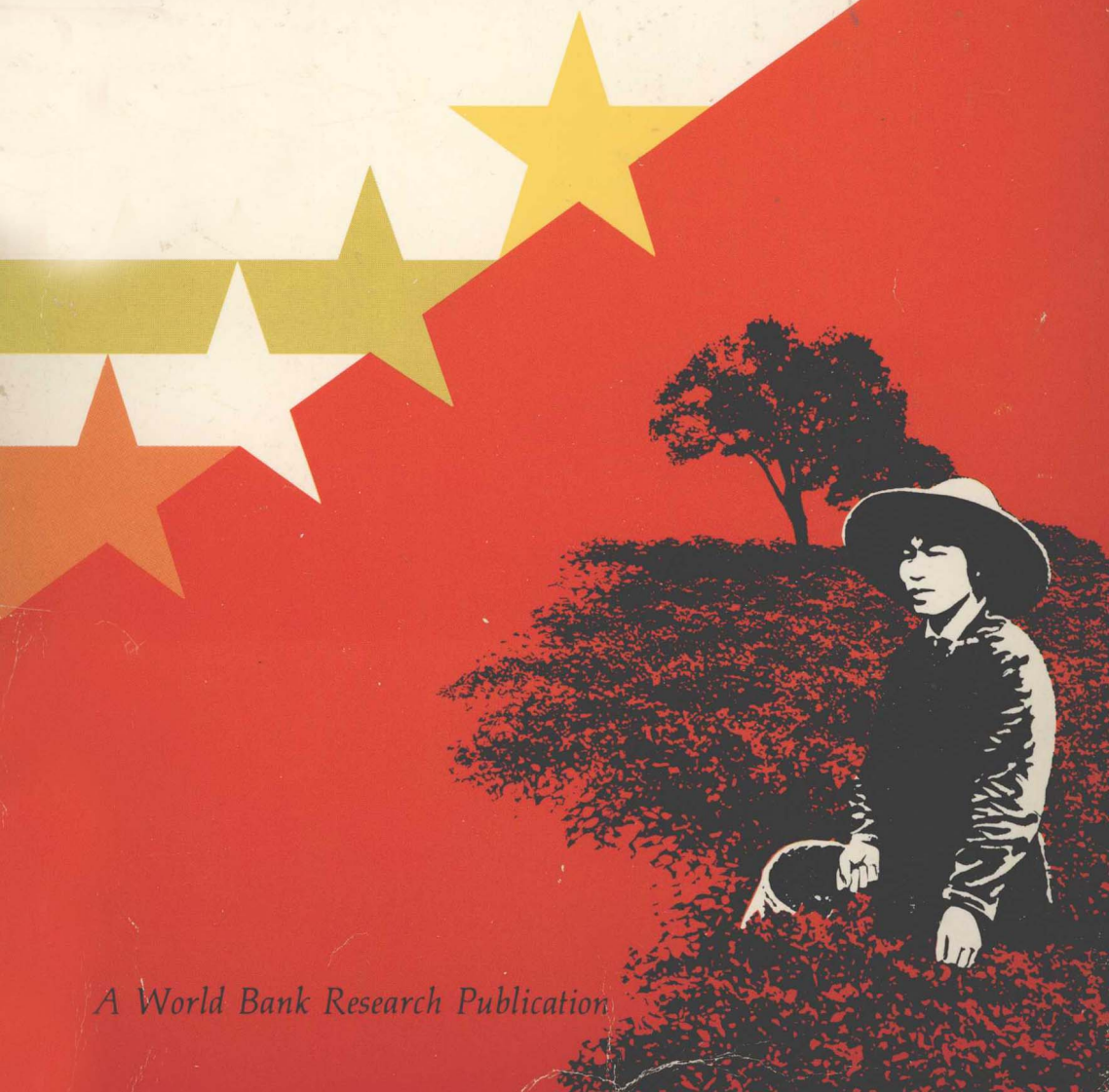


Thomas G. Rawski

# Economic growth and employment in China



*A World Bank Research Publication*

Economic Growth  
*and*  
Employment  
*in*  
China

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## *Foreword*

THE PRESENT DECADE has seen much soul-searching about employment policies in developing countries. The volume of literature on the subject is large. Several particular aspects have been the subject of intensive debate: appropriate technology, small-scale enterprise, rural industries, farm mechanization, and the employment and distributive aspects of small-scale farming and agrarian reform. In some instances the debate is of long standing, but it continues with as much intensity as before. Whatever the benefits of industrial exports for growth and employment may be in general, in the more populous developing countries the main market for industry is the domestic one, and it is likely to remain so for some time. Since, in addition, the labor force is preponderantly rural, agricultural development strategy has a critical bearing on the pattern, location, and pace of industrial development.

In writings on these matters, it is common to find some reference to China's experience. Nevertheless, despite the rapid growth of the literature, there are few studies that have attempted to map out China's policies on employment and, in particular, to make a quantitative assessment of what most observers agree to have been considerable achievements during the past two decades. The World Bank asked that such a study be undertaken; this book was commissioned to help the Bank in its understanding of urban and rural development, rural enterprise and nonfarm employment, and the development of small enterprise.

The emphasis placed by China on labor-intensive methods of raising agricultural output, supported by its rural industries' program, and the resulting effects on the regional dispersion of industry provide valuable insight, both for countries that have not opted for this as one of the elements of an employment and growth policy and for others that have or are in the throes of doing so. As

the author concludes, even if China's political, social, and economic system is radically different, there are many examples of how knowledge of its experience can enrich the understanding of those concerned with employment policy elsewhere.

BENJAMIN B. KING

*Director*

*Development Economics Department*

## *Preface*

THIS BOOK is a revise and updated version of a report prepared for the World Bank in 1977. In writing the original report and the present manuscript, I have benefited from the assistance of a number of individuals and organizations.

My primary obligation is to Alice S. Y. Chan, whose diligent efforts unearthed much of the detailed information presented in the following pages. Evelyn Rawski read and discussed countless drafts.

The following individuals and organizations generously supplied me with bibliographic assistance, unpublished research results, and good advice: John Aird, Dennis Anderson, David M. Brown, Kang Chao, the Committee on Scholarly Communication with the People's Republic of China, Robert Dernberger, John Philip Emerson, Robert Michael Field, Thomas Gottschang, Shigeru Ishikawa, Ramon Myers, Dwight Perkins, Peter Schran, Benedict Stavis, Anthony Tang, Joseph Whitney, Peter Wiles, Bobby Williams, Florence Yuan, and several anonymous critics. Portions of the study were discussed in seminars at the World Bank, the Midwest Seminar of the Association for Asian Studies, and the Universities of Pittsburgh and Toronto. Financial support came from the World Bank, the University of Toronto–York University Joint Centre on Modern East Asia, and the University of Toronto.

Marilyn French typed the manuscript with speed and efficiency. The final manuscript was edited by Goddard Winterbottom and Christine Houle; the index was prepared by Nancy E. MacClintock; the maps were drawn by Larry A. Bowring; Richard Stoddard designed the cover and dustjacket; and Brian J. Svikhart su-

pervised production. Although many people have contributed to this study, its shortcomings must still be blamed on the author.

THOMAS G. RAWSKI

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Economic Growth  
*and*  
Employment  
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China



## Chapter One

### *Introduction and Summary*

THE LEVEL OF EMPLOYMENT IS A CRITICAL INDICATOR of economic performance in developing countries, a fact that economists have come to recognize only during the past decade. The principal conclusion of this study of the relation between economic growth and employment in the People's Republic of China is that China has succeeded in providing greater employment opportunities for a large and rapidly growing labor force, with much of this absorption of labor occurring in agriculture.

#### Economic Growth in China

China's economy has grown rapidly, though at times erratically, since the creation of the People's Republic in 1949.<sup>1</sup> In addition to the expansion of production both in aggregate and in per capita values, this growth process has brought with it important changes in economic structure, in technology, and in the level of economic welfare enjoyed by the Chinese people. Quantitative indicators of China's recent progress along the path of modern economic growth are compiled in Table 1-1.

1. For detailed accounts of China's recent economic development and its historical antecedents, consult Alexander Eckstein, *China's Economic Revolution* (Cambridge, England: Cambridge University Press, 1977); Christopher Howe, *China's Economy: A Basic Guide* (New York: Basic Books, 1978) and *China's Modern Economy in Historical Perspective*, ed. Dwight H. Perkins (Stanford, Calif.: Stanford University Press, 1975).

TABLE 1-1. INDICATORS OF CHINESE ECONOMIC DEVELOPMENT,  
SELECTED YEARS, 1952-78

<i>Indicator</i>	1952	1957	1965	1974	1978	<i>Average annual growth rate, 1952-78 (percent)</i>
1. Gross domestic product (billions of 1957 yuan)	70.41	104.68	150.64	266.24	338.62	6.2
Components <sup>a</sup>						
Agriculture	32.15 (45.7)	44.72 (42.7)	49.10 (32.6)	67.09 (25.2)	n.a.	3.4 <sup>b</sup>
Industry and transport	19.31 (27.4)	34.16 (32.6)	64.60 (42.9)	138.84 (52.1)	n.a.	9.4 <sup>b</sup>
Construction	1.48 (2.1)	4.00 (3.8)	8.00 (5.3)	13.96 (5.2)	n.a.	10.7 <sup>b</sup>
Services	17.47 (24.8)	21.80 (20.8)	28.94 (19.2)	46.35 (17.4)	n.a.	4.5 <sup>b</sup>
2. Population, January 1 (millions)	564	633	745	915	994	2.2
3. Output per capita (yuan)	130	163	202	291	341	3.8
4. Gross fixed capital formation (billions of 1957 yuan)	7.70	19.52	35.46	68.01 <sup>c</sup>	n.a.	10.9 <sup>c</sup>
5. Capital formation proportion (percent)	10.9	18.6	23.5	26.5 <sup>c</sup>	n.a.	—
6. Urban retail price index	100	109	n.a.	124	n.a.	1.0 <sup>b</sup>
7. Commodity output						
Grain (millions of tons)	161	191	194	275	305	2.5
Cotton (millions of tons)	1.3	1.6	1.6	2.5	2.2	2.0
Coal (millions of tons)	66	131	232 <sup>d</sup>	411 <sup>d</sup>	618	9.0
Crude oil (millions of tons)	0.4	2	11	66	104	23.8
Electricity (billions of kilowatt hours)	7	19	42 <sup>d</sup>	108 <sup>d</sup>	256	14.8
Crude steel (millions of tons)	1	5	12	21	32	14.3
Cotton cloth (billions of meters)	4	5	6	8	11	4.0
8. Foreign trade turnover (billions of 1963 U.S. dollars)						
Exports	0.8	1.3 <sup>e</sup>	2.2 <sup>f</sup>	2.8	n.a.	6.0 <sup>b</sup>
Imports	1.0	1.7 <sup>e</sup>	1.9 <sup>f</sup>	3.2	n.a.	5.4 <sup>b</sup>

n.a. Not available. — Not applicable.

a. Percentage share of each component is shown in parentheses.

b. Growth rate is for 1952-74.

c. Estimated capital formation is for 1973; growth rate is for 1952-73.

d. Figure is probably an underestimate of actual output.

TABLE 1-1 (*continued*)

e. 1955 data.

f. 1966 data.

Sources: Line 1 Dwight H. Perkins, "Estimating China's Gross Domestic Product," *Current Scene* 15.3 (1976), p. 16, extended from 1974 to 1978 and, for calculating the figures in Line 5, to 1973 using an index calculated from U.S. National Foreign Assessment Center, *China: Economic Indicators* (Washington, D.C.: Central Intelligence Agency, 1978), p. 1. Line 2 Aird's estimates shown in Table 2-1. Line 4 Robert M. Field, "Real Capital Formation in the People's Republic of China, 1952-1973," in *Quantitative Measures of China's Economic Output*, ed. Alexander Eckstein (Ann Arbor: University of Michigan Press, forthcoming), Table 19. Line 6 Dwight H. Perkins, "Growth and Changing Structure of China's Twentieth-Century Economy," in *China's Modern Economy in Historical Perspective*, ed. Dwight H. Perkins (Stanford: Stanford University Press, 1975), p. 153; and Christopher Howe, *China's Economy: A Basic Guide* (New York: Basic Books, 1978), p. 176. Line 7 data for 1978 from "Communiqué on Fulfillment of China's 1978 National Economic Plan," *Beijing Review*, no. 27 (1979), pp. 37-38; other data, U.S. National Foreign Assessment Center, *China: Economic Indicators*, p. 1, except for the estimate of 1974 cotton cloth output, which is from Robert M. Field, "Civilian Industrial Production in the People's Republic of China: 1949-74," in U.S. Congress, Joint Economic Committee, *China: A Reassessment of the Economy* (Washington, D.C.: U.S. Government Printing Office, 1975), p. 167. Line 8 Alexander Eckstein, *China's Economic Revolution* (Cambridge, England: Cambridge University Press, 1977), p. 246.

In quantitative terms, these data show that aggregate and per capita output have grown at rates that, although not exceptional, exceed average performance among countries of the Third World by a considerable margin.<sup>2</sup> Extensive changes in the structure of the economy—formerly dominated by agriculture and handicrafts, with industry contributing only a small and isolated segment of total output—have pushed industry ahead of agriculture as the largest contributor to China's gross domestic product. Rising domestic saving and production of capital goods have lifted the share of output devoted to investment from the 5 percent level recorded before World War II to approximately 25 percent in the mid-1970s. Massive growth of output in energy, metallurgy, engineering, and other basic industries has enabled China to supply itself with most of the commodities needed to support its economic expansion. The level of foreign trade, although small in proportion to overall output, has kept pace with the growth of the domestic economy, allowing imported goods and the exports that finance import purchases to make a continuing contribution to the expansion of China's economy.

2. David Morawetz, *Twenty-five Years of Economic Development, 1950 to 1975* (Baltimore and London: Johns Hopkins University Press, 1977), p. 19.



Qualitative changes are less easily documented, but they have been of equal significance. China has made great strides in providing adequate food, shelter, health care, and other basic necessities to its entire population, including the lowest income groups. Mastery of modern technology has spread rapidly over a broad range of manufacturing industries and scientific disciplines. A nation that until 1957 could not manufacture tractors, power plants, or wristwatches now produces computers, earth satellites, oral contraceptives, and nuclear weapons. The technical skills required for industrial development are no longer confined within a few isolated urban enclaves. The spread of rural electrification, local industry, technical training, and publishing has brought modern science and technology to the doorstep of most of China's 200-odd million households. Nearly universal participation by Chinese youth in primary education and the rapid expansion of secondary education ensure that the dissemination of knowledge will continue to broaden and deepen.

### Employment Problems and Goals during the 1950s

In the experience of many developing countries economic growth and industrial expansion have often failed to provide adequate employment opportunities for broad segments of the labor force. With its huge and thickly clustered population, China has had a long history of urban unemployment and rural underemployment. In the early years of the People's Republic, in the early 1950s, a concentration of resources on a small number of large-scale, capital-intensive industrial projects that formed the core of China's First Five-Year Plan (1953–57) produced what is a classic pattern: a rapid growth in output alongside open unemployment in the cities and seasonal idleness in the countryside.

Chinese and foreign accounts agree that urban unemployment was both severe and persistent during the 1950s. The rapid growth of urban and industrial job opportunities could not keep pace with the sheer number of job seekers, which was swollen by masses of peasants flocking to the towns to escape the consequences of local