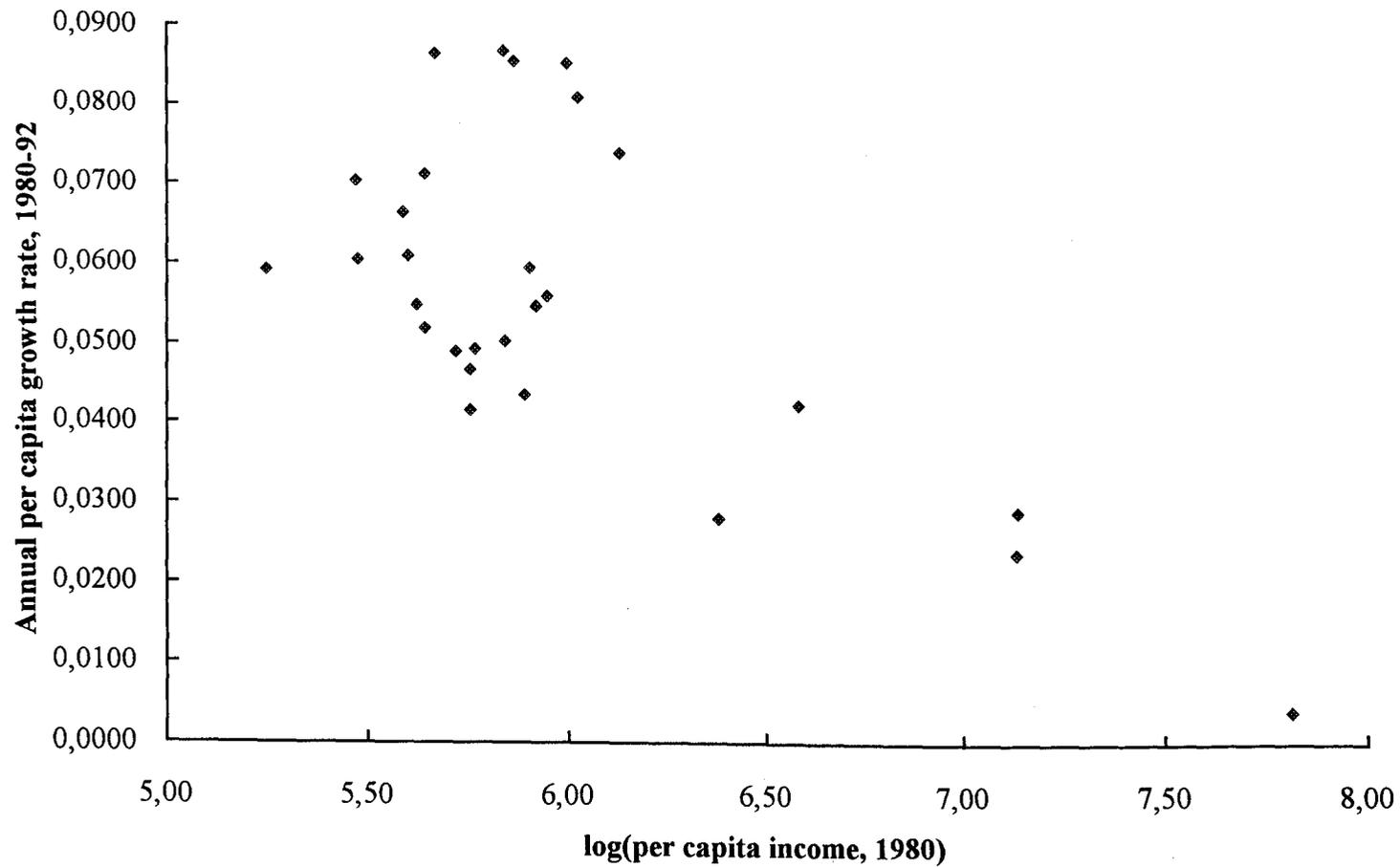


Figure 1: Deviation of per capita GDP from country average by provinces in 1993 (%)

**Figure 2: Initial per capita income and growth rate of the provinces**



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