

***China and Globalization: The
Economic, Political, and Social
Transformation of Chinese Society
(Implications for US-China Relations)***

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Economic Change in China: A Summary

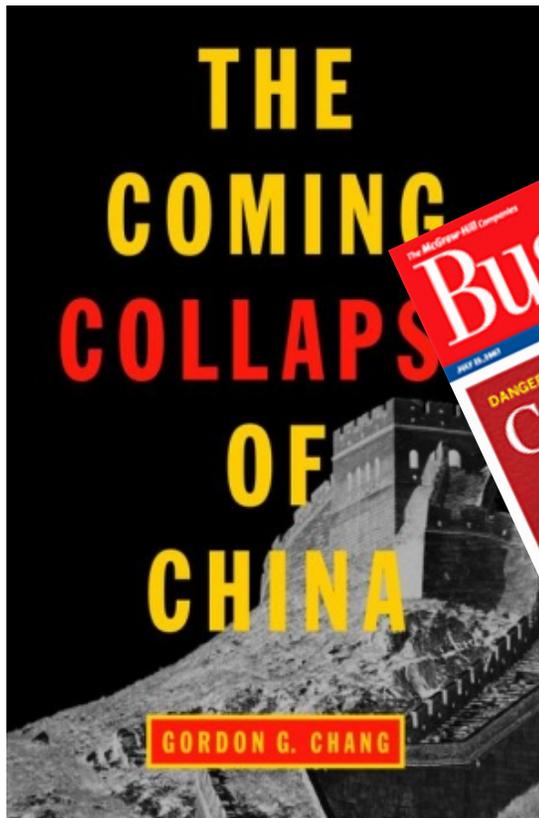
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 - **It is radical both because of the objective material changes, but also because of how it has challenged our understandings of economic processes and institutional change**
- **It has been successful largely *because* of the government's involvement in the reform process**
 - **Nearly three decades of reform have proven that gradualism is a superior reform model**
- **Institutions matter more than culture**
- **China has used economic interdependence as a way of dealing with political conflicts**
- **Democracy is inevitable (the transformation is already well under way)**



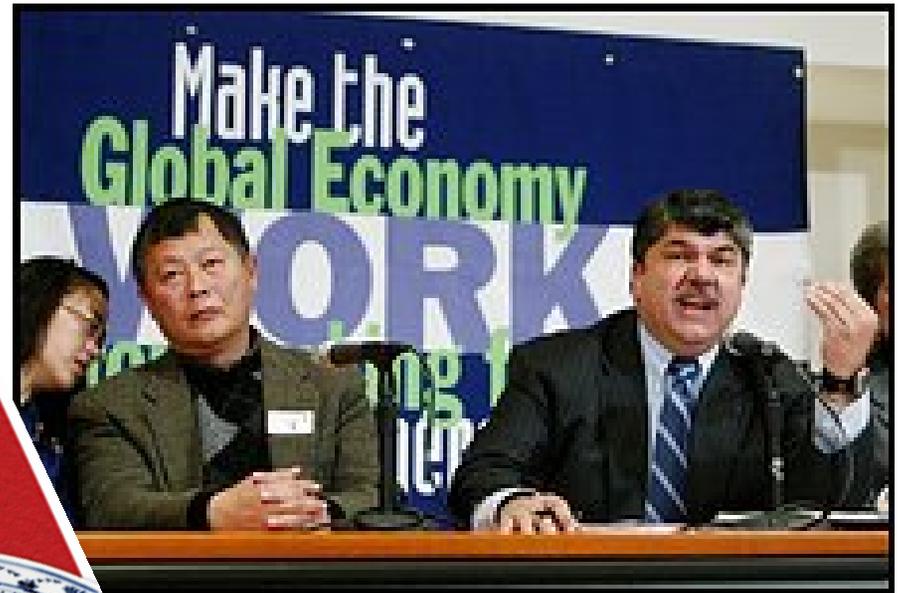




Indeed, the doom and gloom view of China has persistent and consistent resonance in US views of China... Why?



“Peer beneath the surface, and there is a weak China, one that is in long-term decline and even on the verge of collapse. The symptoms of decay are to be seen everywhere.”—Gordon Chang, 2001.



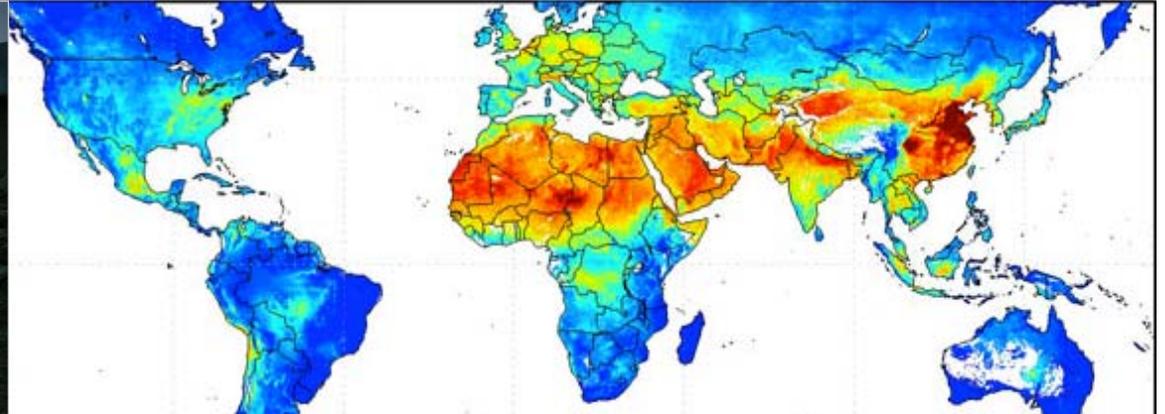
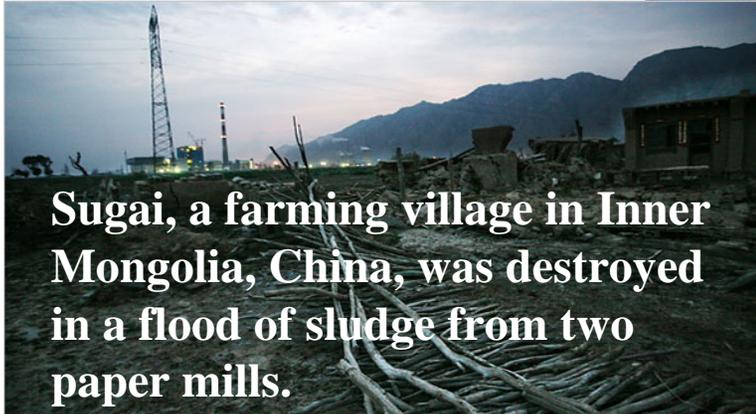
Wei Jinsheng, a labor activist exiled from China, and AFL-CIO Secretary-Treasurer Richard L. Trumka... discuss the union federation's petition to the U.S. trade representative. (Photos Larry Downing – Reuters, 2004)

Broken China: Beijing can't clean up the environment, rein in stock speculation or police its companies. Why the mainland's problems could keep it from becoming the next superpower (July 23, 2007)

The New York Times

James S. Chanos, a wealthy hedge fund investor, is Working to bust the myth of the biggest conglomerate of all: China Inc. (January 8, 2010)

The doom and gloom view of China



The Economist

“China’s Growing Pains: The dark side of China’s stunning book includes pollution and a collapsing state health-care system”

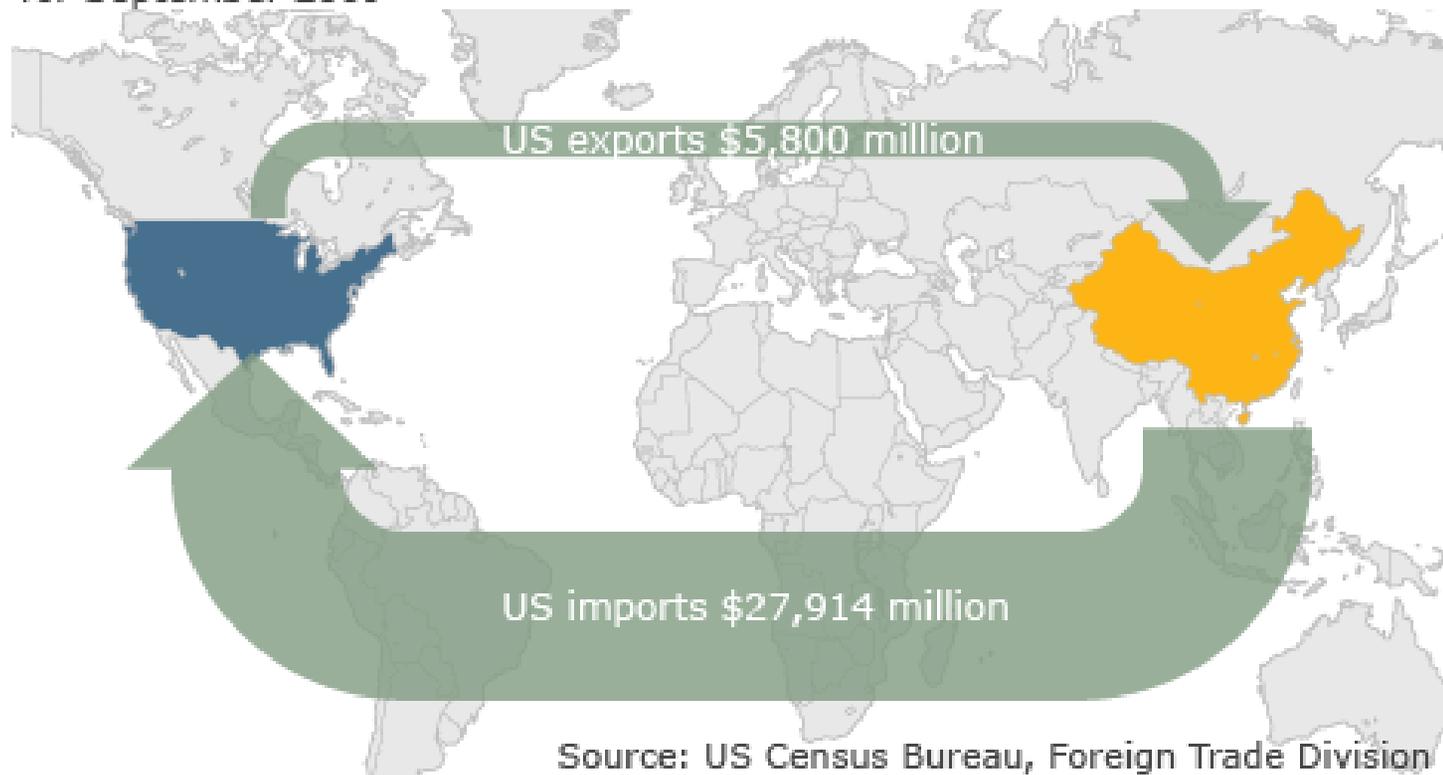
The New York Times

US Trade Deficit is Called a Threat to Global Growth

By Steve Weisman

WASHINGTON, Sept. 5 — **Large economic imbalances caused in part by America's trade deficit with China** and other countries are threatening prospects for continued global growth, the head of the international agency that monitors the world's economy warned on Tuesday.

Trade balance
for September 2009



Source: US Census Bureau, Foreign Trade Division



Breaking Down the Reform Process

The paradox of reform in China: if China's institutions are so weak, how do we explain China's dramatic success? Further, if a rapid transition to private property is the cornerstone of building a successful market, how should we understand China's situation? Key institutional features of the reforms:

- 1. Gradualism (experimentation)**
- 2. Decentralization (competition)**
- 3. Openness to foreign investment (interdependence)**
- 4. Gradual emergence of a private economy**
- 5. The “quiet” revolution of institutions**

Gradualism

(experimentation and innovation)

- Contrary to popular belief, state control and **gradual reform** have increased some aspects of radical social innovation.
- Gradual economic reform in China has allowed for a degree of **stability** while institutional innovators have experimented with new institutional forms that have reshaped the economy from the ground up.
- Gradualism allows for **experimentation** with new institutional forms in ways that are often hidden from the public view.
- This has **implications for political and social change** in addition to economic change.

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2. Decentralization (competition)

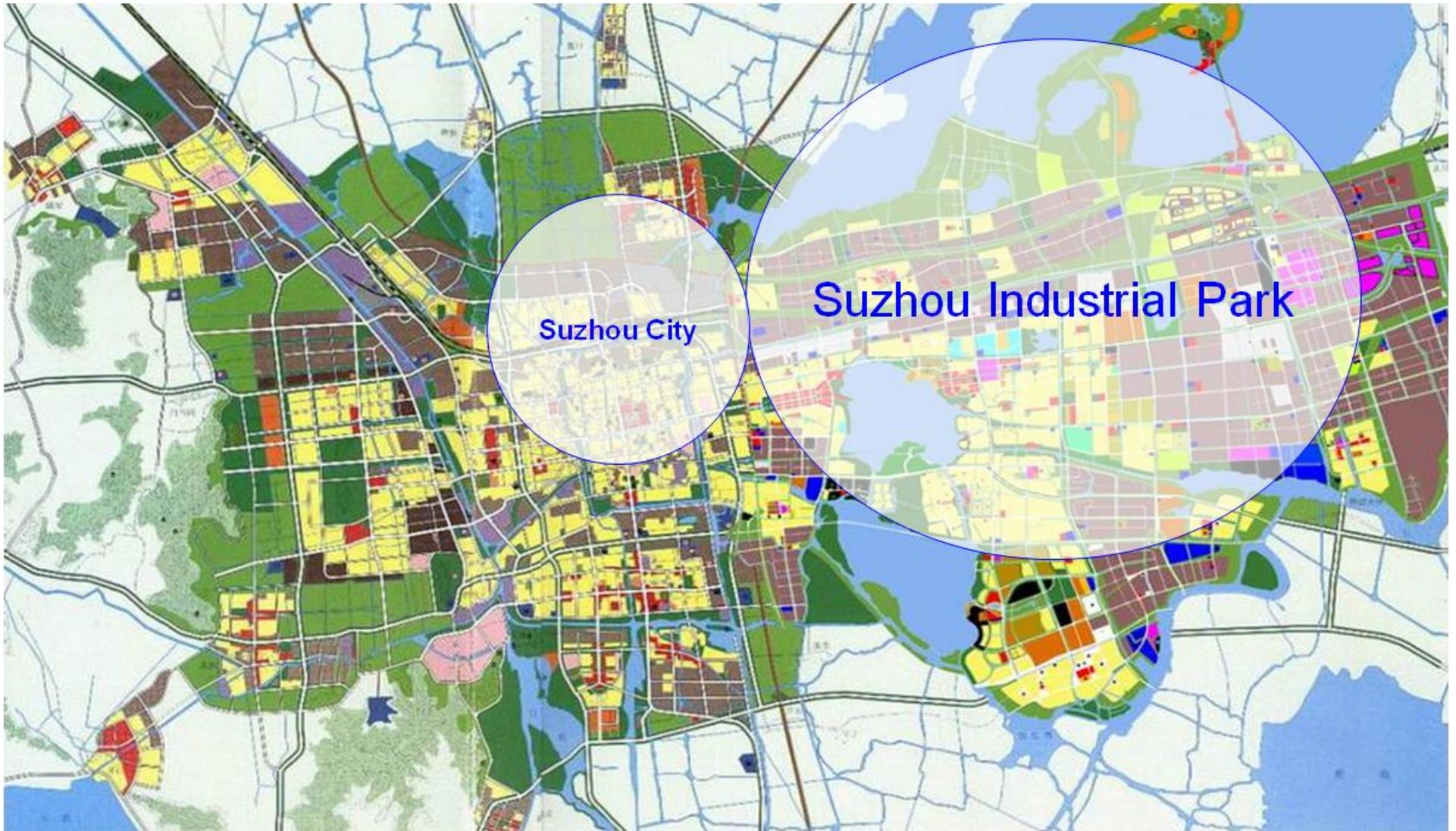
- Decentralization is also one of the key features of economic reform in China.
- To begin with, China was much more decentralized than the Soviet Union was. This meant that local control could be much more easily handed over to local officials.
- Budget constraints were hardened for municipalities and townships. Local officials have incentives aligned (“Local Governments as Industrial Firms”).
- Local competition emerges.



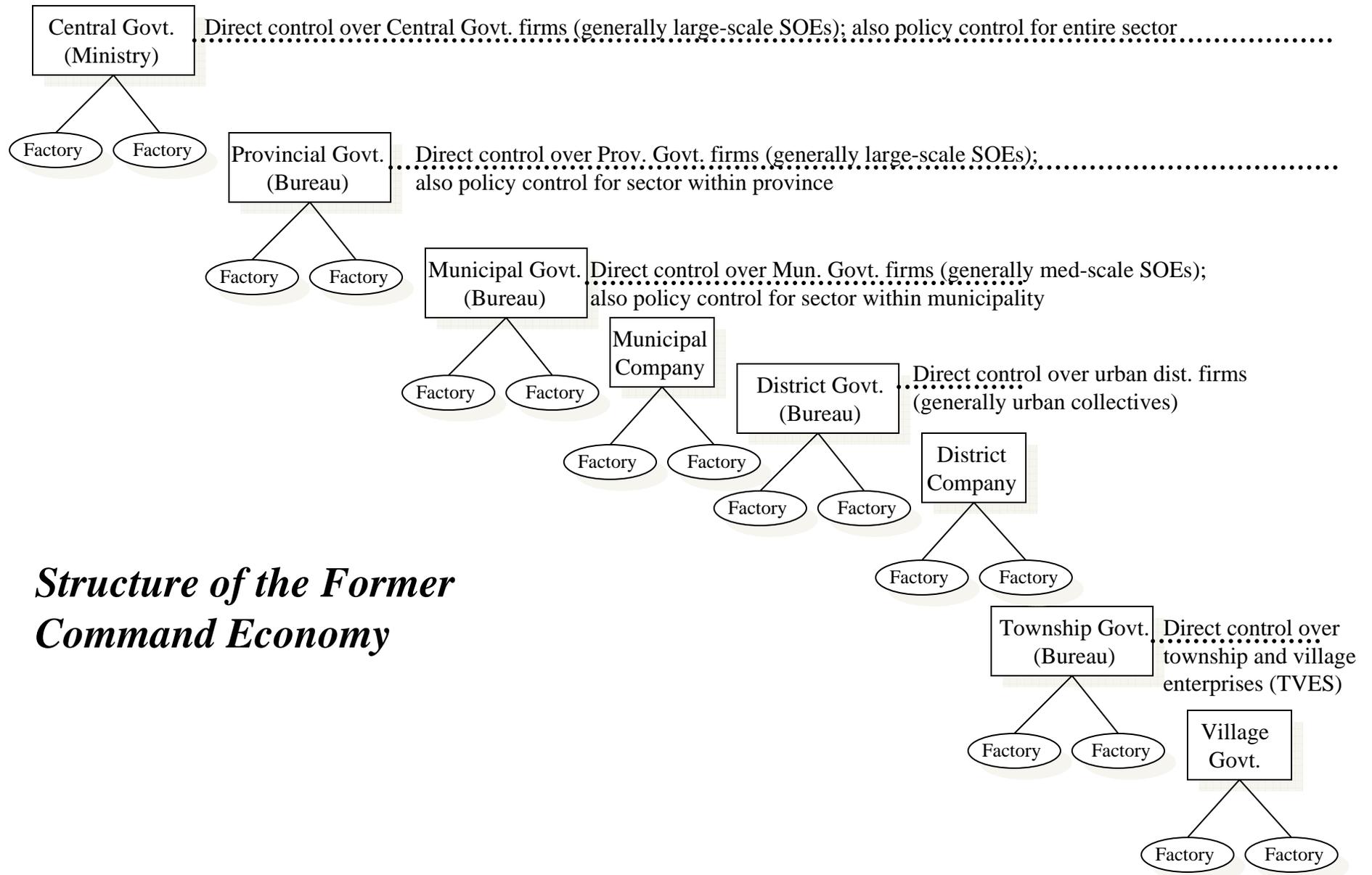
The Tier-Two Phenomenon



National Level EDZ - Suzhou Industrial Park



2. Decentralization (asset management)



Structure of the Former Command Economy

Figure based on interviews with industrial managers and government officials. See also Walder (1992, 1995) and Guthrie (1997, 1999) for further discussion of the “nested hierarchy” of state administration.

SASAC

- **The State-owned Assets Supervision and Administration Commission (SASAC) of the State Council was founded in 2003**
- **Purpose: “takes responsibilities as investor of state-owned assets on behalf of the central government and aims to strengthen the management of state-owned assets in nine fields” (incl. oil&petrochem, electricity, telecom, shipping, aviation, coal).**



SASAC Director Li Rongrong

SASAC and Corporate Governance



70% of shares
90% overall
(since 1999) ↓

↑ 50% acquisition
(purchase made
August 25, 2008)



True
owner,
(100%
since
2003)



20%
direct
shares
(since
2003)

←
9-10%
stake in
shares
(since
1999)

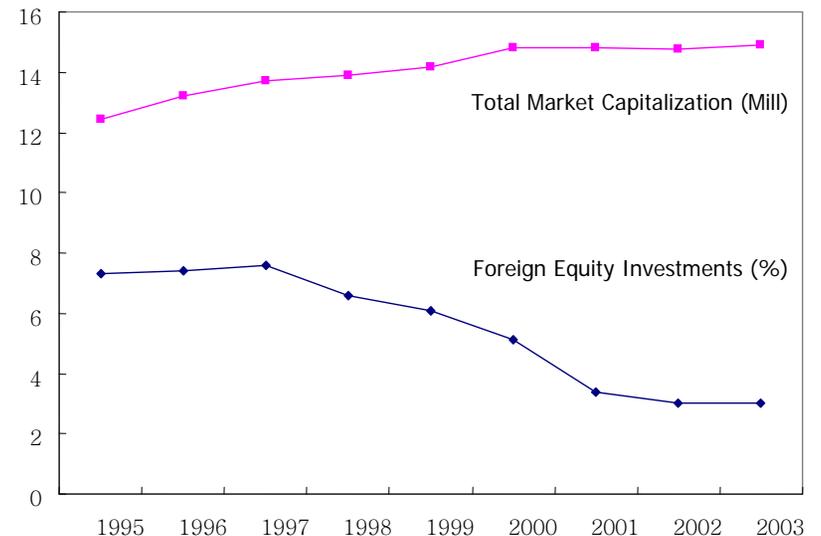
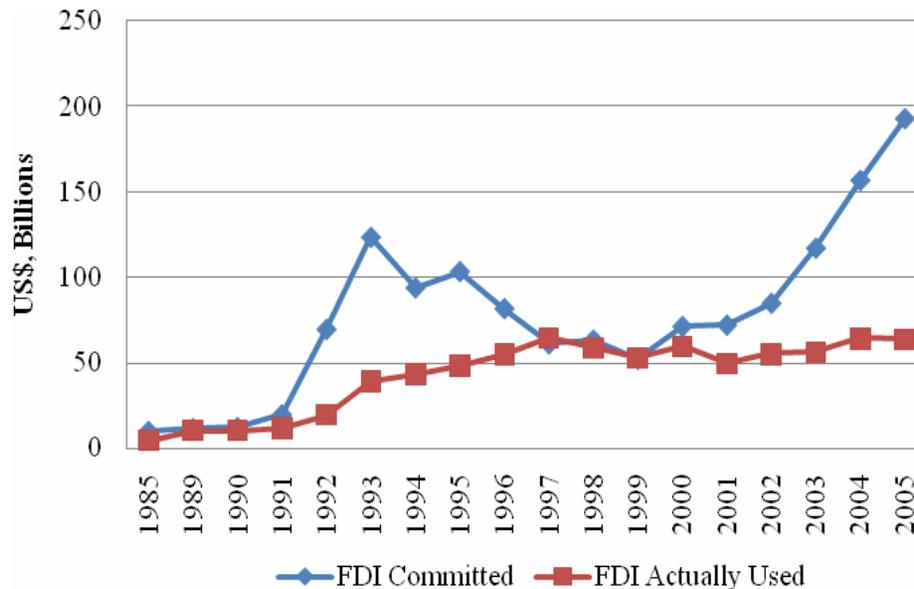


The New York Times

COMPANY NEWS: BERKSHIRE HATHAWAY INCREASES STAKE IN PETROCHINA (Aug. 30, 2008)

3. Enticing Foreign Investment (interdependence)

- **Enticing foreign investment**
 - **Cash and the export market**
 - **Management and technology**
 - **Political interdependence**



By the Numbers...

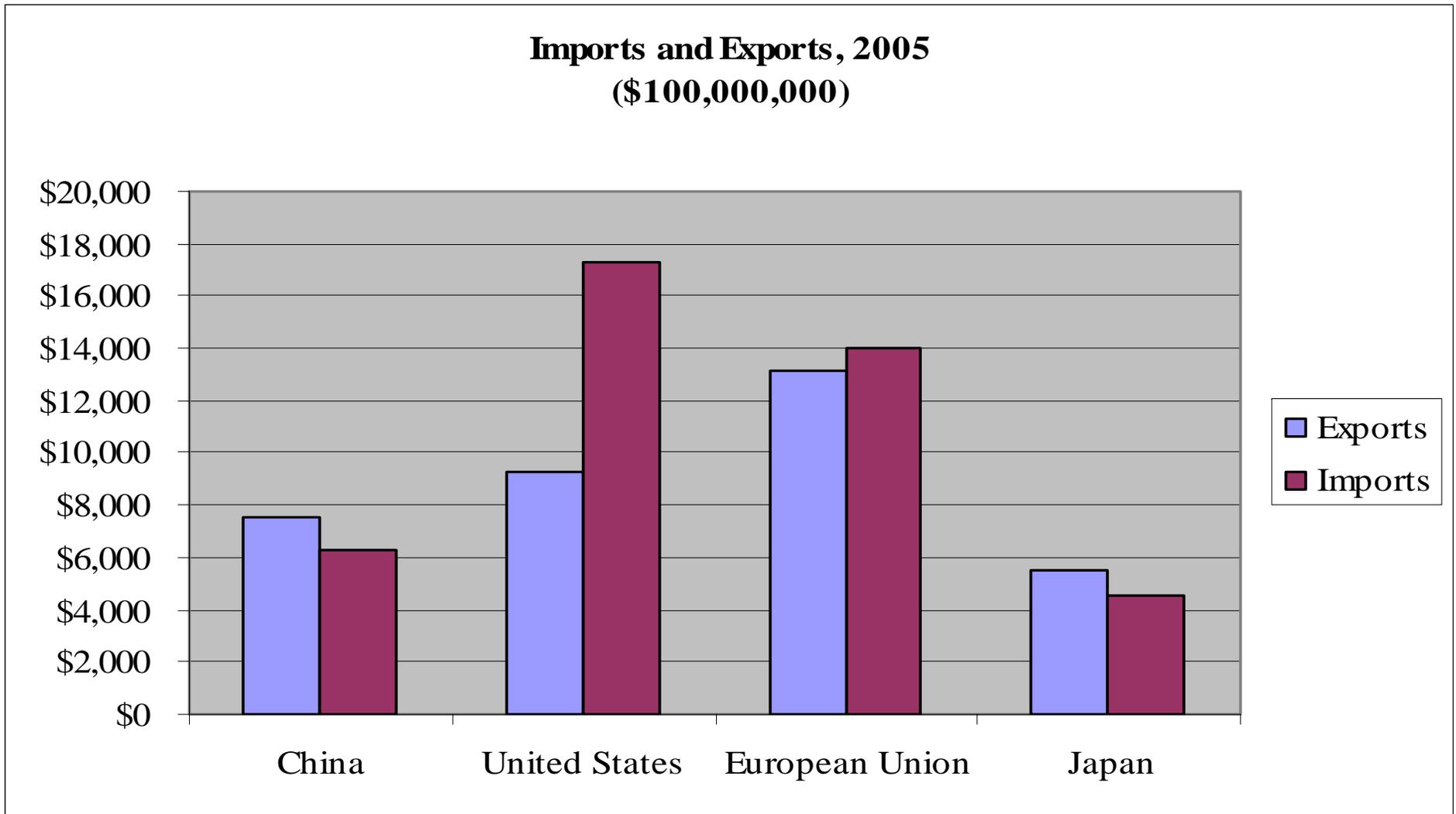
China

- GDP
 - \$3.3 Trillion(3)
- GDP per capita
 - \$5,600
- Per capita income
 - \$1,290(105)
- Exports
 - \$968,900,000,000
- Imports
 - \$791,500,000,000
- Trade balance (world)
 - +\$177,400,000,000
- Trade balance (US)
 - +\$257,155,000,000

United States

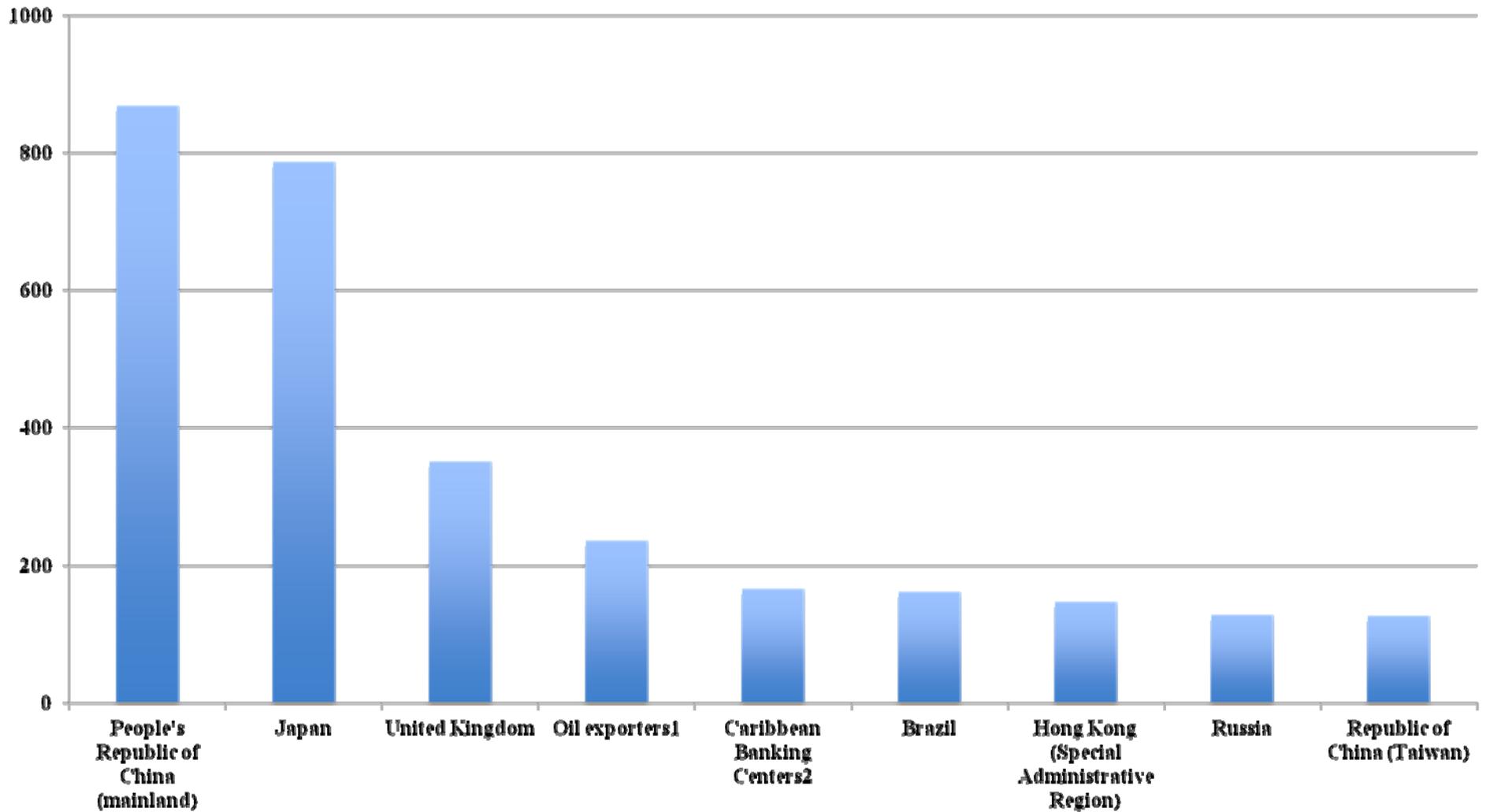
- GDP
 - \$13.2 Trillion(1)
- GDP per capita
 - \$43,730
- Per capita income
 - \$41,400(4)
- Exports
 - \$1,163,200,000,000
- Imports
 - \$1,953,300,000,000
- Trade balance (world)
 - -\$790,100,000,000
- Trade balance (China)
 - -\$257,155,000,000

The Biggest Net Importer Overall is...



Foreign Debt

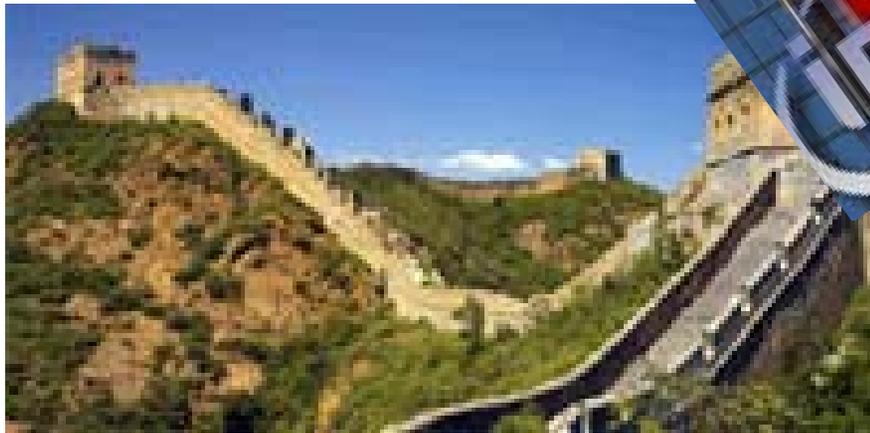
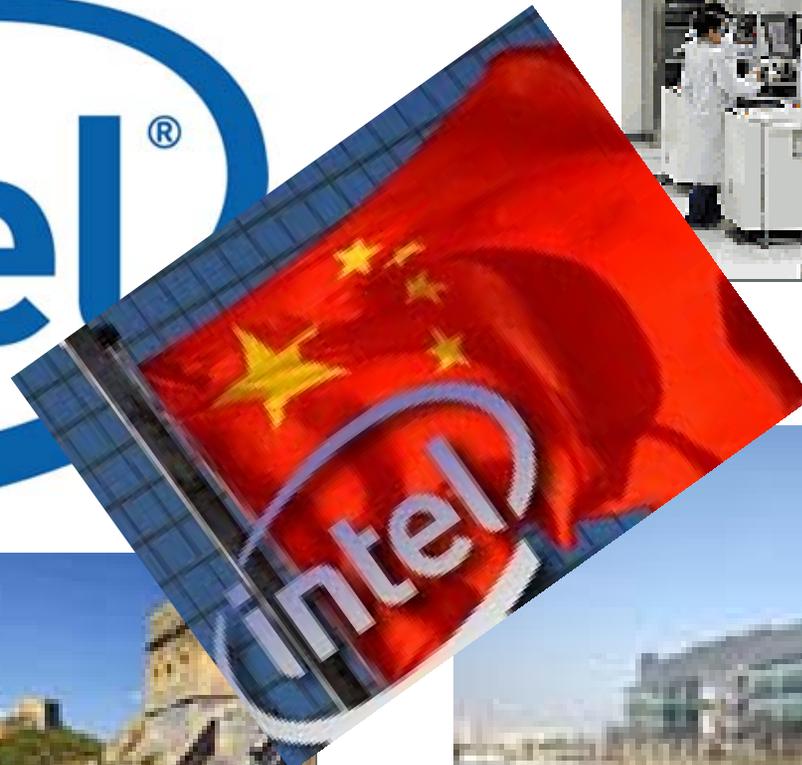
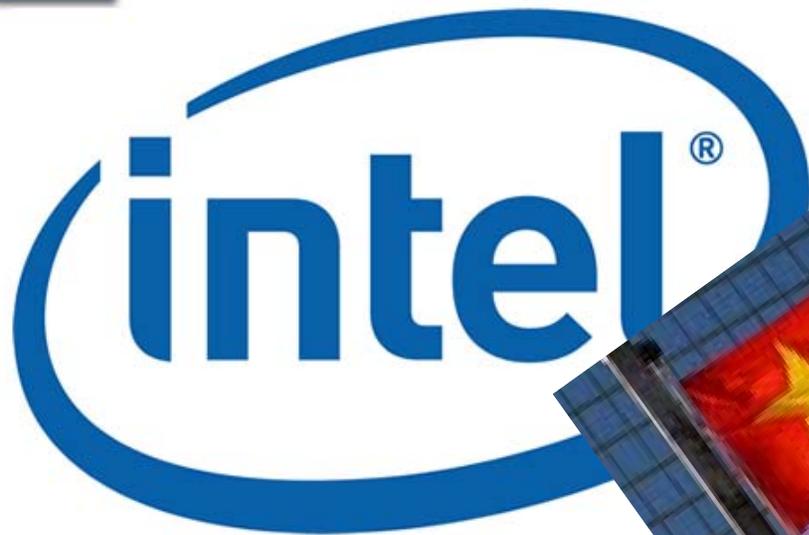
Leading Foreign Owners of US Treasury Securities, May 2010



Foreign Investment: Intel Leaving Shanghai for Chengdu



ON THE PHONE: Hank, a Program Manager in their Fab/Sort Manufacturing Group - Dalian, China



4. The Emergence of a Private Economy

- **Gradual emergence of a private economy (from below and from above)**
 - **Small-scale (*getihu*)**
 - **Large-scale (listing on domestic and international exchanges)**
 - **Small-scale to large-scale (Legend-Lenovo)**
 - **Economic and social impacts**
 - **Competition**
 - **Freedom from “organized dependence”**
- **Public-private hybrid organizational forms**
 - **IPOs of former SOEs**
 - **SASAC**

Growth of the Private Economy

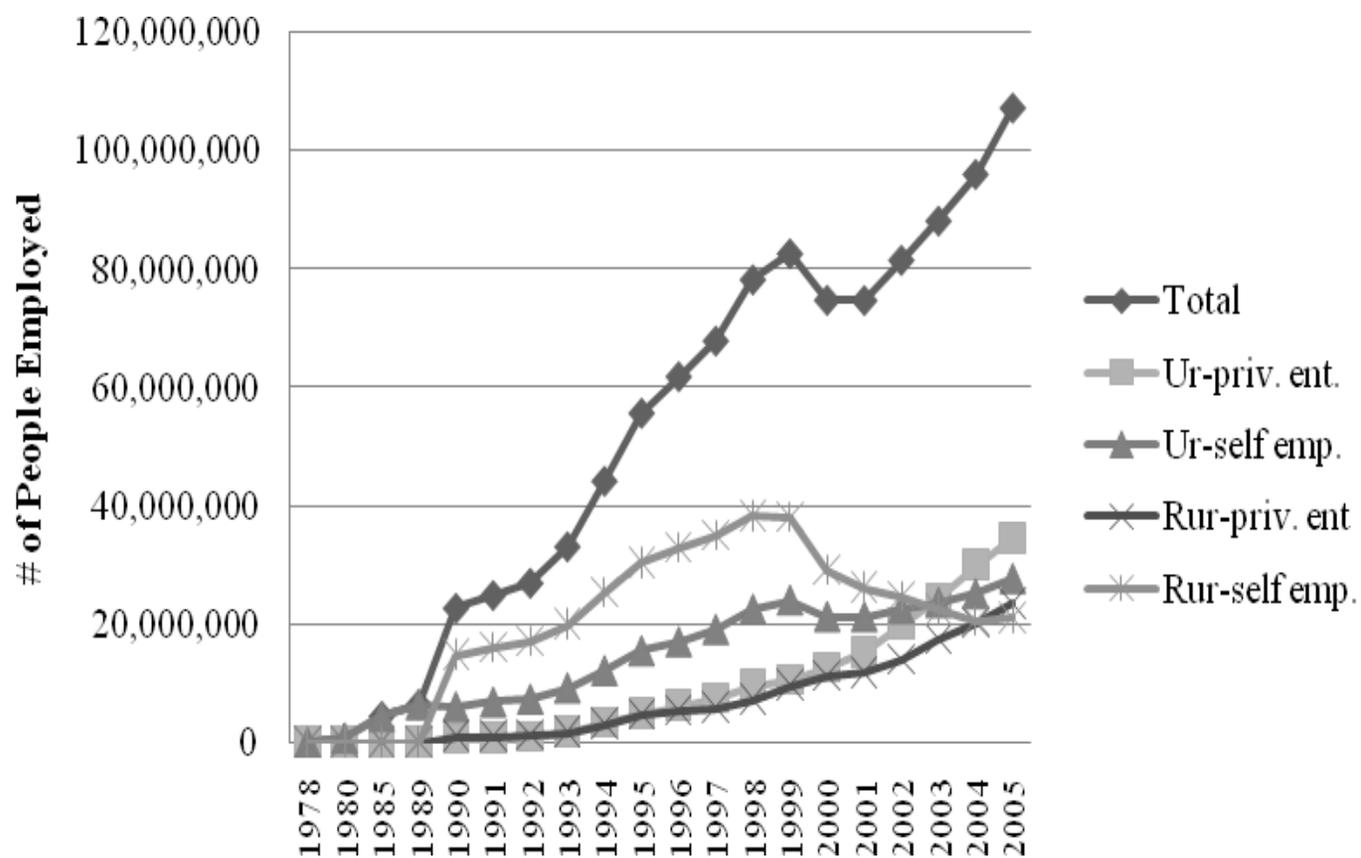
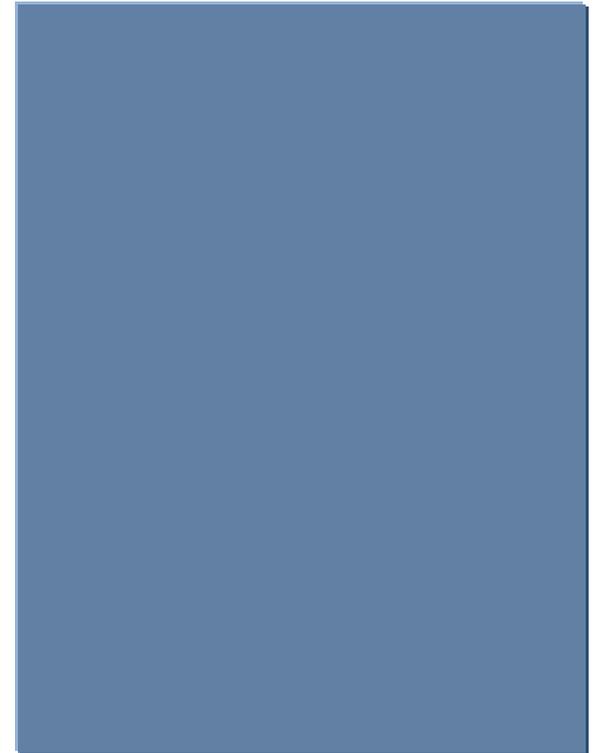


Figure 6.3: Growth of the China's Private Sector
(Source: Statistical Yearbook of China, 2006)

5. The Quiet Revolution

- **What is Democracy? From The Dictionary of Modern Sociology:**
 - **“A philosophy or Social system based on the principle of [equality], the principle being particularly applicable in political aspects of life... in any social system, rule by majority, usually with regard to certain rights of minorities; a form of government wherein supreme power is held by societal members in general, such members typically exercising their power in a system of representation involving periodic free elections.”**
- **What makes the United States a democracy? (What are the core features?)**



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