



China's Huge Socio-Economic Challenges

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The Economic Miracle

- On the eve of economic reforms in the late 1970s China was a 'basket case'
- Since 1978 China's growth rate per capita has been 8% per annum on average.
- This is currently one of the highest in the world, although less than Japan (1950-1975) and South Korea (1960-1990) in their 'golden periods'
- China is poised to overtake the US to become the world's biggest economy by 2015 and the richest economy in per capita terms by 2040.

How have they done it?

- Pragmatic ‘black cat white cat’ approach
- Objective is ‘market socialism with Chinese characteristics’.
- Rural Reform: Decollectivization, introduction of rural markets, rural industrialization and release of surplus labour.
- Urban Reform: Initially more autonomy to state firms. Later widespread privatization in the form of “retain the large, release the small”
- Maintain the appearance of ‘socialism’ while promoting the private sector.

What are the economic challenges?

- **Labour redundancies and social unrest**
- **Massive rural-urban income inequality**
- **Providing for China's migrant workforce**
- **Emerging shortage of cheap labour**
- **Providing for China's aging population**
- **China's trade surplus with the US**

What are the social challenges?

- **Environmental degradation**
- **Rising Crime Rates**
- **Endemic corruption**

Labour redundancies and unrest

- **Labour redundancies have become a major social problem with widespread protests**
- **Burden of labour retrenchment has fallen on the disadvantaged**
- **There were 26 million workers laid off from SOEs between 1998 and 2002 .**
- **A further three million workers in the state-owned sector lost their jobs *each* year between 2004 and 2006**

Rural-urban income inequalities

- The ratio of urban to rural incomes is about 3 which is high by international standards.
- Rural-urban income disparities are artificially maintained by the *hukou* registration system, which restricts the flow of urban-rural migrants.
- Rising inequality threatens China's ability to maintain sustainable growth and potentially impinges on political and social stability
- income distribution a central platform of constructing a 'harmonious society'.

China's migrant workers

- **China has somewhere between 120-150 million 'floating population'**
- **These people have made China the world's factory.**
- **Typically they work in appalling conditions for very low wages.**
- **They suffer widespread social discrimination.**

China's shortage of workers

- **China was always thought to have a 'limitless' supply of rural workers willing to migrate to the city and work for little.**
- **Since 2004, China's migrant workers have stopped coming leading to widespread shortages of labour.**
- **The only response has been to increase wages in a bid to attract workers.**
- **This threatens China's status as the world's centre of cheap manufacturing.**

Rapidly aging population

- **China population is aging because of:**
 - * **China's one child policy (4-2-1)**
 - * **Increased life expectancy**
- **By 2030 the absolute size of the labour force will begin to decline**
- **In 1995 the ratio of workers to pensioners (aged 65 and above) was 10:1. By 2050 this ratio is projected to decline to 3:1.**

China's trade surplus with the US

- **Prior to July 2005 the RMB was pegged to the US dollar.**
- **China accounts for more than 10% of US imports and runs a large current account surplus with the US.**
- **The US has long complained the RMB was undervalued relative to the US dollar and that US jobs were being lost to China (2 million jobs between 1995 and 2005)**
- **Since July 2005 the RMB has been floated within a narrow band leading to 12% appreciation of the RMB.**
- **The US wants further appreciation of the RMB to make their exports to China more competitive and thus reduce the size of China's current account surplus with the US**

Environmental degradation

- **The World Bank estimates that the total cost of air and water pollution in China amounts to 5.8 per cent of GDP.**
- **Sixteen of the 20 most polluted cities are in China**
- **Japan and South Korea both experience acid rain from China, while the US EPA estimates that 25% of the particles in the atmosphere in LA originate in China**
- **The World Bank estimates that only 1% of China's urban population of 560 million breathe air, which is considered safe in the European Union.**
- **According to the World Bank, the annual number of premature pollution-related deaths in China is 750,000.**

Rising Crime Rates

- **Crime rates in China almost doubled between 1992 and 2004.**
- **There is a sizeable increase in juvenile crime over the last decade.**
- **Two-thirds of the four million annual criminal cases in China involve minors.**

Why?

'Children left behind'

One child policy

Endemic Corruption

- **There are some high profile cases where officials are punished**
 - Shanghai pension scandal**
 - Execution of Zheng Xiaoyu**
- **These just scratch the surface.**
- **In China “corruption is a high return low risk activity” (Minxin Pei).**

Looking Back

- **China has achieved a great deal.**
- **Living standards of the urban population in 2008 are much better than in 1978.**
- **China's success has also brought its own problems and these threaten:**
 - China's continued high growth
 - China's 'continued development'
 - Political and social stability

Looking Forward ..

- **Has China abandoned the ideals of its Maoist past and where does this leave the ‘losers’ from the market reforms?**
- **Is Hu Jintao’s notion of an ‘harmonious society’ a realistic objective?**
- **“Green accounting” and protecting the environment as a specific instance of going for ‘more balanced growth’.**