



# *3 Surplus & 3 Gap*

## **-- The Common Sense & Arguments of Chinese Studies**

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2003.11.

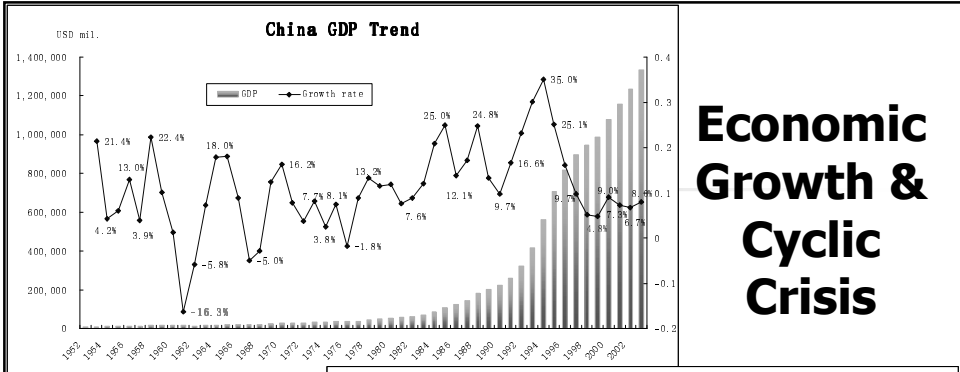


## **Part 1. On the Surface**

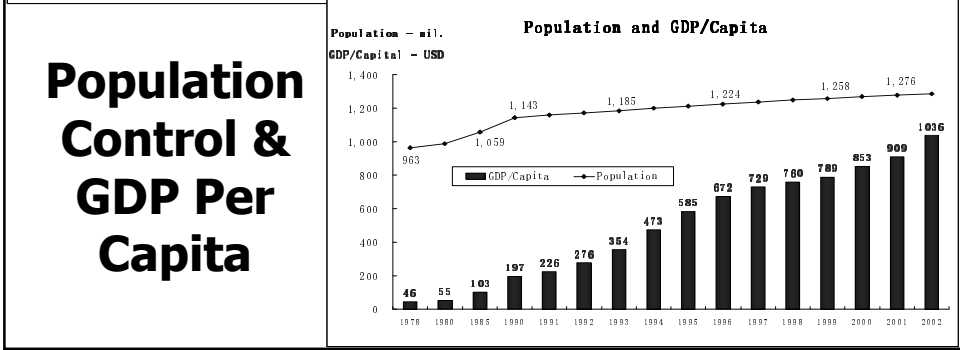
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What China gained?

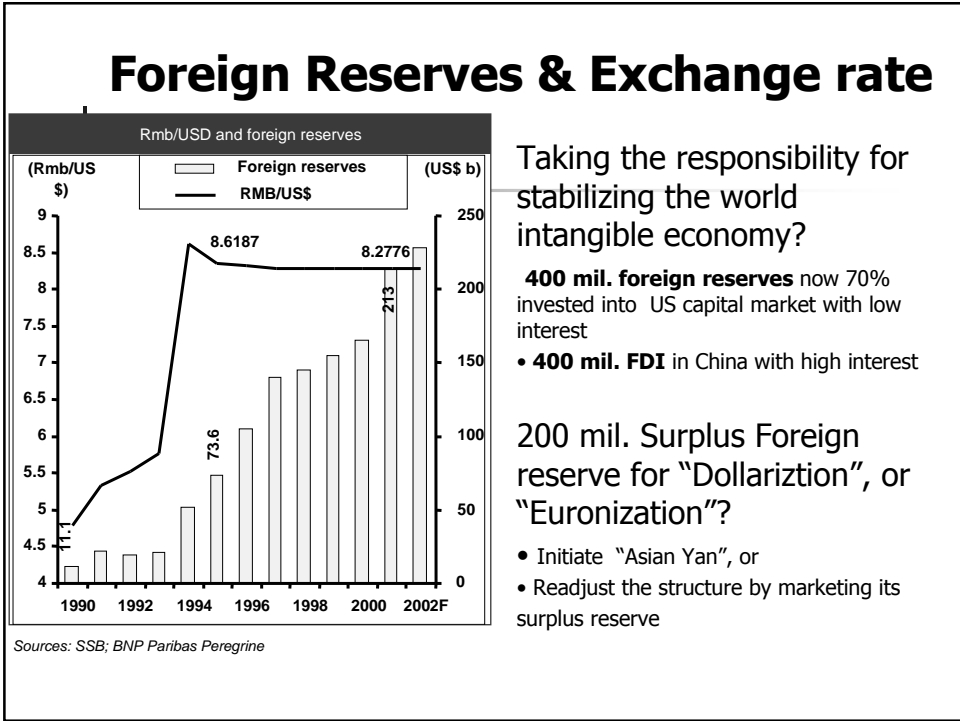
- More than 7% Annual Average GDP growth in 1990s
- More than \$400 billion Foreign Reserves in 2003 (\$150 billion savings included)
- More than \$50 billions foreign direct investment in 2002 ( total FDI \$400 bil.)
- Top 1 or 2 of total output of main industrial products: steel, chemicals, textiles, TV, etc.



# Economic Growth & Cyclic Crisis



# Population Control & GDP Per Capita



Taking the responsibility for stabilizing the world intangible economy?

- 400 mil. foreign reserves now 70% invested into US capital market with low interest
- 400 mil. FDI in China with high interest

200 mil. Surplus Foreign reserve for "Dollarization", or "Euronization"?

- Initiate "Asian Yan", or
- Readjust the structure by marketing its surplus reserve

Sources: SSB; BNP Paribas Peregrine

## The Arguments of the Causes

Different 4 “zations” onto the Economic Miracle

### Main Stream

- The model of successful “Gradual Institutional Transition” Returns of 4 “zation”s:  
*Privatization/Marketization/Liberalization/Globalization*

### Alternative

- Take non-ideological historical regulation into the consideration, it caused by the other 4 “zation”s:  
*Industrialization/Urbanization/Moneytization/Capitalization*

## Confused Concepts of Original “Left” and “Right”

### 1. The Background: Historical Transition

- 1949-1950, because regained the independence after 100 years’ fighting, and 30 mil died in 2<sup>nd</sup> WW, China tried to set up a comprehensive regime with nationalist/democratic/capitalist system
- 1950-1953, caused by Korean War & SSSR’s large amount industrial investment, China was run into the institutional transition of State Capitalism, in name of “Socialist Transitional Period”



## Redefine "Old leftist" into "Old Rightist"

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### 2. The key point of re-clarifying the concepts

- 1957's "Leftists" were in truth the "Rightist", mainly came from bureaucrats who representing state capitalism in that time, now most have transited into "Conservatives"
- 1957's "Rightists" were indeed the "Leftists", mainly came from low class and intellectuals who point out the essential of exploitation of primary accumulation of "State Capitalism" which already accepted by CP political bureau in 1952-53



## Part 2. Under the Surface

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### What China lost?

(Institutional Transition Cost Emerged)

- **3 Surplus**
  - **Labor surplus:** total "labor age population" is up to 800 mil.
  - **Industrial capacity surplus:** more than 90% of industrial products have been over-supplied since mid of 1990s
  - **Financial capital surplus:** M0 increment 2-3 times than GDP growth; M2/GDP 105% in 1995, more than 200% in 2003
- **3 Gap**
  - **Urban/Rural:** income gap increase to 6:1 (plus urban social welfare)
  - **East/West:** mid China fallen down to the same condition of backward west
  - **Rich/Poor:** JINI coefficient: 0.30 in 1980, vs. 0.46 in 2000



## **Globalization?**

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### **Really Want China Run into One Way without U turn?**

- The excesses of capital and surplus labor is the world wide problem of capitalism
- China run into WTO with its enlarged 3 surplus, may worsen the original world wide problem



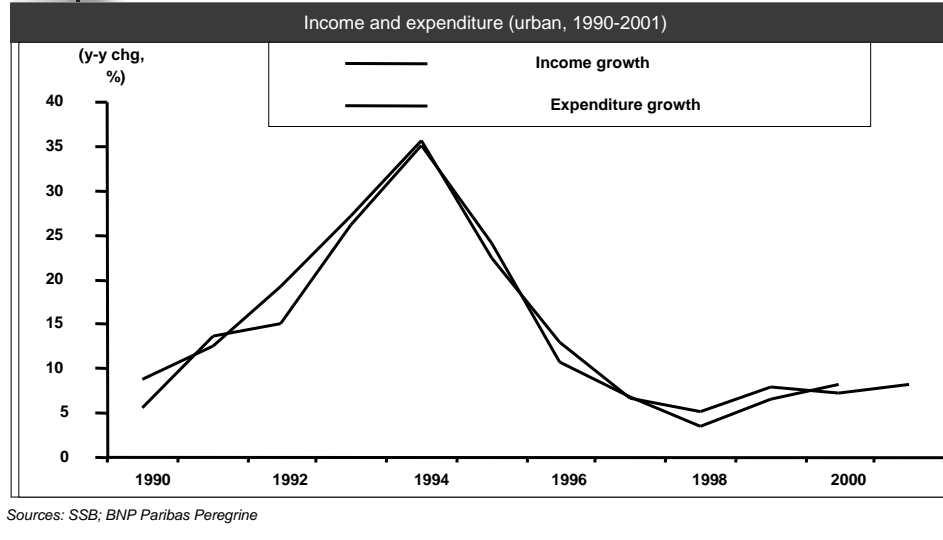
## **Economic Problem**

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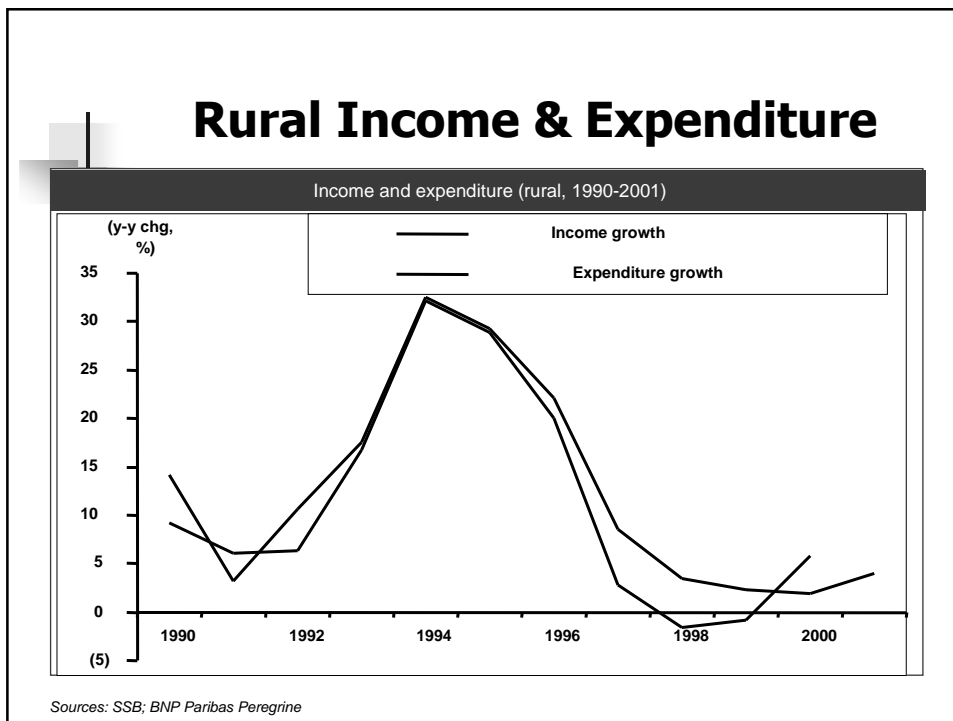
### **“Chinese featured socialist market economical system” has met the typical capitalist problems**

- Consumption rate decreased
- Long term deflation after high inflation
- More than 30 mil. SOE'workers lay off
- More than 30 mil. Rural people became landless/jobless

# Urban Income & Expenditure



# Rural Income & Expenditure



## Social Problems

Can China solve the problems or outcomes of *Privatization/Marketization/Liberalization/Globalization?*

- **Social security system copied from western country can only cover 1/10 population**, most of rural people being excluded
- Regional un-even caused social instability, **most of those “mass conflicts” happened in mid and west China**
- Poverty alleviation become complicated, **more than 300 mil people daily income less than \$0.7**
- High cost of local governance made **more than 50% counties’ budget troubled by deficit for copying expensive western system:** education, public health and law affairs etc.

## Un-even Distribution: Land, Population and GDP

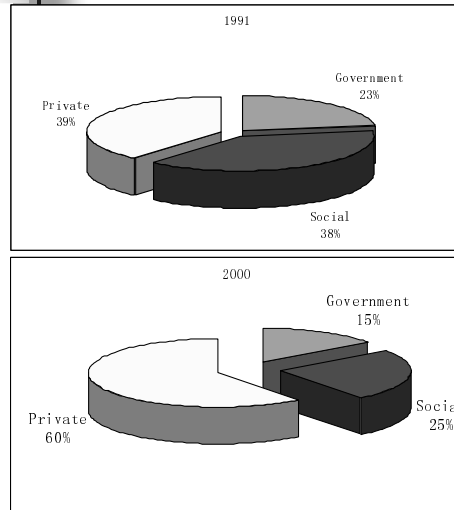
% to national total	East	Central	West
Land areas	14.0	29.0	57.0
Population			
1980	41.06	35.8	23.14
1990	41.36	35.78	22.86
2000	42.6	34.1	23.3
GDP			
1980	52.3	31.2	16.5
1990	54.0	29.9	16.1
2000	59.1	29.3	11.6

Mid & West China  
Downgrade

- GDP % (47.7 in 1980, 40.9 in 2000)
- Population % remain no change
- Gap of growth rate per capita enlarged

Sources: *China statistical yearbooks*

## Public Health Expense Split



- Commercialization/Privatization of public sector (health, education, etc)
- caused mainly by government deficit
- made social insecurity and polarization

## Different Data of Poverty

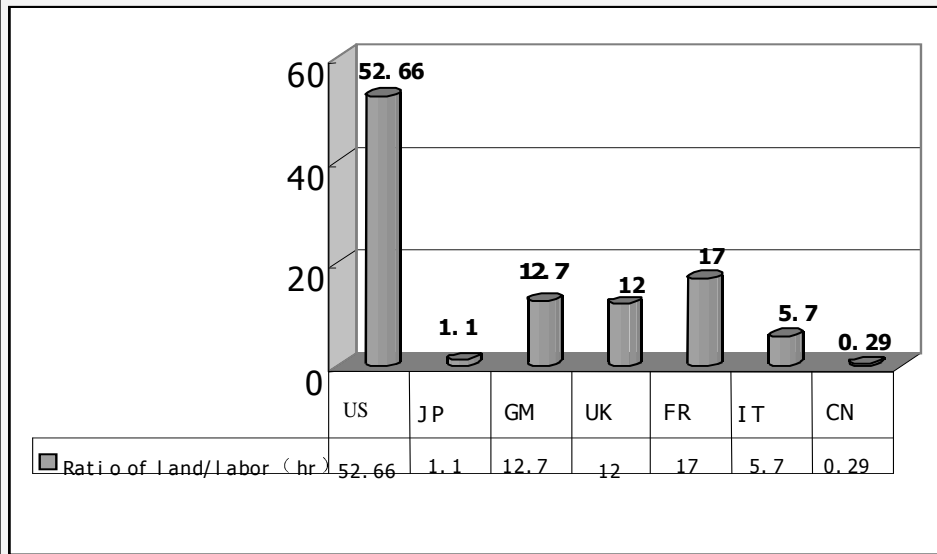
- Government Data shows the poor reduced to 2.4%
- International Standard made 10 times high

Average annual income (USD)	Population (mil.)	%
<60 (\$0.165/day)	14.6	1.1%
<75 (\$0.2/day) (Gov. criteria)	30.0	2.4%
<120 (\$0.33/day)	90.3	7.1%
120-240 (\$0.33-0.66/day)	310.8	24.5%

## Part 3. Problem Analysis

- Why China emphasizes the most critical policy is “3 dimensional rural issues”?
  - Because the largest rural population with limited nature resources made China can not be modernized as western country
- Why China meets serious critique on its “Human Rights” situation?
  - Because the largest surplus labor in the world is not the only comparative advantage economically, but also the obstacle of implementation of labors’ & poor’s rights politically

## Shortage of Resources: Ratio of Arable Land vs. Labor



## Uncertainty Crisis: Labour Force prediction

	Population aged 15-59 (mil.)	%
1995	776.75	63.96
2000	822.62	64.29
2010	925.75	67.14
2020	940.70	63.45
2030	913.85	59.45

*Sources: China statistical yearbooks*

- The percent of "Labor age population" will go higher in this decade and remain stable until 2020.
- The most serious un-employment problem coming in next decade, with 900 mil. Labour force
- Rural labour would be a half of total for next 20 years, scattered farming must be not competitive
- It also means China will be troubled after 20 years by aging people

## Part 4. Policy Concerns of Sustainable Development

### Alternative Policy Concerns

- **Political Policy Concerns:**
  - Maintain the Special Featured China's Political Regime and Economic System by alternative reflection of 2 kinds of old extreme ideology
- **Economic Policy Concerns:**
  - Restructure the Social Environment for Sustainability by alternate GDP growth into comprehensive development



## The Critical Policies

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### Twin Contradictions

- Natural resources limitation is the basic functioning constrains to both further industrialization & institutional transition
- Dual system of urban/rural can not be rapidly remarkable changed by industrialization & institutional transition

### Twin Policies

- State special investment policy for tapping Mid & West China infrastructure to enlarge domestic market & non-agricultural employment
- Re-clarify the concept of urbanization to accelerate local economy and rural township construction for urbanizing surplus rural population with low institutional cost



## The Institutional Gradual Innovation

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- **The basic contradiction:**
  - China can neither be a modernized industrial country with such limited natural resources, nor go back to be a big agricultural country with reduction of land per capita.
- **The basic trend:**
  - The rural China can not be western “civil society”,but be survived by their traditional autonomy system with low cost
- **The basic institution:**
  - Central government remain its controlling onto local, not for totalitarianism, but for capitalizing the rare resources to actualize the industrialization.
  - Villagers collective farmland ownership can not be privatized

## **Part 5. Impossibility of Copy Western System in Rural China**

### **The Primary Common Sense of Chinese Studies:**

- It could hardly duplicate the western concepts of “Scale of Economy” for market competition, and “Social Security” for set up civil society in rural China, because during the past 50 years:
  - Rural registrant population increased from 400 mil. to 930 mil, Household number from 100 mil to 230 mil.
  - Family farm size is reduced less than 0.6 hr, 76% rural households keep traditional multiple plurality livelihood
  - Agricultural/GDP down to 14.2% in 2002, impossible to tax for funding public goods and “Social Security” to 73% of the total population

## **Rural Cooperatives Renaissance**

### **What we can do now?**

- Renew basic institution should be based on villages' ownership and traditional internal distribution system
- No Dams for rural cooperatives entering high interest business with no taxation
- Set up participatory training to the local elites to be the seeds of rural reconstruction and self empowerment