

# Arthur R. Kroeber: China's Economy: What Everyone Needs to Know

Brødsgaard, Kjeld Erik

*Document Version*  
Final published version

*Published in:*  
Copenhagen Journal of Asian Studies

*DOI:*  
[10.22439/cjas.v34i1.5191](https://doi.org/10.22439/cjas.v34i1.5191)

*Publication date:*  
2016

*License*  
GNU GPL

*Citation for published version (APA):*  
Brødsgaard, K. E. (2016). Arthur R. Kroeber: China's Economy: What Everyone Needs to Know. *Copenhagen Journal of Asian Studies*, 34(1), 115-116. <https://doi.org/10.22439/cjas.v34i1.5191>

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Download date: 30. Mar. 2023



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**Arthur R. Kroeber.** *China's Economy: What Everyone Needs to Know.* Oxford: Oxford University Press, 2016. i-xii + 319 pp. including references and index. ISBN. 978-0-19023903-9

This book offers a very useful overview of China's economic system and economic development since reforms began under Deng Xiaoping in 1979. There are other recommendable books on the Chinese economy, such as Barry Naughton's textbook *The Chinese Economy: Transitions and Growth* (2007) and the collection of insightful essays in Loren Brandt and Thomas G. Rawski (eds.) *China's Great Economic Transformation* (2008). However, these are both somewhat dated. Ho-Fung Hung's *The China Boom: Why China Will Not Rule the World* (2016) is a more recent work that combines historical, sociological and economic analysis to argue that China's economic rise will not challenge the existing world order.

Kroeber's starting point is to present 'what everyone needs to know' about China's economy. The book is divided into 13 chapters. There is also an informative appendix assessing whether China's economic statistics are reliable. Chapter 1 outlines the context of China's political economy arrangements. It also asks what China has learned from the 'failures of other Communist countries' and 'the successes of its East Asian neighbours'. Chapters 2 through 4 describe various sectors of economic activity, including industry, agriculture, and urbanization and infrastructure development. Chapter 5 discusses the enterprise system, asking the question 'which are more important: state-owned enterprises or private firms?'. Chapters 6 and 7 analyse fiscal and financial systems and central-local relations. Chapter 8 takes on a range of pressing social issues which impact directly on the economy, including energy and environment, demographics and the labour market. Chapters 10 and 11 deal with the emerging consumer economy and problems of inequality and corruption. Chapter 12 addresses the current debate about China's chances of making a transition from an investment-driven type of growth to a 'resource-efficient' type of growth. The final chapter investigates what China's economic rise means for the rest of the world.

Kroeber shows that China's economic development throughout the 1990s and 2000s was characterised by an investment-driven growth model favouring heavy industry. Despite official rhetoric about rebalancing the economy and stimulating consumption, investment as a percentage of GDP continued to rise through the era of Hu Jintao and Wen Jiabao and reached a record high share of 46 percent in 2010.

Kroeber also shows that this type of growth model is made possible by financial repression. He defines financial repression as 1) regulated low deposit rates for bank savings that typically are set below the inflation rate; 2) highly managed and undervalued exchange rates to make exports cheaper; 3) and capital controls to prevent capital from 'fleeing' abroad. Only recently have authorities taken steps towards a deregulation of deposit rates, thereby softening financial repression and stimulating consumption.

The traditional growth model has resulted in massive overcapacity in Chinese industrial sectors such as steel, coal, chemicals, cement, aluminium, and glass and paper production. In all these sectors Chinese companies do not operate at full capacity, yet they are responsible for more than half the world production. Chinese authorities are currently trying to address these problems of excess capacity by introducing what they term supply-side structural reform (*gongji ce tizhi gaige*). At the heart of supply-side reform is a substantial cutback of industrial production in heavy-industrial sectors. These reforms are too recent to be discussed in Kroeber's book, but he provides a useful background for understanding the present predicament.

The book has other strengths. It has, for example, a very useful chapter on the enterprise system, comparing the size and efficiency of the state-owned and private sectors. He mentions the huge lay-offs in the SOE sector in the mid 1990s (p. 98). However, I do not agree that SOE employment fell from 113 million in 1995 to 64 million in 2007. The figure of 64 million covers all those employed by the state, including civil servants in state institutions and employees in public service units (*shiye danwei*). Strictly speaking, the SOEs employed only 22.5 million in 2007 (compared to 75.4 million in 1995). The rest were employed in state and Party organisations and in public service units.

Overall, Kroeber's is full of information presented in a readable fashion and, as such, it has a broad appeal. I can recommend it highly for undergraduates and graduates in the field, as well as a general readership interested in China affairs and seeking an understanding of the basic trends and mechanisms that underpin the Chinese economy.

*Kjeld Erik Brødsgaard*  
Professor

*Institute of International Management and Economics*  
*Copenhagen Business School*