CAPITALISM WITH CHINESE CHARACTERISTICS: DYNAMICS AND CHALLENGES IN CHINESE ECONOMY

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AGENDA

- Macro issues
  - Is “China model” unique?
  - The biggest challenge: Rebalancing Chinese economy
  - Explaining consumption decline

- Three policy models
  - Highlighting rural economy
  - GDP and income growth since 1978
  - Urbanization and rural migrants: Micro data

- Key to rebalancing: Getting the rural issue right
FEATURES OF A CERTAIN COUNTRY

- GDP grew by 11% for almost a decade
- Government savings doubled in 10 years
- Rapid industrialization: Agricultural employment fell by 1/3 in 20 years
- Gini coefficient was 0.50
- Wage growth lagged GDP growth
- Actively attracting FDI
- 75% of assets of top 100 firms: SOEs
- One-party system
- *Wall Street Journal*: The country “has something to teach the US about economic growth.”
WHICH COUNTRY IS THIS?
“Miracle years:”
- GDP grew by 11% between 1968-1974

But bad performance afterwards
- “Brazil has a lot of potentials and it will always have a lot of potentials.”
- Lost decade of the 1980s and financial crises
- Richer than Korea and Taiwan in 1950 but far poorer today
- Hyperinflation
- Anemic growth in the 1990s and crisis
Personal income is the key to growth
  – Better performance now after Lula de Silva began to address INCOME issues
  – Circular flow of money: Costs to A = Income to B

China model is not unique:
  – You can have miracle growth with low income growth and massive government investments
  – But it is not sustainable

Rebalancing Chinese economy:
  – Consumption-driven
  – But fundamentally it is about income and employment growth
THE BIGGEST CHALLENGE: CONSUMPTION DECLINE
IT IS NOT HOUSEHOLD CONSUMPTION
THE ROOTS OF GLOBAL IMBALANCES: THE GREAT DIVERGENCE
CHINA’S UNUSUAL CONSUMPTION DECLINE
IT IS NOT AN EAST ASIAN PHENOMENON
CHINA AND INDIA: CONSUMPTION GAP
TWO INTER-RELATED QUESTIONS

- Has China successfully rebalanced its economic structure toward consumption-driven growth?
  - Some very impressive retail numbers
  - But what do these numbers mean?
- How to explain the steep consumption decline?
  - Precautionary savings are too high?
  - Or cautionary spending is too low?
HAS CHINA RELBANCED?
15% RETAILS GROWTH in 2009 and 2010?
NO
INSTITUTIONAL RETAIL CONSUMPTION HAS RISEN SHARPLY
WHY DID CONSUMPTION DECLINE IN CHINA?

◆ Precautionary savings hypothesis:
  – High and rising savings rate is the problem
  – Measures to reduce the savings by 1) product marketing and distribution and 2) social protection

◆ Cautionary spending hypothesis
  – Low income growth, not high savings rate
  – Policy and institutional reforms to improvement employment and income growth
NO EVIDENCE ON RISE OF HOUSEHOLD SAVINGS RATE

- Zhou Xiaochuan (07/09, governor of China’s central bank)
  - No increase in household savings rate in recent years
  - No support for the pre-cautionary savings hypothesis

- Savings rate rose in the government and corporate sectors
THREE POLICY PERIODS

◆ 1980s: Bottom-up, entrepreneurial growth
  – The rural miracle
  – Income exceeded GDP growth
◆ 1990s: Urban bias and state-led
  – Policy reversals in rural area
  – Rapid urbanization but modest income effects
◆ Today: Social adjustments
  – Rural policy adjustments
  – Emphasizing distributional issues
  – Income gains
HIGHLIGHTING RURAL SECTOR
GDP AND HOUSEHOLD INCOME GROWTH: 1978-2008
REAL RURAL CONSUMPTION GROWTH (1978 PRICES)
DATA INCONSISTENCIES

• National Bureau of Statistics data
  – Moderate growth in the 1990s but still there was growth
  – Relative decline of income at the lowest income group but absolute gains

• Ministry of Agriculture household survey data:
  – No income (nominal) gains from 1995 to 2000 at the lowest quintile
2. 外出打工收入 1474.74 1780.46 1929.65 1964.10 2259.58 2506.81
3. 其他收入 665.20 1404.37 1700.90 1687.32 1552.17 1606.76
（%）
1. 家庭经营比重 73.99 69.87 66.50 65.79 65.63 62.32 59.95
2. 外出务工比重 9.04 15.43 17.13 18.25 19.20 22.02 23.55
3. 其他比重 16.97 14.70 16.37 15.96 15.17 15.66 16.49

2000 年农村居民家庭经营纯收入是 6380.9 元，比 1995 年的 6676.3 元略有减少。“五五”期间农村居民家庭经营纯收入年均增长幅度为 18.4%，比“九五”期间的 5.99% 高出 19.3%。2000 年的“九五”期间农村居民家庭经营纯收入比“五五”期间有所下降，其中 1998 年是改革开放以来首次下降。尽管其占份额逐年下降，但由于目前仍占总纯收入的 60% 左右，因此是农村收入增长幅度持续下降的关键因素。

由于不同收入组农户家庭拥有的生产资源（劳力、资金和技术等）条件有很大差异，家庭经营结构与生产水平的初始条件也不相同，农户在经济活动过程中获得收益的规模和增长速度就会产生差异。如果社会再分配机制不能对这种收益和获得收益的机会进行有效的调整或再分配，不同农户的家庭收入水平和收人增长速度就会产生越来越大的差异。按照农户家庭纯收入的“五等分”分组统计结果，以中等收入组农户（20％）的人均纯收入水平为 100，1990 年最低收入组农户（20％）的人均纯收入、最高收入组农户（20％）的人均纯收入与中等收入组农户的比值分别是 43：100：275，1995 年这一比例扩大到 40：100：329，到 2000 年这一比例进一步扩大到 36：100：342（见表 2）。结果表明，近年来中国农村家庭内部人均纯收入水平分配差异逐年扩大了。即与中等收入组农户相比，20％最低收入组农户的家庭的纯收入水平和增长速度越来越慢，而 20％的最高收入组农户家庭的纯收入水平和增长速度越来越快。

表 2 不同收入组农户家庭人均纯收入水平及其差异

<table>
<thead>
<tr>
<th></th>
<th>最低收入组</th>
<th>次低收入组</th>
<th>中等收入组</th>
<th>次高收入组</th>
<th>最高收入组</th>
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<tbody>
<tr>
<td>人均年纯收入（元）</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990 年</td>
<td>298.20</td>
<td>503.45</td>
<td>688.79</td>
<td>948.76</td>
<td>1891.05</td>
</tr>
<tr>
<td>1995 年</td>
<td>691.59</td>
<td>1242.60</td>
<td>1748.59</td>
<td>2474.97</td>
<td>5236.73</td>
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<tr>
<td>2000 年</td>
<td>691.95</td>
<td>1344.34</td>
<td>1927.54</td>
<td>2801.00</td>
<td>6582.93</td>
</tr>
<tr>
<td>人均年纯收入比值（%）</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990 年</td>
<td>0.43</td>
<td>0.73</td>
<td>1.00</td>
<td>1.38</td>
<td>2.75</td>
</tr>
<tr>
<td>1995 年</td>
<td>0.40</td>
<td>0.71</td>
<td>1.00</td>
<td>1.42</td>
<td>2.99</td>
</tr>
<tr>
<td>2000 年</td>
<td>0.36</td>
<td>0.70</td>
<td>1.00</td>
<td>1.45</td>
<td>3.42</td>
</tr>
</tbody>
</table>

定量描述居民收入分配差异情况，国际上广泛采用基尼（Gini）系数和洛仑茨曲线的方法评价。基尼系数是一个由人口和收入参数计算出来的表征收入不平等程度的参数。基尼系数的变化范围是从 0（完全的平等）到 1（完全的不平等）。为便于比较，表 3 列出了 1995 年和 2000 年农村居民收入的基尼（GINI）系数。

表 3 1995、2000 年农村居民收入基尼系数比较

<table>
<thead>
<tr>
<th>年份</th>
<th>全国</th>
<th>东部</th>
<th>中部</th>
<th>西部</th>
</tr>
</thead>
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<tr>
<td>2000 年</td>
<td>0.4206</td>
<td>0.4229</td>
<td>0.3546</td>
<td>0.4094</td>
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<tr>
<td>1995 年</td>
<td>0.3935</td>
<td>0.3875</td>
<td>0.3283</td>
<td>0.3798</td>
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</table>

分析表 3 数据可知，2000 年农村居民的收入基尼系数已达到 0.43，超过了国际上公认的警戒线，比 1995 年的基尼（GINI）系数 0.39 高出 0.04。由此可见，“九五”期间农村居民的不平等程度扩大了约 10%。
WHY RURAL SECTOR MATTERS

◆ Demand side:
  – 721 million rural residents in 2008
  – 230 million rural migrants (NBS 2009)
  – “Rural cities:” Comparison with India
◆ Supply side (=Entrepreneurship):
  – Rural China is more entrepreneurial due to lack of social protection and less political control
  – Households=business units in rural China
  – Households are unambiguously private
◆ Global crisis:
  – Substantial effects on rural migrants: Layoffs and pay reduction
  – Policy discussions to revive rural entrepreneurship and rural finance
FINANCIAL REVERSAL: TWO RURAL SURVEYS


◆ Findings:
  – Coverage: % of households with access to either formal or informal loans declined
  – Loan allocation: 1) Non-farm rural entrepreneurship was no longer supported and 2) importance of political connections increased.
Evidence of reversal

Access to Finance

- % of households receiving Bank or RCC loans
- % of households receiving informal loans
- % of households receiving bank, RCC, or informal Loans

Legend:
- 1986-1991 Survey
- 1995-2002 Survey

NUS China Brownbag Series,
August 6, 2010
Regression results

- **Dependant variables:**
  - Bank or RCCs loans access dummy
  - \( \log(\text{loan amount}) \)
  - \( \log(\text{deflated loan amount}) \) --- Rural CPI for each province

- **Control variables:**
  - Economic variables: cultivation land held, number of household members;
  - Investment needs: fixed investment
  - Internal funding: net household income and remittance
  - Capacity: education
  - Structural changes of these factors in the 2\textsuperscript{nd} sample period

  - Fixed effects: year, province, core production, and subsidiary program

- **A dummy variable for 1995~2002**
### Table 3: Base results - evidence of financial reversal

<table>
<thead>
<tr>
<th></th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
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</thead>
<tbody>
<tr>
<td><strong>Y: A dummy equals one if accessing loans from banks or RCCs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>[0.45]</td>
<td>[0.86]</td>
<td>[1.62]</td>
<td>[3.40]</td>
<td>[0.09]</td>
<td>[0.19]</td>
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<tr>
<td><strong>Economic variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Log(cultivated land)</td>
<td>0.46**</td>
<td>0.52**</td>
<td>2.20**</td>
<td>2.76**</td>
<td>0.15**</td>
<td>0.32**</td>
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<tr>
<td></td>
<td>[0.02]</td>
<td>[0.03]</td>
<td>[0.12]</td>
<td>[0.14]</td>
<td>[0.01]</td>
<td>[0.01]</td>
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<tr>
<td>Log(number of working member)</td>
<td>0.27**</td>
<td>0.23**</td>
<td>1.22**</td>
<td>1.06**</td>
<td>0.10**</td>
<td>0.14**</td>
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<td>[0.04]</td>
<td>[0.05]</td>
<td>[0.21]</td>
<td>[0.24]</td>
<td>[0.02]</td>
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<td><strong>Investment needs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log(fixed assets investment)</td>
<td>0.12**</td>
<td>0.12**</td>
<td>0.66**</td>
<td>0.62**</td>
<td>0.09**</td>
<td>0.10**</td>
</tr>
<tr>
<td></td>
<td>[0.01]</td>
<td>[0.01]</td>
<td>[0.03]</td>
<td>[0.04]</td>
<td>[0.00]</td>
<td>[0.00]</td>
</tr>
<tr>
<td><strong>Internal and external funding capacity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log(net household income)</td>
<td>-0.42**</td>
<td>-0.45**</td>
<td>-1.78**</td>
<td>-1.90**</td>
<td>-0.10**</td>
<td>-0.18**</td>
</tr>
<tr>
<td></td>
<td>[0.02]</td>
<td>[0.03]</td>
<td>[0.11]</td>
<td>[0.14]</td>
<td>[0.01]</td>
<td>[0.01]</td>
</tr>
<tr>
<td>Log(remittance received)</td>
<td>-0.02</td>
<td>-0.02</td>
<td>-0.1</td>
<td>-0.09</td>
<td>-0.01**</td>
<td>-0.01</td>
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<tr>
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<td>[0.01]</td>
<td>[0.01]</td>
<td>[0.05]</td>
<td>[0.06]</td>
<td>[0.00]</td>
<td>[0.01]</td>
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<tr>
<td>Education</td>
<td>0.15**</td>
<td>0.11**</td>
<td>0.79**</td>
<td>0.55**</td>
<td>0.08**</td>
<td>0.06**</td>
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<td>[0.02]</td>
<td>[0.02]</td>
<td>[0.09]</td>
<td>[0.11]</td>
<td>[0.01]</td>
<td>[0.01]</td>
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<td><strong>Structure changes in the second sample period</strong></td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
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<td><strong>Fixed effects</strong></td>
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<td>Production Category</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
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<td>Subsidized family</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Year</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
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<tr>
<td>Province</td>
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<td>YES</td>
<td>YES</td>
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<tr>
<td>Constant</td>
<td>0.16</td>
<td>0.32</td>
<td>-3.15**</td>
<td>-2.46*</td>
<td>-3.49**</td>
<td>0.12**</td>
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<tr>
<td></td>
<td>[0.17]</td>
<td>[0.21]</td>
<td>[0.89]</td>
<td>[1.08]</td>
<td>[0.08]</td>
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</tr>
<tr>
<td>R-squared (Pseudo)</td>
<td>0.15</td>
<td>0.15</td>
<td>0.08</td>
<td>0.08</td>
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</tr>
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</table>
DETERIORATING BANK PERFORMANCE

Equity networth of Agriculture Bank of China

Equity networth in 100 million
DETERIORATING BANK PERFORMANCE

Loan Pay Back Rate of Agriculture Bank of China


- ABC loan pay back rate
INDUSTRIALIZATION AND RURAL MIGRATION

◆ The puzzling issue of urbanization:
  – Declining service sector
  – Declining consumption
  – Export-oriented industrialization
◆ 2009 rural migrant survey
GUANGDONG’S GDP PER CAPITA (DEFLATED BY CPI)
GDP AND WAGE DATA IN GUANGDONG

Rural migrant survey data from Zhongshan University
FROM 2006 SURVEY
RURAL ISSUE IS THE KEY TO THE IMBALANCE QUESTION

• Matching personal income growth with GDP growth

• Reforms, not government spending
  – Land reforms
  – Hukou reform
  – Social provisions
  – Political reforms
THANK YOU!