Export-led growth

China in the World Economy, autumn 2023

Repetition from last time

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- 6) Did China‘s private sector originate is a program of privatization?
- 7) What was the purpose of the obligation of foreign investors to form joint ventures?

Today

- Continuing reforms in the 1990s and 2000s – export-led growth
- The fallout from the 2008 Financial crisis
- The rise of Xi Jinping and China‘s technological ambitions

Return to reform and opening up

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- **Return to a pro-market policy**, but with more **cautious approach** than in the 1980s – fear of another Tiananmen

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- **Higher taxes in for rural farmers and entrepreneurs** > more inequality between cities and villages
- Increased rural illiteracy!
- Resources invested in urban areas

Return to reform and opening up

- Focus on **advanced technologies + large projects + foreign investment + export**

Return to reform and opening up

- **Sophisticated infrastructure** – high speed trains connecting major cities

Return to reform and opening up

- **Sophisticated infrastructure** – high speed trains connecting major cities
- Some SOEs transformed into **joint-stock companies,** but **the Party usually retains the controlling voting block**
- **= hybrid ownership –** difficult to interpret who makes decisions

Return to reform and opening up

- Industrial policy

- „**Industrial policy** is defined as the **strategic effort by the state to encourage economic transformation, i.e. the shift from lower to higher productivity activities**, between or within sectors.“

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- x **trade policy** – attempts to **influence import and export**

- Industrial policy – subsidies, tax breaks, grants, guaranteed loans, public procurement of products…

- Trade policy – tariffs and quotas

- **Industrial policy** - takes place **within a country** (subsidies, tax break, grants, privileged access to loans…)
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- **> China is far more active in industrial policy!**

Return to reform and opening up

- Industrial policy — **„national champions“ – support of highly advanced companies such as Huawei** – attempts to push them to the global cutting edge

Return to reform and opening up

- „**Letting go of the small**“ – small companies can be privatized and left to their own devices
- If they go bankrupt, who cares?

Return to reform and opening up

- **The state must nurture the big ones** > economies of scale, export, prestige….

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Return to reform and opening up

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- **Largest firms** – monopolistic construction companies (housing, infrastructure, electrical grid) - **remained as SOEs**
- **Financial sector (banks)** – continues to be **overwhelmingly state owned**
- > Chinese foreign investment is based on state-owned capital!

- > „state capitalism“

Return to reform and opening up

- Problems – **large rate of investment, relatively small growth of consumption**

Return to reform and opening up

- Problems – **large rate of investment, relatively small growth of consumption**
- = huge growth, but you can‘t enjoy its fruit, new wealth is immediately reinvested

Export-led growth

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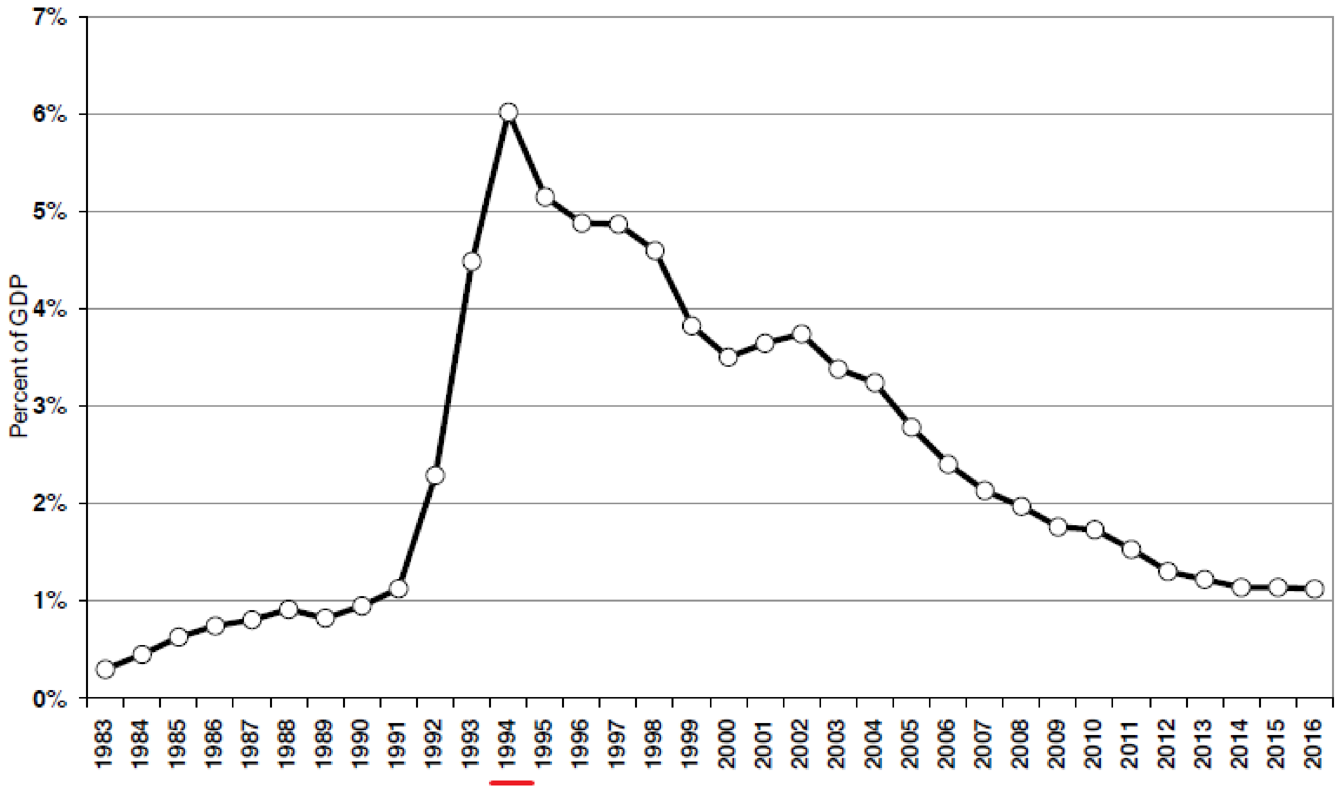
- x 1980s – mostly homegrown growth
- FDI = **source of foreign technologies**
- Push to attract investors – **financial incentives, offer of access to China‘s already huge market**

FDI as a percentage of GDP



Export-led growth

- **New special economic zone – Shanghai**
- > **centre of economic activity moves into the Yantze delta**

Regional shares of China's exports.

	1978	1995	2005	2010	2016
Southeast	16%	45%	36%	34%	36%
Lower Yangtze	35%	21%	38%	42%	37%
Northeast / North Coast	40%	22%	18%	17%	15%
Rest of China	9%	11%	7%	8%	13%


China Major Rivers Map
Amur River
Songhua River
Liao River
Japan Sea
Haihe River
Yellow River
Tarim River
Qinghai Lake
Yellow Sea
Huaihe River
Namtro Lake
Nv River
Yangtze River
East China Sea
Pearl River
Lancang River
Mekong River
South China Sea
The Indian Ocean
The Pacific

Return to reform and opening up

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Return to reform and opening up

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- Sometimes outright IP theft

Return to reform and opening up

- **Support for large state or semi-state companies + foreign capital; indifference to small businesses**

- **>** best strategy for Chinese companies – get incorporated in Hong Kong, then **do business in China as a foreign company**

Reforms to the „ordinary“ foreign trade

- Last time – **special** economic zones

Reforms to the „ordinary“ foreign trade

- Last time – **special** economic zones
- Now – reforms to the **normal** trade regime
- = the rest of China
- From 1980s onwards

Ordinary trade

- Number of monopoly FTCs increased – **from 12 to several thousands**

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- **But all of them were, at least officially, SOEs!**
- **The FTC system was only completely abolished in 2004**, after entering the WTO!

Table 16.1
Chinese exports: Share of total by firm ownership.

	1995	2005	2016
State-owned enterprises	66.7%	22.2%	10.3%
Foreign-invested enterprises	31.5%	58.3%	43.7%
Private domestic firms	0.2%	14.7%	43.6%
Collective and other	1.5%	4.8%	2.4%

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- Before – artificial prices totally detached from the world market, trade guided by state direction
- After reform – „export and import whatever is profitable in your business area“

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- After reform – „export and import whatever is profitable in your business area“
- > **give the central government a part of the foreign exchange**, keep the rest as use it to do more business

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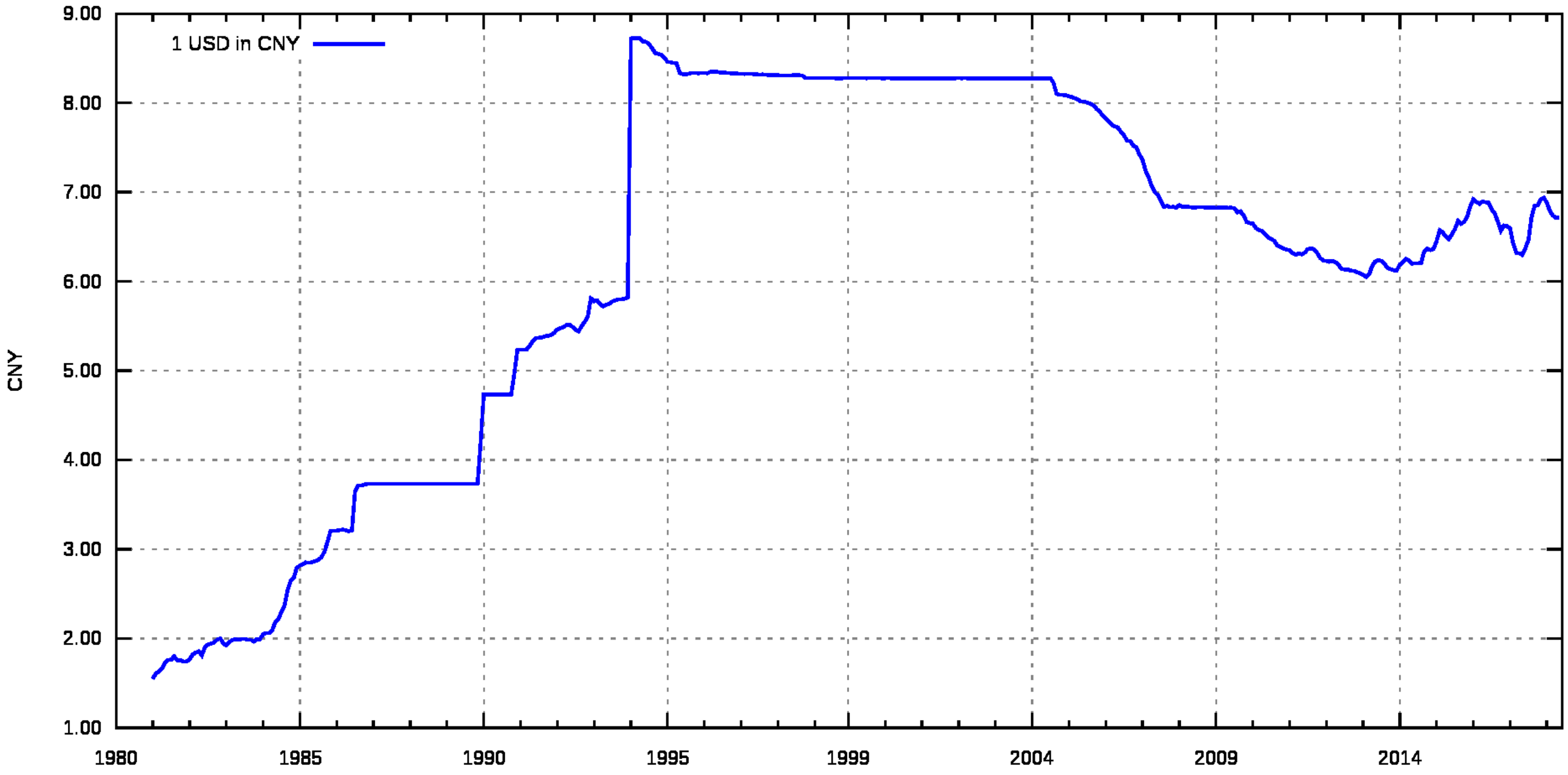
- **> FTCs as middlemen**

Ordinary trade

- **Gradual devaluation of the RMB**

USD to RMB



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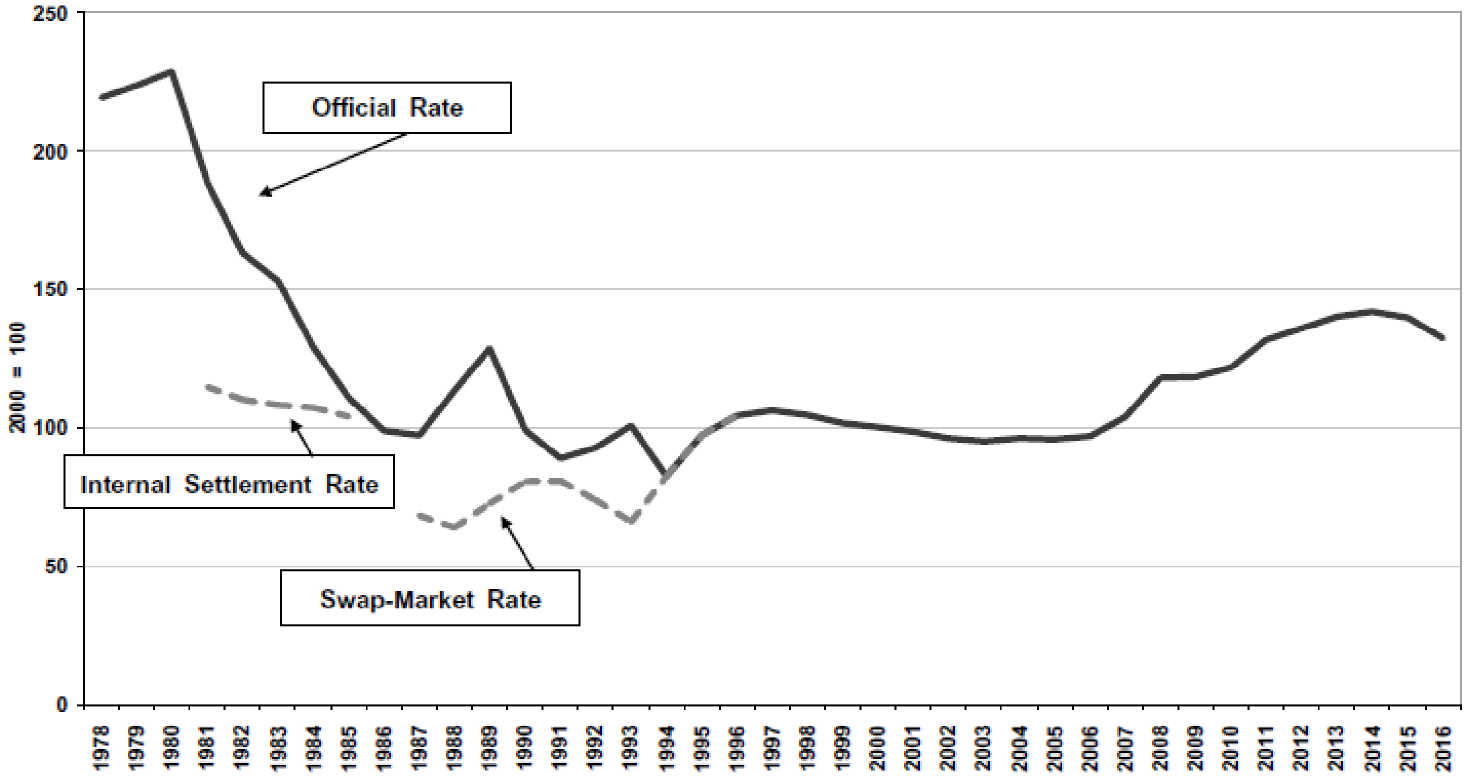
- **Fix and floating at the same time** (kind of)
- Which one was lower?

RMB to UDS



Official Rate
Internal Settlement Rate
Swap-Market Rate
2000 = 100
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Ordinary trade

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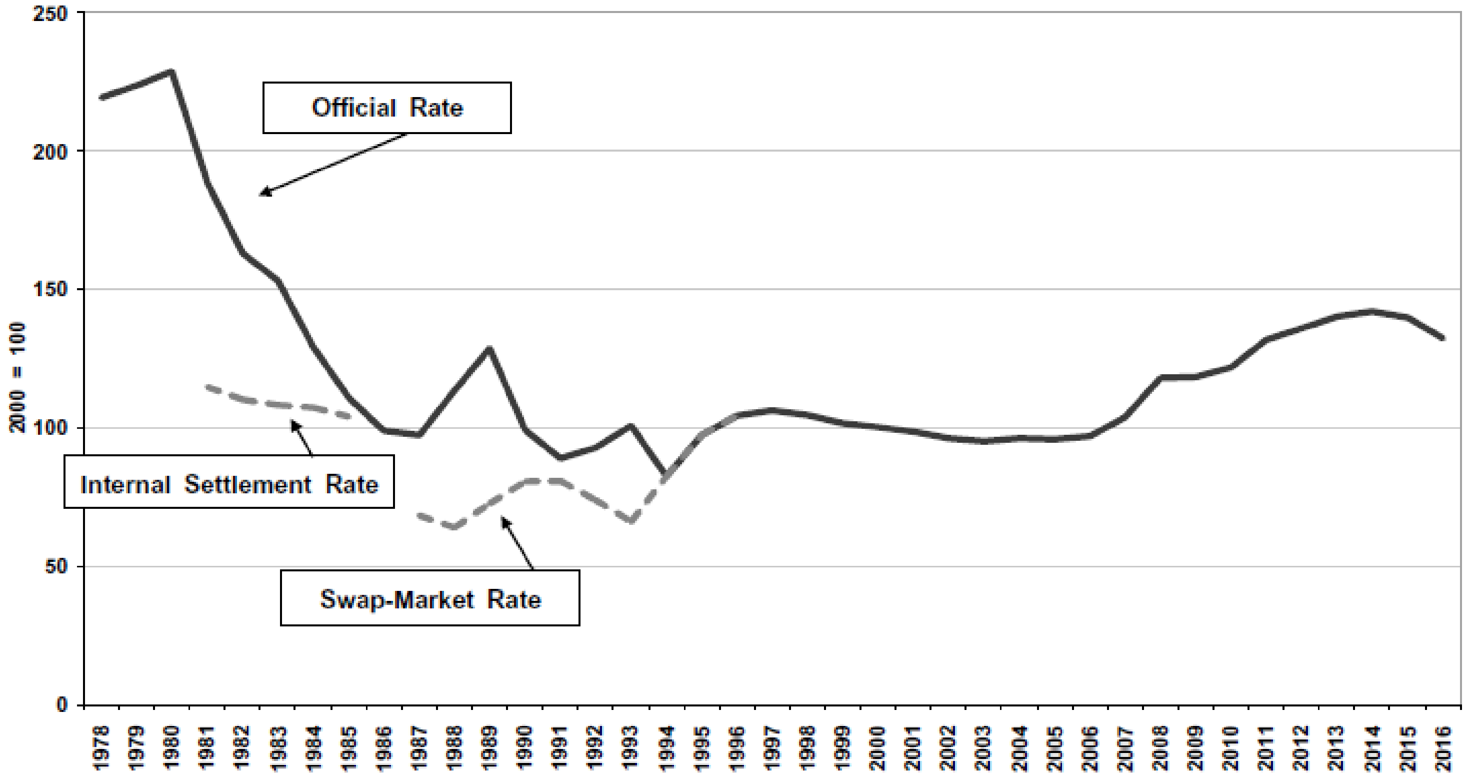

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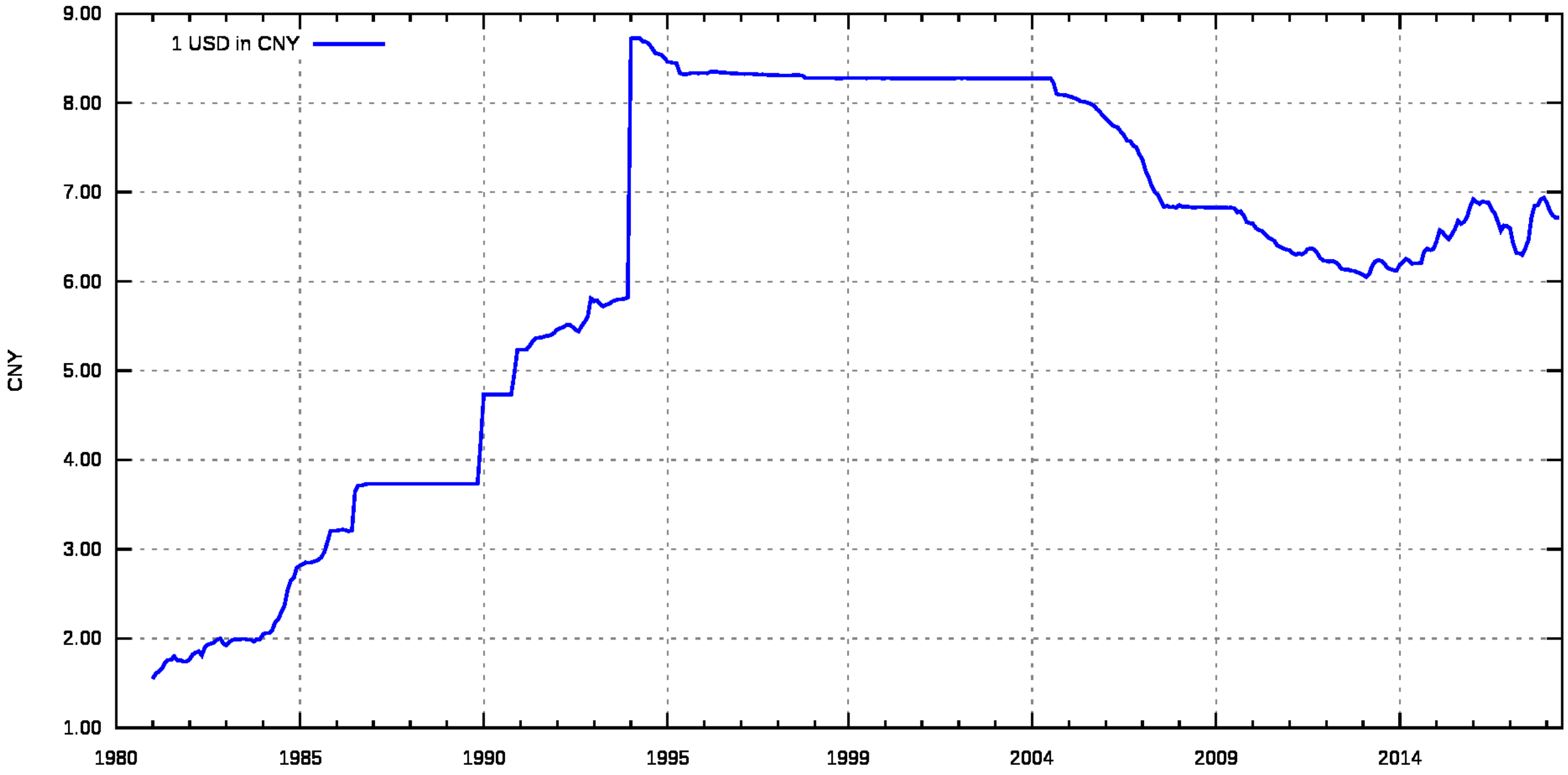

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- The rate was competitive and led to a more or less balanced trade
- **Under floating, the rate would appreciate because of growing exports**
- **=** as China became more competitive, the rate should have gone up

Ordinary trade

- But China **artificially kept the rate at the 1994** level all the way until 2005

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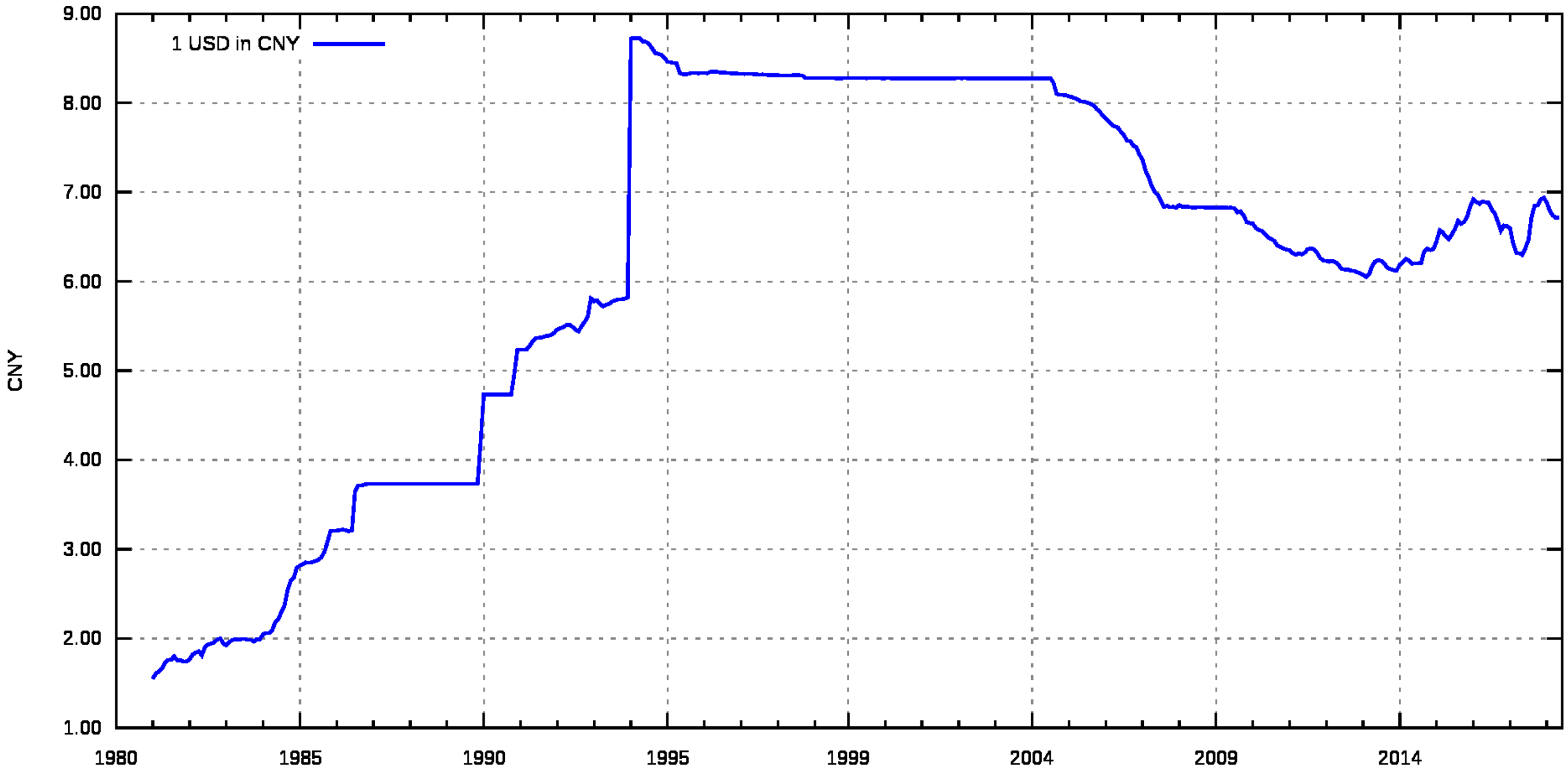

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- The **price level** in China rose more slowly than in the US and most other capitalist countries
- > **Chinese goods became relatively cheaper**

Real appreciation / depreciation

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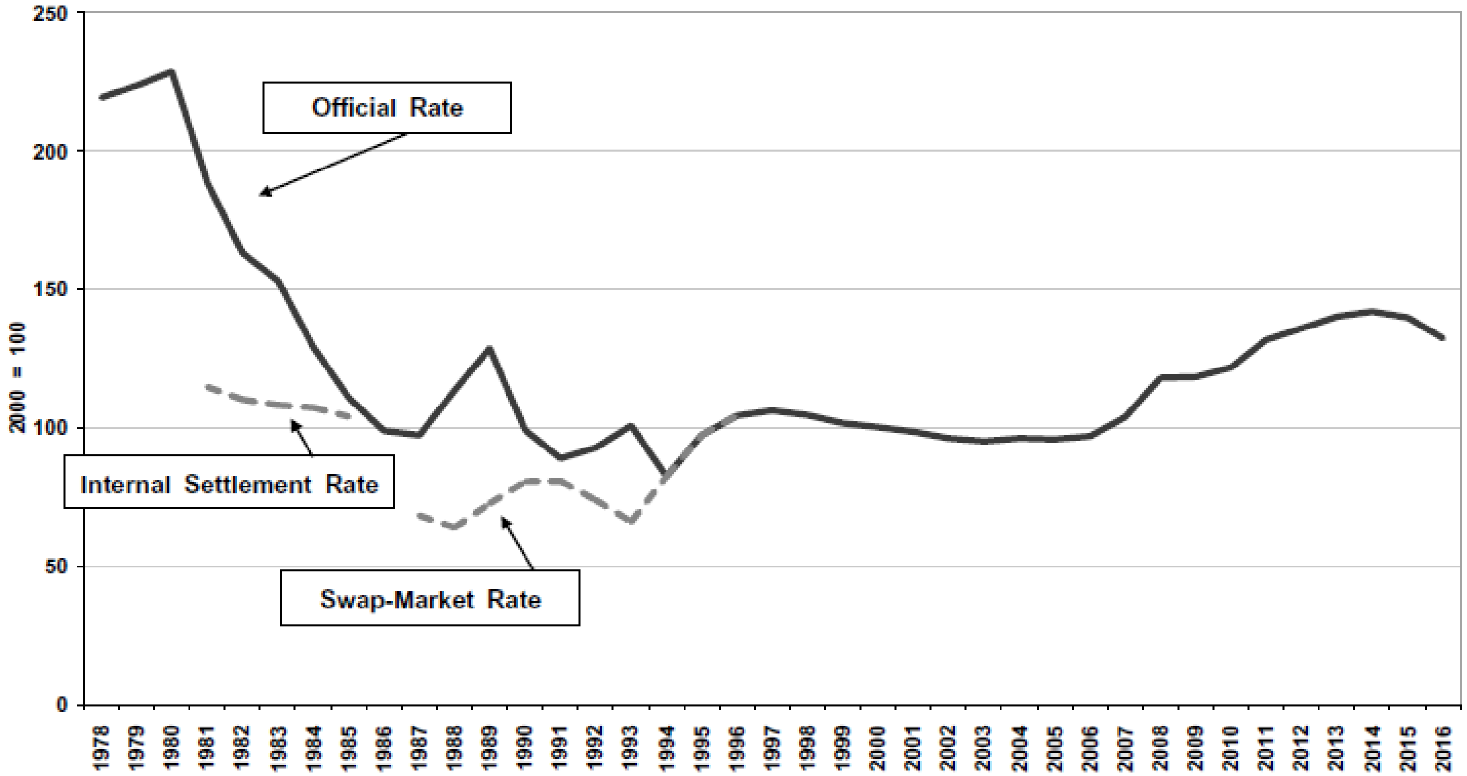
- If your **exchange rate is stable AND you have lower inflation** than a partner country, your currency is undergoing a real depreciation
- > your goods become more competitive > you export more
- **As if you devalued the currency**



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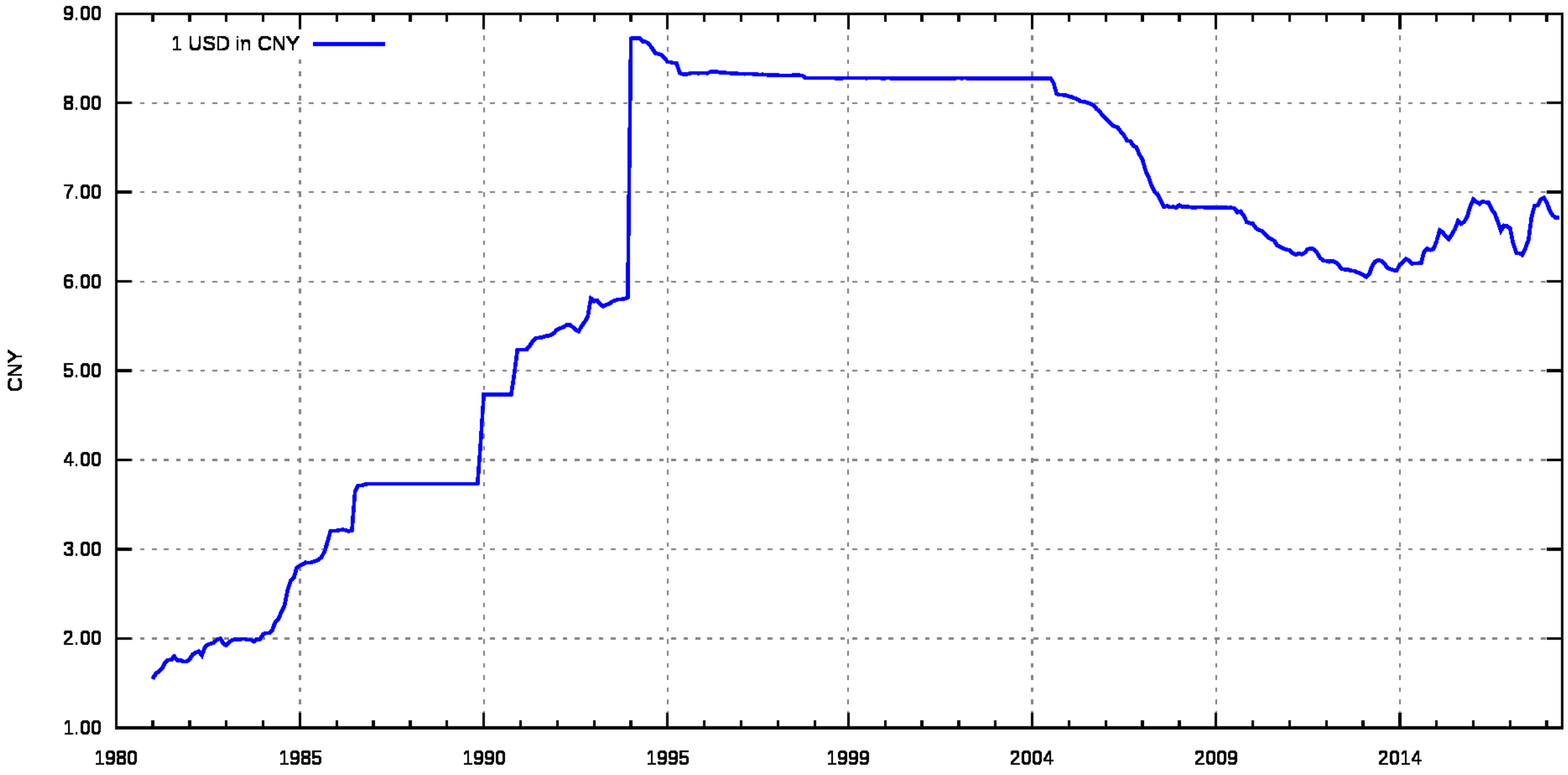

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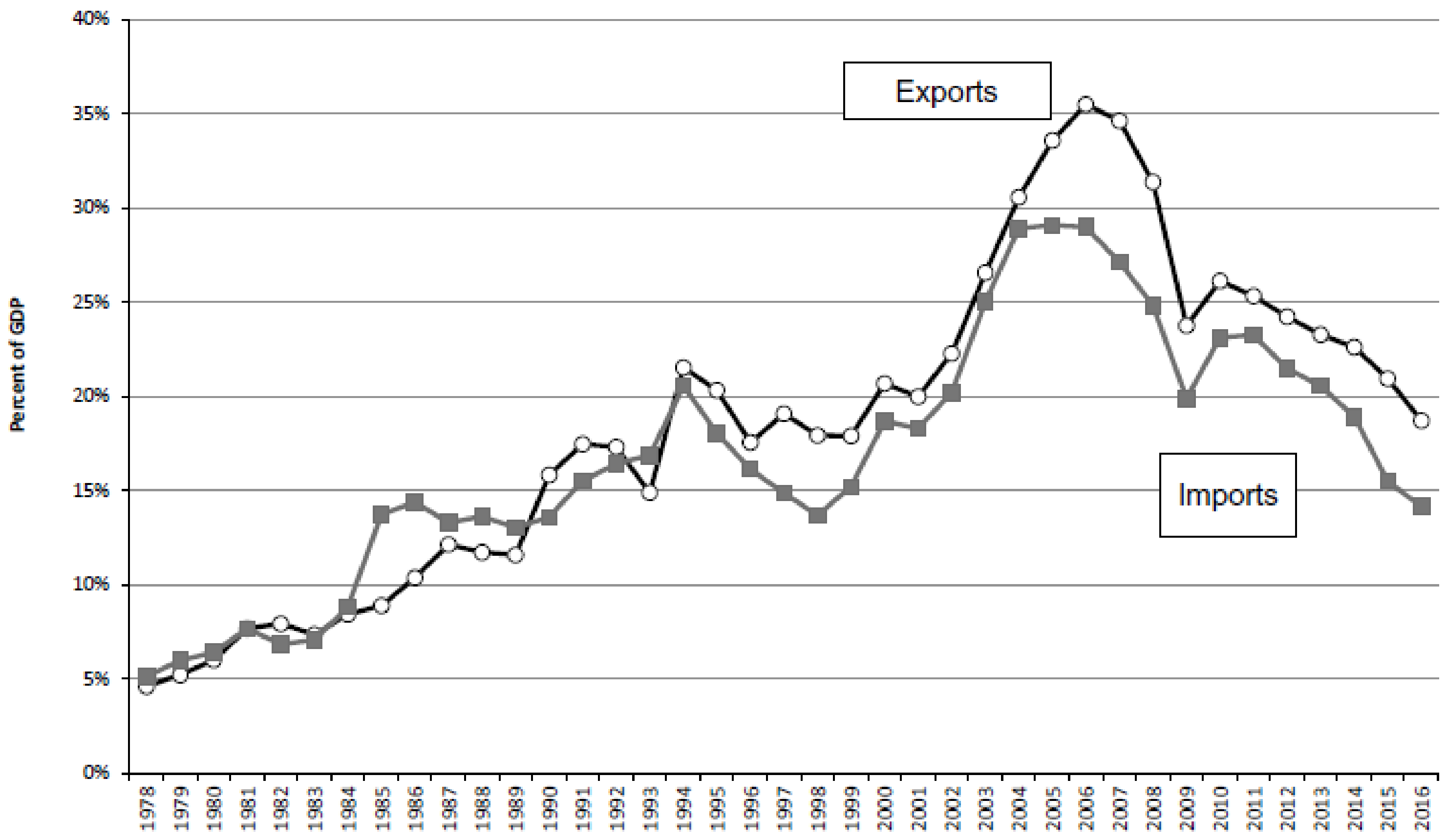
- + **real depreciation**
- **> undervaluation, huge trade surpluses!**



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- **Plans to also abolish capital controls** = to make the RMB convertible for financial account transactions
- Abandoned because of the **1997 Asian Financial crisis**

Special economic zones

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- More importantly – **entire coastal region** opened for **„export-processing“**
- **Raw materials given to Chinese companies (often TVEs) for assembly and processing**
- **Formally no trade, no FDI!** – investment was only allowed in SEZs

Special economic zones

- > due to proliferation of export processing + reforms to ordinary trade, **SEZs gradually became less special**

The 2000s – continuing export-led growth

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- Progress **from textile exports to electronics**

The 2000s – export-led growth

- Slow, gradual liberalization continued into the new millennium

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- **China‘s most capitalist moment** – after entering the WTO in 2001

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- World average is about **20 % for each**

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- **China reached this level by 2001**, its exports continued to soar after entering the WTO
- 2006 – **exports stood at 35 % of GDP, imports at 30 %** > **65 % together**
- In the United States, the **sum is around 20 %!**
- = China was already far more opened than the world average or comparably large countries!

The 2000s – export-led growth

- **2009 – largest exporter in the world**
- **2011 – largest manufacturer**
- **2012 – largest GDP by purchasing power parity**

The 2000s – export-led growth

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- > **accumulation of foreign exchange** (mostly dollars)

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- Anxiety after the **Asian monetary crisis of 1997**

How a monetary crisis works

- A country has a **fixed exchange rate**

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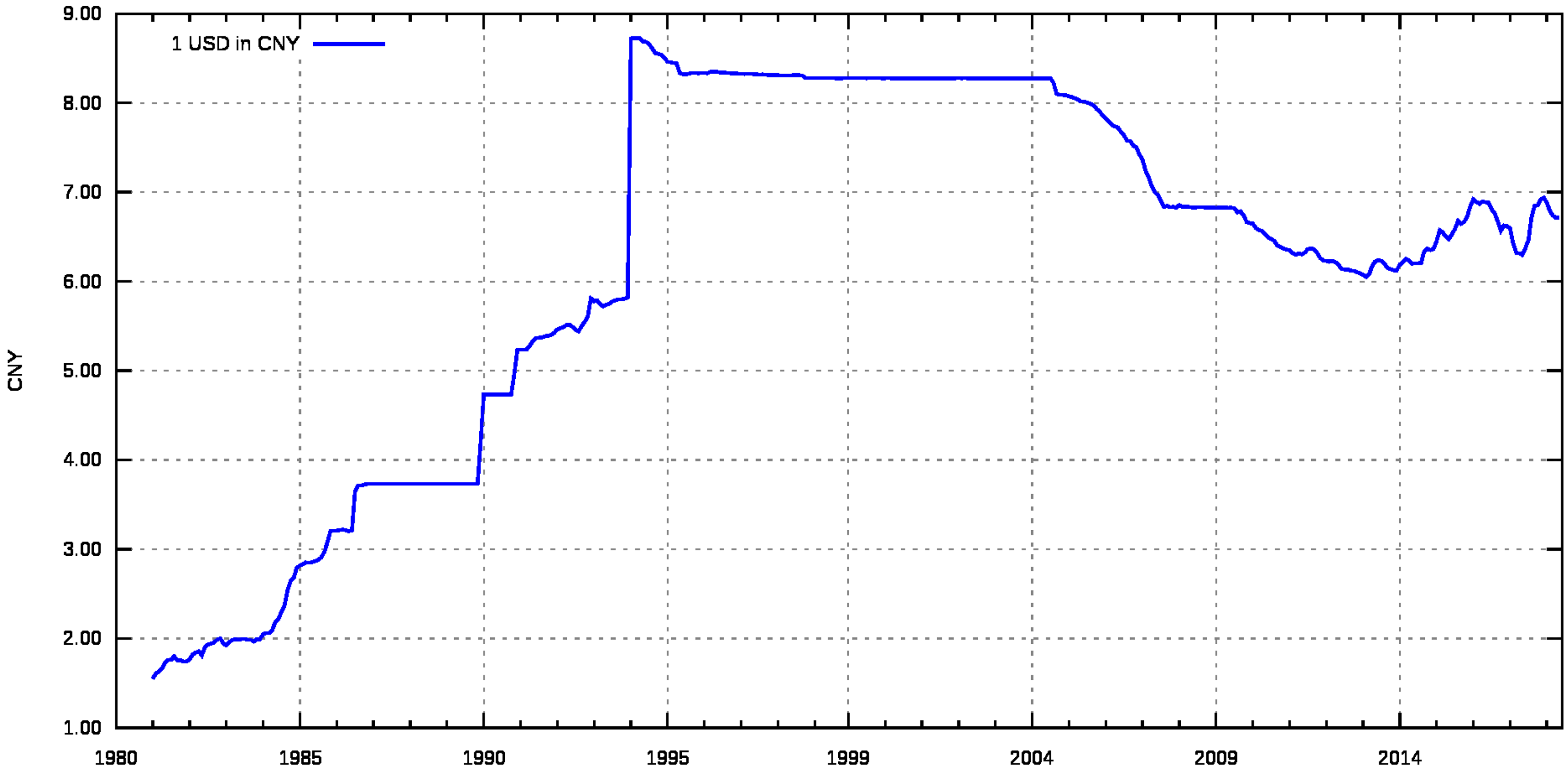
- **-** China does have a fixed exchange rate – the yuan was first tied to the US dollar, since 2005, it is pegged to a basket of currencies

USD to RMB



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- > **pressure for devaluation**
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- If they fail > **increased interest rates to stop the capital flight** > drop of domestic credit > **domestic recession**

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- Did anything like this ever happen in Czechia?
- Yes, in **1997**!

How a monetary crisis works

- China fears this scenario, so it keeps large reserves of foreign currency

- > if you sit upon a huge pile of dollars, you can defeat a speculative attack
- Actually, you can **deter it**

The 2000s – export-led growth

- What else can you do with foreign exchange?
- = you don‘t use it to buy imports, you don‘t want to keep it as reserves

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- **Foreign investment** – purchases of Western companies; **Belt and Road Initiative**

The 2000s – export-led growth

- **Major exporter of advanced technology products already by 2005!**
- = laptops, mobile phones, scanners, cameras, medical equipment

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- Hu leadership – continuation of previous policies
- **More resources devoted to social spending** – healthcare, education, alleviation of rural poverty

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- = biggest story of the decade; the West overlooked it

- Next time:
- The return of industrial policy
- The fallout of the 2008 Financial crisis
- The rise of Xi Jinping and the US-Chinese trade war