China’s Huge Socio-Economic Challenges

Russell Smyth

www.monash.edu.au
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

• 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
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’.