China in Global Finance[1]

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Finance in relation to industry has continued to remain as a state subject in China, even after the launch of the wide-ranging reforms which began in 1979. Reforms in China have thus followed a gradualist path, retaining much of the earlier control and jurisdictions, especially as these concern finance, both domestic as well as of foreign origin As is common in mature capitalist economies, dominance of finance has gone in with state authority, in a bid to avoid systemic risks and crises as can erupt otherwise. In the process the state so far has been effective in restraining the advances of speculatory finance in China while steering the flows of capital along productive channels. The outcome is one which is to the mutual interest of industrial as well as finance capital, both domestic and of foreign origin, with speculatory capital having less to do than could be expected in the otherwise booming Chinese economy. Currently China provides an unique example amongst the transition economies, *with effective financial management in a state of 'guided financial market'*.

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[1] The paper reflects my impressions of the Chinese financial system which I gathered as a member of a Research Team sponsored by the Mushashi University of Japan. We met a large number of financial experts in China's financial institutions in course of our study during September 2004.. Sources for the facts documented in the present paper include official publications , websites as well as the interview material collected during the tour. The author gratefully acknowledges the financial assistance and the initiative of Mushashi University Open Research Project and in particular, to Professor Tetsuji Kawamura of Mushashi University and to Professor Gary Dymski of Riverside Campus, University of California, for their active contribution in this research.. I would also like to thnk the Chinese Academy of Social Sciences which invited me in September 2005 to present this paper in an International Conference at Tianjin University.

China has been subject to some challenges to the above pattern of an effective financial management. This has been the case with FDI inflows on a scale hitherto unforeseen for a developing country and especially,with China's access to the WTO in 2001 with related commitments in the sphere of external trade and finance. China's entry to WTO has raised doubts regarding the continuity of the prevailing regulations, especially on overseas capital. It has become a matter of debate, for those who pay attention to the Chinese economy, as to whether the country will be able to continue with its regulations in its financial sector, and what kind of a turn the changes, if any, would generate in the economy.

The much-waited revaluation of the RMB by a small margin, which came about as a response to the continuing US demand for a steeper rise in RMB, is one more example of China's demonstrated ability to maneuver its own finance which include the exchange rate policy.

China Watch has of late assumed a great degree of significance, not just with its entry to the WTO but more with its new mantle of being a major trading and financial partner in the world economy. With China's growth since 1978 at around 9% on average and the country as world's 2nd largest oil and aluminium and lead consumer, 3rd largest consumer of nickel and the largest consumer of steel as well as a variety of mineral based products, receiving a steady inflow of FDI, the rest of the world has a genuine concern for the economic performances in China.

It is, however, another matter whether the country is ready to follow a path of egalitarianism as is expected under a Communist regime. While much of the directives as emanate from its State Committee originate from the supreme command of the Communist Party, issues concerning the divide between the rich and poor as well as the urban and the rural economy has failed to be addressed in post-reform China. Rising prosperity has contributed to greater degrees of inequality, of a scale which compares with many other developing countries.

We deal, in this paper, with the financial sector reforms in China and their future in the context of its entry to global finance. Section I provides a brief account of the institutional set up relating to the financial sector and the regulatory bodies. A familiarity with the institutions enables us to judge the implications of the recent changes in the financial scene as have been introduced in recent past, especially with China's accession to the WTO . It also helps us to analyse the current financial status of China including its exchange rate policy which is analysed in Section II. Section III provides the conclusion, with a commentary on China's path to 'development' as distinct from its 'growth performance'.

Section I: The Financial Regime in China: The Institutions

Financial institutions in China have been subject to a closely guarded regulatory regime which continues to be supreme even after the implementation of the economic reforms since 1979. This has been rather unique in the face of the rapid integration of the Chinese economy to the world economy over the last few decades. Thus during 2002 the value of China's total merchandise trade and FDI inflows have respectively been at $607 bn and $49.3bn, registering increases which have been considerable compared to what had been in 1982 at

$397bn and 4.3bn.[2] There has been, in particular, a strong link between trade and FDI flows. The explanations of above include the spectacular growth performance of the economy and the rather limited space for speculatory investments as are left within the country in terms of the regulatory regime. The rest of this section provides an account of the financial institutions in China, which include banks, stock exchanges, the FDI channels as well as the regulatory bodies.

Banks in China have remained the main conduit of financial intermediation. These handle, even today, 80% or more of financial flows in the country, with four major State controlled Banks (SoBs) controlling 70% of deposits and advances in the banking industry. A high concentration of banks exists in urban areas with Shanghai as the major money center. As for bank incomes, most of these are generated from traditional operations with spreads between lending and deposit rates providing 90% of the former. Thus unlike the pattern in countries which have implemented financial reforms, China's banking industry earns very little as non-banking sources of income. This reflects the state of the security sector which is still at a nascent state in China. As for banks, only a few can float equities in the stock exchanges while no Chinese bank is permitted to invest in securities. The State controlled Enterprises, (SoEs) which have access to the market for securities also use banks rather than the stock market for

[2] IMF, Balance of Payments Yearbook 2004.

finance. Thus in 2001 the SOEs raised only $14bn by floating shares while borrowing more than $157bn from banks.[3]

As for the Foreign controlled Banks (FoBs) these are subject to a large number of restrictions including a ban on their RMB operations, which seek to prevent the unwarranted speculatory transactions of Chinese currency by foreign financial institutions. These banks first started operation in China in the year 1984 and have been allowed, since 1990, to function all over the economy. However these banks are concentrated in big cities with the branches in Shanghai controlling 50% of the total of $270bn assets held by the 60 odd FoBs operating in China. Currently these banks are putting up stiff competition to domestic banks, with product innovations which include credit cards , as reported by some bank managers of domestic banks.[4]

All banks in China have been closely guided by the State Council, not only in terms of handling the balance sheet but also with the direction provided in the allocation of credit. Credit advanced by banks is subject to monitoring, if not control, by the state, in terms of the "guide book" provided by the State Committee which specifies the desired directions (not volume) of credit to what the state considers as the Emerging Industries. Decisions of banks regarding advances are also sometimes done in consultation with local Municipal bodies.

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[3] Stephen Green, " China's Stock Market: Eight Myths and Some Reasons to be Optimistic" A report from the China project The Royal Institute of International Asffairs Asia Programme February 2003.

[4] Interview with the Shnaghai-Pudong Development Bank, Shanghai and the Industrial and Credit Bank of China(ICBC) in Beijing, the largest commercial bank in the country.

On the whole there is thus a clear link up between the state, industry and banks in the allocation of investible resources.

SoBs in China recently got a very special preferential treatment from the state in terms of the cancellation of the "bad loans" held by these banks. These include an injection of $45bn to Bank of China and the Construction Bank of China in December 2003, out of funds provided from fiscal sources and the official exchange reserves. NPAs against the bad loans were auctioned by specially created Asset Management Companies, to State controlled Enterprises (SoEs). Since 1997 the People's Bank of China (PboC), the country's central bank, has spent 700 billion yuan ($85 billion USD) to refinance loans owed by various Chinese financial institutions.[5]

Reforms of China's financial institutions accommodated, as mentioned above, the state initiative in the handling and cancellation of doubtful assets held by the SoBs. The measures targeted a stronger financial footing or these banks so as to enable these to float equities and to conform to the Basle Adequacy norms. Limits to lending were placed on loans which exceeded 10% of total advances of an individual bank, but subject to relaxation when the project against the loan was considered important by the State Committee. Reforms of banks also aimed at improving the disclosure norms and transparency, along with corporate governance, especially relating to the joint stock banks.

The urban-rural divide in the country is reflected in the limited role of rural banks which are located in the country-side. The biggest of these, the Agricultural Bank

[5] Tapei Archives,February 2004

of China , a SoB, offers only 10% as small loans and is mostly engaged in lending to large borrowers. The rural credit co-operatives seem to be least saddled with bad loans, with only 10% of loans advanced classified as NPAs. The reason lies in their limited operation, with advances which are small as compared to the average for other banks located in urban areas.

A major function of the financial institutions include the management of the exchange rate and external payments. This is done by the PoBC, the country's central bank which also remains responsible for the country's monetary policy. Tendencies as are prevalent at the moment for upward movements in the exchange rate of the RMB are counteracted by the PoBC which regularly purchases a large part of the foreign exchange inflows. The possible expansionary impact of the rising official reserves on money supply is neutralized by the PoBC with open market sales of short term Treasury bills. These bills, which are of 3-6 month duration, carry a low to moderate return, and are held by SoBs as well as other banks in the country, often on an obligatory basis. Exchange reserves in turn are invested, on behalf of the PoBC, by the Foreign Exchange Reserve Board, in US Treasury Bills .

As for the security market, it maintains a low-key performance as an alternate source of finance in China as is reflected in the hesitant flows of portfolio finance. Opening of the stock market in the two cities of China (Shanghai and Shenzen) in 1990 has not as yet led to a rise in market capitalization. Stock market capitalization in China, net of non-tradeable shares, has been at 17% of GDP which is rather low as compared to the ratio in similarly situated developing countries like Korea (52%), Malaysia (136%) and Singapore(136%). Stock markets provided only 5% of official corporate financing in 2002 as a whole.[6] Stocks sold in the market are separated by the currency denomination (RMB and dollar denominated shaes) and also with the restrictions imposed on the tradeability of nearly 2/3rd of shares in the market. (See the Appendix for details).The limited operation of the stock market in China is thus related to the segregated nature of the security market, as mentioned later in this section.

As for FDI flows, China has demonstrated the ability to attract massive flows, the major part of which is contributed by the non-resident Chinese entrepreneurs in South-East and East Asia. The FDI flows to a large extent are contributed by the favourable conditions for investment in China which include cheap labour, infrastructural facilities, the stability of the RMB in terms of dollar at a rate considered as undervalued by US, and finally, the official patronage to FDI in China in terms of tax incentives, low interest rates, in-house organization with the setting up of Special industrial zones (e.g, Tianjin Industrial Development Area near Beijing). The rapid increase in the annual inflows of FDI which today exceeds $50 bn reflect a flying-geese syndrome; with China, the second largest destination of FDI, bypassing all earlier records of such flows to East and SE Asia.

In contrast to FDIs, flow of equities to the country have been rather modest . This reflects the rather primitive state of the security sector and the stock market in the country. Stock exchanges, initiated in Shanghai and Shengen in December

[6] Stephan Green, op.cit

1990 have a bifurcated structure in terms of distinct share categories , the A shares denominated in RMBs and the B shares in dollar. Moreover, not all shares are tradeable in the exchanges, and only 1/3rd held by individuals and institutions (IP shares) can be exchanged in the market. As for the players in the market, foreign firms can register in the market only as joint ventures and can own upto 20% of shares in a company. Similarly, only 5 banks are listed in the security market and their shares can only be bought by the Chinese and some Qualified FIIs, 12 in number. These FIIs are approved by the China Security Regulatory Commission (CSRC) and can deal only in B shares. Domestic banks in China can not invest in securities but can float securities to borrow from the market. At present five shareholding (joint stock) banks are listed in the two stock exchanges of the country. Stock markets are much less important in China as compared to banks as sources of finance to industry and as channels of investment .

Reforms of the financial institutions in China have led to a complete segregation of functions relating to supervision of banking, security market and insurance since April 2003. Accordingly the PoBC is no longer responsible for the respective roles for supervision as are entrusted to the China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC) and China Insurance Regulatory Commission. In terms of China's commitments to the WTO since the country's membership in December 2001, foreign banks are expected to have a level playing field in the country and for the domestic banks there is a need to go through ownership reform with disclosure of informations.

The CBRC provides for the banks a comprehensive risk assessment for loans which in turn are classified into five categories in terms of their perceived risks. With bad loans of the SoBs reduced considerably with the help of active state involvement towards restructuring of these banks, the capital adequacy ratio for most banks is expected to be sustained at the current levels of 8% or above. The risk-adjusted returns on capital (RARoC) of most banks is also already above 6% , a level which is considered moderate if not high.

While banks, and in particular, the four SoBs play a major role in financial intermediation in the country, much of their operations are still under the surveillance of the state. The SoEs remain the major clients of the SoBs, a fact which, according to observers, have led to the piling up of the bad loans in the past. There are attempts, on part of the official agencies, to upgrade the functioning of the SoEs as well, especially in view of their close relation to the SoBs. The guidelines for credit disbursements provided by the State Committee to banks provide a supplementary role in forwarding finance to directions considered desirable in terms of their industrial potential. The SoBs are regularly inspected by the state auditing bureau.

Section II. The Current Financial Scenario

Banks, as mentioned above, are the main financial intermediaries in China. Thus the four SoBs, as mentioned earlier, are still the main custodians of the financial system, handling more than 60% of deposits and advances. Deposits with financial institutions as a whole include a major share from enterprises (36.1%) and households (23.4%). As for advances, medium and long term loans constitute 40.4% and short term loans around 52%. Most of these are directed to the industrial sector as can be seen from the small share of the agricultural sector receiving only 5.79% of total advances from the financial institutions.[7]

The security market of China, as mentioned earlier, is yet at a nascent stage of formation. Despite the high average P/E ratio of stocks in China by international standards, entry of corporates as well as of individuals have been both gradual and slow. The stock index in the two major exchanges is currently on the downtrend, falling from 2200 in 2001 to 1200 in 2004. A

major factor behind is the recent entry of corporates as well as a few banks , trying to sell shares in the market. The stock market thus has few takers despite the industrial boom in the country, which is largely driven by FDI. Small and medium enterprises can not access the market, a fact which further cuts down the demand for stocks in the market. The value of shares issued in the stock market have gone up from 6800 mn to 6428 mn between 1992 and 2003, with tradeable shares only at around 1/3rd in both years.

Capital raised in the stock market for A (RMB) shares has gone up from 50mn RMB to 70.0mn RMB between these two years. Of these, IPO shares were respectively at 50 mn and 453.5mn RMB in 1992 and 2003. As for B (dollar denominated) shares, market capitalisaion of B share companies rose from 70mn RMBs in 1992 to 802.5mn RMB in 2003. Of these the proportion of tradeable shares were at 72.8% and 95.3% in the respective years. The market capitalization of the two categories of shares as a proportion of GDP is currently

[7] www.pbc.gov.cn

at 36.38% , of which tradeable shares are at 11.29%. The respective number of listed companies selling A shares, B shares and both shares are at 1146, 87 and 24.[8]

FDI flows to China, as mentioned earlier, have gone through a dramatic increase during the 1990s. Since 1993 China had been the world's second largest recipient of FDIs, the current flow of which exceeds $50bn. China is also listed as number two in terms of a recent confidence index rating of FDI flows.[9] These flows now reach not only labour-intensive industries, as in the past, but also property development and infrastructure. Some of China's large domestic companies(e.g,Haier) also have turned multinational by shifting the production base to offshore centers.[10] Tax incentives provided to FDIs by the state has also encouraged some mainland Chinese companies to do "round tripping" of funds via other neighbouring territories like Hongkong. Investors from Taiwan, Province of China, facing restrictions on investment in China, even establish "shell companies" in Hongkong " as a front for their mainland China operations".[11]

To enumerate the conditioning factors which explain the surge of FDI inflows to China, one needs to mention the low wage rate (at 1/3rd of Mexico and 1/15th of US), the well educated (with literacy at 84.5% of population above 15 according to World Bank's China Data Profile) and energetic population, the state initiatives in infrastructure and energy as well as technology development, a political

[8] CSRC, China's Securities and Futures Markets. Beijing April 2004. pp 4,9,11
[9] " FDI Confidence Index "The Economist , February 17, 2001.
[10] James Angresano,Zhang Bo, Zhang Muhan,"China's Rapid Transformation: The Role of FDI" (mimeo) 2003
[11] ibid ,citing Economic Intelligence Unit, "China Hand" April 2002

culture which combines an authoritarian state with the market which operates as a disciplining factor in both the labour and capital market, a managed currency which has maintained a stable exchange rate in dollar notwithstanding the pressures from US to appreciate, and finally, the very favourable investment climate in terms of infrastructural facilities as well as tax incentives for the foreign enterprises. In the process the Chinese diaspora has played a major role in harnessing the flow of finance to the mainland, both with the official appeal to revive the Chinese "bond" in the Deng Xiaopeng regime which worked to reinforce the cultural affinity and the economic incentives offered by the state in China. An unique institution which developed in the process was the All China Federation of Returned Overseas Chinese (ACFROC), a ministry-level federation which reports directly to the Vice-President of the country. Along with the local authorities where the investment takes place, the ACFROC is "…authorized to offer tax incentives, subsidies, cheap land, supplementary government services, and the promise of government investment in infrastructure."[12] China's entry into WTO in 2001 has also opened the possibilities of an overhauling of the legal system along with the access of FDI to new areas which include the services sector, finance. [13]

The above account of China's integration with the rest of world leads logically to an analysis of its external payments. The huge foreign exchange reserve at

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[12] Angresano et al,op cit
[13] Time "Global Business" October 2001 B16;Meng Van,"FDI increases after China's WTO entry" China Daily ay 16, 2002
Both cited in Angresano et al,op cit

around $400 bn as at present generates further queries relating to the sources of the reserve accumulation. China's balance of payments demonstrates a strong resilience, both with the burgeoning trade surpluses and the steady growth in the flow of direct Investments from abroad. Trade data shows a near ten-fold rise in the balance for goods over the decade ending 2002 when the annual trade surplus in goods amounted $44.1bn in 2002. Current transfers record a similar surplus at $12.9bn, largely with remittances from the overseas Chinese population. Despite the negative services balance (- $6.78) and the large deficit in investment income account (-$14.94) the country's current account maintained a surplus of $35.42bn in 2002. With services lagging behind industry in terms of openness as well as exportability, investment income outflows from China had been large despite the drive for reinvestment on part of foreign enterprises. Inflows in the capital account were, however, substantial on a net basis, largely due to net FDI inflows at $46.79bn. Net inflows, however, were rather small with portfolio capital, with liabilities (inflows) rising by as little as $1.75bn in 2002. However, despite these shortfalls, it was hardly a surprise that reserve accumulation during the year went up by a sum as large as $75.21bn .[14]

It remains to point out, at this point, that the above account underplays the role of capital exports from the country. These include overseas portfolio investments by the Chinese ($12.09bn in 2002) and errors and omissions the negative balance of which was around $11bn over 1999-2001. With large official reserves the major part of which was regularly invested in US Treasury bonds, China in

[14] IMF,Balance of Payments YearBook 2004

effect is investing substantial sums abroad, an aspect which is inconsistent to the otherwise favourable investment climate within the country, especially in terms of mobilising domestic savings by the resident Chinese.[15]

China's economy has of late shown signs of overheating, registering a year-on – year increase of 5.3% in consumer prices in August 2004. This has put pressures on the PoBC to devise additional measures (like raising the interest rate) to supplement the steps already instituted to control credit supply in the economy. Growth in M2 has been at 13.6% on a year-to year basis by end-August as compared to the higher rate of 16.2% at end of June this year. Investments in specific industries are experiencing over-production. These include steel, aluminium and cement, further expansions in which are sought to be restrained by controlling credit flows in these directions. Measures as above may dampen the overall growth rate in the economy which during the first half of this year has grown at 9.7%.[16] Outstanding loans (denominated in both local and foreign currencies) as are advanced by the financial institutions including the foreign-funded ones increased by 14.5 percent to RMB18.22 trillion on an year-on-year basis at end-August, a rate which is 1.4% lower than the growth recorded at end-July. Outstanding RMB loans alone reached RMB17.1 trillion, increasing year-on-year by 14.1%, a drop of 1.4% from end-July. By end-August, outstanding foreign currency loans increased year-on-year by 20.3% to $134.4 billion, which is 2.5% lower as compared to end-July. Growth of deposits in financial institutions has also dropped with savings deposits of households falling for seven months in a

[15] Greenfoeld op.cit
[16] China Daily September 14, 2004

row.[17] On the whole monetary authorities in China seem to be in good command over the economy in monitoring the inflationary potential of the rising monetary reserves in foreign exchange in a high growth economy. The dampening effect, if any , on real activities, however, may generate a deflationary impact for the rest of the world as well.

Integrated with the rest of world, the high-growth Chinese economy today works as a propelling factor for growth elsewhere. Concerns expressed by China's trade partners on the trade-displacing effects of the cheap exports, however, appear exaggerated if we remember that China is also a large importer, a role much of which is facilitated by the export expansions, often generated from the subsidiaries of foreign firms in China. Growth in China, is not just a case of a typical export-led process as happened elsewhere in Asia. It is an instance of a state-led industrialisation along with the opening up of large domestic as well as external markets. Industrialisation in China has not remained confined to an export enclave, especially with its vast territory and the swarming population providing the base for economic expansion from within.

State directives to banks in the disbursement of credit and the initiatives offered by the state to provide facilities for industry in China have worked as an incentive to foreign investors. A large part of these FDI inflows is related to the success of China in having a "guided financial market". Benefits of these inflows, in the process, are reaped by both industry and finance, as opposed to a situation of finance-led growth alone, where speculation dominates the financial

[17] www.pbc.cn

flows. In China the regulatory institutions in the area of banking, securities and insurance are given wide-ranging powers; keeping a close vigil on the functioning of both finance and industry. The state committee, in addition, regularly intervenes on matters which are of national importance to the economy. While the security market is officially encouraged , at least in principle, little of the transactions are in the area of speculation, a fact which is evident from the small size of portfolio finance transacted in the market. The bifurcated stock market in terms of the RMB (A) and Dollar (B) category of shares, and the limited proportion of shares having access to the secondary market where those can be treated as tradeables, provide further hurdles as well as surveillance in terms of the security market. Banks, a few of which can float equities in the market, are also forbidden to enter as buyers of stocks, a practice which reminds us of the norms of segregated banking and the Glass-Stegall Act of USA. Universal banking, the much acclaimed practice of financial markets in the era of global finance, while creating opportunities for profitable speculation, can dominate the real sphere of the economy with opportunities rife for speculation.

The Chinese economy today is a model to discuss and discern. Limitations however, remain in failing to address the question of distribution, especially with rising inequalities affecting large sections of people. These are issues which do matter, especially if situated in the context of the socialist past for the country. The success, achieved by far, in taming the financial flows and gearing these in the direction of the real economy indicates the exemplary ability of the state to keep in control the speculatory advances in the era of financial globalisation.

The process, however, may have to face formidable hurdles if China has to fulfill its obligations as a WTO member, especially in terms of further liberalizations of the financial sector.

For China, the fact that finance lends a supportive role to industry may, however, generate a unique lobby, which will be in the mutual interest of both sectors, from within the country and also from overseas, and demanding a continuation of the current policies. The eventuality will probably be determined by the relative weight, of footloose finance as compared to finance which is entrenched in productive operations.

Revaluation of the Chinese Yuan by 2.2% against US dollar, announced on 21st July brings to an end the decade-long dollar exchange rate regime by replacing it with a trade weighted four currency basket. The latter include , in addition to Euro,Yen and the dollar, the currency of Korea which is currently the 2nd largest provider of imports and 4th largest destination of exports for China. Consistent with the new arrangement, ICBC,a major state owned Bank has been permitted to deal in the Korean currency.

RMB's fixed rate, as claimed by US manufactures, was undervalued by 40%. According to IIE, the think-tank in Washington, the margin was around 15-20%. Defying the repeated pressures from the State Department of US for a substantial revaluation to correct the current $152bn US trade deficit with China and the recent recommendations by EU trade chief Mendelson to introduce a currency basket which includes British Pound, China has chosen to adjust its currency in a manner which suits it. The growing reliance on Asia as provider of intermediates and raw materials and also on Hongkong and Korea as major sources of investments gels well with this induction of an Asian currency in its composite currency basket. Responding to speculation which was rife on a possible revaluation of the Yuan, Vice Premier Zeng Peyian made it clear that "…China will act on Yuan but at its own terms". Similarly Premier Wen told a delegation of US Chamber of Commerce that his country would not bow to foreign and speculatory pressures on exchange rate of the Yuan "..which remains a sovereign affair". Guarded statements followed from the Vice Governor of the PoBC that the government will not tolerate sharp changes and volatility in the exchange rate of RMB. Announcements as above from the highest public authorities in the country have been effective to steer clear possibilities of volatility in RMB's exchange rate. The package reflects, once again, China's demonstrated ability to steer a path of autonomous state policy in the process of opening up.

Section III <u>China's Growth vis a vis China's Development: Some Observations</u>:

Success, in gearing finance to industry to achieve record growth in GDP, however is hardly in step with the failure of state capitalism in China to redress the growing inequalities within relating to the rural population as well as the urban poor. As for the countryside where 2/3rd of the 1.2 bn Chinese people lives, only 360mn are engaged in traditional agriculture. According to unofficial estimates, 210mn out of these can be treated as 'surplus' and be removed without affecting the current agricultural output. Disparities loom large between per capita incomes of rural and urban areas, with rural per capita at around 2254 RMB and only one-third of urban per capita income. Agricultural prices and land yield are dampening factors in terms of incentives to cultivate which explain the desertions of arable land, especially in the backdrop of the dazzling big cities. At least 80bn or more in China are in the rank of 'floating population' having no 'permanent resident status' in urban areas or even a personal ID card which in turn is tightly controlled by local authorities who tune the flow of migrants as and when they need them.[18] Social security for poor, both in rural and urban areas are almost non-existent, thus leaving far behind the socialist legacy of the pre-reform years. It does not take much to identify the poor in the heart of cities like Shanghai, where prosperity is the buzzword! A visit to a MNC run electronics unit in Tianjin, the famous export processing zone, revealed that wages paid to a group of girls, all between 16-18 years of age, and working 10 hourly shifts , are even less than $2 dollars a day! It is indeed an irony of the typical export-led growth which China is experiencing that a rise in wages is considered a hindrance to a continuing boom in exports, thus denying the country the possibilities of an alternative path with home market led growth.

The Chinese economy today is a model to discuss and discern. Success of China's state capitalism in gearing finance to industry , in avoiding the risk hazards of footloose mobile capital and above all, in entering the global market at

[18] See for the facts and the argument, Huang Ping, China: Rural Problems and Uneven Development in Recent Years" in China Reflected Asian Regional Exchange for New Alternatives (ARENA) HongKong 2003.pp12-33.

its own terms should not, however lead us to forget its policy failures to address issues of internal distribution, especially with rising inequalities and discontent affecting large sections of people. Parallels are not too hard to find as one recalls the stories of the Brazilian miracle of the seventies or even the ‘shining India’ campaigns a year back! China today is caught up in the typical dilemma of growth sans development, which is rather unfortunate in the context of its socialist legacies of the past!