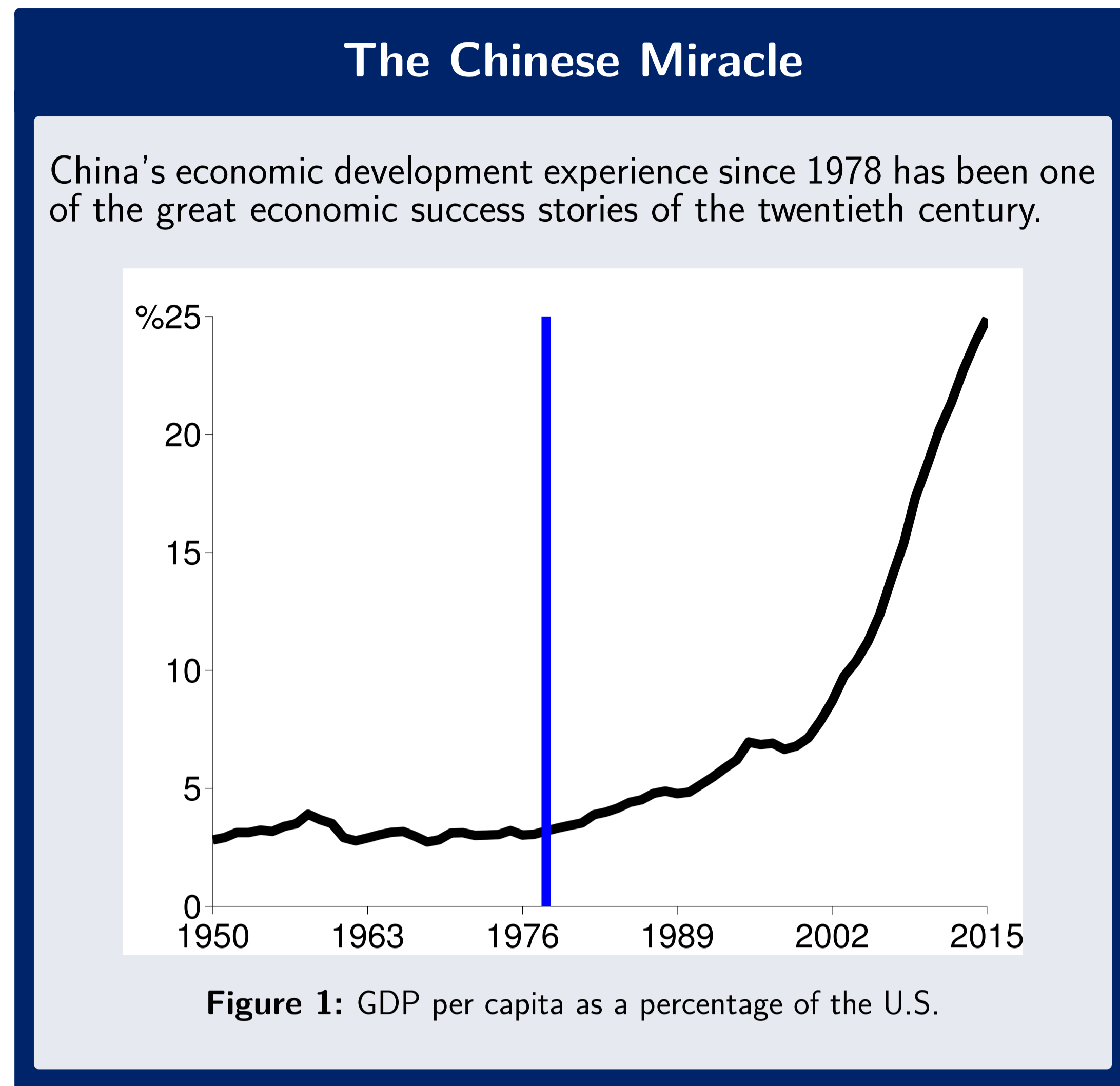


The Return of the Dragon: China's Growth Experience

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Persistent growth comes from growth in TFP

Let the relationship between inputs and GDP be represented by:

$$Y_t = TFP_t (K_t)^\alpha (h_t L_t)^{1-\alpha}, \quad (1)$$

where Y_t is GDP, K_t is physical capital stock, L_t is labor, and h_t is average level of human capital at time t . TFP represents total factor productivity and α is the output elasticity of physical capital.

I decompose the factors contributing to GDP per capita (Y_t/N_t):

$$Y_t/N_t = (L_t/N_t)(K_t/Y_t)^{\alpha/(1-\alpha)} h_t TFP_t^{1/(1-\alpha)} \quad (2)$$

Table 1: Average annual growth rates (%)

Period	Y_t/N_t	L_t/N_t	K_t/Y_t	h_t	TFP
1952-1978	2.97	0.11	3.45	1.55	-1.07
1978-2007	8.12	0.57	0.04	1.18	3.16

Source: Zhu (2012, Table 1). Note: $\alpha = 0.5$

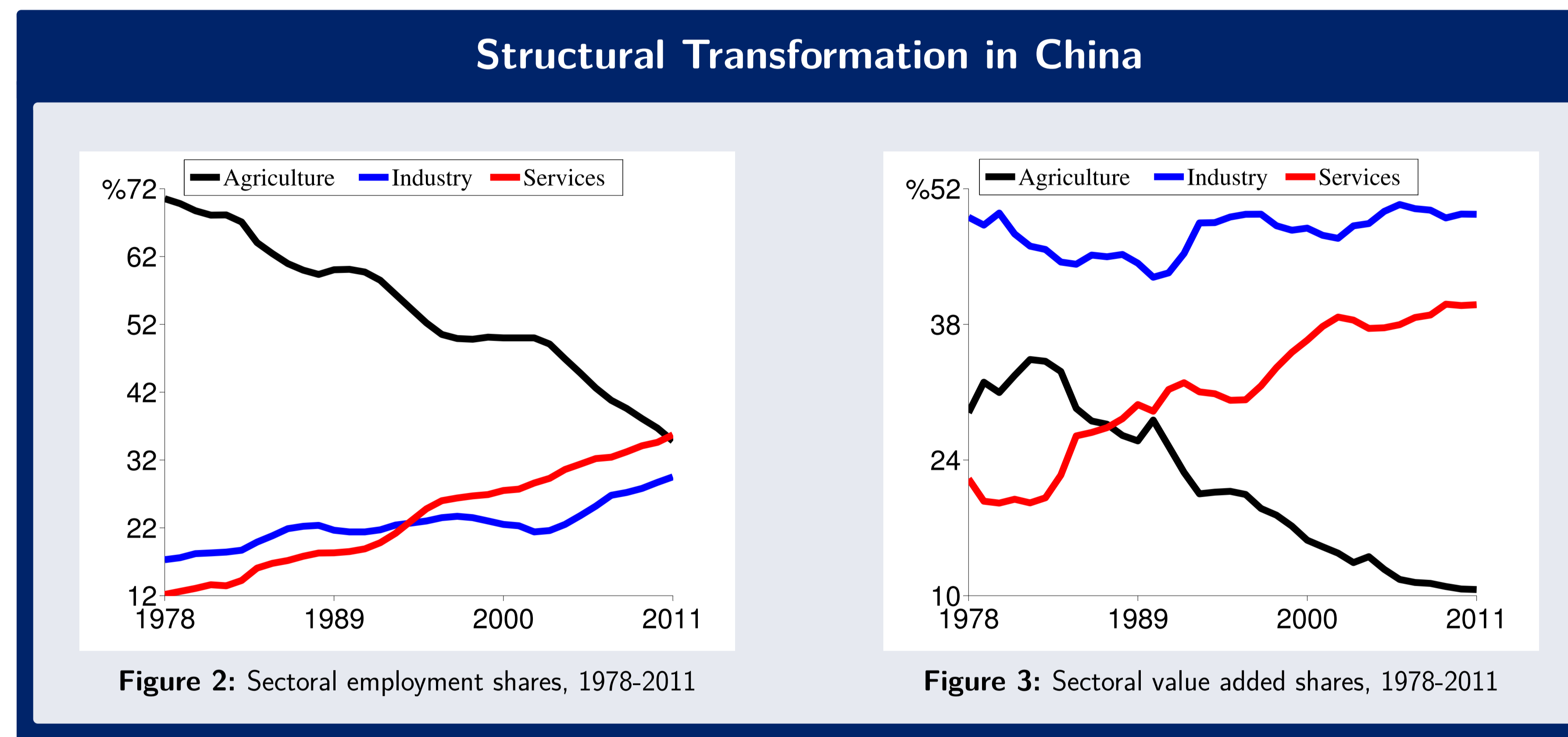
- ▶ The preoccupation of the Chinese government with heavy industry was hostile to technological innovation before 1978.
- ▶ Non-economic policy objectives, weak institutions and poor incentives were the underlying causes of productivity stagnation.
- ▶ Economic reform measures since the late 1970s improved the macroeconomic environment and reduced market distortions.

Reforms in agriculture

- ▶ Before 1978, rural areas were severely affected by collective farming, central planning, and the orientation of development strategy toward industrialisation.
- ▶ The reforms included a move away from collective agriculture, promoting decision-making at the level of the individual farm by transferring land-use rights from collectives to individual households.
- ▶ Combined with price reforms designed to improve incentives for agricultural workers, this was successful in raising agricultural productivity.

Reforms in non-agriculture

- ▶ Market reforms included a gradual reduction of centralised control over price and production decisions, and the freedom of townships and villages to establish industrial enterprises outside of the central plan.
- ▶ More market-oriented policies have emerged with the growing importance of the urban private sector, and the real sector of the economy has been liberalised substantially.
- ▶ The accession of China to the WTO marked an important milestone in global trade.

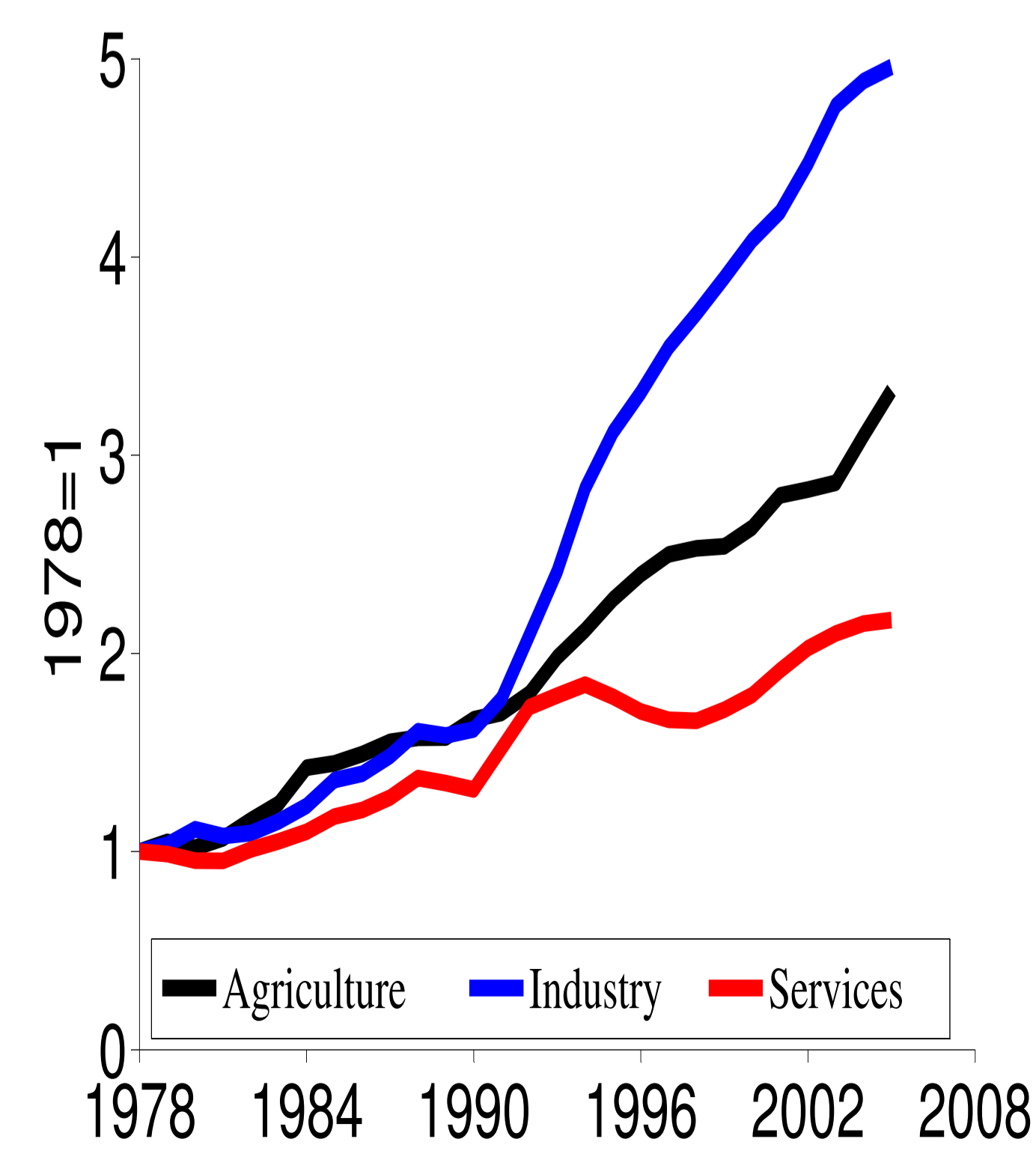


Groping for stones to cross the river

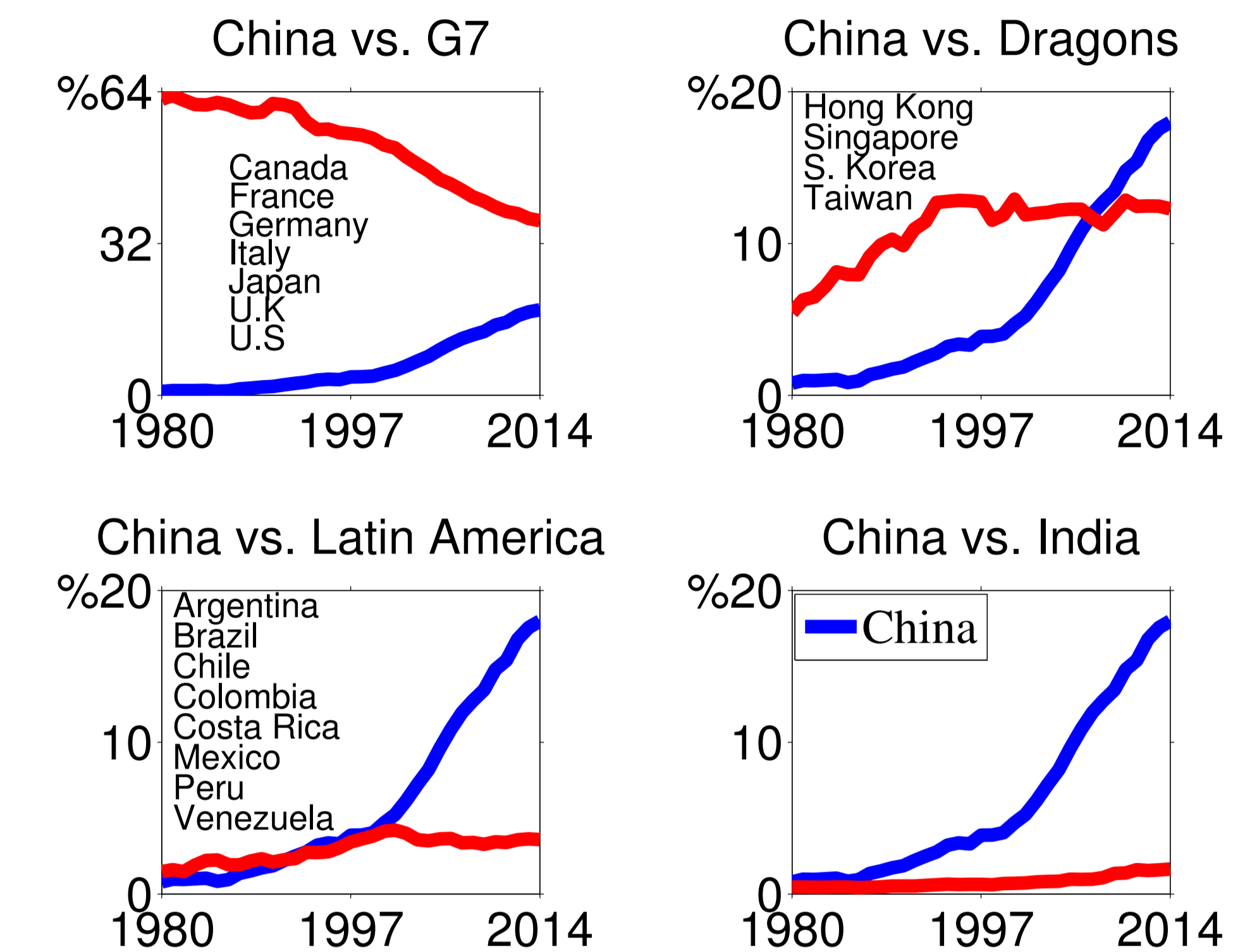
$$Y_{jt}/L_{jt} = TFP_{jt}^{1/(1-\alpha_j)} (K_{jt}/Y_{jt})^{\alpha_j/(1-\alpha_j)} \quad (3)$$

Table 2: Average annual growth rates (%)

Sectors/Sources	1978-1984	1984-2005	1978-2005
Agriculture			
Y/L	5.88	4.73	4.98
$(K/Y)^{\alpha/(1-\alpha)}$	-0.94	0.04	-0.18
$TFP^{1/(1-\alpha)}$	6.88	4.68	5.17
Industry			
Y/L	3.37	9.76	8.31
$(K/Y)^{\alpha/(1-\alpha)}$	-3.87	-4.55	-4.40
$TFP^{1/(1-\alpha)}$	7.53	14.99	13.29
Services			
Y/L	3.75	6.66	6.00
$(K/Y)^{\alpha/(1-\alpha)}$	0.54	0.00	0.12
$TFP^{1/(1-\alpha)}$	3.19	6.65	5.87

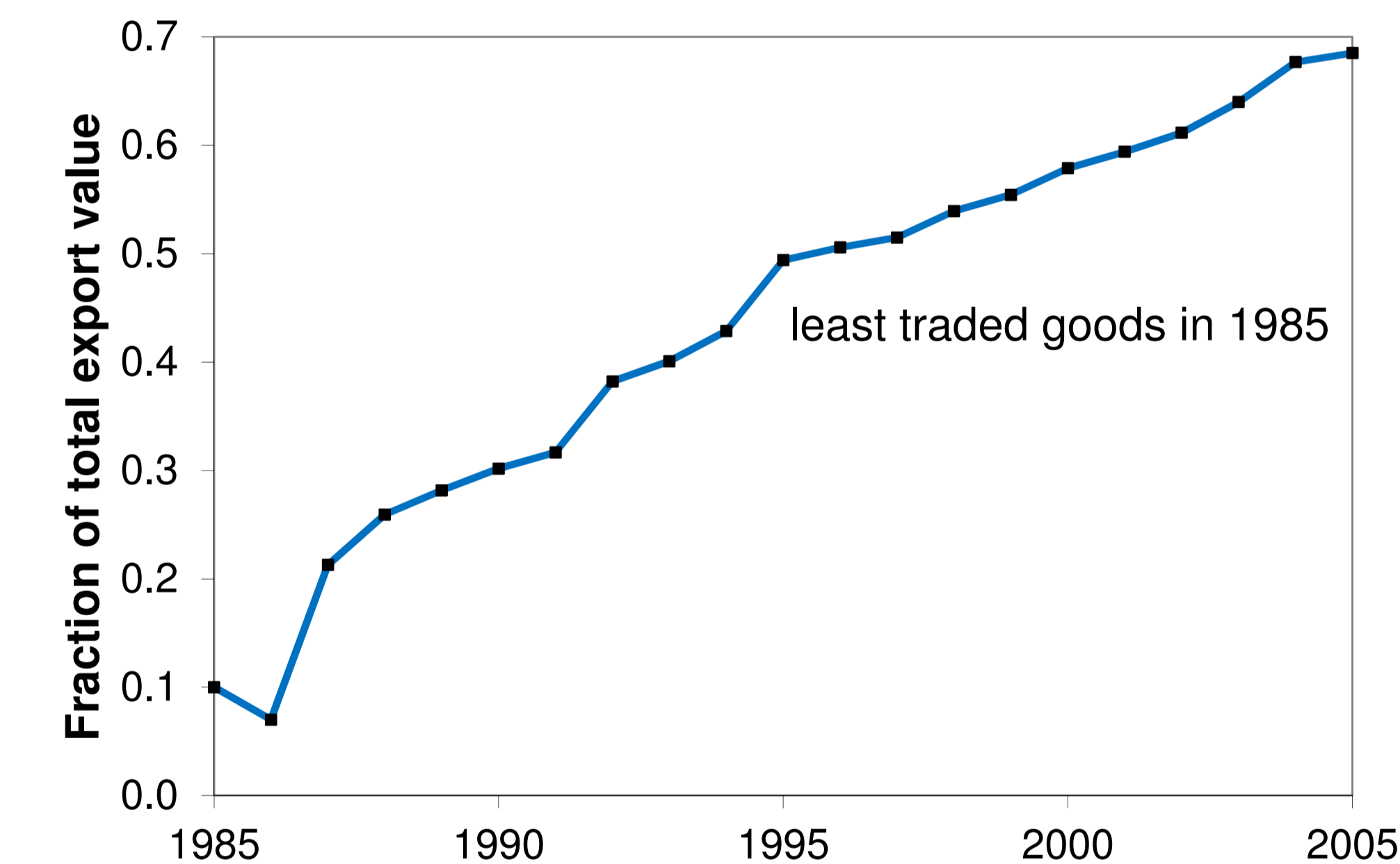


Made in China



Trade in new goods

The goods exported from China that were the least traded in 1985 account for a disproportionate portion of growth in trade.



Unfinished Business and Opportunities

Issues surrounding democracy, governance, transparency, and internet censorship are challenges for Chinese policy-makers.

Table 3: Corruption perception index

Country	2015 Rank
Denmark	1
New Zealand	4
China	83
N. Korea, Somalia	167

Source: <http://www.transparency.org/cpi2015/>

Bill English: "New Zealand was the first developed western nation to join negotiations to set up the Asian Infrastructure Investment Bank, and our membership will enhance our already strong economic, trade and investment links with the Asian region."