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China's Uncommon Emergence: Still Under Way

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"[T]he Chinese economy has achieved a growth rate averaging nearly 10 percent per year […]Nonetheless, by most measures China remains a developing nation [and] faces the double challenge of sustaining a high and stable overall rate of economic growth while stimulating economic development in parts of the country that have shared less fully in the economic boom."

—Fed Chairman Ben Bernanke

With an *average* annual GDP growth rate of 9 percent over the past 20 years, China is home to the fastest-growing economy in the world. China's hosting of the 2008 Olympics is testament to its entrance as a global player. It has shifted remarkably quickly from a lumbering centrally planned economy in the early 1970s to a market-oriented socialist economy with a burgeoning private sector. Many are pondering how China can fuel and sustain such rapid growth in national income and living standards.

During the revolutionary period (1953-1978), China's economic growth, while volatile, nevertheless averaged about 6 percent per year. Although farming had occupied four in five workers, central planners began to make significant investments in manufacturing. In a rush to build up manufacturing and infrastructure, planners underallocated resources to the large-scale collective farms and restricted migration between rural and urban areas. As farming tasks were neglected, food became scarce, which in turn hampered economic output.

What explains the difference in the pre-and post-reform growth pace? A key factor is related to the economic freedoms granted to Chinese workers. After the market-oriented reforms of 1978, farmers and businesses had greater independence in setting their own prices and regulating their output. Also, workers were allowed to move freely from agriculture to higher-paying manufacturing centers. Moreover, foreign companies were permitted to make investments in China, facilitating improvements in technology, and providing access to global markets. These changes resulted in a virtual explosion of productivity growth. From 1953 to 1978, output per hour worked (a measure of productivity), increased by 1.1 percent per year. From 1979 to 1994 productivity growth averaged 3.9 percent per year.

Despite China's remarkable economic performance, a comparison with other Asian economies such as Japan paints a different picture. The speed with which living standards improve is directly related to how far an economy lags behind the leaders. Martin Wolf states in "Why Is China Growing So Slowly?" that when China began its rapid growth, its per capita GDP was 5 percent of America's. After 25 years of growth, it is only about 15 percent. In contrast, Japan was already at 20 percent of U.S. per capita GDP even before it began its rapid growth in 1950. Further, when one considers China's relatively large, low-cost labor force, and its unusually high rate of investment of more than 40 percent of GDP, China's economic performance is less impressive when compared with Japan's past growth.

As the world's most populous nation continues to modernize, its premier challenge will be to direct more resources inward to create a lasting telecommunications and transportation infrastructure to better the lives of all of its citizens. This effort will place even greater demand on nonrenewable resources, such as energy and minerals, from an already diminishing supply. Job growth in China has already begun to raise wages and living standards, altering existing flows of goods and causing end-consumers (such as Americans) to face the choice of adjusting to higher prices or permanently changing the way they buy goods and services.

By Aditya Gummadavelli, Research Associate, Federal Reserve Bank of St. Louis

Recent Articles and Further Reading on China's Growth

"Why is China Growing So Fast?" by Zuliu Hu and Mohsin S. Khan, International Monetary Fund, *Economic Issues*, No. 8, April 1997.

Hu and Khan discuss the productivity leap that originated in China's economic reforms.

"China Up Close: Understanding the Chinese Economy and Financial System" by Michael H. Moskow and Cathy Lemieux, Federal Reserve Bank of Chicago *Chicago Fed Letter*, February 2008, No. 247a.

The authors summarize their impressions of a week-long visit observing China's economy and financial system.

"A Quantitative Analysis of China's Structural Transformation" by Robert Dekle and Guillaume Vandenbroucke, Federal Reserve Bank of San Francisco *Proceedings*, Annual Pacific Basin Conference, June 2006.

This research article identifies the increases in efficiency and technological advances in China's nonagricultural sector that have spurred its GDP growth.

Free Data Sources and Reports

Data: Quick Query China Data Profile
Description: Provides yearly statistics of financial, environmental, and social indicators for the World Development Indicators database, only some of which are free
Published by: World Bank Group from World Development Indicators database April 2008
Location: http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getMembers&userid=1&queryId=135

Data: Trade in Goods with China
Description: Provides monthly figures for the dollar value of imports, exports, and the trade balance in goods from 1985 to the present
Published by: U.S. Census Bureau, Foreign Trade Statistics
Location: http://www.census.gov/foreign-trade/balance/c5700.html#2008

Data: China National Statistics
Description: Provides monthly, quarterly, and annual data on China's economy
Published by: National Bureau of Statistics of China
Location: http://www.stats.gov.cn/english/statisticaldata/yearlydata/

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