

Economic Growth of the People's Republic of China, 1949–2009

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Abstract

1. The issue

2009 marks the 60th anniversary of the PRC. The world has been impressed by China's recent miracle growth. But it pays to understand where China's fast growth has come from.

Generally speaking, the first 30 years of economic growth under Maoism was a disaster (c. 1949-1979). Mao's China was visibly rural and pre-modern despite official growth figures. During the second 30 years (1979-2009), China adopted capitalism and moved rapidly toward integration with the world market. China began to industrialise and modernise by cashing in its comparative advantage in cheap labour (and a lack of rule of law regarding environmental protection). Economic growth did take off. This is what Deng Xiaoping's reforms are all about.

Clearly, the Maoist model was a wrong one for growth and development to take place as shown from China's track record of investment waste and universal poverty. But the current model is not problem-free, as it is best suited for a small economy. China seems to be too big for the model.

Bear in mind, China is not a democratic country; all the choices of growth and development have been imposed by a tiny minority. Such choices do not necessarily fit in well China's social and economic situations. Hence, we see first a major discontinuity in Chinese history when Mao took over the state power and pushed for Stalinism. We see another major discontinuity when Deng Xiaoping took over and pushed for the market economy, exports, industrialisation and modernisation.

2. Problem with official data

A heavy spin on data to glorify Mao's rule occurred after 1949 with three problems.

Firstly, there was a nation-wide practice of datum inflation in all sectors in 1958 to 1961 encouraged from the leaders at the highest level. It was common for the economic planners to overprice industrial outputs and under-price agricultural outputs in their creative accounting to make the industrial sector look larger than life.

As a result, the officially published Maoist growth rates appear not too far behind the "Asian Tigers" miracle take-off (annual GDP % growth for the Tigers but "social total output value" for China):¹

	South Korea	Taiwan	Hong Kong	Singapore	China
1960–9	8.4	9.2	10.0	8.8	–
1966–70	–	–	–	–	9.3
1970–9	7.4	9.7	9.2	8.3	–
1971–5	–	–	–	–	7.3

¹ Vera Simone and A. T. Feraru, *The Asian Pacific: Political and Economic Development in a Global Context* (White Plains [N.Y.]: Longman Publishers, 1995); also see World Bank, *World Development Indicators, 2000* (Washington D.C.: The World Bank Group, 2002) (on line: http://publications.worldbank.org/e-commerce/catalog/product?item_id=631625); National Bureau of Statistics, *Zhongguo Tongji Nianjian, 1987 (China's Statistical Year Book, 1987)* (Beijing: China's Statistics Press, 1987).

It is now agreed that Mao's Cultural Revolution cost China 800 billion *yuan*,² equivalent to China's total capital stock of the state-owned enterprises in 1979.³ Where did Mao's fast growth or gain come from?

Secondly, original data were patchy for the Maoist period either because they were too politically sensitive or because they did not exist. China's National Bureau of Statistics and its provincial branches were completely shut down for three years from 1967 to 1969. Meanwhile, China's key economic planning agencies, including the National Planning Commission, the National Economic Commission, Industrial and Transport Department, National Price Bureau, Ministry of Labour, and Ministry of Materials, were all scaled down by nearly 90 percent.⁴ All the currently available economic statistics from 1966 to 1976 were the result of back-dating in 1983.⁵ There has been so far no independent verification of these figures.

Thirdly, data for Mao's period are often inconsistent. During the 1980s and 1990s parameters used by China's National Bureau of Statistics changed three times. The first system was the Soviet "social total output value". It was changed to "national income" in 1989 before switching to GDP in 1993.⁶ Each change altered the readings of performance. They are not well correlated:⁷

	"Social total output value"	National income	GDP
Maoist era: 1952–77	7.3	6.2	6.4

² Jiang Yuanming, *Wangshi 1966 Xiezheng (Memory of 1966)* (Tianjin: Hundred-Flower Art Press, 1998).

³ For China's 1953 GDP, see National Bureau of Statistics, *Statistical Year Book, 2002*. For the state assets, see Xi Xuan and Jin Chunming, *Wenhua Dagejin Jianshi (A Short History of the Great Cultural Revolution)* (Beijing: Central Party History Press, 1996).

⁴ Zhang Hua and Su Caiqing (eds), *Huizhou Wedge, Zhongguo Simian Wedge Benxi Yu Fans (Recollection of the Decade of Cultural Revolution, Analyses and Soul-Researching)* (Beijing: Chinese Communist Party History Press, 2000), vol. 1.

⁵ *Ibid.*, vol. 1.

⁶ One systematic attempt was made by Ta-chung Liu and Kung-chia Yeh in 1965. But they only cover 1952 to 1957; see Ta-chung Liu and Kung-chia Yeh, *The Economy of the Chinese Mainland: National Income and Economic Development, 1933 – 1959* (Princeton: Princeton University Press, 1965).

⁷ National Bureau of Statistics, *Statistical Year Book, 1987*; National Bureau of Statistics, *Zhongguo Tongji Nianjian, 1989 (China's Statistical Year Book, 1989)* (Beijing: China's Statistics Press, 1989); National Bureau of Statistics, *Statistical Year Book, 2002*. For the World Bank data, see World Bank, *World Development Report 2000/2001* (New York: Oxford University Press, 2001).

Dengist era: 1979–2000	–	9.3	9.4
1980–90 (World Bank)	–	–	5.9
1990–9 (World Bank)	–	–	8.2

3. China's growth performance

To map out China's long-term trends with consistency, we can establish two expectant benchmarks: GDP index and population index. These benchmarks are based on the real growth records in China's past.

There are two credible GDP growth rates: 0.9 percent a year from 1750 to 1830, and 1.2 percent a year from 1887 to 1936, averaging 1.05 percent a year. This 1.05 percent growth rate can be used as China's expectant benchmark rate.⁸ The ratio between the GDP index and the expectant benchmark (I/II) measures China's growth performance over time:

	GDP index (I)	Benchmark (1.05 % a year) (II)	I/II
1830	100	100	1.00
1936	167	303	0.55
1952	167	358	0.47
1977	394	463	0.85
1982	1,304	489	2.67
1992	6,555	543	12.07
2000	21,690	590	36.76

The same pattern appears in China's per capital GDP.

⁸ Based on Liu Foding, Wang Yuru and Zhao Jin, *Zhongguo Jindai Jingji Fazhan Shi (A History of Economic Development in Early Modern China)* (Beijing: Tertiary Education Press, 1999). Estimates for 1914 and 1936 are based on the indices of Liu and Wang, *Market and Economic Growth*. GDP data for 1952 to 2000 are based on National Bureau of Statistics, *Statistical Year Book*, 2002.

	Actual GDP (I)/Population (α)	Benchmark GDP (II)/Population (α)
1830/3	1.00	1.00
1936	1.39	2.53
1952	1.16	2.49
1977	1.66	1.95
1982	5.11	1.92
1992	22.30	1.85
2000	67.99	1.85

Until the 1970s, China's GDP had under-performed. Mao's growth was more in line with the "Hindu rate of growth." Fast growth only occurred after Mao.

The World Bank has identified the year 1999 as the time when China became a "low middle income country." In 2003 China's per capita income reached the nominal US\$ 1,100 mark. If the purchase power parity (PPP) is used, the reading becomes US\$ 4,990.⁹ A huge jump from the 1977 level of well under US\$ 200.

4. China's new challenges

There are two huge challenges for China: (1) inequality and (2) sustainability.

Post-Mao growth does trickle down in society but not quick enough. The increasing regional and sectoral inequality may jeopardise China's internal law and order.

China has an input-driven growth model for an open and large economy. It requires disproportionate capital, labour and materials to support. Yet, as a supply-driven model, it is conceptually unsustainable. So, the growth may collapse.

⁹ World Bank, *World Development Report, 2005* (New York: Oxford University Press, 2004).