Studies of China’s Economy

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Despite the tendency among academic economists to emphasize theory, technique, and empirical work on the United States and other high-income nations, the study of China’s economy maintains a modest but lively presence within the community of North American economists. Building on recent work by Penelope B. Prime¹ and Gary H. Jefferson,² this review will highlight key stages in the development of Chinese economic studies, identify topics that have attracted clusters of research, point to areas in which China-oriented research has opened new pathways for economic research, and sketch emerging areas of research focus.

Hosea Ballou Morse (1855–1934) stands out as the first American researcher to focus on China’s economy. A Harvard graduate, Morse spent decades in China, where he became a commissioner of China’s Maritime Customs while producing valuable studies of China’s guilds, international trade, and domestic administration.³

Charles F. Remer (1889–1972) and John Lossing Buck (1890–1975) were the first academic economists to specialize in China-related research. Based at the University of Michigan, Remer produced studies of China’s international trade and incoming foreign investment, and also of trade boycotts, which served as an outlet for nationalist sentiments during the decades preceding World War II.⁴ Buck, who taught for many years at what is now Nanjing University, produced massive studies of China’s rural economy that are widely cited even today.⁵ During this early period, Ralph M. Odell, a textile analyst within the US government, produced detailed analyses of cotton manufacture in China (and many other nations).⁶

With encouragement from Simon Kuznets (1901–85), the future Nobel laureate, systematic study of China’s national income began during the 1940s. Ta-chung Liu (1914–75) published an exploratory study of China’s national income during the 1930s,⁷ which subsequently expanded into a massive comparison of China’s economy during the 1930s and 1950s.⁸ Professor Liu was also prominent among the group of academic economists who helped launch Taiwan onto its pioneering trajectory of outward-looking economic growth during the late 1950s, a development that influenced China’s decision to launch its own policy of economic opening two decades later.⁹

As the Cold War intensified, the US government and private donors provided financial support to students and researchers studying Communist bloc nations, including China. In 1961 the Social Science Research Council established a Committee on the Economy of China, chaired by Simon Kuznets. This group produced a series of volumes, including Dwight H. Perkins’s study of long-term trends in Chinese agriculture, Nai-ruenn Chen’s compendium of Chinese economic statistics, and a volume on economic trends in the People’s Republic.¹⁰
This committee and its successors worked to create a community of China-oriented economists, supporting important conference volumes edited by Dwight H. Perkins and Robert F. Dernberger, and sponsoring less formal gatherings to provide opportunities for young researchers (including this author, who began graduate study in 1965) to present their own work and become acquainted with established scholars. Alexander Eckstein (1915–76), a prominent contributor to these efforts, organized seminars and conferences and encouraged younger specialists while pursuing his own research. The Joint Economic Committee of the US Congress sponsored a series of volumes that showcased China-related studies by government and academic economists.

The common method underlying these studies, particularly those focused on the People's Republic, was the use of fragmentary data to reconstruct the broader economic landscape. This approach arose from the paucity of systematic data prior to 1949, and from the limited publication of economic statistics under the People's Republic until the appearance of the China Statistics Yearbook in 1981. This focus on fragmentary information resurfaced in the late 1990s when some observers, including the present author, questioned the reliability of official growth figures during the slowdown that followed the Asian financial crisis, and again in 2008–9, when official reports were scrutinized for possible exaggeration of short-term performance in the wake of the global financial crisis and subsequent recession.

The establishment of diplomatic ties between China and Canada (1970), the gradual expansion of links between China and the United States beginning with President Nixon's visit to China (1972), and the eventual normalization of relations (1979) thoroughly transformed the research agenda for China-oriented economists, who could now conduct field studies within China, pursue collaborative research with Chinese colleagues, recruit Chinese students to study in their home institutions, and create personal networks to facilitate data collection and access to informants and field sites.

China's subsequent shift toward publication of a growing array of economic data enabled economists to contemplate an expanding universe of quantitative studies. Once noted for its failure to provide detailed economic information, China now routinely issues vast quantities of data through open publications and, most recently, official websites. Additional research opportunities arise from the growing availability, typically through informal channels, of large data sets based on detailed information about demographics, household income and expenditures, enterprises, research institutes, or foreign trade transactions, which has encouraged recent research on income distribution (discussed below), industrial development, innovation, and trade.

China's “open door” policy has also allowed overseas researchers to implement projects, typically working with Chinese colleagues, that combine written surveys and field interviews. Some of this work incorporates China into multicountry studies such as the World Bank's investment climate survey. Other projects have added new dimensions to available knowledge of subjects like migration and rural finance.

Generations of studies that present broad overviews of China's economy clearly reflect this massive expansion of data availability. Whereas early volumes by Alexander Eckstein (1977) and Christopher Howe (1978) focus on a narrow array of measures centered on national aggregates and foreign trade, subsequent work from the World Bank (1983), Carl Riskin (1987), and Barry Naughton (2007) and a 2008 volume edited by Loren Brandt and Thomas G. Rawski reveal a progressive expansion in
the range and depth of data sources. Indeed, Chinese data sometimes provide researchers with opportunities that extend beyond what is available elsewhere—as when the availability of national income data for metropolitan areas allowed researchers to conduct empirical tests of propositions flowing from the “new economic geography.”

China’s combination of remarkable economic gains and rich data resources has attracted the interest of prominent economists beyond the modest ranks of “China specialists.” Lloyd Reynolds (1910–2005) was an early example. Many Nobel laureates, including Simon Kuznets (1901–1985), Herbert Simon (1916–2001) and Leonid Hurwicz (1917–2008) developed a deep interest in China’s economy and society. Amartya Sen contributed to an early conference volume on China’s economy and comments frequently on China-related subjects, often in the context of China-India comparisons.

Robert Mundell has offered opinions and advice on the evolution of China’s renminbi currency. James J. Heckman has written on Chinese education. Robert W. Fogel has examined issues surrounding China’s health care and growth prospects. Paul Krugman has jousted with Chinese colleagues on exchange rate management and other issues related to China’s role in the global economy.

China-related research by North American economists displays endless variety, but it clusters around major topics, several of which receive detailed treatment in Penelope Prime’s 2007 review. Subsequent work in these areas includes a review of China’s overall growth since 1952 and forecasts to 2025 by Perkins and Rawski, new contributions on the political economy of Chinese growth by Naughton, an innovative exploration of Chinese growth mechanics in which Loren Brandt, Changtai Hsieh, and Xiaodong Zhu use a three-sector model to show how state ownership hinders both growth and structural change, a penetrating analysis of China’s fiscal system by Christine Wong and Richard Bird, and new work on finance that, among other contributions, places China’s financial system in an international context.

We can also cite substantial work in topics for which Prime’s survey provided no detailed mention. These include the following.

**Labor, Wages, and Education**

These topics have attracted many authors. Results include early work by Thomas Rawski, Jeffrey R. Taylor, and others; extensive reviews of research on both labor and education; a book of essays on education edited by Emily Hannum and Albert Park; and essays by Xiao-yuan Dong, Belton Fleisher, and Margaret Maurer-Fazio, among others.

**Industrial Development and Enterprise Behavior**

These topics have also attracted substantial attention beginning with early studies by Kang Chao, Chu-yuan Cheng, Thomas Rawski, and Yuan-li Wu. In addition to studies of large-scale industry, which include a substantial volume edited by Gary H. Jefferson and Inderjit Singh, China’s development of rural industry attracted considerable attention, including works by Carl Riskin and Martin Weitzman and Chenggang Xu, a World Bank-sponsored volume edited by William Byrd and Qingsong Lin, and later studies focused on the recent privatization of so-called township and village (TVE) enterprises.
Macroeconomics, Finance, and Capital Markets

Contributions in this area include Nicholas Lardy’s widely cited monograph,53 essays on the political economy of reform by Yingyi Qian and several coauthors,54 work by Loren Brandt and Xiaodong Zhu on inflation dynamics,55 and numerous analyses of firms listed on China’s Shanghai and Shenzhen stock exchanges.56

Distribution, Inequality, and Poverty Alleviation

Steep increases in income inequality during the reform era have sparked extensive study of distributional issues, in part because of the erroneous perception that income inequality in prereform China was unusually low in international terms, a view contested by Thomas Rawski.57 Recent studies, bolstered by the growing availability of census and survey data, include contributions by Carl Riskin and Azizur R. Khan;58 a review by Dwayne Benjamin, Brandt, John Giles, and Sangui Wang;59 and several collections of papers.60 China’s achievements in liberating several hundred million citizens from the clutches of absolute poverty have attracted considerable attention, especially from World Bank researchers.61

International Trade, Investment, and Finance

Long a staple topic for international researchers using data available from China’s trade partners,62 these topics have attracted renewed interest because of China’s steeply rising involvement in a broad array of global markets. Recent contributions include books by Nicholas Lardy; an overview of China’s globalization by Lardy and Lee Branstetter;63 essays by authors such as Peter Schott,64 Robert Feenstra, and Hiau Looi Kee;65 Brandt, Rawski, and Xiaodong Zhu;66 and analyses of international currency and financial disequilibria by Ronald McKinnon,67 Wing Thye Woo,68 and others.

Agriculture, Rural Policy, and Out-migration of Villagers

With its history of sweeping institutional changes—from fully marketized private farming through land reform, collectives, people’s communes, and, twenty years later, the household responsibility system and a subsequent move in the direction of market revival—and equally dramatic shifts in output, productivity, and structure, China’s farm sector has occupied a central position among the research interests of China-oriented economists. The long list of studies includes books by Dwight Perkins,69 Peter Schran,70 Nicholas Lardy,71 and Louis Putterman;72 lively debate about the impact of commune organization on incentives and productivity and, through them, on the great famine of 1959–61;73 analysis of how the return to household farming sparked steep increases in farm output;74 and ongoing studies of the evolution of Chinese agriculture and the rural economy, most notably by Scott Rozelle and a wide array of coauthors.75

Economic Growth and the Environment

With environmental issues playing a growing role in China’s domestic policy and international relations, economists have focused increasing attention on this subject. On the domestic side, a broad review by James Roumasset, Kimberley Burnett, and Hua Wang finds that China’s recent burst of growth
has produced rather modest environmental costs, which do not justify the alarmist claims that have received wide circulation in North American media. Thomas Rawski’s study of trends in urban air quality reaches similar conclusions. Wing Thye Woo has addressed the issues raised by China’s emergence as the largest national source of the greenhouse gases that raise the likelihood of global warming.

*International Comparisons*

China’s dramatic economic gains have sparked growing interest in cross-national comparisons aimed at comparing Chinese performance with international norms and highlighting special features associated with China’s massive growth spurt. Studies of this genre include work focused specifically on China and India; analyses of East Asia focused on urbanization, innovation, food policy, and future growth prospects; and cross-national statistical comparisons.

New knowledge about China’s economy does not come only from economists. Scholars from many fields have added important elements of breadth and depth to our understanding of the nature and evolution of China’s economy. The following brief observations capture some of the many economically relevant studies contributed by non-economist authors.

*Geography*

While economists have devoted only limited attention to spatial issues, geographers have contributed substantial studies in a number of areas, including urbanization, environment, migration, and the impact of the Three Gorges dam project.

*Anthropology*

Field studies focused on households and communities, typically in rural areas, have obvious potential for mapping important features of economic life at the microlevel. Studies that delve into the realities of local economic organization, the informal governance of rural communities, the use of contracts and other management tools, and the behavior of small-scale entrepreneurs add new dimensions to the picture that emerges from the statistical methods favored by economists. Starting with materials from local field studies, G. William Skinner (1923–2008) constructed comprehensive models that placed market relations at the heart of social, political, linguistic, and cultural patterns; the impact of his work on local systems extended far beyond China studies.

*Sociology*

Like their anthropological colleagues, sociologists have produced numerous studies rooted in field studies of particular segments of society: urban and rural communities, factory management, labor relations, and inequality, among others, all with important implications for understanding economic structure and behavior.
Researchers specializing in the study of Chinese politics have produced valuable research on a wide array of economic topics, including environmental issues, rural issues (including the great famine of 1959–61), the growing impact of lobbying and public opinion on official policy, the structure and development of science and technology, the organization and management of important industries, the financial system, industrial policy, labor reform, and general studies of China's political economy.

Economic history, a territory long shared between economists and historians, deserves particular attention. Researchers in both fields have contributed mightily to the expansion of knowledge in this area during the present author's professional lifetime. Looking back over several decades, we see broad overviews, as well as illuminating studies in many fields, including prices; the production, marketing, and distribution of products ranging from rice, silk, tea, sugar, cotton textiles, and cigarettes to books and sexual services; market integration; demography; public administration; institutions; education; science; commerce; business; contracts; regional economies; income distribution; and many others.

China's astonishing growth over the past three decades, which qualifies as a major event in world economic history, raises obvious historical questions about the wellsprings of this growth eruption. Instead of seeking to explain China's failure to develop—a staple topic during this author's undergraduate studies in the early 1960s—it now seems essential to ask what social and cultural (as well as economic) formations encouraged and supported China's high-speed growth and why such growth appeared only after 1978. What, for example, retarded China's growth during the final decades of the Qing dynasty, roughly 1870–1911, a period of relative domestic stability during which China benefited from postwar recovery (following the Taiping rebellion), a full-fledged market economy, an international regimen of free trade and (after 1895) investment, and a government that was somewhat inclined to pursue growth-oriented reforms?

As economists begin to consider the determinants of long-term growth, they find themselves scrambling to catch up with the work of historians who have staked out challenging positions well in advance of their colleagues from the dismal science. Reacting against the idea that stagnation or decline dominated China's pre-1949 economy, a cluster of studies published around 1990 argued that China achieved modest but definite advances in output, industrialization, urbanization, and even income per person during the decades prior to the outbreak of the Pacific War in 1937. These studies, grounded in extensive documentary research, focused exclusively on China's economy and, partly as a result, attracted little attention beyond the China field.

More recently a group of historians known collectively as the “California school” launched a wave of publications that expanded both the time frame and the geographic scope of research on long-term trends in China's economy. The key arguments of this group, most clearly articulated by Kenneth Pomeranz, are that prior to the British Industrial Revolution there was little difference in economic structure or per capita income between China's commercialized lower Yangzi region and economically advanced areas of Western Europe, and, furthermore, that Britain's head start in industrialization arose from its easy access to coal rather than from any advantage linked to political, legal, or other institutional factors.
Although these specific claims seem unlikely to withstand careful examination, this new work has electrified specialists studying both Europe and Asia, sparked enormous controversy, and transformed the formerly sleepy and isolated field of Chinese economic history into a focal point for intensive research and analysis by a substantially enlarged community of researchers. In short the California school has become a prime mover in creating a dynamic and exciting field of international or global economic history.

Thanks to the efforts of Pomeranz and his colleagues, we can now look forward to a third wave of economic history research that can combine extensive institutional knowledge with the documentary strength and quantitative depth of earlier studies, as well as the broad sweep and interpretive flair of the California school.

This is only one of many new avenues that await future scholars of China’s economy. In addition to issues surrounding China’s spatial economy (mentioned above), the list of important but neglected topics includes (but is surely not limited to) big business; industrial organization; health care, pensions, and other social safety net provisions; microlevel studies showing the impact of international trade and incoming foreign direct investment; and the overseas and domestic impact of China’s rapidly expanding overseas direct investment.

As occurred in the decades following Japan’s emergence as a major economic power, growing awareness of China’s economic circumstances has begun to penetrate the structure of economic science. So far the impact remains modest: China’s long-term experience undercuts the “law of diminishing returns” and shatters antiglobalist claims that participation in world markets damages poor nations and poor people. China’s recent development negates the “Washington consensus” and challenges important elements of the “new institutional economics.” Its reform experience indicates that economists may have exaggerated the benefits of private ownership and undervalued competition.

But this is only the beginning. Further study will expand our understanding of the structure, operation, and management of China’s economy. This new knowledge will enhance our capacity to analyze Chinese policy and performance; it may permit better forecasts of Chinese economic outcomes; it will certainly enrich the discipline of economics.
Notes

Thomas G. Rawski, Professor of Economics and History, joined the University of Pittsburgh’s faculty in 1985 after fourteen years at the University of Toronto. His research focuses on the development and modern history of China’s economy, including studies of China’s reform mechanism and achievements, as well as analyses focused on productivity, investment, industry, trade, labor markets, environment, and economic measurement. His publications include books on economic growth and employment in China, Chinese history in economic perspective, economic growth in prewar China, China’s transition to industrialization, and economics and the historian. He is coeditor of the recent volumes *China’s Rise and the Balance of Influence in Asia* (with William W. Keller, University of Pittsburgh Press, 2007) and *China’s Great Economic Transformation* (with Loren Brandt, Cambridge University Press, 2008).

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4 C. F. Remer, *The Foreign Trade of China* (Shanghai: Commercial Press, 1926); *Foreign Investments in China* (New York: Macmillan, 1933); *A Study of Chinese Boycotts, with Special Reference to Their Economic Effectiveness* (Baltimore: Johns Hopkins University Press, 1933).


17 A number of returned students have assumed prominent positions – for example YI Gang at the People’s Bank of China, FANG Xinghai in the Shanghai Municipal government, ZUO Xuejin at the Shanghai Academy of Social Sciences, LI Ling, LIN Yifu, ZHAO Yaohui and ZHOU Qiren at Peking University, and BAI Chong’en, LI Daokui, and QIAN Yingyi at Tsinghua University.


For example, see multiple essays by Zhiwu Chen cited at http://en.scientificcommons.org/zhiwu_chen.


80 Winters and Yusuf, Dancing with Giants.


86 For example, see Kam Wing Chan, Cities with Invisible Walls: Reinterpreting Urbanization in Post-1949 China (Hong Kong and New York: Oxford University Press, 1994).


88 C. Cindy Fan, China on the Move: Migration, the State, and the Household (London and New York: Routledge, 2008).


95 Martin King Whyte, Myth of the Social Volcano: Perceptions of Inequality and Distributive Injustice in Contemporary China (Stanford, CA: Stanford University Press, 2010).


Commerce in Culture: The Sibao Book Trade in the Qing and Republican Periods (Cambridge, MA: Harvard University Asia Center, 2007).


113 Elman, On Their Own Terms.


116 Zelin, The Magistrate’s Tael.


