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Xihua Wu
University of Wollongong

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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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