Symposium: Structural Change, Industrial Upgrading and China’s Economic Transformation

This symposium for Economic Systems contains a selection of papers originally presented at the sixth Biennial Conference on Transition and Economic Development (TED), which was held in Shanghai, China, on September 7-8, 2015, sponsored by a research grant from the China National Natural Sciences Foundation in collaboration with the China Center for Economic Studies, Fudan University, the Technology and Management Center for Development (TMCD), the University of Oxford, and the Japanese Association for Chinese Economy and Management Studies (JACEM).

The TED conference focused on the theme of structural change, industrial upgrading and China’s economic transformation. Since 2010, China has moved upward to become an upper-middle-income economy after more than three decades of liberalization policies and reforms. The question that remains is whether or not China will join the high-income club. Therefore, industrial upgrading and structural change towards high-tech and scientific knowledge-intensive industries are crucial to China, because the main challenge facing the country is how to sustain the momentum and avoid the middle-income trap. In history, many developing economies failed to do so. What then are the challenges for this transformation? How to develop innovation and technological capabilities and upgrade the Chinese industries to make the country one of the world’s innovation leaders?

Such concerns intrigued leading economists enough to provide their acumen to the TED conference. A wide range of papers from more than 100 participants were presented at this conference. The papers were grouped into several topics including demographic changes, industrial upgrading, the role of financial markets in industrial upgrading, industrial agglomeration and technology innovations, and future prospects of China and the world economy.

This symposium features papers providing special insights for some key policy areas. After the conference, authors were invited to submit their papers for the symposium. Each paper was reviewed by at least two anonymous referees. After a rigorous review process, three distinguished papers were accepted.

In the first paper of this symposium, Jie Chen and Qian Zhou examine urbanization in China. Over the last more than three decades, the size of China’s urbanized population has soared from 172 million in 1978 to 749 million in 2014, with a surge of the urbanization rate from 17.9% to 54.77% over the same period. As is observed, urbanization has played a critical role in the modernization of the Chinese economy and society. Using panel data of 281 cities between 2000 and 2013, the authors show that most Chinese cities are still undersized in 2013. Accordingly, they argue that the Chinese government should promote the growth of middle-size cities as part of its new urbanization strategy.

During the transition process from a planned to a market economy system, firms in China operated in an environment where access to external financing was very limited. Such an underdeveloped financial system and poor legal institutions have restricted the growth of productivity, the capital structure, and the economy in China. In the second paper, Dongyang Zhang and Deqiang Liu empirically investigate the relationship between total factor productivity (TFP) and three leverage measures of Chinese non-listed firms during 1999-2007. The evidence indicates that TFP is significantly and positively associated with the three leverage measures of private and foreign owned enterprises, but insignificantly correlated with those of state-owned enterprises. These results provide new evidence that TFP is an important determinant of capital structure choices in China.

In the last but not least paper, Tomoo Marukawa examines unemployment issues in China. He finds that China’s unemployment

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1 According to the World Bank national accounts data and OECD national accounts data files, in 2010 China’s gross national income (GNI) per capita based on the Atlas method reached $4,340 in current US dollars, which was, for the first time since 1978, higher than $3,946 in current US dollars, the current lower threshold of the upper-middle-income group presented in the World Development Indicators (WDI). For the data files, see http://data.worldbank.org/indicator/NY.GNP.ATLS.CD?locations=CN. For historical classifications by income in WDI, see http://databank.worldbank.org/data/download/site-content/OGHIST.xls.

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rate disparity can be explained by the coexistence of three sectors: the state sector, the capitalist sector, and the subsistence sector. Because of the existence of the subsistence sector, the unemployment rate was below 3 percent in the regions where 60 percent of China’s population resides. The existence of the subsistence sector has also made it possible for the capitalist sector to develop rapidly, and for the country to avoid a contraction of output during the early stage of transition in the late 1970s and early 1980s. However, the existence of the subsistence sector has added to the difficulties for workers who were laid off from the state sector to find employment in the capitalist sector because of the competition for job opportunities with workers migrating from the subsistence sector to the capitalist sector.

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