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Globalisation, China's recent miracle growth and its limits

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Abstract

China has stunted the world with its two-digit or near-two-digit growth in the recent decades. This has been unprecedented in the past 200 years of the country's history, Mao's era of 1949 to 1976 included. In the process, China has overtaken Germany as the third largest economy in aggregates in 2008. Now, China has surpassed Japan and become the second largest economy in the world. The Chinese economy has been transformed from a poor and closed economy to an open one with a medium income on the world average. China's current economic structure in terms of employment pattern and urbanisation has been radically altered, too.

Much of China's new growth has been generated by foreign trade. From 1978 to 2000, the total value of China's foreign trade increased explosively, (110 times, from RMB ¥35.5 billion to RMB ¥3,927.3 billion, current prices), faster than any other parameter of the economy.

However, the question of sustainability looms large as China moves on. The growth of the economy has been based on heavy inputs of cheap labour, cheap materials and easily available foreign capital. So far, the Chinese industrial wage has been about one-tenth of the US level. In 2004, with over US\$ 60 billion of foreign capital invested, China surpassed the United States and became the largest FDI recipient in the world. Any change in the relative prices among the three factors may slow China's growth down.

Moreover, China has adopted a supply-driven model to sell its manufactures worldwide. These have made China highly depended on the world market for inputs (capital and materials) and output sales: it exports about 40 percent of its GDP and about 70 percent of the economy is linked to exports. As much as 90 percent of China's exports are manufactures. Unless the outside demand for China-made goods maintained at the same speed as China's exports, the market may no clear itself. Then China faces the problem of over-production, not to mention the environmental implications of an input-intensive model that China operates.

Last but not the least, there is an issue of political stability in relation to the ongoing problem of social inequality and official corruption. It is not unheard of that inequality and corruption slow down economic growth. 'China exceptionalism' may not last for too long.

A. Introduction

A dark horse in recent global economic performance, China's fast growth and development in the past three decades has astonished the world not only because China's voluntary re-opening for external trade and foreign investment but also due to the fact China's key internal socio-economic conditions, especially legal protection of property rights, were not considered ideal for growth and development by Western standards. China went on anyway.

What have made China so successful are not entirely internal factors. This chapter argues that globalisation has been a crucial factor, including the demonstration factor for the forerunners of the Asian Tigers, the intake of foreign capital, technology, the sales of value-added goods and services back to the world market. The term that China is the workshop of the world says it all.

It is worth noting that economic openness was not new in China. As recent as the 1930s, China was an integrated part of the world economy. Fast growth was achieved in some sectors then.

In comparison, China's growth failure during Mao's rule (1949–1976) occurred when China embarked isolationism (called 'self-reliance') for ideological reasons. It was clearly a strategic mistake at the highest level.

B. To define China's miracle growth

In academia, the term 'miracle' began to be associated with fast growth in East Asia only in the 1990s when their total success in modernisation was sealed.¹ Japan and Asian Tigers were examples of such a growth. China's fast growth in the recent decades has alerted economists and government officials world-wide. After 2000, China was pulled on to the bandwagon.²

Conventional wisdom often refers a miracle growth to a near-two-digit growth in a country's total GDP. It implies industrialisation and a certain degree of sustainability, often achieved under the state interference. However, the term has not been well defined for China. Firstly, attempts have been made, on and off, in China to industrialise since 1860 when the Westernisation Movement (*yangwu yongdong*) began, and certain pockets of China achieved seemingly impressive results (such as Shanghai and Manchuria by the 1930s or

¹ E.g. World Bank (ed.), *The East Asian Miracle: Economic Growth and Public Policy* (Oxford: Oxford University Press, 1993); Izumi Ohno, *Beyond the East Asian Miracle: An Asian View* (New York: UN, 1996); R. R. Nelson and Howard Pack, *The Asian Miracle and Modern Growth Theory* (Washington, DC: World Bank, Development Research Group, 1998); F. G. Adams and Shinichi Ichimura, *East Asian Development: Will the East Asian Growth Miracle Survive?* (Westport, Conn.: Praeger, 1999); Joseph Stiglitz and Shahid Yusuf, *Rethinking the East Asian Miracle* (Oxford: World Bank and Oxford University Press, 2001); M. G. Quibria, *Growth and Poverty: Lessons from the East Asian Miracle Revisited* (Tokyo: ADB Institute, 2002); H. A. Khan, *Interpreting East Asian Growth and Innovation: the Future of Miracles* (Basingstoke: Palgrave Macmillan, 2004); Ha-Joon Chang, *The East Asian Development Experience: the Miracle, the Crisis and the Future* (Penang, Malaysia: Third World Network, 2006).

² Justin Lin, Fang Cai and Zhou Li, *The China Miracle: Development Strategy and Economic Reform* (Hong Kong: Chinese University Press, 2003); Yanrui Wu, *China's Economic Growth: A Miracle with Chinese Characteristics* (London: Routledge Curzon, 2004). Also, Ross Garnaut and Yiping Huang (eds.) *Growth without Miracles: Readings on the Chinese Economy in the Era of Reform* (Oxford: Oxford University Press, 2000).

40s). Secondly, from 1949 to 1976, alleged fast growth was delivered under Mao's rule. Sometimes, these results did not look too different from Japan or the Asian Tigers. But why did no one associate China with a miracle growth?
To take Shanghai as one example, in 1931 the city surpassed Manchuria as the largest recipient of foreign capital investment in China (in million silver *yuan*):³

	1914	1931
Shanghai	291.0 (100)	1,112.2 (380)
Manchuria	361.6 (100)	880.0 (240)
Other regions	957.7 (100)	1,250.3 (130)

At the end of the 1930s, Shanghai allegedly housed 40 percent of China's modern industrial capital and 48 percent of China's financial capital, 76 percent of China's modern capital formation.⁴ It also boasted of having 46 percent of China's modern industrial workers,⁵ and 50 percent of China's modern industrial output.⁶
However, all these figures look impressive only in isolation. The modern sector the economy claimed less than 10 percent of China's total output in value in the 1930s.⁷ It did not increase much in the early 1950s (as of 1952, in RMB ¥billion):⁸

Total GDP	Traditional sector	Modern sector
67.9 (100%)	62.8 (93%)	5.0 (7%)

In this context, Shanghai's share in China's GDP was about 2–5 percent (based on 3–10 percent GDP for the modern industry and Shanghai's share in the modern sector).⁹
Our second evidence comes from Shanghai's employment pattern. The city's factory workers amounted to only 223,000 in the 1930s (and half a million in the 1950s).¹⁰ Of them, 76 percent were employed in the textile sector (as in 1933).¹¹ The majority of them were women and children who were almost certainly illiterate. The sector had a total capital asset

³ C. F. Remer, *Foreign Investments in China* (New York: Macmillan, 1933), p. 73.
⁴ Hong Jiaguan, *Ershi Shijide Shanghai Jinrong* (*Shanghai's Finance in the Twentieth Century*) (Shanghai: Shanghai People's Press, 2004), p. 211.
⁵ Sun Yutang, *Zhongguo Jindai Gongyeshi Ziliao* (*Materials on Early Modern Industries in China*) (Beijing: Science Press, 1957), p. 1202.
⁶ Huntley Dupre, 'Review of Robert W. Barnett's *Economic Shanghai: Hostage to Politics, 1937–1941*' *Journal of Farm Economics*, 24/4 (1942): 919.
⁷ Tim Wright, *The Chinese Economy in the Early Twentieth Century* (New York: St Martin's Press, 1992), p. 116; Mao came up with 10 percent; see Mao Zedong, 'Democratic Dictatorship', in Mao Zedong, *Mao Zedong Xuanji* (*Selected Works of Mao*) (Beijing: People's Press, 1961), vol. 4, p. 1484. N. R. Lardy only accepted three percent; see N. R. Lardy, *Agriculture in China's Modern Economic Development* (Cambridge: Cambridge University Press, 1983), p. 7.
⁸ National Bureau of Statistics, *Zhongguo Tongji Ninajian, 2002* (*China's Statistical Year Book, 2002*) (Beijing: China Statistics Press, 2002), p. 51.
⁹ Derived from $Q/(1-Q) \cdot (1-P)/P$; where Q = Shanghai's GDP share, and P = Shanghai's population share.
¹⁰ Anon., *Mao Zedong Sixiang Wansui* (*Long Live Mao Zedong's Thought*) (Beijing: Peking University, August 1969, SOAS Library Copy), p. 335; Xu Xuejun, *Shanghai Jindai Shehui Jingji Fazhan Gaikuang, 1882–1931* (*A Survey of Shanghai's Socio-economic Development in Early Modern Times, 1882–1931*) (Shanghai: Shanghai Social Science Press, 1985), p. 275.
¹¹ Chen Xiaoqing, Li Jifeng and Zhu Lexian, *Kangzhan Shiwu Nian* (*Fifteen Years of Counter-Japanese Invasion*) (Nanning: Guangxi Normal University Press, 2008), p. 73.

of only about 70 million silver *yuan*.¹² It mainly produced low-tech 'wage goods.'¹³ In terms of labour productivity, Shanghai's modern workers produced 2.2–5.5 times of China's national average which is not overwhelmingly high. It is thus misleading to see Shanghai as China's national growth and development.

To take the 'Nanjing Decade' of 1927/8 to 1937 as another example, the Decade undoubtedly marked a pro-business era. Chiang's government raised money by selling government bonds, worth 1.1 billion silver *yuan* in 1933.¹⁴ They offered investors some hope for returns. It was also a period of vigorous GDP growth up to 9 percent a year,¹⁵ not too far behind Japan. Moreover, the Nanjing government had ambitious long-term and medium term targets for agricultural and industrial outputs, modern tertiary education, and infrastructure. For example, graduates of technical degree courses were set at 2.7 million; rice, 756 million *shi*; wheat, 882 million *shi*; steel output, 28.5 million tons; coal, 515.9 million tons; cement, 70.7 million tons; and highways, 1.5 million kilometres.¹⁶

But there are a few problems. Firstly, the Nanjing Decade growth lasted for just a decade and hence unsustainable while Japan's uninterrupted growth was at least half a century old since the beginning of the Meiji Era (1868–1912).¹⁷ Secondly, evidence indicates that the growth actually started during the 1910s: China's 15 sample industrial items had year-by-year unbroken growth in value from 1912 to 1936,¹⁸ and 16 main agricultural products held their yield records unbroken until 1957.¹⁹ So, not all growth belonged to the Nanjing Decade. Moreover, there was no structural transition in the economy: the agricultural sector still employed the majority workforce and produced the lion's share of China's total GDP.²⁰

The last example is the growth under Mao's rule. According to the official growth rates, Mao's China was not too far behind the 'Asian Tigers' (annual GDP % growth for the Tigers but 'social total output value' for China):²¹

¹² *Ibid.*, p. 73.

¹³ Xu, *Shanghai's Socio-economic Development*, p. 275.

¹⁴ Ye Shuming, *Daguo de Mishi (China, A Power that Got Lost)* (Xi'an: Shanxi Normal University Press, 2007), p. 288.

¹⁵ J. K. Chang, *Industrial Development in Pre-Communist China, A Quantitative Analysis* (Edinburg: University of Edinburg Press, 1969), p. 71; T. G. Rawski, *Economic Growth in Prewar China* (Berkeley: University of California Press, 1989), p. 274.

¹⁶ Chiang Kai-shek, *China's Destiny and Chinese Economic Theory*, translated by Philip Jaffe (1943, English Edition, New York: Roy Publishers, 1947), pp. 174–8.

¹⁷ Rawski, *Economic Growth*, p. 280, cf. p. 330; also Liu Wei, 'Dui Jindai Zhongguo Hongguan Jingji Yunxingde Shizheng Fenxi (1927–1936)' (Quantitative Analysis of China's Macro-economy, 1927–1936), *Zhongguo Jingjishi Yanjiu (Research in Chinese Economic History)* no. 3 (2004): 81–9; Kazushi Ohkawa and Henry Rosovsky, *Japanese Economic Growth* (Stanford: Stanford University Press), p. 25.

¹⁸ Chang, *Industrial Development*, pp. 60–1.

¹⁹ D. H. Perkins, *Agricultural Development in China, 1368–1968* (Edinburgh: Edinburgh University Press, 1969), pp. 266–89.

²⁰ D. H. Perkins (ed.), *China's Modern Economy in Historical Perspective* (Stanford: Stanford University Press, 1975), p. 117.

²¹ Vera Simone and A. T. Feraru, *The Asian Pacific: Political and Economic Development in a Global Context* (White Plains [N.Y.]: Longman Publishers, 1995), p. 181; also see World Bank, *World Development Indicators, 2000* (Washington D.C.: The World Bank Group, 2002) (On line: http://publications.worldbank.org/economy/catalog/product?item_id=631625); National Bureau of Statistics, *Zhongguo Tongji Nianjian, 1987 (China's Statistical Year Book, 1987)* (Beijing: China's Statistics Press, 1987), pp. 36, 38.

	South Korea	Taiwan	Hong Kong	Singapore	China
1960–9	8.4	9.2	10.0	8.8	–
1966–70	–	–	–	–	9.3
1970–9	7.4	9.7	9.2	8.3	–
1971–5	–	–	–	–	7.3

In addition, industrial hardware, especially heavy industry, grew at an unprecedented speed with lavish investment (% of all investment in value):²²

	Heavy industry (I)	Light industry (II)	I/II
1953–7	36.2	6.4	5.7
1958–62	54.0	6.4	8.4
1963–5	45.9	3.9	11.8
1966–70	51.1	4.4	11.6
1971–5	49.6	5.8	8.6
Average	47.4	5.8	8.2

Many scholars often draw a quick conclusion that Mao's China was industrialising fast. But the reality was quite different. The Maoist heavy industry growth was poorly planned and executed. The whole process was marred by 'false reports on costs and profits', and 'reckless spending once money was allotted by the state.'²³ China's industrial sector produced mountains of capital goods, part of which simply became the deadweight to the economy, commonly known as 'to produce for inventories' (*wei cangku shengchan*).²⁴ In 1971, China's total steel inventory amounted to 52 percent of China home output and imported quantities put together.²⁵ Thus, the real industrialisation was hampered. Externally, China practically stopped trading: its share of world trade dropped from 1.5 percent in 1953 to only 0.6 percent in 1977.²⁶ Such a meagre share was associated with the Soviet Bloc, not the West. To mark the attitude of the Maoist decision-makers, China's tariff level was well above the 50 percent mark (as in the early 1980s).²⁷ In addition, China's modern industrial workforce never exceeded 60 million or 7 percent of China's total population under Mao's rule. More strikingly, the increase in the industrial workforce was lower than China's population growth.²⁸

²² National Bureau of Statistics, *Zhongguo Jingji Nianjian*, 1992 (*China Statistical Year Book*, 1992) (Beijing: China Statistics Press, 1992), pp. 149, 158.

²³ Yu Guangyuan (ed.), *China's Socialist Modernization* (Beijing: Foreign Language Press, 1984), pp. 471–2.

²⁴ Zong Fengming, *Zhao Ziyang Ruanjinzhongde Tanhua* (*Conversations with Zhao Ziyang under House Arrest*) (Hong Kong: Open Press, 2007), p. 243.

²⁵ Zhang Hua and Su Caiqing (eds), *Huizhou Wedge, Zhongguo Simian Wedge Benxi Yu Fans* (*Recollection of the Decade of Cultural Revolution, Analyses and Soul-Researching*) (Beijing: Chinese Communist Party History Press, 2000), vol. 1, p. 446.

²⁶ Nicolas Lardy, *China in the World Economy* (Washington: Institute for International Economics, 1994), p. 2.

²⁷ Nicholas Lardy, *Integrating China into the Global Economy* (Washington, DC: Brookings Institution, 2002), p.34.

²⁸ Data for the industrial workforce is based National Bureau of Statistics, *Zhongguo Laodong Tongji Nianjian 1998* (*China's Labour Statistical Year Book*, 1998) (Beijing: China's Statistics Press, 1998), p. 81. Data for China's population figures are based on National Bureau of Statistics, *Zhongguo Tongji Nianjian 1986* (*China's Statistical Year Book*, 1986) (Beijing: China's Statistics Press, 1986), p. 91.

In 1958, in the thick of the Great Leap Forward, 20 million new workers were recruited from rural China. But by 1965 not only were all of them sent back to their villages, an extra two million of urban youngsters joined in under a national scheme of de-urbanisation.²⁹ In 1970–2 when the number of workers employed by state-run factories exceeded for the first time 50 million with a total annual wage bill of RMB ¥30 billion (¥50 *yuan* per capita per month), it presented to the Maoist government too huge an inflationary pressure to handle.³⁰ It is not too hard to understand that the reason why from 1968 to 1978 the state policy to systematically ruralise 16 million urban students as a response to the lack of demand for modern industrial workers. These teenagers were expected to make a living in the rural sector indefinitely. Evidently, 70 percent of them actually did become self-supporting farmers.³¹ Even after all these efforts, in 1977 the urban sector still had 15 million young people waiting for jobs.³²

Consequently, China’s urban residents were most optimistically 18 percent of China’s total population (as in 1978).³³ This is only 0.3 percent a year from 1949 and again slower than China’s population growth.³⁴ As a matter of fact, from 1960 to 1978 China’s urbanisation rate dropped by 1.8 percent.³⁵

In the end, over 70 percent of Mao’s workforce was still employed by the primary (mainly agricultural) sector,³⁶ very similar to the level in 1946 when 75 percent of China’s workforce was employed that way (see Table 1).

	1952	1957	1962	1965	1970	1975
Primary sector*	83.5	81.2	82.1	81.6	80.8	77.2
Secondary sector*	7.4	9.0	8.0	8.4	10.2	13.5
Tertiary sector*	9.1	9.8	9.9	10.0	9.0	9.3

Table 1. China’s Employment Structures (% in Total), 1952–75

Source: National Bureau of Statistics, *Zhongguo Laodong Tongji Nianjian 2004 (China’s Labour Primary sector Statistical Year Book, 2004)* (Beijing: China’s Statistics Press, 2004), p. 7.

Note: * The three sectors are proxies for agriculture, industry and services.

²⁹ Zhang and Su, *Decade of Cultural Revolution*, vol. 2, p. 889.
³⁰ Zhang and Su, *Decade of Cultural Revolution*, vol. 1, p. 430.
³¹ Liu Xiaomeng, *Zhongguo Zhiqing Shi (A History of ‘Educated Youngsters’ in China)* (Beijing: Contemporary China Publishing House, 2008), pp. 178–9.
³² Yu, *China’s Socialist Modernization*, p. 584.
³³ Elisabeth Croll, *The Family Rice Bowl, Food and the Domestic Economy in China* (Geneva: UNRISD, 1983), p. 111; National Bureau of Statistics, *Zhongguo Tongji Ninajian, 2003 (China’s Statistical Year Book, 2003)* (Beijing: China Statistics Press, 2003), p. 97.
³⁴ Based on Ta-chung Liu and Kung-chia Yeh, *The Economy of the Chinese Mainland: National Income and Economic Development, 1933–1959* (Princeton: Princeton University Press, 1965), p. 212; Zhong Dajun, *Guomin Daiyu Bupingdeng Shenshi (Assessment of Unequal Entitlement amongst Citizens)* (Beijing: China’s Workers’ Press, 2002), pp. 224, 242.
³⁵ Li Qiang, *Shehui Fenceng Yu Pinfu Chabie (Social Stratification and Income Inequality)* (Xiamen: Lujiang Press, 2000), p. 69.
³⁶ See Ling Zhijun, *Lishi Buzi Paihuai (History, No More Hesitation)* (Beijing: People’s Press, 1997), p. 102; National Bureau of Statistics, *Statistical Year Book, 2003*, p. 34.

But this was not all. What has been largely untold is that among the employed urban workforce a proportion was redundant, described as

[Under Mao] China practised a policy of over-employment of low-pay workers called ‘three jobs to be shared by five workers’ in order to reduce unemployment. ... A great many enterprises allowed workers to idle and efficiency to decline. ... China simply cannot modernise if this problem continues.³⁷

The problem here is that countries with over 70 percent of the population engaged in agriculture were historically pre-industrial, exemplified by Meiji Japan in 1872 (at 72 percent) and Tsarist Russia in 1914 (at 75 percent) and colonial India in 1901 (at 65 percent).³⁸ It is therefore very difficult to justify the claim that Mao greatly increased the degree of China’s industrialisation. Inside the agricultural sector, growth stagnated (see Table 2).

	Current price	Index (I)	1952 price*	Index (II)
1952	41.7	100	41.7	100
1977	80.7	194	29.0	70
Gross annual growth		2.7%		-1.4%
Net annual growth†		0.7%		-3.4%

Table 2. Agricultural Gross Output in Value (in RMB ¥ Billion), 1952–77

Source: Based on National Bureau of Statistics, *1985 Zhongguo Nianjian (China’s Statistic Year Book, 1985)* (Beijing: Economy Press, 1986), p. 239.

Note: * Conversion is based on the average inflation rate of 2.0 percent a year for the period of 1950 to 1978; see Li Jingwen, ‘Zhongguo Jingji Tizhi Zhuanxing Guochengzhongde Hongguan Tiaokong’ (Macro Control over the Process of Switching China’s Economic System), *Xinhua Wenzhai (Xinhua Compilation)*, 4 (1997): 49–51. † Net growth by discounting population growth at a rate of 2.0 percent per year from 1949 to 1977.

Consequently, food supply became a problem. It began in North China in the 1950s and spread to South China at the end of Mao’s rule (see Table 3).

	South China	North China	China’s total
1956–60	1,950.5	-472.0*	1,478.5
1961–5	669.5	-2,013.5	-1,344.0
1966–70	942.0	-796.5	145.5
1971–5	952.5	-1,159.0	-206.5
1976–8	-22.8	-1,106.4	-1,129.2

Table 3. China’s Food Availability Seen from Food Exports (in 10,000 tons)

³⁷Xue Muqiao, *Xue Muqiao Huiyilu (Memoir of Xue Muqiao)* (Tianjin: Tianjin People’s Press, 1996), p. 479.
³⁸Ryoshin Minami, *The Economic Development of Japan: A Quantitative Study* (London: Macmillan, 1986), p. 24; S. G. Wheatcroft, R. W. Davies and J. M. Cooper, ‘Soviet Industrialization Reconsidered: Some Preliminary Conclusions about Economic Development between 1926 and 1941’, *Economic History Review* 39/2 (1986): 273; Priyatosh Maitra, *Indian Economic Development: Population Growth and Technical Change* (New Delhi: Ashish, 1991), pp. 101, 132; Penelope Francks, *Japanese Economic Development, Theory and Practice* (London: Routledge, 1992), p. 29; R. W. Davies, Mark Harrison and S. G. Wheatcroft, *The Economic Transformation of the Soviet Union, 1913–1945* (Cambridge: Cambridge University Press, 1994), p. 112; P. R. Gregory, *Before Command: An Economic History of Russia from Emancipation to the First Five-Year Plan* (Princeton: Princeton University Press, 1994), pp. 21, 42.

Source: Based on Contemporary Agricultural History Study Group, Rural Economy Institute, Ministry of Agriculture (ed.), *Dangdai Zhongguo Nongye Biange Yu Fazhan Yanjiu* (A Study of Agricultural Reforms and Development in Contemporary China) (Beijing: China’s Agriculture Press, 1998), p. 251.

Note: * Negative value means food imports due to food deficits.

In addition, the Maoist economy had five cycles. Negative growth was not uncommon. The economy dropped as much as over 40 percent (1958–62). Clearly, the Maoist economy was unsustainable to say the very least, not to mention the Great Leap Famine in 1959 to 1961 when 30 million people died (% growth of the previous year):³⁹

Cycle I (5 years)	1950	19.0
	1955	5.3
Cycle II (2 years)	1956	11.9
	1957	2.9
Cycle III (4 years)	1961	-18.4
	1962	-7.2
Cycle IV (5 years)	1963	8.2
	1967	-0.5
Cycle V (7 years)	1969	12.4
	1976	-1.8

In this context, in February 1978 at the Fifth People’s Congress by Mao’s successor Hua Guofeng (1921–2008) openly condemned the Cultural Revolution:

*We lost 100 billion yuan in industrial GDP, 28 million tons of steel, 40 billion yuan fiscal revenue. Our entire economy was on the brink of collapse.*⁴⁰

It becomes clear that to qualify a miracle growth the economy not only needs a fast increase in GDP but also a rapid structural change in its employment structure so that fewer and fewer people are employed by the agricultural sector. This only occurred after 1978. China’s growth misfortune changed with Deng Xiaoping’s reforms after 1978. If one takes 1978 as a turning point, the three decades prior to 1978 was a period of nominal fast growth which was followed by three decades of genuine fast growth. Deng’s reforms in agriculture, industry and services were carried out with a combination of policy changes and institutional re-adjustments in order to revive producers’ incentives and to unleash the power of the market economy. These reforms formed the antithesis to Maoism. The result was a miracle growth. Firstly, China’s growth was accompanied by a market which by and large cleared itself most of the time until 2008. It means the wasteful practice of Maoism was a thing of the past.

³⁹ Data for 1950 to 1963, based on National Bureau of Statistics, *Zhongguo Tongji Nianjian*, 1983 (*China’s Statistic Year Book*, 1983) (Beijing: Economy Press, 1983), pp. 13–14, 22–3. Data for 1967 to 1976, based on National Bureau of Statistics, *Statistical Year Book*, 2002, p. 51.

⁴⁰ Hua Guofeng, ‘Tuanjie Qilai, Wei Jianshe Shehuizhuyide Xiandaihua Qianguo Er Fendou’ (United to Build a Socialist Modern Power), *Renmin Ribao* (People’s Daily), 27 February, 1978, p. 1.

This was achieved with a year-by-year growth rate which was not too different from the nominal growth rate under Mao:⁴¹

	'Social total output value'	National income	GDP
Maoist era: 1952–77	7.3	6.2	6.4
Dengist era: 1979–2000	–	9.3	9.4

Deng Xiaoping's growth target of 'a GDP at 1,000 American Dollars per head' announced in 1980 was well accomplished.⁴² Coupled with China's explosive GDP growth was the most rapid expansion in non-agricultural employment and urbanisation in China's long history. In the 1990s, rural industrial workers left in large numbers to cities. This led to most visible change of city-bound migration that was persistently restricted during the Maoist era. There were both a 'pull factor' and a 'push factor' to make rural people so willing to leave land: (1) higher incomes in cities, and (2) a lack of private ownership over land in the farming sector. Post-Mao China became a textbook case for Arthur Lewis' dualism.⁴³ According to the 2000 national census, conservatively 88 million of rural people had moved to cities, accounting for a quarter of the rural workforce of the time.⁴⁴ The real figure was likely 40 percent higher.⁴⁵ China's landscape of urbanisation changed. In 2000, China's urban population doubled its 1978 level and China's urbanisation rate reached for the first time 36 percent.⁴⁶ A decade later, the rate increased to 46 percent (as in 2008).⁴⁷ The annual growth rate was 3.2 percent, over 10 times faster than Mao's record. However, if we take a long-term view with China's growth index from the 1830s, the post-1978 growth stands out as truly extra-ordinary with a sudden jump from 1982 to 2000 (constant price):⁴⁸

⁴¹ National Bureau of Statistics, *Zhongguo Tongji Nianjian*, 1987 (*China's Statistical Year Book*, 1987) (Beijing: China's Statistics Press, 1987), pp. 36, 38; National Bureau of Statistics, *Zhongguo Tongji Nianjian*, 1989 (*China's Statistical Year Book*, 1989) (Beijing: China's Statistics Press, 1989), pp. 29, 31; National Bureau of Statistics, *Statistical Year Book*, 2002, p. 51. For the World Bank data, see World Bank, *World Development Report 2000/2001* (New York: Oxford University Press, 2001), p. 294.

⁴² Li Li-an and Zheng Keyang (eds), *Deng Xiaoping Yu Gaige Kaifang Shisi Nian* (*Deng Xiaopin and Fourteen Years of Reforms and Opening Up*) (Beijing: Beijing Normal University Press, 1993), p. 14.

⁴³ A. W. Lewis, 'Economic Development with Unlimited Supplies of Labour', *Manchester School* 22/2 (1954): 139–91.

⁴⁴ Lu Xueyi, *Dangdai Zhongguo Shehui Jiecen Yanjiu Baogao* (*Survey of Social Strata in Contemporary China*) (Beijing: Social Sciences Academic Press, 2002), p. 180; National Bureau of Statistics, *Statistical Year Book*, 2003, pp. 99, 123.

⁴⁵ Li Yi, *The Structure and Evolution of Chinese Social Stratification* (Lanham [Maryland]: University Press of America, 2005), p. 219.

⁴⁶ National Bureau of Statistics, *China's Statistical Year Book*, 2003, p. 97.

⁴⁷ On line: http://news.xinhuanet.com/english/2009-06/15/content_11547831.htm

⁴⁸ Dates used are determined by the available data in the neighbourhood of important historical turning points. Minimum estimate for the 1830s as 3,598 million taels of silver. Estimate for 1750, at 1,713 million taels of silver is based on Albert Feuerwerker, 'The State and the Economy in Late Imperial China', *Theory and Society* 13/3 (1984): 297–326, p. 300. Estimate for 1880 at 3,500 million taels is based on Liu Foding Wang Yuru and Zhao Jin, *Zhongguo Jindai Jingji Fazhan Shi* (*A History of Economic Development in Early Modern China*) (Beijing: Tertiary Education Press, 1999), p. 66. Estimates for 1914 and 1936 are based on the indices of Liu Foding and Wang Yuru, *Zhongguo Jindaide Shichang Fayu Yu Jingji Zengzhang* (*Market Development and*

	GDP index	GDP/head index ⁴⁹
1830	100	100
1887	93	98
1914	121	132
1936	167	139
1952	167 ⁵⁰	116
1962	282 ⁵¹	167
1972	620	286
1977	788	331
1982	1,304	511
1992	6,555	2,230
2000	21,690	6,800

Moreover, those remain in the rural regions did no longer live on farming exclusively. According to the nation-wide rural survey in 1988, the income share from non-farming activities reached 58 percent of China’s rural household income.⁵² In another account, the number of full-time farmers dropped by about 50 percent in 2000,⁵³ while the share of income from farming dropped to about a third in the same time.⁵⁴ Less than three percent of the rural households exclusively lived on farming; 30 percent of the rural households no longer farmed at all.⁵⁵

What so remarkable is that such rapid growth in industrial workforce and urbanisation has been generated mainly domestically. It is true that from 1979 to 2000 the foreign direct investment used in China accumulated to US\$ 346.6 billion, equivalent to 32 percent of China’s total GDP in 2000.⁵⁶ But foreign firms created only a small workforce. By 2000,

Economic Growth in Early Modern China) (Beijing: Tertiary Education Press, 1996), p. 44. GDP data for 1952 to 2000 are based on National Bureau of Statistics, *Statistical Year Book*, 2002, p. 51.

⁴⁹ Dates used are determined by the available data in the neighbourhood of important historical turning points. For data for 1766 to 1887, see Kent Deng, “Unveiling China’s True Population Statistics for the Pre-Modern Era with Official Census Data”, *Population Review* 43/2 (2004), Appendix 2. Data for 1928 to 1946, see Cao Shuji, *Zhongguo Renkoshi (A Demographic History of China)* (Shanghai: Fudan University Press, 2001), vol. 6, pp. 257, 266, 274. Data for 1952, 1962, 1972 and 1977 are based on National Bureau of Statistics, *Zhongguo Tongji Nianjian*, 1987 (*China’s Statistical Year Book*, 1986) (Beijing: China’s Statistics Press, 1986), p. 91.

⁵⁰ Mao’s government claimed that China’s economy fully recovered in 1952 back to the 1936 level; see Dong Zhikai, *1949–1952 Nian Zhongguo Jingji Fenxi (Analysis of China’s Economy, 1949–1952)* (Beijing: China’s Social Sciences Press, 1996), pp. 365–70. Liu and Yeh used 1933 as the benchmark year for 1952 and viewed a growth in 1952. This is not contradicting the 1936–1952 comparison; see Liu and Yeh, *Economy of the Chinese Mainland*, p. 67.

⁵¹ Note: The GDP figures for 1962, 1972 and 1977 are only in their face value with no discount to reflect the damages caused by the Maoist political purges and mismanagement of the economy.

⁵² Yu Dechang, *Nonghu Jingji Xingwei Ji Laodong Shijian Liyong Tiaocha Ziliaoji (Survey Data for Rural Households’ Economic Behaviour and Labour Input Patterns)* (Beijing: China’s Statistical Press, 1992), p. 331.

⁵³ National Bureau of Statistics, *Statistical Year Book*, 2003, p. 124; Lu, *Survey of Social Strata*, p. 22.

⁵⁴ National Bureau of Statistics, *Zhongguo Shichang Tongji Nianjian*, 2001 (*China’s Market Statistical Year Book*, 2001) (Beijing: China’s Statistics Press, 2001), p. 29.

⁵⁵ Yu, *Survey Data*, pp. 325–6.

⁵⁶ Ministry of Finance, *Zhongguo Caizheng Nianjian (China’s Financial Year Book*, 2004) (Beijing: China’s Financial Magazine Press, 2004), p. 418.

foreign companies (including those of Hong Kong and Macao) hired only 6.4 million workers (vis-à-vis 24.1 million hired by the rest of the private sector).⁵⁷

Now, after three decades of reforms, coastal China has changed beyond recognition. China's world ranking jumped from obscurity to prominence in terms of foreign trade volume, FDI intake, total GDP and so forth. So much as the notion of G2, or 'ChinAmerica', has been on the lips of journalists and politicians around the world.

C. China's growth limits

However, China's relatively smooth take-off after 1978 did not come without problems. These problems are structural, environmental and social. They set growth limits for China in the near future.

First of all, much of China's growth success has come from trade. From 1978 to 1990, China's average annual growth rate in trade was over 15 percent, much faster than China's GDP growth.⁵⁸ Such a growth strategy was copied from post-war Japan and the Asian Tigers. These economies were considerably smaller than China at the time they moved towards industrialisation. The implication was that these countries would not shift the global supply curve outwards by a large margin before achieving their goal of industrialisation. In other words, these countries would not change the general equilibrium in the world economy even with their high export propensity. In fact, the Japanese economy has not been as export-oriented as one might think. Currently, Japan exports less than 15 percent of its GDP.

China's reforms have undoubtedly created a large and open economy. Conservatively, the country exports 40 percent of its GDP and even a great percentage of its GDP depends on overseas sales. It simply means that China's production has been geared towards the global market. This was preferable in the beginning when the outside world generated strong and steady demand for cheap goods made in China, commonly known as the 'demand shock' or a 'demand-driven model'. With outside demand, the value of China's total GDP simply would not have been fully realised.

The size of the potentially unrealised value is not trivial. If we take China's current US\$ 2 trillion foreign reserves as the country's net exported GDP value and hence China's net total added value, roughly China created new value worth US\$ 67 billion (or US\$ 52 per head) a year on average over the last 30 years. And, this amount had to be sold overseas.

But it will be naïve to assume that such a demand-driven model will last for ever for a large economy. As China has become rapidly industrialised, it has shifted its Production Possibility Frontier. This is presented in Figure 1 where the original Point *a* stands for Maoist economy which operates inside the original Production Possibility Frontier (Curve I),⁵⁹ considering the commonly agreed wastes and damages associated with Maoism. The new frontier is set up (Curve II) to allow China to catch up with the Western productivity with much higher output. This has been completely rational in relation to China's domestic growth performance.

⁵⁷ National Bureau of Statistics, *Statistical Year Book*, 2003, pp. 126–7.

⁵⁸ Nicolas Lardy, *Foreign Trade and Economic Reform in China, 1978–1990* (Cambridge: Cambridge University Press), p. 11.

⁵⁹ For detail, see Victor Nee and Su Sijin, 'Institutional Change and Economic Growth in China', *The Journal of Asian Studies*, 49/1 (February 1990): 3–25.

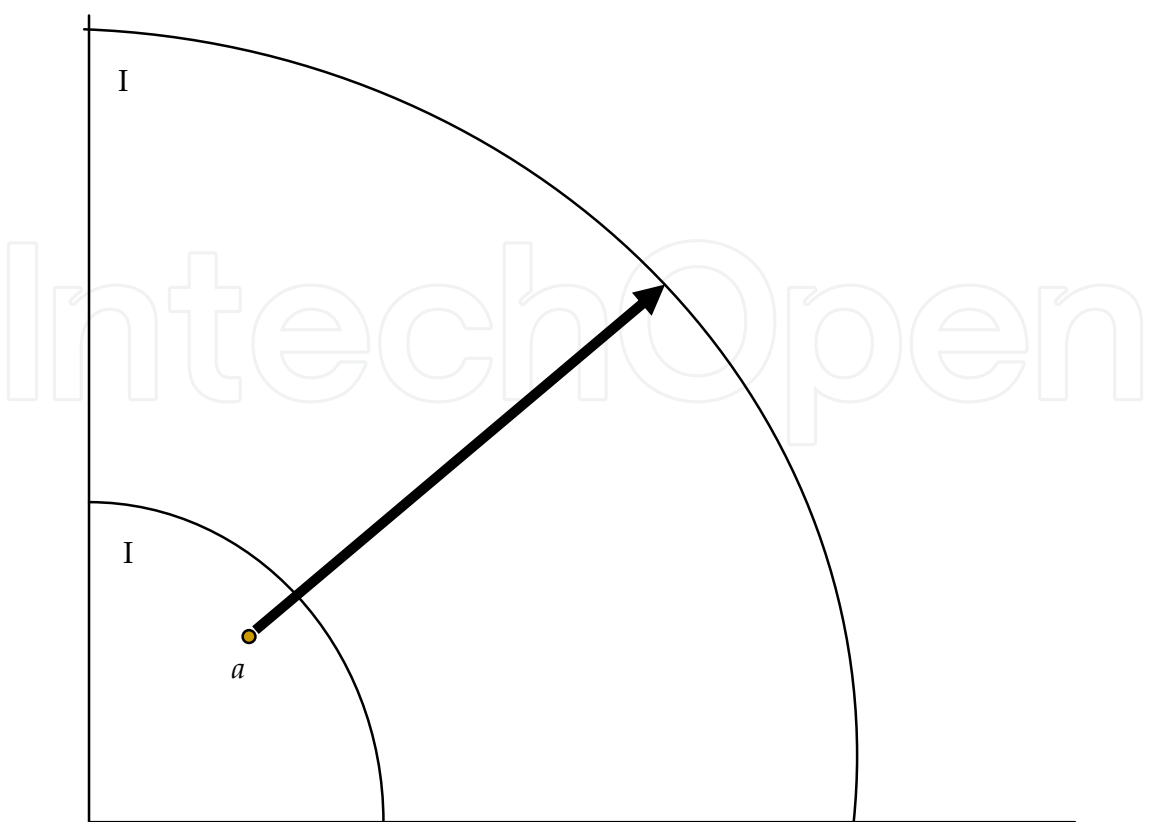


Fig. 1. China’s Shifting Domestic Production Possibility Frontier

However, as China keeps progressing that way, it inevitably shifts the global supply curve outwards and hence changes the original demand-driven model to a ‘supply-driven model’. This is shown in Figure 2 where we hold the global aggregate demand curve (D) constant. China’s ever-growing export may shift the global aggregate supply curve from S_1 to S_2 and hence upsets the global general equilibrium. Although the aggregate goods traded increase from q to q' , wages and profits of Chinese producers will suffer and the growth will slow down (a drop from p to p'). Anecdotaly, since the 1990s there have been constant complaints about malevolent and throat-cutting competition and vanishing profit margins in China’s exporting firms. This is simply because the capacity of any market is limited at any given time. The global market is no exception. Imperially, such a supply-driven model is not sustainable in the long run.

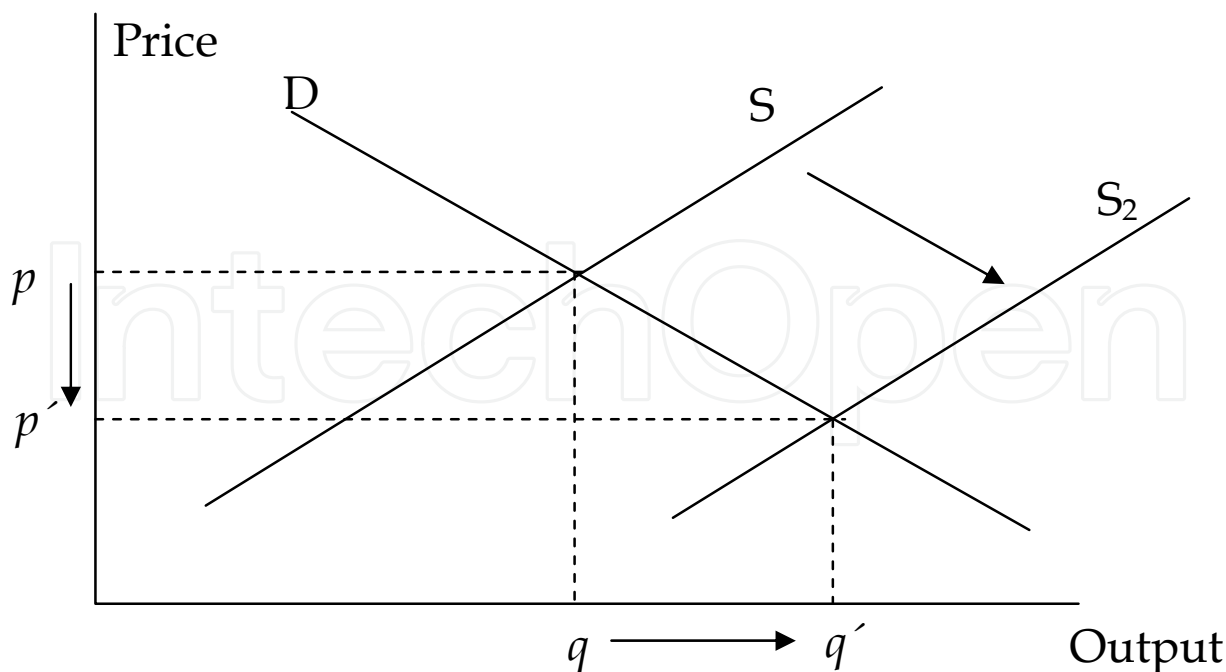


Fig. 2. China’s Shifting Global Supply Curve

We can make the model more dynamic with technological improvement and price elasticity. The result may well be similar. In the following diagram (Figure 3), the supply curve shifts from $S-S_1$ to $S-S_2$ with technological improvement while the demand curve shifts spontaneously from $D-D_1$ to $D-D_2$ with price elasticity when cheaper goods are available. Even so, the enlarged quantity with lowered price per unit of goods may eat into the profit of the supplier unless new technology kicks in. The shaded area represents a loss of the total revenue for the producer. As a result, a great many firms go broke and unemployment increases. This has been the case in coastal China since the 2008 global credit crunch. Currently, China is responsible for about only 15 percent of the global GDP and 7 percent of the global trade. It may not yet face the supply-driven challenge as a whole. However, certain signs suggest that such a challenge looms large for China. A good example was the sudden drop of China’s export by a third since the last quarter of 2008. Although it is a shift in the global aggregate demand since the 2008 credit crunch, conceptually, it produces the same impact. In other words, the current global financial crisis is a dress rehearsal for China’s future should the economy stick to the ‘large-and-open’ structure with high dependence on export. There is the real possibility that eventually the world market may not clear itself after China, the New Big Boy, joined in. Conceptually, China’s accumulative US\$ 2 trillion foreign reserves show the same problem of a chronic lack of domestic purchasing power among the ordinary citizens. Similarly, China’s current stimulus package worth RMB ¥4 trillion clearly shows the domestic consumption gap vis-à-vis China’s output capacity. To a great extent, China domestic market has already been at the mercy of the afore-mentioned supply-driven model.

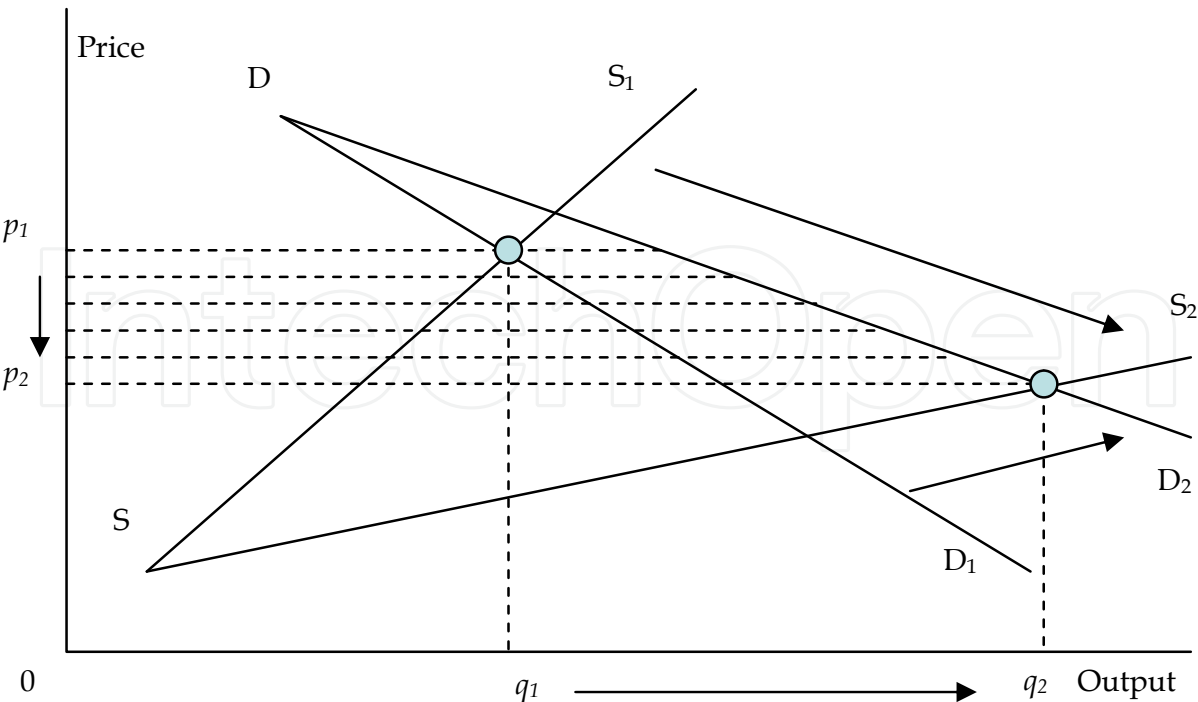


Fig. 3. Shifting Global Supply Curve with Technological Improvement and Price Elasticity

To put it bluntly, the key to China’s problem is its export-oriented industrialisation necessarily requires China to over-produce goods and services beyond its own consumption capacity. The solution for China is not to produce more but to radically change the current distribution and re-distribution pattern among the less privileged social strata perhaps *à la* an EU model of secured citizens’ entitlement and social security.

The second factor which sets growth limits for China has to be the environment including production inputs of materials and pollutant emissions. Admitted, China is not yet a leader in modern technology. On the other hand, it will be unrealistic to assume the West will altruistically pass on to China the state-of-art technology. As a result, China’s miracle growth in the past three decades has been based disproportionately on relatively backward but cheap technology by the Western standards. China’s ultra-cheap labour, which costs one-tenth of that in Europe and the United States as we speak,⁶⁰ is comfortably overcompensates the deficiency of the relatively cheap technology that is currently in use in China. The Soviet type of energy-wasting infrastructure inherited from Mao’s time played a part. It is not so surprising that in 2006 to produce US\$ 1 worth GDP China needed three times more energy than the global average,⁶¹ which has determined China’s excessive appetite for global resources. China’s relative lax in environmental restrictions has been a promoter of such a practice, too. To support such a wasteful system of production has already made China one of the largest importers of resources (minerals and raw materials such as iron ore, copper, oil, wheat, and cotton) while the economy has not yet fully industrialised.

⁶⁰ Clyde Prestowitz, *Three Billion New Capitalists: the Great Shift of Wealth and Power to the East* (New York: Basic Books, 2003), p. 76. In nominal terms, in 2005 the wage level of China was about five percent of that of the United States and Japan, six percent of South Korea and 42 percent of Mexico; see International Labour Office, *Yearbook of Labour Statistics* (Geneva: International Labour Organisation, 2006), pp. 763–838.

⁶¹ Based on information on line: <http://www.weforum.org/pdf/summitreports/eastasia2006/security.htm>

The externalities of China's high input growth pattern have been unprecedented pollution in air, water, soil and noise together with deforestation, soil erosion, encroaching desert, acid rains and dust storms to increasingly threaten Chinese quality of life as well as the gain from each unit of GDP produced. Notoriously, of the ten most polluted cities in the world six are Chinese. China's current status is the Number One polluter of greenhouse gases in the world. This was done after China passed numerous laws to protect the environment: Law of Environmental Protection, Forestry Law, and Law on Water Pollution Control and so forth. The effectiveness of these laws has yet to be tested.⁶² China is now regarded as a country in a deep environmental crisis which has inevitably discounted China's GDP achievements.⁶³ The current dilemma that China faces is how to maintain fast growth and still in compliance with China's global environmental responsibility; or how to become industrialised without becoming at the same time a global liability. With China's current GDP fetish and China's inherent energy-intensive production model, a clash with environmental protection is predictable. The current financial crisis has already provided trade protectionism a new lease of life. China's environmental track record will almost certainly be used against China's exports which will in turn slow down China's growth. The question is not 'if' but 'when'. In a broader sense, the environmental problem also includes materials that China needs to import to fuel its growth, such as minerals, timber, oil and, increasingly, food. These materials are all related in one way or another to environmental issues. Even if they were environmental damage-free, the fact that China has shifted the global demand for them means higher prices for China's imports. Such prices will to a great extent cancel out China's advantage with cheap labour in global trade. The impact will be the same: to slow China's growth down. The last factor is social. The very reason for China to become so export dependent has been China's limited domestic demand. This is one of the legacies of Maoism. It is commonly known that under Mao's rule about a quarter of China's annual GDP was scooped away for capital investment hand in hand with very strict sumptuary control over ordinary people's basic consumption by comprehensive draconian rationing.⁶⁴ As a result, 'ordinary citizens possess little more than basic furniture, clothing, bedding and cooking utensils.'⁶⁵ In the 1960s to 70s, China's national Engel's coefficient stayed at 0.7, meaning that 70 percent of income was spent on food.⁶⁶ This was worse than the record for the 1920s and 30s when Engel's coefficient in China's six northern provinces was lower than 0.6,⁶⁷ comparable with Britain, Japan and India at that time.⁶⁸ It was officially recognised that by 1978 about half of China's population lived under the official poverty line.⁶⁹

⁶² E. C. Economy, *The River Runs Black: the Environmental Challenge to China's Future* (Ithaca: Cornell University Press, 2004).

⁶³ Vaclav Smil, *China's Environmental Crisis, an Inquiry into the Limits of National Development* (New York: M. E. Sharp, 1993).

⁶⁴ Ministry of Finance, *Zhongguo Caizheng Nianjian (China's Financial Year Book, 1997)* (Beijing: China's Finance Magazine Press, 1997), p. 479; National Bureau of Statistics, *Statistical Year Book, 2002*, p. 51.

⁶⁵ He Qinglian, *Women Rengzai Yangwang Xingkong (We Are Still Praying)* (Guilin: Lijiang Press, 2001), p. 8.

⁶⁶ He Bochuan, '2000 Nian Zhongguo Mubiao Xitongde 20 Ge Cuiruodian' (Twenty Weak Points in China's Targets for the Year 2000), *Xinhua Wenzhai (Xinhua Compilation)*, 5 (1994): 8.

⁶⁷ Bureau of Social Affairs of Shanghai, *The Cost of Living Index Numbers of Laborers, Great Shanghai, January 1926 – December 1931* (Shanghai: Bureau of Social Affairs of Shanghai, 1932), p. 18; Li et al., *Social Surveys*, vol. 1, pp. 25, 26, 358; vol. 2, pp. 2, pp. 758, 827, 1225.

⁶⁸ Li Wenhai, Xia Mingfang and Huang Xingtao (eds), *Minguo Shiqi Shehui Diaocha Congbian, Chengshi Laogong Shenghuojuan (Selected Social Surveys of the Republican Period, Volume on Urban Workers)* (Fuzhou:

After the reforms, Mao's anti-consumption approach was abandoned and ordinary Chinese consumption increased. In 1990, food ration ended for the first time after four decades.⁷⁰ People's consumption increased 400 percent from 1980 to 2000 (352 percent for the rural sector).⁷¹ Ordinary people's material life was also increasingly modernised: household consumption of electricity increased near 10-fold from 1983 to 2000.⁷² By 2000, only three percent of China's population still remained under the official poverty line.⁷³ In this regard, Deng Xiaoping's reforms did a good job in eradicating absolute poverty.

But relative poverty has not only continued but also highly visible and escalated. China domestic consumption growth continuously falls behind China's GDP growth and export expansion by a considerable margin. In 2003, the Ministry of Labour and Social Security began to experiment on the minimum wage. But China's current wage rate, which affects 20 to 45 percent of all workers, is not enough to make both ends meet in most regions. Of China's 31 provincial units, only 2 have the low living costs with which the minimum wage allows workers to make a living (as in 2006).⁷⁴ It means that workers need a second wage to survive.

The inadequate wages for the working class now coincide with China's dangerously high Gini coefficient at about 0.5 from a low base level of 0.3 when the reforms began.⁷⁵ This is clearly unacceptable. On top of that, the income gap between China's coast and interior, between the urban and rural sectors, and between managers and workers, has been steadily widened. Public resentment is already common. Unless China reverses this trend, social unrest will increase to jeopardise social stability on which growth heavily depends.

This problem is further complicated by the entrenched interest group that is closely associated with the sectors under state political and economic monopoly, and by the widespread disease of official rent-seeking and corruption which can be traced back from the dual-track pricing system when the reforms began. It has been estimated that from 1978 to 2000 a total of RMB ¥15,037 billion were embezzled, equivalent to China's GDP of 1998 and 1999 put together.⁷⁶ The annual total corruption revenue amounted to ¥650–800 billion (as in the 1990s) with the following breakdown: ¥400 billion illegally collected as fees and dues; ¥200–300 billion extracted from state-private sectoral arbitrage; and ¥50–100 billion embezzled from state-own enterprises.⁷⁷ There was also annual money laundry of ¥200

Fujian Education Press, 2005), vol. 1, pp. 273, 359. For Meiji Japan's Engel's coefficient together with widespread poverty, see also S. B. Hanley, *Everyday things in Premodern Japan* (Berkeley: University of California Press, 1997), p. 171 and *passim*.

⁶⁹ Based on Chen Zongsheng, *Shouru Chabie Pinkun Ji Shiye* (Income Differentiation, Poverty and Unemployment) (Tianjin: Nankai University Press, 2000), pp. 132–3.

⁷⁰ Ma Licheng, *Jiaofeng Sanshi Nian* (Thirty Years of Confrontation) (Nanjing: Jiangsu People's Press, 2008), p. 171.

⁷¹ National Bureau of Statistics, *Statistical Year Book*, 2003, p. 72.

⁷² *Ibid.*, p. 273.

⁷³ Based on the rural percentage; see Li Qiang, *Shehui Fenceng Yu Pinfu Chabie* (Social Stratification and Income Inequality) (Xiamen: Lujiang Press, 2000), p. 345.

⁷⁴ Based on National Bureau of Statistics, *Zhongguo Jingji Nianjian*, 2007 (China Economic Year Book, 2007) (Beijing: China Statistics Press, 2007), various pages.

⁷⁵ Zhang Daoge, 'Bufen Xianfude Gaige Xiaoying' (Effect of 'Allowing a Few to Become Rich First'), *Xinhua Wenzhai* (Xinhua Compilation), 4 (1994): 41.

⁷⁶ Zong Fengming, Zhao Ziyang Ruanjinzhongde Tanhua (Conversations with Zhao Ziyang under House Arrest) (Hong Kong: Open Press, 2007), p. 225; National Bureau of Statistics, *Statistical Year Book*, 2002, p. 51.

⁷⁷ He Zengke, *Fanfu Xinlu* (New Path to Combat Corruption) (Beijing: Beijing: Central Translation Services Press, 2002), pp. 37, 109–10, 161, 232.

billion.⁷⁸ Disturbingly, from 1978 to 2000, the number of corruption cases increased 22 percent a year, many times faster than China's GDP growth; and China was ranked one of the top 20 most corrupt countries in the world in 1999.⁷⁹

Chinese officials have been deeply engaged with corruption. From 1978 to 1998, 2.4 million communist party members were found guilty of corruption of various types and over 400,000 were sentenced. It is worth noting that over 70 percent cases were related to state-owned enterprises. Alarmingly, official corruption has become increasingly organised. In 2000, an Amoy-based network involved several hundred party officials. In 2001 a Shenyang-based network also involved 16 local party bosses and one hundred lesser officials. In 2002, a Tangshan-based network of embezzlers was made of 40 local party bosses.⁸⁰ An increasing number of corrupt officials have escaped overseas to avoid justice. By 2004, 4,000 officials took refuge in other countries with an aggregate of US\$ 50 billion booties.⁸¹ Many enterprises have been wrecked by official corruption. So, disability may come from the bottom as well as the top of society.

C. Final remarks

China's post-1978 growth was unprecedented in Chinese history. It has already produced a range of remarkable results in the economy. Today, its impact can be felt all over the world. China may have finally passed the point of no return in its pursuit of industrialisation and modernisation.

On the other hand, China has increasingly become a victim of its own success. The large-and-open model to produce for exports will inevitably hit a ceiling which is determined not by how much China can produce but how much the global market can absorb. The supply-driven model cannot be sustainable in the longer run.

Internally, the combination of China's ultra-cheap labour with relatively cheap technology has certainly delivered some results. But it is by no means an efficient mode of production over the long run. The mounting environmental costs may eventually remove the value-adding capacity of China's cheap labour. Then the engine of China's miracle growth may stall.

The most serious threat is the social factor. Historically, unless the general public benefitted in tangible ways from the growth that they contributed to, the producers' incentives to produce more and better and investors' incentives to invest more and wider would stop at certain point and hence slowed down the growth.

In this regard, China's future growth may not be as certain and rosy as one might imagine unless systematic efforts are made to address those issues that set growth limits for China in the next few decades to come. This will be the colossal challenge to China's decision-makers and economic operators. In other words, globalisation functions only as one factor in a matrix of factors that dictate China's future. Further growth in China will depend increasingly more heavily on the country's internal conditions.

⁷⁸ Ma Ling and Li Ming, *Wen Jiabao Xinzhuang (New Biography of Wen Jiabao)*, 8th Edition (Hong Kong: Mingpao Press, 2003), p. 198.

⁷⁹ He, *Combat Corruption*, pp. 2, 50.

⁸⁰ Ma and Li, *Wen Jiabao*, p. 200.

⁸¹ See He, *Combat Corruption*, pp. 1–2, 113; see Li Youjun and Liu Xiaolin, 'Zhongguo Zhuji Tanguan Waitao' (China Stops Corrupt Officials from Escaping), *Renmin Ribao (People's Daily)*, 10th September, 2004, p. 7.

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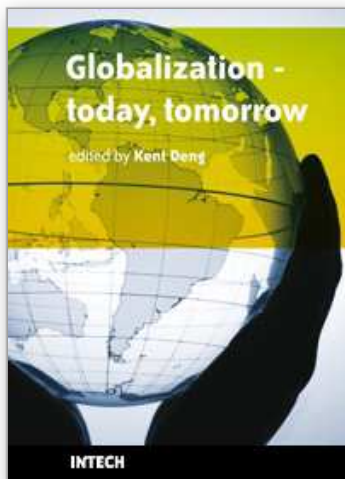
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