

MASTER'S THESIS

What sustains growth in China: a tale of the three kingdoms

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What Sustains Growth in China – A Tale of the Three Kingdoms

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Abstract

In the past three years, China's economic growth rate has slowed down. At the same time China also faced many internally as well as externally originated problems such as the 1997 Asian economic crisis and the SOE reforms. To guard against such problems, the Chinese government set up an 8 percent GDP growth target in 1998. This target was aimed at maintaining economic growth to absorb the excess labor force and maintain social stability. Now, the industrial sector is one of the major components of the Chinese economy, and the aggregated industrial output value of the SOEs, COEs/TVEs and FFEs accounts for a lion's share of the industrial output value of China's industrial sector. Therefore, if we want to investigate whether the Chinese economy can reach this 8 percent growth target, it is crucial for us to study the change in productive efficiency of these three types of enterprises. The objective of this thesis is to compare and explain the productivity performance and its disparity across the three types of enterprise -- SOEs, COEs/TVEs, and FFEs -- and hence to predict the economic growth China in the near future. This thesis is divided into six chapters. Chapter 1 provides a general review of the development of the Chinese economy in recent years and states the objective and structure of this thesis. Chapter 2 investigates how China's economic reforms have impacted upon the productivity improvement of the three types of

enterprises. Chapter 3 explains the reasons for productive inefficiency and measures the productive inefficiency of the three types of enterprise. Chapter 4 investigates the sources and estimates the rate of technological improvement and its corresponding disparity across the three types of enterprise. Chapter 5 discusses the impact of foreign direct investment on technological improvement and regional inequality of China. Rate of technology improvement of TVEs is then measured and used as a case study to illustrate the impact of the rate of foreign direct investment on rate of technology improvement. Chapter 6 presents the overall conclusions of this study.

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