



CHINA'S CHURN

Federal Reserve Bank of Dallas

Several years ago, the Dallas Fed's annual report featured an essay entitled "The Churn." The churn is our term for what economist Joseph Schumpeter called "creative destruction." A dynamic economy like ours can grow and make room for the new only if we allow parts of the economy to shrink. Unprofitable firms and industries must be allowed to fail and go out of business so their workers and other resources can move into firms and industries whose products are more favored or needed by consumers. This is, as the essay's subtitle says, the paradox of progress.

As the most populous country on the planet, China has been experiencing the mother of all churns. Although still a communist country, its market reforms over the past two decades have produced tremendous growth and change. Using conventional measures, at present growth rates China will soon replace Japan as the world's second largest economy. China's churn—already huge—will only grow as the country becomes part of the world trading system. The pain will be great, but so will the rewards.

The Dallas Fed is proud to make available this publication, written by our economist Meredith Walker. It is an up-close-and-personal account based on her recent tour of China. Alas, shortly after her trip, the churn got Meredith. She may now be reached at the New York Fed. We miss her.



Bob McTeer
President
Federal Reserve Bank of Dallas

China's progress toward prosperity and accession into the WTO will create new opportunities for American businesses and farmers.

—Alan Greenspan



China's Churn

China is changing.

Beijing's billboards no longer spout ideology. They advertise consumer products like Internet service, cell phones and credit cards. On the outskirts of Nanjing, prosperous farmers are remodeling old dwellings into suburban-style two-story homes, complete with satellite dishes. Skyscrapers rise from what a decade ago was farmland in Shanghai, providing office space for financial and technology companies.

Fashionable girls toddle along the streets of Wenzhou on 6-inch-tall shoes, just like the teens in Tokyo.

Once drab, regimented and inward-looking, China now ranks as one of the world's most dynamic countries. The symbols of the past still prevail—state-owned enterprises still dominate the economy and the Communist Party still rules the roost in politics. But there's little doubt a new China is emerging, one that offers both

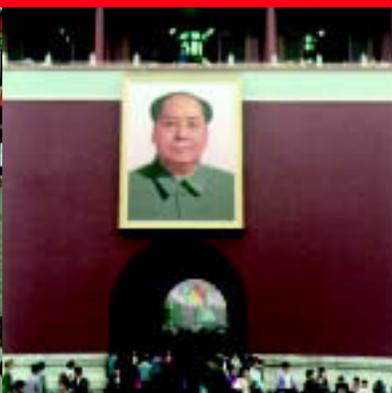
challenges and opportunities for the United States.

In November 1999, after 14 years of negotiation, China and the United States reached a bilateral agreement that paves the way for China to join the World Trade Organization, the 136-nation group that sets the standards for international commerce. The Chinese regard joining the WTO as their most important economic reform in 20 years. China is expected to officially join the WTO in late



In their linguistic and economic diversity, mainland China's provinces resemble the nations of Europe more than the American states. Two-thirds of Chinese reside in the prosperous eastern fifth of the country. Only one quarter of China's population live in the impoverished western half.

The map highlights five cities that illustrate some of the churn's many faces in China today.



2000 and begin fulfilling its commitments to open markets, some immediately and some gradually over the following six years.

Whether it's a matter of national security or economic interests, the United States benefits by encouraging the nation of 1.2 billion people toward a market economy, one that abides by the accepted rules of international trade and investment. Despite its status as the world's seventh largest economy and America's fourth largest trading partner, China is still a poor country that needs foreign technology, markets, investment and

competition to hasten its economic development (*Exhibit 1*).

Faced with economic stagnation two decades ago, China sidestepped communist orthodoxy, loosening state control of the economy through market opening and reform.

It started on the farms in 1978, when the government allowed farmers to sell on the open market some of what they produced. The experiment yielded quick results. Food output rose sharply because profit motivates people to work harder and smarter, in China as much as anywhere else.

Over the years, China's leaders let the market penetrate other parts of the economy. Now, enterprising Chinese can open their own businesses and look for better jobs. The country welcomes foreign investment. The reforms have paid off, and living standards throughout China have improved dramatically (*Exhibit 2*).

As market forces emerge in China, the country cannot avoid the turbulence of economic progress—what economists call “the churn.” The shorthand term refers to the creative destruction



China, with a population of 1.2 billion people, has an economy that, when measured taking into account the purchasing power of alternative currencies, is larger than that of Japan and may be approaching half the size of the U.S. economy.

—Alan Greenspan

Exhibit 1

Looking at China and the United States

It's no secret China has many mouths to feed, but is that good or bad? Mao Zedong encouraged Chinese families to have as many children as possible. Deng Xiaoping believed that China would never be rich if its growing GNP had to be divided among more and more people. He implemented the one-child policy in 1978, and annual population growth declined from 2.3 percent in the 1980s to 1.2 percent in the 1990s. But having many mouths also means having many minds. Says American futurist George Gilder: "Forget oil, gold, land, the ocean floor or the reaches of outer space. The single greatest untapped resource in the world economy is the Chinese people."

	China	United States
Surface area	9.597 million sq. km	9.364 million sq. km
Population	1.239 billion	270 million
Population density	133 per sq. km	30 per sq. km
Labor force	743 million	138 million
Urban population	31% of total	77% of total
Rural population density	685 per sq. km	35 per sq. km
Arable land (% of land area)	13.3%	19.3%
GNP	\$923.6 billion	\$7,903 billion
GNP rank	7	1
GNP growth rate	7.4%	3.7%
GNP per capita	\$3,051	\$29,240
GNP per capita rank	132	4

NOTES: Data are for 1998, except 1997 for rural population density and arable land. Rural density is people per square kilometer of arable land. GNP per capita and rank adjusted for consumer purchasing power.

SOURCE: World Bank, *World Development Indicators 2000*, *World Development Report 1999/2000*.

that occurs as a market economy continuously reallocates labor and capital to their most profitable uses. Day in and day out, the churn revitalizes an economy as technological innovations spawn new goods and services, as companies streamline production, as new jobs replace old ones and as companies' fortunes wax and wane.

The churn, an essential part of a free market economy, accelerates with liberalization of trade and finance and faster introduction of technology. It slows when governments or special interests try to protect existing industries and jobs.

The churn creates hardships, including job losses and business failures, but it pays off handsomely with higher standards of living. For proof, Americans need only look around. The United States has endured more than two centuries of the churn. Companies and entire industries have come and gone. Millions of jobs have been created, destroyed and recreated. All the turmoil was worth it: an agrarian country transformed itself into one of the world's most advanced and prosperous nations.

The marketplace's churn has already begun to remake China and will accelerate as China makes good on its WTO commitments. Its impact can be seen throughout the country—from the capital of Beijing in the north and the remote southwestern enclave of Guiyang to the prosperous eastern cities of Shanghai, Wenzhou and Nanjing.



China's capital, Beijing, is the center of the country's emerging digital economy.

Beijing: Getting Down to Business

In China's capital city, Mao Zedong's giant portrait still casts an imposing gaze over Tiananmen Square. Mao now looks over China's transition to a market economy. Elsewhere in Beijing—and throughout China—market forces are crowding out collectivism and attracting people and capital to private enterprise.

Just a few minutes from Tiananmen Square, China's churn shows up in a thriving, 30-table restaurant owned by women who lost their jobs in a state-owned factory. The motto of Laid Off Sisters' Dumplings, translated from Chinese, tells their entrepreneurial story: *Fate has brought you here; our service will keep you, so we'll never be laid off again.*

Bloated and inefficient, China's

huge state sector still employs 60 percent of the country's urban workers. China's future lies in putting its labor resources to more productive uses. In recent years employees have been rapidly moving out of government enterprises, going to work for private Chinese or foreign companies. And some, like the laid-off sisters, are able to start their own businesses and make a living without government help.

China is getting down to business. In 1994, Mark Baldwin, a British citizen, was in Beijing to study Chinese but became an accidental entrepreneur. Because of earlier experience working for an executive search firm, Baldwin saw a niche helping foreign companies find Chinese managers in Beijing.

He started his own corporate recruiting business with just a few phones and Chinese employees.

Waterways remain a major mode of transportation in China.

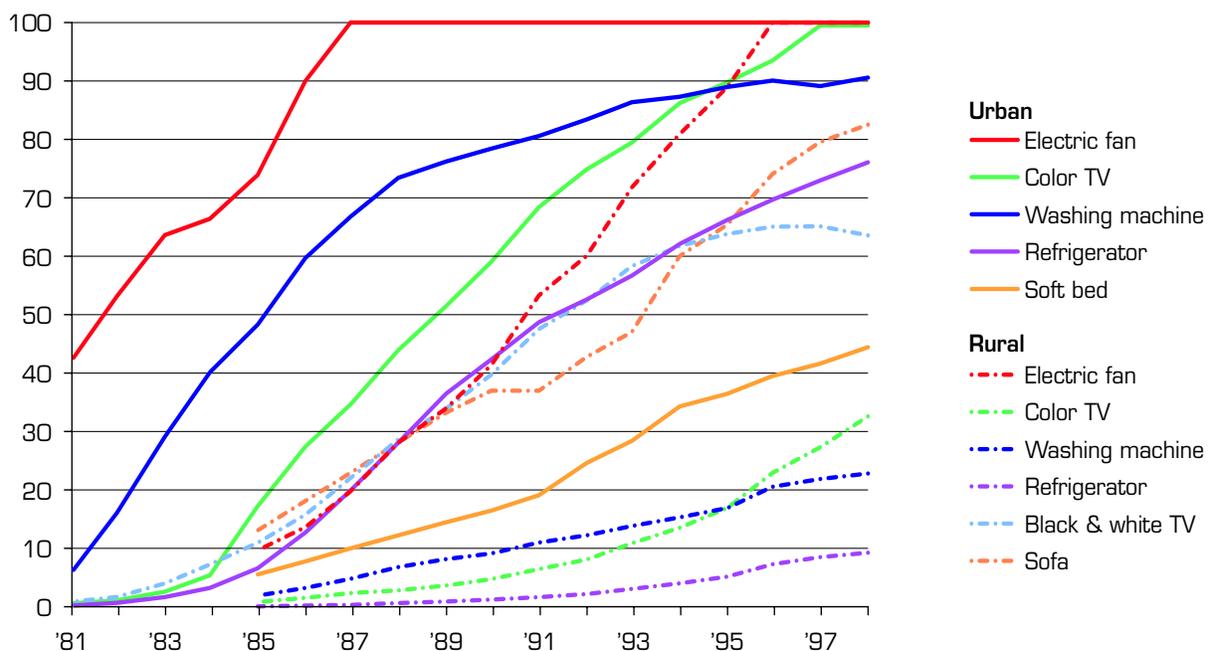


Exhibit 2

Bounty of Market Reform: Household Ownership of Products in Urban and Rural China

Many Chinese would agree life is more comfortable today, especially for city dwellers. Families everywhere now enjoy electric fans and televisions, although in the countryside black and white TVs are more common than color ones and refrigerators are scarce. Building on their success with consumers at home, Chinese manufacturers are expanding overseas. Haier Group Co. is building a plant in South Carolina to make refrigerators, and Konka Group Co. Ltd. plans to sell its televisions at Wal-Mart.

Ownership per 100 households





Upstairs rooms in this Zhongguancun district hotel are home to Information Age entrepreneurs.

His client base expanded rapidly, and in 1997 he joined forces with Robert Zhang, a Chinese national, and Steve Chiu, a Canadian, to create China's first Internet recruiting service. Zhaopin.com, loosely translated as "help wanted," posts over 5,500 job listings for 350 companies in 70 cities and has a database of 200,000 resumes.

For China, companies like Zhaopin.com carry considerable symbolic weight. They reflect not only the rise of private enterprise and foreign joint ventures but also the emergence of a labor market in a nation where the government once assigned all jobs.

The quick emergence of competition for Zhaopin.com is yet another sign of changing times in China. At least 300 Chinese Internet sites are vying for the business of matching people with jobs.

In just a few years, Beijing has become the center of China's

emerging digital economy. The city's Zhongguancun district, near Qinghua and Beijing universities and the National Academy of Sciences, is called China's Silicon Valley because of the Internet start-ups founded by students and faculty members.

Beijing is even attracting the best beacon of market activity—the venture capitalist. Born in Taiwan and educated in Michigan, Ray Lee moved to China in 1997 to work for Millennium Capital Services Co. Ltd. He helps entrepreneurs develop business plans and advises collectives on privatization strategies.

"There's a lot of capital in China, both domestic and foreign, and many entrepreneurs," Lee says. "But there's still a gap. It's difficult to find a ready project."

After completing his M.B.A. in the United States, Jie Liang returned to Beijing to open an

office for Global Emerging Markets Group, a private equity fund that targets Internet companies. "In the United States, life is easy," Jie says. "I could have had a good job that supported my family. Coming back is exciting but risky. There are more opportunities here for people like us, and there's a feeling of being on top. We know how much better things are now in China. We see the progress."

Wenzhou: Everyone's an Entrepreneur

Isolated from the rest of China by mountains, the coastal city of Wenzhou lies closer to Taiwan than to Beijing. Its 7.2 million residents speak their own dialect. Geography and language proved barriers to state domination of the economy, allowing Wenzhou to develop a self-reliant, entrepreneurial spirit.

The modern factory and equipment at Great Wall Shoes have helped make Wenzhou a center for the production of leather goods.



So when China's economic reform began, many in Wenzhou were ready to capitalize on the opportunity. "Because Wenzhou wasn't a planned economy, we saw the potential of the market," says Zheng Xiangbo, who founded Taili Industrial Co. with just three employees in 1984.

Zheng's company grew slowly in its early years, but Deng Xiaoping's celebrated 1992 Southern tour boosted the acceptability of private enterprise. The company now employs 500 workers to manufacture more than 1,000 types of electrical devices, including switches, sockets and fans.

Zheng supports China's entry into the World Trade Organization, even though it will mean less protection for domestic industry. "We'll have competition," he says. "This will be good for us long term. We'll learn from other companies."

Another early entrepreneur was Zheng Xiukang, who left his job at a state-owned enterprise in 1980 and spent 45 days learning shoemaking from a local cobbler. He then started a family business making shoes. To expand his Wenzhou Great Wall Shoes Co. Ltd., Zheng imported Taiwanese and Italian equipment and used computers to produce designs for men's and women's shoes. The factory now employs 2,000 workers. It manufactures over 3 million pairs of shoes a year, making it one of China's 10 largest shoe companies. Great Wall sells through its 1,000 stores in all parts of China, and its Kangnai brand is registered in 46 countries.

Shenou Communication Equipment Co., founded in 1990 by self-educated engineer Cai Chun Chao, employs more than 200 workers to manufacture high-tech communications equipment, in-

cluding telecom switches. The company depends on microprocessors from Texas Instruments Inc., Motorola Inc. and other U.S. companies.

"WTO membership will benefit us because many of our materials are imported; it would lower our costs," says Cai, Shenou's general manager.

Wenzhou epitomizes China's economic potential as it moves toward a free enterprise system. Since reforms began two decades ago, its economy has grown at an average 16 percent annually. Nine of 10 Wenzhou businesses are privately owned, and its citizens are among China's wealthiest.

Guiyang: How the West Will Be Won

A thousand miles southwest of Wenzhou, Guiyang nestles among green mountains carved by gorges and waterfalls. The picture-postcard landscape belies the region's economic hardship. Although Guiyang, the capital of Guizhou province, looks as modern as other Chinese cities, Guizhou is among the poorest provinces of a poor country. Just beyond the city limits, rural women wash their hair in buckets outside humble homes along the highway. Water buffalo work the fields. Cars are rare, and bicycles are a luxury.

Even here, though, it's possible to see the churn at work. Eakan Pharmaceutical Co., a privately owned enterprise, processes the

region's wild plants, producing traditional Chinese medicines for the domestic market and export. Eakan employs 80 people, chauffeuring them to and from work in company-operated buses. In 1998, three partners founded Yuanye Wild Food Development Co., which employs 90 people and harvests wild vegetables for shipment to cities in China and elsewhere in Asia.

Not far from Guiyang's crowded streets, the life of dairy farmers has improved. They now own their cows and barns. They've invested in modern pasteurizing equipment that allows one village to supply 80 percent of the capital city's milk.

As Beijing liberalized the economy, stronger areas revived first and regional disparities widened. Coastal cities boomed as foreign investors arrived and exports skyrocketed, while the hinterlands, isolated and backward, lagged behind. Urban areas raced ahead, leaving rural areas mired in poverty.

China's challenge lies in creating new industries and jobs where growth has been slow. In Guiyang, local officials hope tourism can thrive in an area blessed with natural beauty.

A new airport opened in May 1997, linking Guiyang to the rest of China. In early 2000, Prime Minister Zhu Rongji visited Guiyang to encourage its citizens, and the government announced policies to develop western China and encourage foreign investment there.



Wenzhou has been quick to capitalize on China's move to free markets.

Shanghai: Back to the Future

Shanghai's Bund, a broad avenue of European financial buildings along the Huangpu River, was once a source of shame. The stately old buildings recalled the foreign gunboat diplomacy that dominated China in the late 19th and early 20th centuries. Now the city is trying to persuade foreign banks to return to the once-thriving Bund.

One of the most telling changes in China involves its integration with the world economy.

Although its economy isn't open by Western standards, China depends heavily on international trade, with exports and imports accounting for nearly 40 percent of GDP in 1998, compared with 25 percent in the United States. The country ranks as one of the developing world's top recipients of foreign investment, pulling in

\$43 billion in 1998 alone.

By the end of 1998, Shanghai had 19,000 foreign-funded ventures in operation, 62 of them financial institutions from more than 20 nations. Foreign joint-venture companies produce about 40 percent of the nation's exports.

Across the river from downtown Shanghai lies Pudong, a symbol of China's headlong rush into the global economy. The area was home to 1 million farmers before the government designated it the future technology and financial capital of all China. Skyscrapers designed by noted architects from around the world have replaced the farms. Shanghai's stock exchange relocated in Pudong, and the city's new airport is there, too. Nineteen foreign banks, including Citibank, have opened offices in the district.

Pudong's Zhangjiang (Z.J.) Hi-Tech Park, created to provide

Skyscrapers
have replaced
crops in Pudong.



modern office space and infrastructure for foreign companies, is now home to 10,000 workers in dozens of enterprises. Shanghai Motorola Paging Products Co. manufactures pagers there, and SmithKline Beecham Biologicals (Shanghai) Ltd., a joint venture, makes hepatitis vaccines.

Like most developing nations, China largely produces low-cost manufactured goods, both for the domestic market and export. But Z.J. Hi-Tech Park shows that China isn't content to trade on its comparative advantage of cheap labor. The country wants to forge more advanced industries. Z.J. officials have visited Austin, Texas, and other U.S. technology centers. At first the idea was to recruit companies. But although Z.J. still welcomes transplants, it has broadened its approach and incubates home-grown Chinese firms. The goal is to create the kind of technological

explosion that took place a quarter century ago in Silicon Valley.

Nanjing: Reconcilable Differences

Political differences between China and the United States tend to overshadow the emerging economic similarities. Although President Nixon's 1972 trip to Beijing established diplomatic relations after 20 years of isolation, several incidents have challenged the U.S.–Chinese relationship. These include Tiananmen Square in 1989 and, in 1999, the United States' accidental bombing of China's embassy in Belgrade and the Cox Report on Chinese theft of U.S. atomic secrets.

Getting past the low points requires understanding that two large, powerful nations have to learn to live together.

One good example of communication between Americans and Chinese can be found in Nanjing, a city of 5 million that served as the original capital of the Ming Dynasty and the Nationalist government and is now the capital of Jiangsu province.

The Hopkins-Nanjing Center, established in 1986 with high-level support from both the American and Chinese governments, seeks to foster understanding between the two countries. Each year, 50 English-speaking Chinese students recruited by Nanjing University join 50 Chinese-speaking American students recruited by Johns Hopkins University for the center's one-year residential graduate program. Students take courses in economics, international relations, political science, and the history and culture of China and the United States. The center has more than 1,000 alumni.



East meets West
at the Hopkins-
Nanjing Center.

Even when Americans and Chinese try their best to understand each other, tensions aren't always easy to avoid. The day U.S. bombs killed several Chinese in Belgrade, protestors marched in Nanjing. American students at the center were alarmed and hurt by their Chinese classmates' support of the demonstrations.

Elizabeth Knup, the center's American director, says a student-organized open forum helped cut through an atmosphere tainted by suspicion and misunderstanding. "Through many tears, students acknowledged each other's strongly held beliefs, deep emotions and disagreement over the facts and moved toward a mutual understanding," she says.

What happened at the center shows the value of Americans and Chinese learning more about each other. For many Americans, though, China remains a far-off,

mysterious place. It's easy to cling to a view of China that may have been accurate 20 or even 50 years ago and ignore the changes that are opening up Chinese society. Americans debate whether political or economic liberalization should come first in China. Meanwhile, the expanding domestic and foreign private sectors are giving the Chinese more choices. And enabling personal economic decisions immediately reduces the power of the state over people's lives.

China's Churn: Unfinished Business

China began moving away from collectivism and central planning just about a generation ago, and the economy looks very different than it did in the 1970s. Private domestic and foreign

employers account for a quarter of the jobs in urban China, with the state-owned sector shrinking to two-thirds of jobs. When it comes to output, the shift has been even more dramatic.

The government-run part of the economy accounted for only a third of nationwide industrial production in 1998, down from about three-quarters two decades ago (*Exhibits 3 and 4*).

Despite its growing private sector, China is still far from enjoying bona fide free enterprise. Chinese people themselves have initiated many changes, not waiting for an official stamp of approval. The government has taken important policy steps, but China still has to wean itself from the state sector, a process that will mean huge social adjustments.

China's churn has only just begun and still faces formidable practical and ideological barriers.

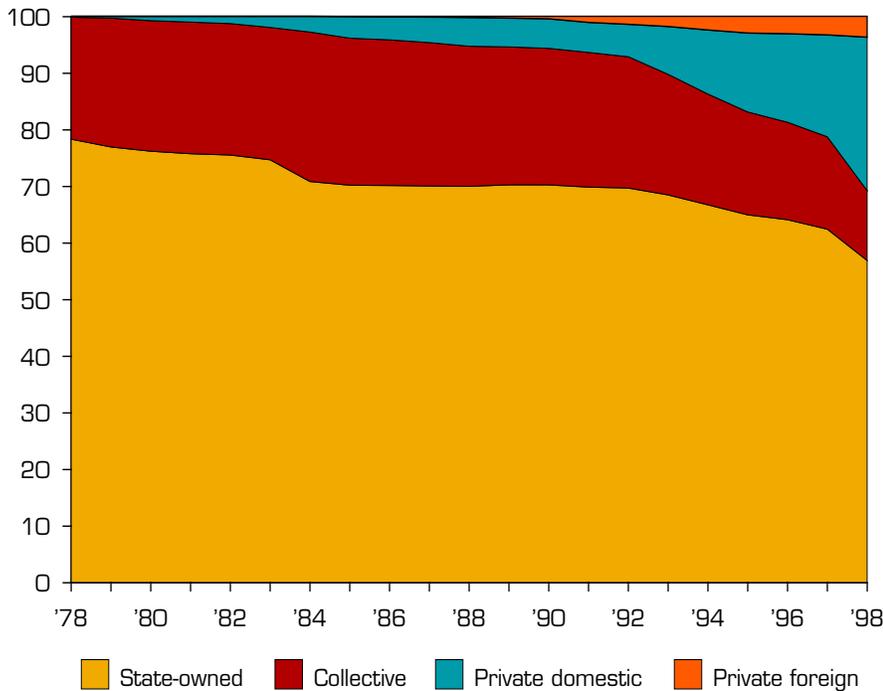


Exhibit 3

The Exodus of Urban Workers from State-Owned Enterprises

Not all workers are being forced out of their state-sector jobs. Some are voluntarily leaving for more challenging, better paid positions in private enterprise. In 1998 the average monthly wage of these workers was 17 percent higher than that of workers in state-owned enterprises and an astonishing 68 percent greater than that of collective employees.

Percentage of employed people



Fearing a political backlash from idle workers, the Chinese government put off cutting jobs in unprofitable state-owned enterprises (SOEs) until the late 1990s. To maintain full employment in urban areas, companies were once required to employ redundant workers. Although rural-sector reforms began in 1978, SOE managers couldn't even legally hire and fire workers until 1988. By 1998, SOEs still employed 91 million urban Chinese.

China once guaranteed lifetime employment to workers in state-owned enterprises. Under the "iron rice bowl" system, a job wasn't just a paycheck. SOEs provided housing, education, pensions, medical care and even funeral benefits. As a result, layoffs are deeply painful for workers. To wean urban workers off SOEs, in 1998 the government announced ambitious plans to stop subsidizing housing and enable urban residents to buy or rent their own homes. But housing privatization remains slow while the government scrambles to create a mortgage industry.

Many laid-off workers have trouble finding jobs in the emerging private sector. The castoffs from SOEs are typically low skilled with limited education. Of laid-off workers in 1998, 55 percent had only completed junior secondary school and just a third had finished senior secondary school.

Low-skilled urban workers compete with rural migrants for

even menial jobs. Not that long ago, impoverished rural Chinese couldn't legally leave their villages in search of work. In 1984 the government eased its system of residency permits, allowing workers to travel for temporary jobs. In 1999 an estimated 100 million Chinese left their official places of residence to work temporarily in larger cities as waitresses, construction workers, even garbage collectors.

The churn can't operate effectively as long as the legal barriers to labor mobility remain. Migrant workers still can't obtain permanent urban residency permits, which excludes them from many jobs. They are also largely barred from the health care and education commonly available to city residents.

Despite these hardships, Chinese are flocking to urban areas in search of the opportunities they can't find at home. Once the communes were disbanded in the late 1970s and early 1980s, many rural residents found jobs outside agriculture at community-owned small factories known as township and village enterprises (TVE). TVEs employed 7 percent of rural Chinese in 1978, 11 percent in 1984 and, at their peak, 28 percent in 1996. But the TVEs have not been the panacea many had hoped. Although the TVEs initially provided better paying work and were very productive, now they are cutting jobs, too, just like the urban SOEs (*Exhibit 5*).



Exhibit 4

The State Loses Its Grip on Industry

When China began its economic reforms in 1978, state-owned enterprises accounted for 78 percent of industrial workers and output. Although they still employ 57 percent of workers, they account for only 28 percent of output. China's more efficient private enterprises generate almost 40 percent of industrial output with just 26 percent of industrial workers.

Percentage of total output value

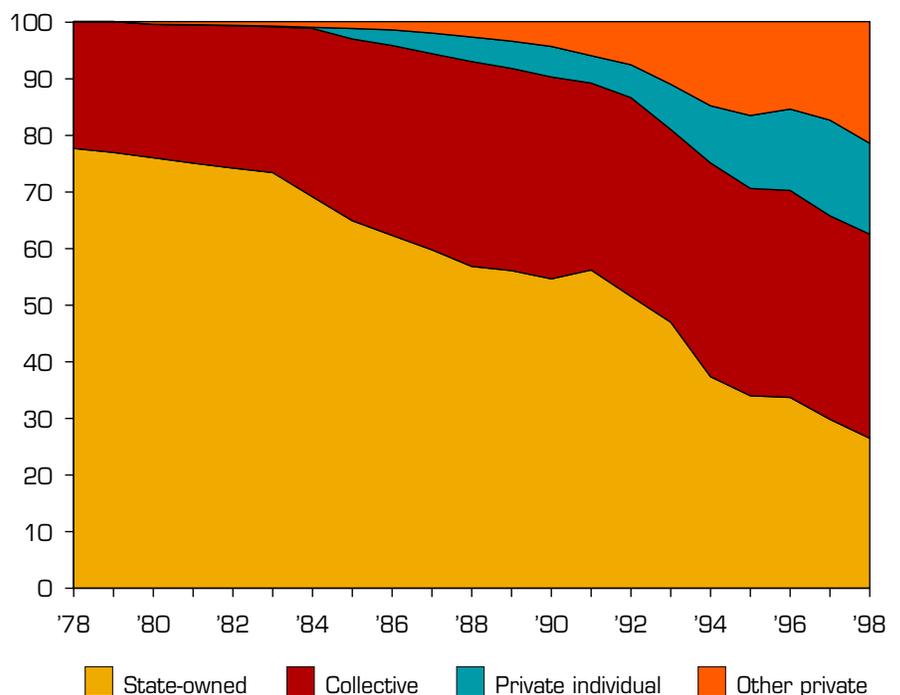


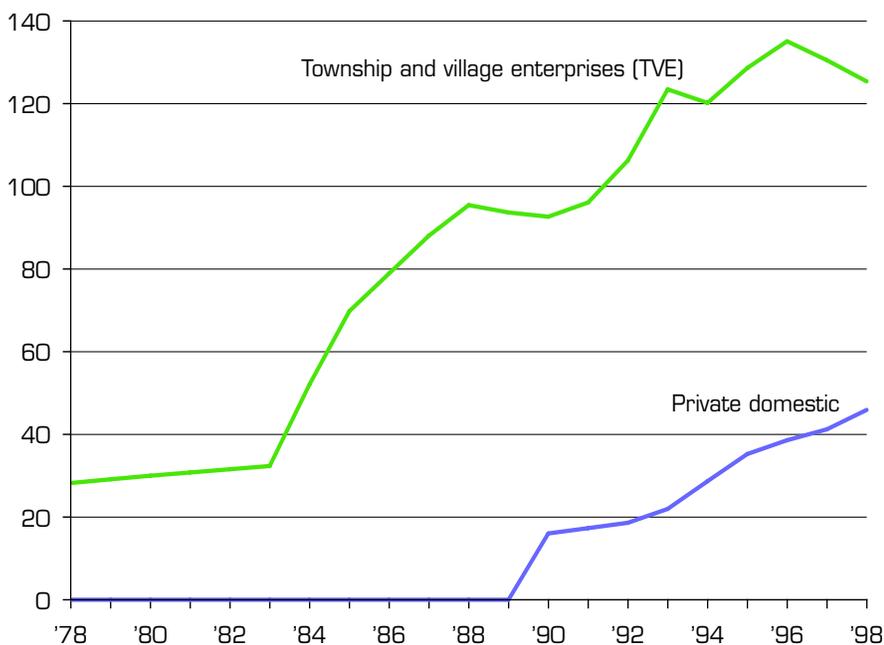


Exhibit 5

The Changing Face of Rural Employment

When communes began disbanding in 1978, private companies were not yet legal. The government fostered industry outside the state sector by deregulating local enterprises. Operating in the gray area between public and private ownership, township and village enterprises grew rapidly throughout the 1980s and 1990s. But the same management problems the state sector faced eventually plagued the TVEs, and many have been privatized or are downsizing.

Millions of rural workers



Even today, two out of three Chinese living in the countryside work in agriculture, and nationwide, 50 percent of Chinese are employed in agriculture. In this sense, China looks like the United States 120 years ago.

Yet agriculture only accounts for 18 percent of China's gross domestic product, and most of these workers probably aren't needed on the farms. To complicate matters, China is undergoing two major "churns" at the same time—moving people from farms to factories, and from factories to services (*Exhibit 6*).

Beyond the labor market, China's churn must also redirect capital from the inefficient state sector to the private sector. Although the government is working feverishly to restructure its financial system, the country's capital markets still favor state companies, making it hard for enterprising Chinese to start new businesses. State-owned banks have been required to loan heavily to state-owned enterprises and may never recoup all their investment.

Even though they are allowed to make loans to the private sector, most bank officials have no experience evaluating business plans and lending to entrepreneurs, and few choose to take the risk. And two pillars of the U.S. financial system—the central bank and the stock market—are still new and developing in China.

Although Deng Xiaoping changed China's economic course in the 1970s, market reform and

liberalization have always been controversial.

It's difficult to overstate the challenges facing China. Though beneficial in the long run, the churn is painful in the short run. There is conflict in China between those who want to move toward more open markets and those who wish to preserve state domination of the economy. Even though the nation is now moving toward freer markets, some forces in the government still resist.

China's Churn, America's Choice

Market forces have unleashed tidal waves of change in China, creating economic progress for the Chinese and new business opportunities for the United States and the rest of the world. As China implements the policies WTO membership requires, the churn will accelerate as the country accepts more competition, more foreign influence and more privatization. Resources will increasingly be allocated by the consumer-driven market, rather than by the arbitrary power of state bureaucrats.

As the world's leading capitalist nation, the United States can do a lot to promote China's churn. But America's persistent uneasiness about trade with China reflects our attitudes about the churn at home. Looking back, it's easy to see that decade after decade, the churn made the U.S. economy stronger and raised living stan-

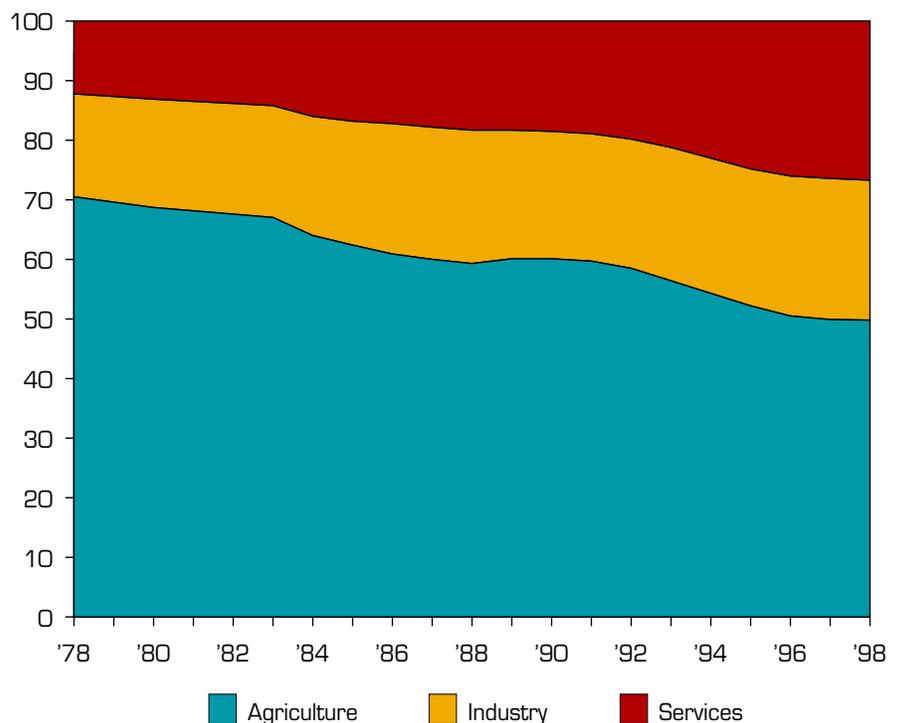


Exhibit 6

Still Far from a Service Economy

The government knows that for this stage of economic development, China has too many farmers. But it's still a miracle that since 1978, the churn has redirected 20 percent of the country's agricultural workers toward industry or services.

Percentage of employed people



More than 500 companies are listed on the Shanghai Stock Exchange, whose 1990 reopening signaled a new era for China.



dards. In the here and now, however, we—like some in China—face the temptation to resist the churn and protect existing industries and jobs.

Freer trade with China and other developing nations will mean greater churn in the United States, speeding the shift of resources toward technology and services. Some workers will lose jobs and some companies will lose markets, but the churn will replace them with other, better jobs in new, higher-value-added industries. In fact, the capital-intensive

manufacturing job losses blamed on trade are more likely the result of better technology that enables companies to produce more with fewer workers.

The churn ignites economic progress. Nations that allow it to work grow rich faster. Countries that stifle the churn, in a misguided attempt to protect its citizens from economic change, reap slower growth or even end up poorer. The churn is the secret of America's success. And it's the key to China's economic future. Market forces are changing the

country rapidly. Over the years and decades to come, China will experience even faster progress—if it allows the inexorable forces of creative destruction to play themselves out. ★

Ñ Meredith M. Walker
Richard Alm





The addition of the Chinese economy to the global marketplace will result in a more efficient worldwide allocation of resources and will raise standards of living in China and its trading partners.

—Alan Greenspan

Notes

China@Churn was written by Meredith M. Walker and Richard Alm. It is based on research and interviews that Walker, a Dallas Fed economist, conducted in March 2000. She wishes to express appreciation to those who shared their insights and are actively engaged in China's churn. Alm is a Dallas-based freelance writer.

Quotes from Federal Reserve Chairman Alan Greenspan are from his remarks on permanent normal trade relations with China, at the White House, May 18, 2000.

All data except in Exhibit 1 are from the *China Statistical Yearbook*, published by China Statistics Press, various years. In Exhibit 3, "private domestic" is the sum of what the yearbook terms *share holding units*,

joint-owned units, limited liability corporations, share holding corporations, private enterprises and self-employed individuals. "Private foreign" is the sum of what it terms *foreign-funded economic units* and *economic units funded by entrepreneurs from Hong Kong, Macao and Taiwan.* It should be noted that state-owned and collective enterprises sometimes offer nonsalary benefits that the private sector does not. In Exhibit 4, "other private" refers to what the yearbook terms *other types of private ownership.*

Credits

Photos courtesy of:

China News Digest, www.cnd.org
(p. 1, lower right)

Citibank N.A. Shanghai Branch
(p. 15, lower left and right)

Hopkins-Nanjing Center, Washington Program Office (pp. 3, 10)

John O'Donnell, Cultural Bridge Productions (p. 2, lower center)

McDonald's Corporation (p. 1, lower left)

Pepsi-Cola Company (p. 11)

Shanghai Municipal Information Office (p. 9)

Shanghai Stock Exchange (p. 15)

Wenzhou Lucheng Foreign Trade & Economic Cooperation Bureau (pp. 7, 8)

www.virtualchina.com (p. 2, lower left and right; p. 6)

Photo research by Charlene Howell.



The views expressed are those of the authors and do not necessarily reflect the positions of the Federal Reserve Bank of Dallas or the Federal Reserve System.

This publication is available on the Internet at www.dallasfed.org.

Kay Champagne, Publications Director

Monica Reeves, Editor

Paul Smith, Art Director

Laura J. Bell, Graphic Designer



Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201
(214) 922-6000
www.dallasfed.org

September 2000