Trade linkages and economic growth in China

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TRADE LINKAGES
AND ECONOMIC GROWTH IN CHINA

A thesis submitted in fulfilment of requirements
for the award of degree of
Doctor of Philosophy

from

THE UNIVERSITY OF WOLLONGONG

by

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January 1996
AUTHOR'S CERTIFICATION

I certify that this thesis has not been submitted previously for any other degree and that it is the product of my own independent research.

I certify that any help received in preparing this thesis, and all sources used have been acknowledged in this thesis.

Xihua Wu
ABSTRACT

The recent resurgent interest in the process of economic growth among academic economists has been characterised by an endeavour to invoke knowledge and human capital as determinants of long-run economic growth and, thereby, empirically explain the divergent patterns of rates of economic growth observed across countries and regions. This approach is distinctive from the conventional growth paradigm, which in contrast, concentrates mainly on the growth of physical inputs as the sources of growth. The new approach, by endogenising technical change, has created a framework in which to explain why economic institutions and policies can have long-run effects on growth rates.

This thesis examines the post-reform (1978-92) growth experience of China, with respect to the relationship between (i) trade, investment, and economic growth; (ii) the rise of township enterprises (TWEs) and economic development; and (iii) government policies and economic growth, in light of endogenous growth theory. In this study, a number of hypotheses are examined against the data sets of the aggregate economy and three Chinese regional economies (1978-93) in a simple log-linear econometric framework. To allow for the likely presence of inter-regional correlations between the regressions' error terms, A. Zellner's iterative seemingly unrelated regressions technique is used to estimate the regional equations.

The study identifies three major elements in the rapid post-reform growth, namely, the continued expansion of foreign trade, the rapid growth of the nonstate sector comprising TWEs and foreign-funded enterprises, and the high levels and rates of savings and investment. These are in turn a function in part of government policy choices. The results indicate that the influence of foreign trade and investment on the Chinese economy has been positive and significant over the 1978-93 period. Exports and imports, either when treated separately or taken as the joint trade variable, all seem to have a significant effect on long-run economic performance. The results also show that the strong growth of the nonstate sector has positive and significant effects on economic growth.

The major findings of this study strongly support the basic theoretical contentions found in the endogenous growth literature. They are consistent with the main stylised facts of growth and structural change which are occurring in China, as reviewed in this study. These findings have also underlined the importance of government policies, such as the decisions taken in the late 1970s and early 1980s to transform rural institutions and reform the enterprise system; the sequenced measures to liberalise the foreign trade and exchange regimes, and the efforts to promote physical and human capital infrastructure.

This study suggests that future policy making in China should be directed towards further promoting outward-looking, export-oriented industrial activities, reducing distortions and protectionism, enhancing privatisation, improving economic efficiency and encouraging competition, and stabilising the macroeconomic environment.
IN MEMORY OF MY FATHER

WU DONGZHOU

12. 1932 - 7. 1995
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# TABLE OF CONTENTS

DECLARATION i
ABSTRACT ii
ACKNOWLEDGEMENT iii
TABLE OF CONTENTS iv
LIST OF TABLES vii
LIST OF FIGURES xi

## CHAPTER 1

INTRODUCTION 1

1.1 Background to the Study 1
1.2 Objectives and Scope of the Study 7
1.3 Testing Technique and Procedures 9
1.4 Outline of the Thesis 10

## CHAPTER 2

TRADE AND ECONOMIC GROWTH: A SURVEY 13

2.1 Introduction 13
2.2 Models Assuming No Technical Progress 15
   2.2.1 The Harrod-Domar Model 15
   2.2.2 The Neo-classical Model 19
2.3 Growth with Technical Progress 22
   2.3.1 Learning by Doing 22
   2.3.2 Endogenous Growth 23
2.4 Trade and Economic Growth 28
2.5 Empirical Evidence 33
2.6 Relevance for LDCs Policy 37
2.7 Conclusion 40
CHAPTER 3  THE CHINESE ECONOMY 1973-92  43

3.1 Introduction  43

3.2 Population and Labour Force  45

  3.2.1 Population Growth  45

  3.2.2 Urbanisation  50

  3.2.3 Growth of Employment  57

3.3 Growth of Total Product and Income  60

  3.3.1 Analysis of Long-term Growth  62

  3.3.2 Investment: An Engine of Long-term Growth  71

3.4 Changes in Production Structure  76

3.5 International Trade  83

  3.5.1 Growth of Foreign Trade  83

  3.5.2 Trade with Main Partners  89

  3.5.3 Changes in the Commodity Composition of Trade  91

3.6 The Growth of State-Owned Production  94

3.7 Conclusion  97

CHAPTER 4  ECONOMIC REFORMS AND TRADE LIBERALISATION  100

4.1 Introduction  100

4.2 An Overview of the Economic Reform Process  101

  4.2.1 Restructuring of the Economic Administrative System  101

  4.2.2 Open Policy and Internationalisation  108

4.3 The Main Features of the Pre-reform Foreign Trade System  121
4.4 Trade Reform and Liberalisation

4.4.1 Decentralisation of Foreign Trading Rights

4.4.2 Reducing the Scope of Foreign Trade Planning

4.4.3 Institution of Licencing Management

4.4.4 Foreign Exchange Retention

4.4.5 Exchange Rate

4.5 Contractual Responsibility System

4.6 Conclusion

CHAPTER 5 ECONOMETRIC MODELLING AND ESTIMATION

5.1 Introduction

5.2 Model Specification and Estimation

5.2.1 Econometric Modelling

5.2.2 Estimating Procedures

5.3 The Nature of the Data

5.4 Empirical Results

5.5 Conclusion

Appendix 5.A Lagrange Multiplier Test

Appendix 5.B Tables of Results

CHAPTER 6 CONCLUSIONS AND POLICY IMPLICATIONS

6.1 Introduction

6.2 Conclusions

6.2.1 Foreign Trade Expansion and
<p>| TABLE 3.1 | Population Growth in China (1973-92) | 46 |
| TABLE 3.2 | Growth of Urban Population: China and Selected Regions (selected years) | 50 |
| TABLE 3.3 | Growth of TWEs Employment: China and Regions (selected years) | 54 |
| TABLE 3.4 | Growth of Urban Centres: China and Selected Regions (selected years) | 56 |
| TABLE 3.5 | Growth of Employment in China (1973-92) | 58 |
| TABLE 3.6 | Changes in the Structure of Social Labour Force: China and Selected Regions (1973-91) | 59 |
| TABLE 3.7 | GNP, GNP Per Capita and Sectoral GNP Growth: China and Selected Regions (selected years) | 63 |
| TABLE 3.8 | Trends: Output and Growth of TWEs, China and Selected Regions (1978-92) | 65 |
| TABLE 3.9 | Productivity Growth: China and Selected Regions (1973-92) | 67 |
| TABLE 3.10 | Trends: Total Investment in Fixed Assets, China and Selected Regions (selected years) | 72 |
| TABLE 3.11 | Trends: Gross Domestic Savings, China and Selected Regions (1973-92) | 74 |
| TABLE 3.12B | Distribution of Gross Material Product by Industrial Origin: China and Selected Regions (1973-92) | 80 |</p>
<table>
<thead>
<tr>
<th>TABLE</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.13</td>
<td>Changes in the Structures of TWEs in China (selected years)</td>
<td>82</td>
</tr>
<tr>
<td>3.14</td>
<td>Growth of Trade: China and Selected Regions (1973-92)</td>
<td>85</td>
</tr>
<tr>
<td>3.15</td>
<td>Trade Characteristics: China and Selected Regions (1973-92)</td>
<td>86</td>
</tr>
<tr>
<td>3.16</td>
<td>Foreign Exchange Earnings from TWEs: China and Selected Regions (selected years)</td>
<td>88</td>
</tr>
<tr>
<td>3.17</td>
<td>Shifts in the Commodity Composition of Trade in China (selected years)</td>
<td>92</td>
</tr>
<tr>
<td>4.1</td>
<td>Foreign Investment in China (1983-92)</td>
<td>119</td>
</tr>
<tr>
<td>4.2</td>
<td>Commodities Subject to Licensing (1981-93)</td>
<td>138</td>
</tr>
<tr>
<td>5.1</td>
<td>Correlation Matrix (ratios and per capita values)</td>
<td>189</td>
</tr>
<tr>
<td>5.2</td>
<td>Growth of Per Capita GDP in China and Its Determinants (1978-92)</td>
<td>190</td>
</tr>
<tr>
<td>5.3</td>
<td>Growth of Per Capita GDP in Hubei and Its Determinants (1978-93)</td>
<td>191</td>
</tr>
<tr>
<td>5.4</td>
<td>Growth of Per Capita GDP in Shanghai and Its Determinants (1978-93)</td>
<td>192</td>
</tr>
<tr>
<td>5.5</td>
<td>Growth of Per Capita GDP in Zhejiang and Its Determinants (1978-93)</td>
<td>193</td>
</tr>
<tr>
<td>5.6A</td>
<td>Growth of Per Capita GDP and Its Determinants: Hubei, Shanghai and Zhejiang (1978-93)</td>
<td>194</td>
</tr>
<tr>
<td>TABLE 5.7</td>
<td>Growth of Per Capita GDP and Its Determinants: Hubei, Shanghai and Zhejiang (1978-93)</td>
<td></td>
</tr>
<tr>
<td>-----------</td>
<td>---------------------------------------------------------------------------------</td>
<td></td>
</tr>
</tbody>
</table>

Zhejiang (1978-93)
LIST OF FIGURES

FIGURE 3.1 Real GNP Growth of China (1974-92) 68
FIGURE 3.2 Index of GNP Per Capita: Selected Regions (1978-92) 70
FIGURE 3.3 Index of Exports: China and Selected Regions (1973-92) 85