The Rise of China: Threat or Opportunity? by Ramgopal Agarwala (Bookwell, New Delhi) 2002, pp 229; Price: Rs 450/

Over the years there has been enormous increase in interest in the Chinese economy. Lot of literature is pouring on pros and cons of whether the Chinese economy shall be able to absorb the onslaught of globalization and capitalist tendencies and remain stabilized. The present book is in the same direction, which is based on a study carried out at a well-known research institution—The — RIS in New Delhi. The book begins with a well-written preface highlighting China being a country with all the characteristics and inadequacies of a developing economy, yet having a quite impressive performance over the last two decades in post-Mao period. According to the author, till now it has had a stellar performance as compared to other developing countries, including the Asian tigers. The future of China looks promising and a better market for investments for a wide range of products both agricultural and industrial, including airplanes, computers, electric power plants, and petrochemicals. The Chinese performance demonstrates that partnership between market and the State and a balance between freedom and discipline can produce results that are better than planning or market alone (under certain circumstances). The author claims that as long as China stays clear of American orthodoxy, it would be safe and can continue on its path of prosperity.

The book is divided into six sections. In the first section on ‘China in the Context of a New Asian Drama’ the author examines the lessons of the recent East Asian crisis and to what extent China has learnt from it. It is pointed out that all the enthusiasm about the East-Asian Model that prevailed in the 1980s and early 1990s suddenly vanished in 1997 with the emergence of the financial crisis in East Asia and the consequent demise of Washington Orthodoxy. The crisis was largely due to the failure of the private sector and markets in both borrowing countries of East Asia and the lenders in Japan, Europe and the US. It is pointed out that markets and democracy, as defined in Washington, are not the only way for the road to prosperity and this is what China demonstrates. The chapter on “China Outshines the Earlier East Asian “Miracles”, highlights this. The Chinese reforms after 1978 have outshined the East-Asian Miracle in all respects like, growth rates, capital formation, productivity growth or stability or income distribution. There has been all round performance during 1978-98. However, eyebrows have been raised on reliability of Chinese data. For example, lack of credibility in numbers has been pointed out by Mr Paul Cavey of the Economic Intelligence Unit (EIU) who put Chinese growth rate at 5-6 per cent. Prakash Shah, Indian permanent representative at the United Nations, in his article in Financial Times in July 2002, also doubts credibility of growth rates in China. Commenting upon the exaggeration and reliability of Chinese data the author points out that there may be some overestimation but on balance there is no evidence of distortion of data to exaggerate performance. The author stresses that the broad picture presented by the official statistics seems to be supported by visible and audible evidence from the day-to-day living in China. With this performance the cause of growing regional inequality is also dispelled by the author and points out that it is not a cause for concern although there is need to improve the situation. Similarly the growing rural—urban divide has also been highlighted in the recent years. The ratio of rural to urban income is estimated to be 4 to 1 which is much higher than most other countries where
it is rare to have this ratio exceeding 2. While it is a matter of concern but not so much to cause instability. Overall, there has been improved consumption and standard of living. China has already become a bigger market for consumer durable goods such as, color TV sets, telephones, washing machines, refrigerators, and cameras. The rate of growth of many consumer durable goods in China has been better than that of East Asia as represented by Japan, Korea, and Malaysia at a comparable level of development. The author states that a main factor behind this growth has been opening up of China to rest of the world. At 87 per cent, China’s export of manufactured goods in 1998 exceeded that of US and were close to Japan (94 per cent) and Korea (91 per cent). Exports included items such as, telecom equipment and parts, radio broadcast receivers, electrical machinery, and apparatus. It has also started exports of sophisticated goods like computers and machinery. On poverty reduction, China’s performance is better than Korea. This is attributed to the combination of market orientation and socialist principles. On education and health fronts too Chinese performance has been far better than many of Asian countries. How did the Chinese do it? In chapter three the author attributes this Chinese success to the philosophy of reforms, which had a double-edged development strategy, i.e. learning from abroad and combining top down approach and bottom up approach in policy making. The reforms have basically revolved around the lessons from the development experience of western European countries and the US. But in contrast to other developing countries the lessons were not implemented blindly, but have been adopted after making innovations or modifications into it, according to the requirements of local situation. The development experience of the west has not been copied blindly. The author states that China is the best example of a country that has listened to foreign advice but has made decisions in the light of its own social, political, and economic circumstances. The second important philosophical issue on reforms was the interaction between the top leadership and the grass root level and that too often in a bottom-up approach. The senior leaders demonstrate greater interest in interaction with various levels of society than in more democratically organized societies such as, India. Further, a gradual approach to reforms has been its characteristic feature after 1978, in contrast to the periods of GLF and the CR. China has been wiser in implementing reforms by initiating with agriculture. With the introduction of household responsibility system in 1978, China’s agricultural growth was the fastest ever recorded anywhere in the world - nearly 7 per cent annual growth during 1978-84. Here too the market mechanism was introduced gradually. This is partially based on the legacy of the Mao era. It has been the combination of the productive base built during Mao era along with the incentives provided by the household responsibility system. The communes had more than doubled China’s irrigated farmland from 20 million ha in 1952 to 45 million ha in 1978. Central planning had been reasonably adept in disseminating improved technology and by 1977, high yielding semi-dwarf rice occupied 80 per cent of all China’s rice land. Agricultural reforms, in turn, created conditions for rural industries boom in three ways. First, increase in agricultural prices and the production response that followed increased rural incomes. As a result, higher rural savings could be invested in rural industries that generated higher return than the farming. Secondly the reforms boosted agricultural labour productivity previously concealed in the commune system. This also provided a steady supply of workers for rural industry. Thirdly, higher rural income created a ready market for rural industry. Simultaneously, China introduced export-oriented Township and Village Enterprises (TVEs), which helped generate demand for products of rural industries. In many cases these TVEs utilized the FDI mostly from overseas Chinese with ancestral links to the community. Here it is very likely that round tripping (Circular Capital flow) may have helped a lot. The characteristic feature of these TVEs is that these carry autonomy in management but not in ownership. These are market oriented in operation but social in ownership and are thus representatives of a cooperative ownership model than a private ownership model. It is a good example of socialist market economy that China is trying to develop. The creation of Special Economic Zones (SEZs) is another
successful experimentation carried by the Chinese in early 1980s. In 1990, SEZs (together with open coastal cities) accounted for 66 per cent of China’s total exports and 52 per cent of total realized FDI. The second important Chinese strategy for reforms has been to include dual track approach where a part of the transaction in goods and factor markets were kept at old planned prices but the rest were allowed to operate on market principle. This dual track approach was first introduced in China in 1979 for agriculture. Under the system, households were required to deliver a fixed quantity of grain and outputs according to the mandatory plan. Subject to fulfilling these conditions, household are free to sell whatever they wished at market prices. The same approach was introduced to the industrial sector in 1984. Over time this approach was extended and the share of planned approach was gradually reduced. Transactions allowed at market prices increased from 5.6 per cent in 1978 to 69 per cent in 1990 in the agriculture sector; and from about 10 per cent in 1978 to 55.45 per cent in 1990 in the industrial sector. The share of permanent employees also decreased from 60 per cent in 1978 to 26 per cent in 1994. Further the State Owned Enterprises (SOEs) have also been forced to compete in the international markets. Competition among public sector units has been introduced by breaking monopolies and putting them in charge of individual provinces. On the contrary many press reports do indicate large-scale inefficiency of SOEs. The most important factor in Chinese success has been the investments by overseas Chinese. In this, Hong Kong is perhaps the single most important factor. The author points out that China’s reforms would probably succeed only modestly had it not been for the benefit from Hong Kong in terms of trade, investment, finance, management, marketing, and infrastructure. Since 1979, it has accounted for 60 per cent of all FDI in China. The author points to that Beijing now expects Hong Kong to act as a go-between and the major provider of high technology, which will allow China to leapfrog into the ranks of the developed countries in the next 15 y. China has been lucky to have resourceful Chinese outside the mainland and wise enough to recognize the importance of social capital. The next chapter on China’s long-term challenges discusses some of the problems relating to its food security, employment security, viability of SOEs, financial security, etc. Concerning these, it is argued that while these challenges are real but they are manageable provided China keeps its gradual, pragmatic, and endogenous approach. The author dismisses the view that China is on the verge of collapse due to problems of unemployment, financial crisis, large-scale corruption, inefficiency of SOEs or political crisis (See G G Chang: The coming collapse of China. Random, New York; 2001, 344p). But out of all the major problems, as indicated by several other authors the employment problem and corruption are the biggest challenges being faced by the Chinese economy. Over the last four years, 25 million people have been laid off in a bid to reform state owned enterprises. This is besides the rural urban migrations in search of jobs. The next formidable problem is that of SOEs, which are plagued with inefficiency and loans from the banks. These problems are going to increase in future with more reforms with capitalist tendencies and liberalization. Unless handled very carefully, these problems are likely to emerge into a social unrest. It is also a fact that China is still a relatively low-income country with large mass of population mainly based on agriculture income (which is still subject to the vagaries of the nature), and a significant population being below the poverty line. Based on the performance during the past two decades the author professes in the next chapter that China may become the largest economy in the world in terms of purchasing power surpassing the US by 2020. It is a fact that during the past 20 y, China has moved to become the largest producer in the world of major agricultural commodities such as, cereals, meat, cotton lint, groundnut in shells, and rape seed, and several industrial commodities such as crude steel, coal, cement, television, and fertilizer. But this should be taken with a pinch of salt. Although China produces huge amounts of steel and coal, but it still has to import good quality of these materials in large amounts. Many consumer goods show large inventory due to overproduction and are not saleable in the local market. There is a trend of deflation. Better export performance by SEZs has been due to large-scale
liberal imports of advanced technologies in turnkey form and complete equipments. It is also interesting to find that there is growing deficit in exports and imports in high technology sector, pointing to lower absorption of high technologies. The author is counting too much on numbers and has not taken into account other crucial factors of a stable advanced economy which relate to technological capabilities, technological absorption capacity, and sufficient scientific and technical manpower, problems of brain drain and investments in R&D comparable with the advanced countries. According to Prof. Qian Xuesen, President of Chinese Association of Science and Technology, “In the twentyfirst century, if a particular country fails to be in the lead in science and technology, it will be difficult for it to maintain its economic activities and international standing.” “This is an intellectual war and the twentyfirst century will be an era of this kind of warfare.” Unless sufficient indigenous efforts are carried in this direction, China is likely to remain overdependent on the industrialized countries for high technologies as any other developing country. The present progress is commendable but simply it cannot be sustained unless basic infrastructure capabilities and management practices are improved to make them at par with international level. The new high-tech revolution demands this. China has to achieve a lot in this direction, before the optimism as advocated by the author, can prevail. On the whole the book is a good contribution to the literature on Chinese studies.

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