

China's Economic Growth: Towards Sustainable Economic Development and Social Justice

John Joshua

China's Economic Growth: Towards Sustainable Economic Development and Social Justice

Volume II: The Impact of Economic Policies on
the Quality of Life

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John Joshua
Independent scholar
Shun Cheng District, Fushun-City,
China

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Preface, Volumes I and II

During the pre-colonial period, the regions of South Asia, South-East Asia and East Asia were highly integrated. However, during the colonial period, Europeans took control of trade and siphoned off the profits to Europe. After the end of the colonial period, East Asia and South Asia began to re-engage with each other. China is not the first country to grow at a rapid rate. Japan experienced similar growth from the mid-1950s until 1973; during that period, Japan's real gross domestic product (GDP) expanded fourfold over a period of 15 years (Ito and Weinstein 1996, p. 206).

The commonly held view is that China is a fast-growing economy with a large amount of foreign direct investment. China's economy is thought to be largely based on exports consisting of labour-intensive products. However, this view is a generalization derived from statistical calculations and empirical findings. Extrapolations of trends into the future are often a futile exercise as there are too many intervening scenarios which may prevent past trends from continuing into the future. However, China's economic growth experience since the reform period is similar to that of Japan and Korea when they were in similar phases of economic development.

Until the 12th Five Year Plan (2011–15) China pursued an economic policy of 'economic' growth at any cost; such a policy, however, is not sustainable. The government has now called for a major shift in policy,

but faces severe obstacles, which are addressed in the chapters that follow. Sustainable growth is only viable when it is guided by a policy of sustainable development, which may include: (1) the protection of the environment; (2) the amelioration of poverty; (3) more evenly balanced regional development between the provinces and regions; and (4) more emphasis on rural development. The necessary reforms can be implemented largely, but not completely, through the market system and economic incentives.

China has experienced a structural transformation of its economy and has moved towards a consumer-oriented society without relinquishing its export markets; in addition, the Chinese economy is undergoing a structural transformation from a 'Made-in-China' to 'Designed-in-China' economy. It is argued here that such structural transformation will have an impact on the global economy by inducing new trade relations and new shifts in comparative advantages.

This book, 'The Impact of Economic Policies on the Quality of Life' is part of a two-volume project, *China's Economic Growth: Towards a Sustainable Economic Development and Social Justice*. Together the two volumes address the economic transformation that is currently taking place in China. The first volume analysed China's domestic and international policies and this second volume focuses on how such domestic policies are affecting the quality of life of the average citizen in China. Even though these two volumes concentrate on the current structural transformation in China, they should be of interest to anyone who is concerned with developing and emerging economies since many of these face problems similar to those described here. It should also be of interest to anyone who is interested in the changing multi-polar global economic environment.

These books are distinctive from other books that address the costs and benefits of economic growth since they relate these costs and benefits to specific issues rather than addressing economic growth more generally. Firstly, they make a distinction between economic growth and sustainable economic development, a perspective taken up in subsequent chapters. They are also distinctive as they address several topics; each chapter addresses a separate topic that relates to the issue of sustainable economic development, and the topics are integrated within the all-inclusive issue of sustainable development; in other words, the book addresses the most

important topics concerning sustainable economic development in China. China's future economic growth to a large extent depends on its further and deeper integration within the global economy.

Following the introductory first chapter, Chapter 2 of the first volume explains the distinction between economic growth and sustainable economic development and how economic growth is measured. This chapter also addresses the issue of market failure in regard to negative externalities, and the deteriorating effect that economic growth may have on the environment. The costs and benefits of economic growth are then related to a possible sustainable economic development.

Chapter 3 addresses China's current economic policies towards economic growth and development. China's economic policies before and during the economic reforms are briefly described as well as the structural transformation of China's economy, which has moved the country from an export-oriented towards a consumer-oriented society, including China's transformation from a 'Made-in-China' to a 'Designed-in-China' economy.

Chapter 4 provides an analysis of the comparative advantage of nations, with specific reference to the Chinese economy. As the Chinese economy is experiencing structural transformations at the moment, it is inevitable that its comparative advantages will change as well.

Within a globalized economy, a change in the comparative advantage of nations will lead towards the formation of new international trade relations, which is discussed in detail in Chapter 5; this includes a discussion of the diversion and creation of trade and the change in trade pattern. International trade relations may lead towards economic integration and the development of trading blocs. Such recent developments are of direct relevance not only to Chinese economic prospects but will also have considerable ramifications for the global economy. The economic integration and development of Eurasia, together with the emerging trading blocs and their policies, are discussed in Chapters 6 and 7. It is anticipated that such international trade relations will lead towards a new international financial system, which is analysed in Chapter 8.

This second volume analyses China's domestic economic policies and the quality of life in China. The first chapter is the introductory chapter and provides an overview. China has experienced fast economic growth

since the implementation of the economic reforms after 1978. However, the increase in income has not kept pace with the rate of economic growth and the inequality in the distribution of income has widened.

China is in the process of establishing a moderately prosperous society (xiaokang) to increase the standard of living of the vast majority of the public which is essential to create a harmonious society (hexie shehui). As China's economy is in the process of transformation, it requires new types of human capital to maintain the momentum. This will also affect the distribution of income; however economic growth has to be sustainable. Hence, the environmental impact of economic growth and quality of life has to be considered. Quality of life depends on economic justice as well as social justice which requires an inclusive and sustainable economic development, which China is able to maintain with the right policies. However, various problems, such as the widening income distribution and the rural-urban divide will have to be addressed. Chapter 2 of the second volume describes the process of a balanced path development whereby different spheres of the economy and society may benefit to a different extent from economic growth and development; the dual economy is discussed in detail, including the transformation of this economy and its work force. This chapter explains the arguments for balanced as well as unbalanced economic growth, with reference in particular to the absorption of surplus labour. The rural-urban income gap and the education gap between rural and urban regions is also discussed, together with the urbanization of China.

The subsequent transformation of the economy will also need new human capital formation as well as transformation so that citizens are equipped to adapt themselves to a changing environment. This topic is addressed in detail in the third chapter of the second volume. It is argued that a developing economy requires the transformation of new human capital to produce a multi-skilled workforce. Hence, the Chinese education system and its processes is discussed in detail, as is the means by which Chinese education is being funded.

Chapter 4 of Volume II addresses the relationship between the distribution of income and economic growth. The issue of inequality in access to educational opportunities and social mobility is also addressed.

Chapter 5 of Volume II addresses the topic of the alleviation of poverty. This chapter discusses the relationship between economic growth and inequality, and also covers the subsistence theory of wages. One of the major ways of alleviating poverty is the provision of education and this area is therefore addressed in this chapter in detail. The adequacy of the provision of social security in China is also assessed.

Economic growth, of course, will also incur various environmental costs which have to be accounted for if economic growth is to be sustainable. This vital topic of sustainable economic growth is discussed in Chapter 6, beginning with the causes and effects of environmental degradation resulting from economic growth; China's environmental policies are then described. Finally, this chapter discusses appropriate environmental policies.

China's economic policies as discussed in Volume I and the Chapters 2, 3, 4, 5 and 6 of this volume impact on the quality of life and social justice in China, which are therefore discussed in the last two chapters. Chapter 7 of this volume discusses the relationship between quality of life and economic growth. Objective living conditions and subjective well-being is also assessed in this chapter, which then leads into a discussion of the Maslow Pyramid of hierarchical needs and an analysis of the increase in conspicuous consumption in China. Finally, how an increase in income will affect people's happiness is also addressed.

Chapter 8 of this volume addresses how sustained economic development may affect social justice. Participatory and distributive justice are seen in this chapter as pre-conditions for social harmony, while economic justice is seen in this chapter as a precursor to social justice. To achieve such an aim, it is argued that a paradigm shift is required. Finally, the development of social justice and social development is effected through the permanent structural transformation of the economy.

The last chapter provides the conclusion and points out the opportunities as well as the challenges of a sustainable economic development. The creation of a harmonious society (*hexie shehui*) is essentially a balancing act between various interest groups. One of the most important challenges is to overcome the division of a dual economy and to minimize the rural–urban divide; to overcome such divisions will reduce the inequality of income and reduces the level of poverty and increases the quality of

life of the people. Provided such challenges are successfully managed, the Chinese Dream (zhong guo meng) can be achieved.

China as an emerging global power is facing various challenges. China has been successful in achieving a high rate of economic growth for over almost 40 years, it has been able to move over 480 million people out of poverty, and yet many are still left behind. The quality of life for most people has not yet advanced as fast as the economy. Economic growth in Chinese is referred to as *zengzhang*, which relates to statistics of growth; whereas ‘development’ in Chinese is *fazhan*, which implies progress towards better quality, including quality of life. The size of a nation’s GDP may have no relationship to people’s quality of life; instead, what is important is how the benefits of economic growth are distributed amongst the public. Hence the performance of a nation’s economy should be judged by the quality of life of the people, rather than by increases in GDP alone. Various projects—magnificent squares, ever taller skyscrapers or grand palaces—may be status symbols, but the quality of life of the people does not change; instead, it may take away much-needed resources from more urgent projects to improve the quality of life. Having achieved economic success in terms of *zengzhang*, now is the time to use the economic success to concentrate on *fazhan* as well.

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