China: Powerhouse in the global economy

Industrialization comes with a price – pollution

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STEPHEN THOMAS is an associate professor in the Political Science Department at the University of Colorado at Denver and Health Sciences Center. He received an MA in East Asian Studies and a Ph.D. in political science from Stanford University. Thomas spent one year as a visiting professor at the Johns Hopkins Nanjing University Program in Nanjing in 1995, and one year at Earlham College in 2005. He also taught one Semester at Sea. His past research focused on Chinese human rights and on Chinese historical and modern day political and economic development. His current research focuses on post-Mao Chinese financial sector reforms. He and his coauthor, UCDHSC senior instructor of finance Chen Ji, have published a number of recent articles on post-1978 Chinese financial institutions such as the stock market, the banking sector and the bond market. Thomas has traveled to China more than 15 times since 1974.

NOTE: Early this year, Thomas was the co-leader of a Faculty Development in International Business program (FDIB) that took a group of business professors from across the country to explore “China: An Emerging Economic Powerhouse in the Global Economy.” Cosponsored by UCDHSC and other CIBERs “the goal of the two-week trip,” said Thomas, “was to introduce US professors to a rapidly developing China.” Following are Thomas’ observations.

began graduate-level Chinese language and area studies in 1967-68, then lived in Macau and Taiwan in 1968-70. At that time China was closed to the world and involved in the convulsions of the cultural Revolution of 1966-76.

Macau, Hong Kong, S. Korea and Taiwan were just beginning to develop and carry out the “four tiger” export-led economic development model. In Hong Kong and Macau, Chinese refugees worked in toy factories for about $1 a day. In Taiwan, “runaway shops” were being set up to produce goods for export to the US. I do not remember anyone at that time telling me that Macau and Taiwan would achieve successful economic development through these export-led development efforts.

I returned to graduate school at Stanford in 1970 and completed Ph.D. course work by 1976. In 1974, I traveled to China for two weeks during the Cultural Revolution and saw the last two years unfold. China was stressed, trying to open up and in the process of rejoining the world.

In 1972, communist China replaced nationalist China in the United Nations, the Shanghai Communique was signed and trade with the world was opened. There were friendship tours and China was dealing with the emerging Soviet threat.

By 1976 when Mao died, China was still very poor but had made enough investment in the poor and in basic education and healthcare that increased life expectancy to about 64, some 10 years higher than in India at the time. China had to invest about 40 percent of its national income to attain this improvement.

In comparing China and India, the Economist in a March 5, 2005 article noted that “some of the main reasons for China’s better performance (since 1978) have nothing to do with the political system. Unreformed China seems to have done a more impressive job than India in educating and providing healthcare for its poor. Reforms benefit from what economists call ‘good human capital.’”

Beginning in 1978, a policy of “market socialism” opened China to globalization and over a 20-year period instituted reforms that welcomed foreign investment, encouraged Chinese-foreign joint ventures, and established a modern financial services sector: banks, stock markets, insurance companies, private real estate. Long-term leases on agricultural land were offered to peasants.
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Earth’s atmosphere at risk

China accumulated and allocated capital while gradually moving from a planned economy to a market economy and from an autarkic economy to one that is now vaunted as the workshop for the world with average growth of about 8 percent to 10 percent per year. Its per-capita GDP is six times higher than its 1978 GDP, perhaps even more using the measure of purchasing power parity. If all this should come as a surprise, it is useful to remember that China accounted for about 25 to 30 percent of the world economy for the thousand years before 1800. At current growth rates they are head ing to that level again after falling to 5 percent of the world economy during their 19th and early 20th century problems with foreign imperialism.

Ironically, and sadly for the Earth, just as China has become proficient at economic development, the World Watch Institute and most climate scientists have issued warnings: the earth’s atmosphere cannot sustain a fully industrialized China and India if these two industrializing poor countries use anywhere near the per-dollar of production carbon dioxide emissions that the US and the other already industrialized countries have used over the last hundred years.

China domestically also cannot sustain the level of annual pollution that it has already reached, a level that is fouling the air of its cities - and of the world - polluting its water and drawing down its natural resources. Already China has 16 of the world’s 20 most polluted cities. It is hard to say what China will do to correct these problems. But so far they have shown themselves to be remarkably resourceful and open to new ideas, particularly since 1978.

Entrepreneurism a major factor

Entrepreneurism has emerged as a key factor contributing to China’s post-1978 economic miracle in at least four major ways:

- First, the overseas Chinese have been the main entrepreneurial group throughout East- and Southeast Asia for 2000 years. They live in and are major economic forces in Indonesia, the Khmer Republic (formerly Cambodia), Malaysia, Thailand, Vietnam and three of the four Asian Tigers: Taiwan, Singapore and Hong Kong. The business structure overseas Chinese favor is the smaller family-owned storefront enterprise that can be seen in most of the cities throughout the region. Overseas Chinese entrepreneurs include those from Hong Kong and Taiwan. There are currently over one million Taiwan business people living and managing businesses in China; they are the largest foreign investors in China.

- Second, foreign business people have set up joint ventures and, more recently, wholly owned businesses in China. These entrepreneurial pioneers usually work for large foreign businesses but their activities in China have been entrepreneurial in the sense that they have had to establish their business activities virtually from scratch, even when they have had Chinese partners. They have had to learn how to work in the complicated Chinese government regulatory environment. Investing in China has not been for the timid, but the American Chamber of Commerce in China reports that about two-thirds of foreign-invested enterprises now are breaking even or making money.
Third, the Chinese government has tasked a large number of employees to manage factories, personnel and capital in more entrepreneurial ways in an effort to move the country’s vast state-owned sector into the new market economy.

Although many of these state employees have continued to follow the stateplanned economy patterns of the past, an increasing number are following more entrepreneurial patterns of behavior and bringing along their older state-owned enterprises as well as newly-formed stateowned companies.

This mixed economic structure can be Private entrepreneurs fastest growing sector confusing to foreign observers. Are newer enterprises such as the China Merchants Bank or the Haier Appliance Company state-owned or private? Answer: they are state-owned companies run with much more entrepreneurship than most of the state-owned Chinese enterprises left over from the planned economy.

Fourth, a small but quickly emerging class of genuine Chinese entrepreneurs have started and now own and manage their own enterprises. Many of these are the recreation of the traditional Chinese small family-owned storefront businesses which form the core of China’s emerging service sectors of restaurants, small retailers, small producers, and repair facilities as well as street vendors and taxi drivers.

Some private entrepreneurs have begun to form larger enterprises such as a solar company and a plastic container recycler whose owners are among China’s newly emerging wealthy class.

Though private entrepreneurs still own only 5 percent or less of China’s economy, their sector is probably the fastest growing sector in the country’s booming economy.

Overall, entrepreneurship is alive and well in China.