

**The Experimentalist-Convergence
Debate on Interpreting China's
Economic Growth:
A Cross-Country Perspective**

Wing Thye Woo

University of California, Davis

wtwoo@ucdavis.edu

Experimentalism versus Convergence

- Gradualness due to multiple experiments followed by universal adoption (e.g. Barry Naughton, Yingyi Qian, Gerard Roland)
- Growth unleashed by unintended virtuous cycle, and absence of large policy shifts
- Substantial improvements in production efficiency, i.e. decentralised socialism works.
- Dual-track is the result of political compromise, e.g. rapid comprehensive liberalization of agriculture, and of international trade in coastal provinces but slow deregulation of SOEs and of international trade elsewhere.
- Growth enabled by extensive surplus agriculture labor (e.g. Michael Bruno)
- Little technical progress; asset-stripping, and reckless investment.

- Collectively-owned rural enterprises (TVEs) are optimum adaptations to China's still-developing markets, i.e. localised socialism works!
- China has found the third way: a combination of decentralised socialism and localised socialism (e.g. Peter Nolan, Louis Putterman).
- General principle for transition is experimentation in the global sense, i.e. experiences of other countries are unlikely to be of much relevance
- TVEs are products of political circumstances, i.e. continued legal restrictions on private ownership
- Policies will push China toward a normal private market economy with characteristics similar to other East Asian economies.
- General principle is experimentation in the local sense, i.e. copy from similar economies that succeeded, and modify in light of experience.

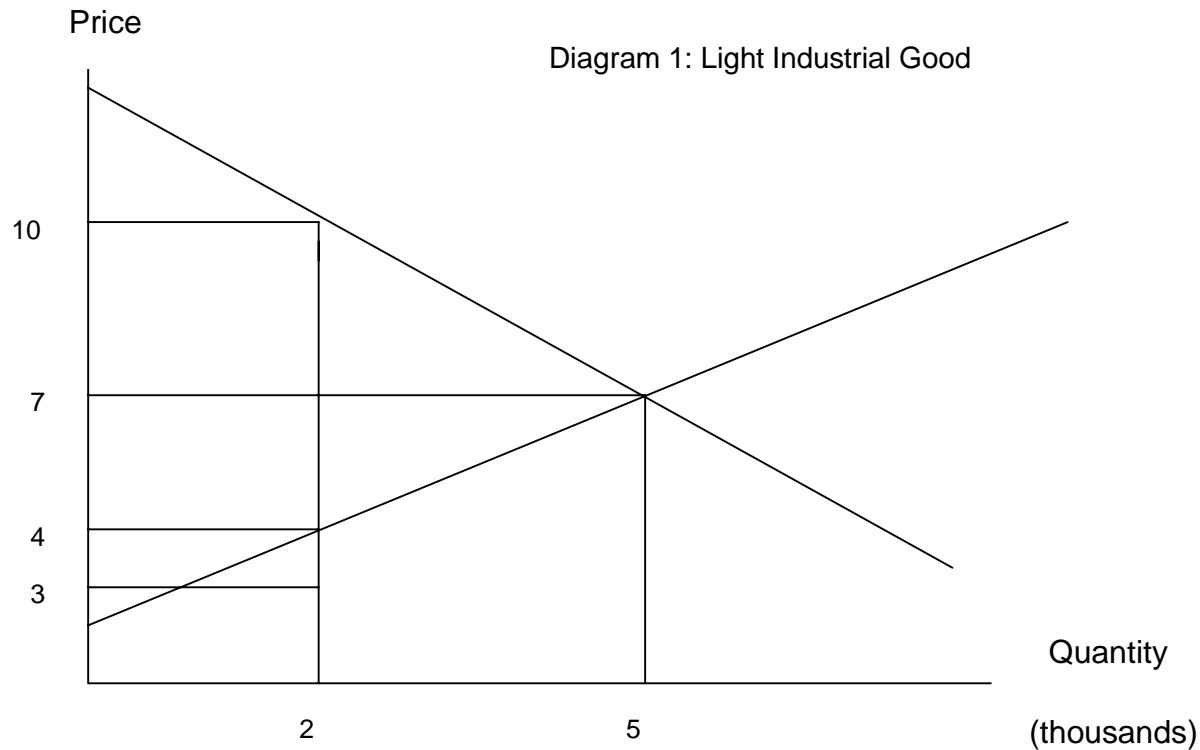
Recent criticisms of convergence view

Joseph Stiglitz in 1999 ABCDE:

- rejected the conclusion of the WDR 1996 that “countries that liberalize rapidly and extensively turn around more quickly [than those who do not]” and
- denied that differences in the structural conditions of EEFSU and China were relevant to how these economies responded to reforms.

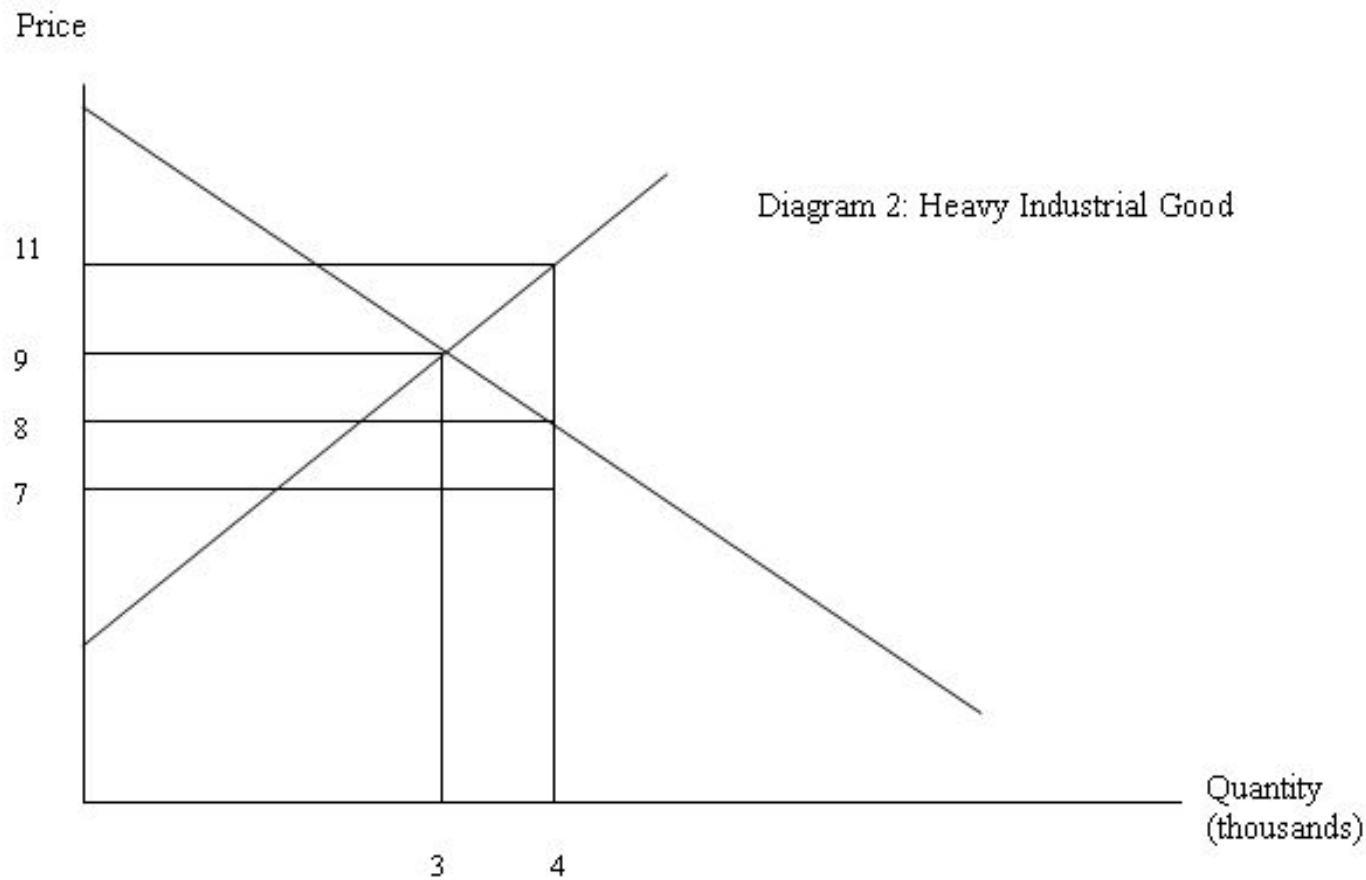
Lawrence Lau, Yingyi Qian and Gerard Roland (2000)

- argued that the transformational recessions of CEEFSU could have been avoided had dual-track pricing been implemented, i.e. CEEFSU could have, like China, gotten “gain without pain”.



For the light industrial good,
supply curve: $P = 2 + Q$
demand curve: $P = 12 - Q$

For the heavy industrial good,
supply curve: $P = 3 + 2Q$
demand curve: $P = 12 - Q$



Source of Pareto-Improvement

	<u>Index of Gross Industrial</u>		<u>Composition of Employment, %</u>			<u>Labor Force</u>
	<u>Output, 1978=100</u>					<u>in SOEs</u>
	<i>Light</i>	<i>Heavy</i>	<i>Primary</i>	<i>Secondary</i>	<i>Tertiary</i>	<i>(million)</i>
	<i>Industry</i>	<i>Industry</i>				
1978	100.0	100.0	70.5	17.3	12.2	74.5
1979	110.0	108.0	69.8	17.6	12.6	76.9
1980	130.8	110.1	68.7	18.2	13.1	80.2
1981	149.5	105.1	68.1	18.3	13.6	83.7
1982	158.2	115.5	68.1	18.4	13.4	86.3
1983	172.9	130.6	67.1	18.7	14.2	87.7
1984	200.7	152.2	64.0	19.9	16.1	86.4
1985	246.3	182.9	62.4	20.8	16.8	89.9
1986	278.5	201.6	60.9	21.9	17.2	93.3
1987	330.3	235.3	60.0	22.2	17.8	96.5
1988	403.3	280.9	59.4	22.4	18.3	99.8
1989	436.4	305.9	60.0	21.6	18.3	101.1
1990	476.6	324.9	60.1	21.4	18.5	103.5
1991	548.0	372.0	59.7	21.4	18.9	106.6
1992	657.7	479.8	58.5	21.7	19.8	108.9
1993	835.2	611.8	56.4	22.4	21.2	109.2
1994	1,032.3	762.3	54.3	22.7	23.0	112.1
1995	1,268.7	899.5	52.2	23.0	24.8	112.6
1996	1,573.2	1,013.7	50.5	23.5	26.0	112.4
1997	1,801.3	1,132.4	49.9	23.7	26.4	110.4
1998	2,013.9	1,242.2	49.8	23.5	26.7	90.6

Vietnam: Growth and Inflation

	-----Output Growth-----				----Inflation ---	
	GDP	agriculture	industry	services	GDP Deflator	Retail Price
1984	3.3	4.2	12.0	NA	NA	164.9
1985	5.7	4.5	12.0	-1.0	102.3	191.6
1986	3.4	1.9	4.1	6.3	506.9	487.3
1987	3.7	-0.6	8.8	5.5	362.2	371.6
1988	5.9	3.9	5.3	9.2	407.3	374.2
1989	8.0	6.9	-2.6	18.3	68.7	95.8
1990	5.1	4.6	-2.4	10.8	42.1	36.4
1991	6.0	2.2	9.0	8.3	72.5	82.7
1992	8.6	7.1	14.0	7.0	32.6	37.7
1993	8.1	3.8	13.1	9.2	14.3	8.4
1994	8.8	3.9	14.0	10.2	14.5	9.3
1995	9.5	4.7	13.9	10.9	19.5	16.8
1996	9.3	4.8	15.6	8.9	6.1	5.6

Laos: Growth and Inflation

	<u>-----Output Growth-----</u>				<u>Inflation</u>
	GDP	agriculture	industry	services	GDP Deflator
1985	6.5	NA	NA	NA	NA
1986	9.5	9.4	6.6	11.6	44.6
1987	-5.2	-8.5	-16.4	9.4	31
1988	0.9	2.1	5.6	-3.6	33.7
1989	14.5	10.8	35	14.5	59
1990	7.3	8.7	16.2	-0.5	34.6
1991	3.4	-1.7	19.9	6.5	13.3
1992	7	8.3	13	9.1	9.3
1993	5.2	2.7	10.3	7.7	6.4
1994	8	8.3	10.6	5.6	7.7
1995	6.7	3.1	13.1	10.2	19.7
1996	6.7	2.2	17.3	8.7	13.9
1997	7.6	7.5	8.1	7.3	17.7

Production and Employment Structure in USA, Soviet Union, China and Vietnam on Eve of Reform

	<u>Composition of GDP, 1995 prices, %</u>				<u>Composition of Employment, %</u>			
	United States 1986	Soviet Union 1988	China 1978	Vietnam 1988	United States 1986	Soviet Union 1988	China 1978	Vietnam 1988
Agriculture	1.9	9.3	41.2	42.4	2.7	19.3	70.5	72.7
Industry	29.6	59.6	34.0	25.7	22.2	40.4	17.3	14.1
Services	68.5	31.1	24.7	31.9	75.1	40.3	12.2	13.2

Industry includes construction

GDP ratios for Vietnam is from 1989 prices

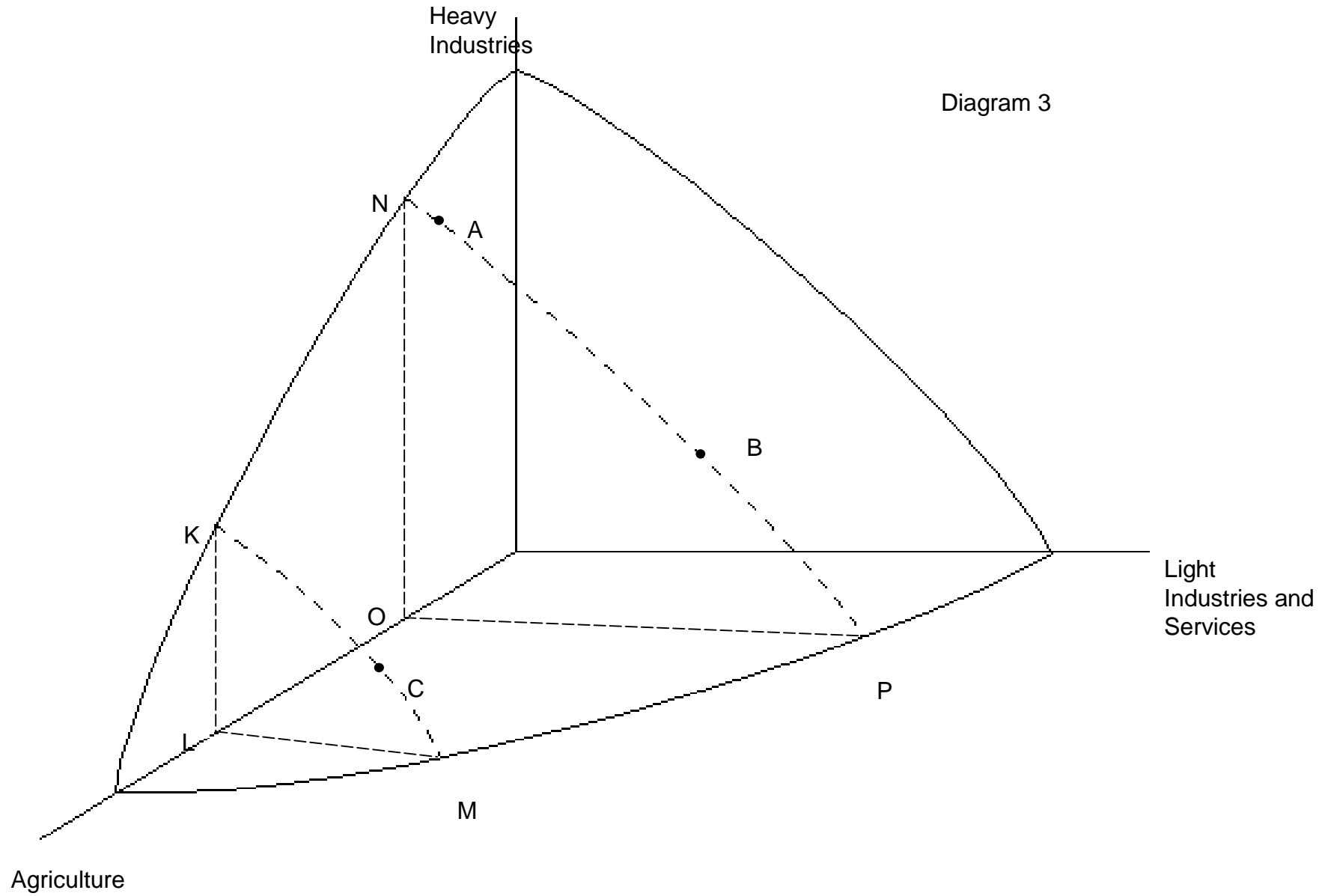
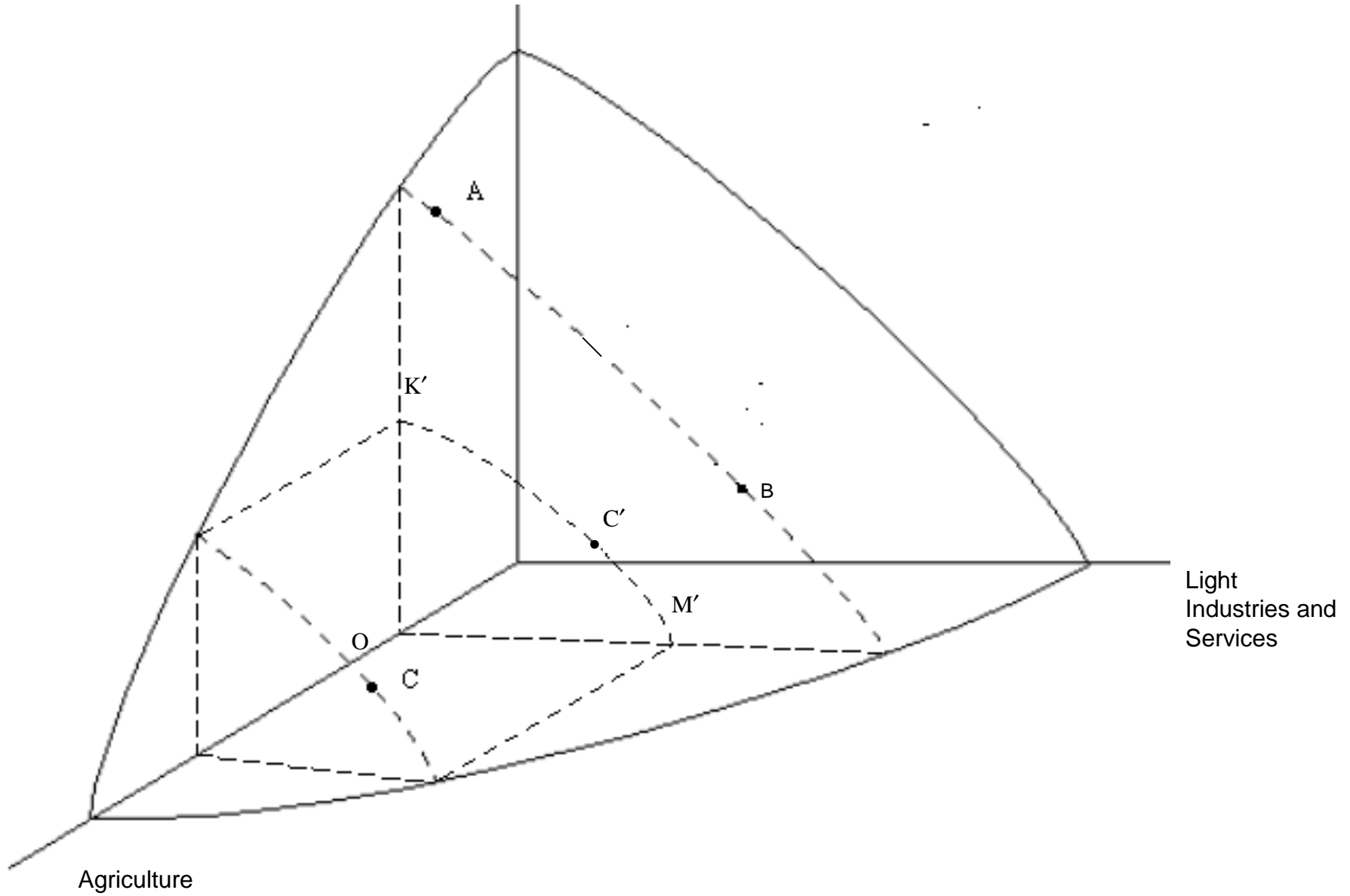


Diagram 4
Heavy Industries



Wake up and smell the coffee

- Decentralised socialism? Medium and small SOEs have been privatised, and state is set to retreat until it controls only 100 largest SOEs
- Localised socialism? TVEs have been largely privatised, especially in coastal provinces.
- Continued experimentation? By joining WTO, China is committed to entrenching economic institutions that confirm to WTO's definition of a market economy.
- Private property now has constitutional legitimacy
- Capitalists can now join the Party
- CEEFSU for China is the future as history: people's socialism aka shareholders' capitalism