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The Fifth dragon : aspects of the economic take-off in Guangdong Province, China

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THE FIFTH DRAGON: ASPECTS OF
THE ECONOMIC TAKE-OFF IN
GUANGDONG PROVINCE, CHINA

by

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Faculty of Social Sciences
Lingnan College
Hong Kong
1994

THE FIFTH DRAGON: ASPECTS OF THE ECONOMIC TAKE-OFF IN GUANGDONG PROVINCE, CHINA

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**THE FIFTH DRAGON: ASPECTS OF THE ECONOMIC TAKE-OFF
IN GUANGDONG PROVINCE, CHINA**

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THE FIFTH DRAGON: ASPECTS OF ECONOMIC TAKE-OFF IN GUANGDONG PROVINCE, CHINA

Y. Y. Kueh

Introduction

Guangdong has for some years now been aspiring to catch up with the "four dragons" of East Asia, viz. South Korea, Taiwan, Hong Kong and Singapore, within fifteen to twenty years. Many theoretical simulations have been carried out to show how, via export promotion or otherwise, it might be possible for the province to reach the prevalent economic standards of the four little dragons, especially in terms of income and consumption standards. While the simulations conducted may vary greatly in econometric sophistication, their results all seem to pivot on the continued bullishness arising from accelerated economic growth in the province in the past decade or so.

Guangdong has indeed outpaced virtually all of the other Chinese provinces, large and small, in almost every aspect of economic performance. The major factors for this are familiar. Foremost is of course the special privileges accorded by the central government to the province since 1980 for retaining any fiscal revenue and foreign hard currency earned in excess of the obligatory remittance to the central authority which was fixed for a number of years. This represents a sharp departure from the past practice whereby any comparable provincial income was subject to virtual confiscation.

The financial privileges imply that provincial autonomy was also extended in allocative arrangement, including, most importantly, export and import decisions. This has allowed for a greater degree of economic independence from the centre, and hence allocative rationalization within the province. By the same implications, the extended autonomy has also facilitated increased integration of the Guangdong economy with the outside world, paving the way for competitive exports and imports and improving domestic manufacturing productivities.

Another important dimension of the Guangdong phenomenon is of course the Special Economic Zone (SEZ). Three of the four national SEZs initially established in the early

1980s are located in the province. And at least up to 1988, they all accounted for most of the inflow of foreign direct investment (FDI) into China. Hong Kong is of course of utmost importance in this respect. By virtue of its geographic proximity it has been the single most important supplier of FDI to the province. As all businessmen in both Guangdong and Hong Kong are aware, the infiltration of FDI has also brought about enormous changes in business attitudes and practice in the province, and hence increasingly served as a catalyst in initiating fundamental changes in its economic system at large.

Though with a rather broad sweep, a number of crucial points pertinent to the background of economic change in Guangdong Province have been raised. There is little doubt that many of the points made can be substantiated quite easily, but ideally we need separate empirical studies. The purpose of this paper is to highlight the salient aspects of economic change in Guangdong Province against the background of the institutional and policy readjustments which have taken place in the past decade or so.

This is not actually the place to discuss whether given the present path of development, the province will really be able to emulate the success story of the four little dragons in the years to come.

In section 2, there is a brief discussion of the comparative economic importance of Guangdong within China and relative to the four little Dragons. Section 3 analyses the changing trends in GDP, both total and per capita, since 1978, compared with the growth experience of the country as a whole. Section 4 examines the impact of accelerated economic growth on the province's income and employment structure by referring to the changing relative contributions of agriculture, industry and service sectors. Section 5 discusses the role played by investment and foreign capital in particular. Section 6 analyses the relative contribution of foreign trade to GDP growth. Section 7 evaluates how Guangdong has benefitted from the important Hong Kong connection in terms of both trade and investment relations. The paper is concluded with a brief evaluation of the prospects for the aspiring fifth little dragon.

2. Comparative Economic Significance of Guangdong

With a population of 65 million in 1992, Guangdong is the fifth largest province in China, accounting for 5.5 per cent of the national population. With a total land area of 0.18 million km² which is only 1.9 per cent of the national total, it is also one of the most densely populated provinces. Guangdong's population and land size indeed appear to be quite overwhelming compared to the four dragons. South Korea which has a population of 43 million and a land mass of 0.099 million km² is clearly the only dragon which is somewhat comparable. Taiwan falls far behind with a population of 21 million and a land area of only little more than one-third the size of South Korea. The other little dragons, Hong Kong and Singapore, are of course minuscule by comparison.

However, looking at the economic indicators shown in Table 1, Guangdong obviously still has a long way to go in its efforts to catch up with the four dragons. Its per capita GDP, especially in terms of the official version, is still tiny relative to that of the four dragons. If the PPP adjusted estimate is any indication, it is still way below the per capita GDP of Taiwan, or for that matter South Korea. The contrast in trade volume and intensity, which are all based on original USD accounting, and are therefore less problematic, are even more striking.

Nonetheless, the emerging dragon appears to have been rapidly catching up over the past one and a half decades or so. Apart from the rather problematic PPP estimate of GDP, which presently puts Guangdong, in per capita terms, only 35% less than South Korea, the province has truly gained enormous momentum in economic growth since the early 1980s, relative not only to the average Chinese performance, but also to the growth experience of the four East Asian dragons.

Looking at GDP growth for example, we see that while in 1980, Guangdong's GDP only made up 5.5 per cent of the China total, by 1992 its share doubled to a startling high of nearly 10 per cent (see Table 2).

Similarly, the province's industrial share in national GDP generated by industry has risen

Table 1 : Major Economic Measures in Guangdong Province and the Four Little Dragons Compared, 1992.

	Population (Million) (1)	Land (100 Sq.Km.) (2)	GDP (USD100Mill) (3)	GDP/Head (USD) (4)	Commodity Trade Volume (USD100Mill)	
					Exports (5)	Imports (6)
					S. Korea	43.66
Taiwan	20.75	360	2049	9925	815	720
Hong Kong	5.81	11	966	16615	1195	1234
Singapore	2.82	6.4	460	16331	616	665
Guangdong (Adjusted PPP estimate)	64.63	1780	422 (2806)	654 (4348)	184	112

Notes :

1. The year-end exchange rate of the respective currency is used for converting into US Dollars, except for Singapore for which the annual average exchange rate is applied. For Guangdong, the figures are based on the official rather than the swap market exchange rate. Since January 1994, however, the two-tier system has been abolished with the official RMB rate being readjusted to the level of the prevailing market rate in order to create a unified exchange rate system under an officially managed floating exchange rate regime. The de facto RMB devaluation implies that the actual GNP/GDP figures for China in US Dollars should be lower than the ones as estimated.
2. The two figures in parenthesis for Guangdong are derived by applying to the given official figures, the ratio of the World Bank's GDP figure for China as a whole (USD2460 per capita) based on the "purchasing power parity"(PPP) estimates to the official Chinese figure (USD 370 per capita) obtained by conversion at the official exchange rate. The two GDP figures will be lower, respectively, USD193,892 million and USD3005, if the PPP figure of USD1700 per capita as estimated by the International Monetary Fund(IMF) is used.

Sources :

- IMF, *International Financial Statistics*, Nov. 1993, pp.326 and 472 for S. Korea.
 Hong Kong Annual Digest of Statistics 1993, pp.4, 16, 95, 109 and 135 for Hong Kong.
 Ministry of Information and the Arts, Singapore, *Singapore 1993*, pp.14, 259, 275 and 313 for Singapore.
 Taiwan Statistical Data Book 1993, pp.5, 6, 25, 30 and 152 for Taiwan.
 Guangdong Tongji Nianjian 1993 (Guangdong Provincial Statistical Yearbook; hereafter GDI.IN.1.1993), pp.61-62 and 64-65 for Guangdong.
 The Economist, 15 May 1993 and *Ta-Kung Pao*, 18 May 1993 for the World Bank's and IMF's GDP figures.

from 3.9 per cent in 1980 to 9.10 per cent in 1992; agriculture, though less impressive, went from 5.2 to 9.6 per cent; but the service sector went from 5.6 to 11.6 per cent.¹

The only area which Guangdong seems to have performed comparatively less well, is grain output, admittedly a narrow measure of agriculture, whose percentage contribution to the national total declined from 5.3 per cent in 1980 to 4.1 per cent in 1992 (see Table 2). Nevertheless, set against the broader agricultural measure (which covers, as in the measure of total agricultural contribution to GDP cited above, such non-farm branches as fishing, animal husbandry, forestry, farm-subsidiary output, and farm-related rural industries, in particular), the mediocre grain output performance implies not only increased rural economic diversification, but also more importantly, a greater degree of inter-regional specialization. Students concerned with the economic development in South China should indeed be familiar with the fact that Guangdong in the past decade or so has had increasingly to turn to its neighbouring provinces, especially Hunan, for grain supplies to help release labour and farm land for industrialization and export development. More will be said about this point later in our discussion. But in this context, we should first refer to the economic performance of the four dragons, in order to put the aspiring fifth dragon in perspective.

Trends in GDP and Sources of Growth

Table 3 shows the GDP growth rates of Guangdong Province compared with that of China as a whole and the four little dragons for selected periods. From 1979 to 1992, the annual average GDP growth for the province was 13.28 per cent compared with 8.97 per cent for the country as a whole. It is by a large measure higher than the long-term performance of South Korea, which was averaging, in terms of GNP, 6 per cent per year for 1962-1992, and of Taiwan, in terms of GDP, 9.5 per cent annually for 1963-1987.

¹ The percentages are derived from the absolute GDP yuan figures given in Table 2 and the percentage contributions of the three sectors shown in Table 5. They are consistent with Guangdong's relative contribution to national GVIO and GVAO as given in Table 2.

Table 2 : Major Economic Indicators of China(National) and Guangdong(GD) Province Compared, 1978-92.

	Population (10,000)		GDP (100 Million Yuan)		GVIO (100 Million Yuan)		GVAO (100 Million Yuan)		Grain Output (10,000 Tons)				
	National	GD	National	GD	National	GD	National	GD	National	GD			
	(1)	(2)	(4)	(5)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
		Ratio(%) (2)/(1)		Ratio(%) (5)/(4)		Ratio(%) (8)/(7)		Ratio(%) (9)/(8)		Ratio(%) (11)/(10)		Ratio(%) (14)/(13)	
1978	96,259	5,064.15	3,588.1	184.73	4,237	200.25	4.73	1,397	85.89	6.15	30,477	1,509.51	4.95
1979	97,542	5,140.50	3,998.1	207.17	4,681	217.64	4.65	1,698	100.46	5.92	33,212	1,605.36	4.83
1980	98,705	5,227.67	4,470.0	245.71	5,154	223.02	4.33	1,923	122.18	6.35	32,056	1,681.91	5.25
1981	100,072	5,323.50	4,775.1	284.24	5,400	270.09	5.00	2,181	139.32	6.39	32,502	1,521.00	4.68
1982	101,654	5,415.32	5,182.3	331.27	5,811	293.95	5.06	2,483	170.08	6.85	35,450	1,795.72	5.07
1983	103,008	5,494.14	5,787.0	357.43	6,461	329.23	5.10	2,750	173.57	6.31	38,728	1,817.48	4.69
1984	104,357	5,576.59	6,928.2	441.81	7,617	405.98	5.33	3,214	201.87	6.28	40,731	1,819.33	4.47
1985	105,851	5,655.59	8,527.4	553.05	9,716	532.71	5.48	3,619	245.34	6.78	37,911	1,604.37	4.23
1986	107,507	5,740.71	9,687.6	637.72	11,194	631.10	5.64	4,013	279.16	6.96	39,151	1,567.00	4.00
1987	109,300	5,832.15	11,307.1	807.70	13,813	878.29	6.36	4,676	348.61	7.46	40,298	1,701.81	4.22
1988	111,026	5,928.31	14,074.2	1098.61	18,224	1,318.92	7.24	5,865	473.78	8.08	39,408	1,636.70	4.15
1989	112,704	6,024.98	15,997.6	1311.67	22,017	1,647.23	7.48	6,535	548.60	8.39	40,755	1,817.21	4.46
1990	114,333	6,246.32	17,681.3	1471.84	23,924	1,902.25	7.95	7,662	600.71	7.84	44,624	1,896.29	4.25
1991	115,823	6,348.95	20,188.3	1780.56	28,248	2,524.12	8.94	8,157	654.82	8.03	43,529	1,873.50	4.30
1992	117,171	6,463.17	24,020.2	2293.54	37,066	3,479.39	9.39	9,085	737.11	8.11	44,266	1,810.40	4.09
Average :													
1978-85	100,931	5,362.18	5407.03	325.68	6134.63	309.11	5.04	2408.13	154.84	6.43	35133.4	1,669.34	4.75
1986-92	112,552	6,083.51	16136.61	1,343.09	22069.43	1,768.76	8.01	6570.43	520.40	7.92	41718.7	1,757.56	4.21

Notes :

All Yuan figures refer to the current prices.

GDP = Gross Domestic Product; GVIO = Gross Value of Industrial Output; GVAO = Gross Value of Agricultural Output.

Sources :

Columns 1, 4, 7, 10, 13: Zhongguo Tongji Nianjian 1993(Chinese Statistical Yearbook 1993; hereafter ZGTJNJ 1993), pp.31, 50, 81, and 364.
 Columns 2, 5, 8, 11, 14: GDTJNJ, 1991 pp.57 and 132; and 1993 pp.75, 77, 135 and 167; Guangdong Provincial Statistical Bureau; (Advancing Guangdong Province: Social and Economic Development 1949-88)Qianjin Zhong de Guangdong Sheng; Shehui he Jingji Fazhan Qingkuang -- hereafter QJZGDG, p.235; Statistical Material on National and Social Development in Guangdong Province 1949-89(Guangdong Sheng Guomin Jinji he Shehui Fazhan Tongji Ziliao); Section on Balance Statistics, p.4; and Section on Rural Area, p.36.

A more appropriate comparison would be to look at the recent periods. But here again Guangdong has consistently outperformed the other dragons with an annual GDP growth rate of 12.1 per cent in 1979-85, and 14.5 per cent in 1986-92, compared with Taiwan's 7 per cent and 8.2 per cent respectively; or for that matter South Korea's 6.6 per cent and 9.2 per cent for the comparable periods (see Table 3).

This is obviously not the place to make a thorough comparison of economic growth between Guangdong and the four little dragons. But the sketchy remarks made above should be sufficient to give some idea of the economic potential for the province to catch up with its Asian-Pacific counterparts in the years to come. In what follows we should therefore concentrate on Guangdong to examine the various aspects of accelerated growth in the past 15 years or so.

The most remarkable observation which can be made from the statistics given in Table 3 is that GDP growth in Guangdong Province accelerated from the periods 1979-1985 to 1986-1992, from 12.1 to 14.5 per cent per year respectively, and in per capita terms, 10.3 and 12.4 per cent respectively. This acceleration is remarkable given that nationally there was a deceleration. The average annual growth rate for the country as a whole went from 9.4 to 8.6 per cent in aggregate, and from 7.9 to 7 per cent in per capita terms, as shown in Table 3.

There are several major factors which can be cited for explaining this contrasting performance. The most important one seems to be, that by the mid 1980s, the province had already built up a backlog of potential to sustain growth and facilitate the exploitation of scale economies in the second half of the decade through the early 1990s. In this respect, FDI seems to have played a crucial role. The province was indeed the single most important recipient of FDI in the first half of the 1980s. Many of the investment projects established at that time did not reach maturity until after the mid 1980s. Coupled with a continuous inflow of FDI, output growth accelerated. As a matter of fact, foreign capital presently constitutes a very significant proportion of total fixed capital formulation.

Table 3 : Growth Rates of Gross Domestic Product(GDP), Total and Per Capita in China(National), Guangdong(GD) Province, and the Four Little Dragons, selected periods, 1979–92. (in percent)

GDP Total

	National	<u>China</u>		Ratio (2)/(1)	<u>Four Little Dragons</u>			
		GD	Ratio (2)/(1)		Hong Kong	S. Korea	Singapore	Taiwan
1985	12.9	20.08	1.56	0.2	6.93	-1.64	5.0	
1986	8.5	11.32	1.33	11.1	12.40	1.84	11.6	
1987	11.1	17.71	1.60	14.5	12.04	9.45	12.3	
1988	11.3	15.57	1.38	8.3	11.48	11.15	7.3	
1989	4.3	6.98	1.62	2.8	6.15	9.24	7.6	
1990	3.9	11.33	2.91	3.2	9.15	8.34	4.9	
1991	8.0	17.30	2.16	4.1	8.46	6.72	7.2	
1992	13.2	22.00	1.67	5.3	4.79	5.80	6.6	
1979–85	9.39	12.07	1.29	7.15	6.60	7.12	7.00	
1986–92	8.56	14.51	1.70	6.98	9.18	7.46	8.20	
1979–92	8.97	13.28	1.48	7.06	7.88	7.29	7.60	

GDP/Capita

	National	<u>China</u>		Ratio (9)/(8)	<u>Four Little Dragons</u>			
		GD	Ratio (9)/(8)		Hong Kong	S. Korea	Singapore	Taiwan
1985	11.37	18.36	1.61	-0.9	5.88	-2.79	4.1	
1986	6.90	9.72	1.41	9.7	11.41	0.66	11.3	
1987	9.33	15.91	1.71	13.4	10.92	8.61	10.7	
1988	9.52	13.73	1.44	7.4	10.42	9.47	6.6	
1989	2.71	5.25	1.94	1.8	5.18	7.61	6.2	
1990	2.39	8.44	3.53	2.9	7.88	8.34	3.9	
1991	6.54	14.32	2.19	3.2	7.53	4.00	6.1	
1992	11.82	19.94	1.69	4.2	3.80	3.62	5.1	
1979–85	7.92	10.30	1.30	4.79	5.16	5.82	5.46	
1986–92	6.97	12.39	1.78	6.02	8.13	5.99	7.08	
1979–92	7.44	11.34	1.52	5.40	6.63	5.90	6.27	

Notes :

All figures are based either on comparable prices(in the case of China and Guangdong), or constant prices[S. Korea and Singapore(1985 as base); Hong Kong, (1980); and Taiwan(1986)]. Column 14 refers to GNP rather than GDP.

Sources :

Columns 1 and 8: ZGTJNJ 1993, pp.31–32 and 81.
 Columns 2 and 9: GDTJNJ 1991, pp.48 and 57; 1993, p.79; QJZDGD 1949–88, pp.44, 54.
 Columns 4 and 11: H.K. Annual Digest of Statistics 1988, p.109; 1991, p.109; and 1993, p.109.
 Columns 5, 6, 12 and 13: United Nations; Statistical Yearbook for Asia and the Pacific 1990, pp.371–372 and 210–211; IMF, International Financial Statistics Nov. 1993, pp.326 and 472.
 Columns 7 and 14: Taiwan Statistical Data Book 1993, pp.25 and 30.

In contrast, while the rest of the country also benefitted greatly from the initial effects of the economic reforms launched in 1978/79, for many provinces however (particularly the interior ones) they seemed to be a one-off push. Without the benefit of FDI inflow to help sustain the growth, as in the case of Guangdong and other coastal provinces, the initial reform impact tended to dwindle in many provinces since the mid 1980s.

The spectacular performance of Guangdong province is of course not just a matter of FDI inflow per se. Rather, with FDI, new technology and new production techniques, no matter how insignificant they might be, have been brought in, together with improvement in managerial efficiency and, perhaps more importantly, competitive pressures on domestic enterprises, as well as allocative realignment and rationalization. Our rough estimates of the relative contributions of capital, labour, and productivity reveal indeed that parallel to acceleration in overall income growth rate, in terms of Net Material Product (NMP) since Mao's death in 1976, the contributive share of productivity in the case of Guangdong increased from 48.8 per cent for 1977-1985 to 53.4 per cent for 1985-1992, as compared to only 20.9 per cent for the Cultural Revolution period of 1965-1976. (See Table 4)

By contrast, the respective figures for the country as a whole are 43.2 per cent (1977-1985), 31.5 per cent (1985-1992), and 12.2 per cent (1965-1976). More interestingly, the percentage contribution of capital to NMP growth declined for Guangdong from 36.8 per cent in 1977-1985 to 34.3 per cent in 1985-1992, while nationally it increased from 37.6 per cent to 51.1 respectively, signalling probably the fact that growth in NMP for the rest of the country has continued to be very much dominated by capital expansion to compensate for relatively stagnant productivity growth, in order to maintain the desirable national income growth rate.

Nonetheless, it should be noted however that in both Guangdong and nationally, the relative contribution of labour supply to income growth has consistently declined from the earlier period to the latter ones, signifying obviously that, with increased capital intensity or increased degree of industrialization, the country has become increasingly less dependent on

Table 4 : Sources of Net Material Product(NMP) Growth in China(National) and Guangdong(GD) Province 1953-92, Compared(in percent).

	Contribution to NMP Growth											
	Growth of NMP			Labour			Capital			Productivity		
	National (1)	GD (2)	Ratio(3)/(2) (3)	National (4)	GD (5)	Ratio(5)/(4) (6)	National (7)	GD (8)	Ratio(8)/(7) (9)	National (10)	GD (11)	Ratio(11)/(10) (12)
1952-57	6.61	9.05	1.369	1.67 (25.26)	2.33 (25.75)	1.395	0.84 (12.71)	0.64 (7.07)	0.762	4.10 (62.03)	6.08 (67.18)	1.483
1957-65	2.09	3.43	1.641	1.63 (77.99)	0.47 (13.70)	0.288	1.87 (89.47)	1.35 (39.36)	0.722	-1.41 (-67.46)	1.61 (46.94)	-1.142
1965-76	5.11	4.36	0.853	1.68 (32.84)	1.62 (37.16)	0.965	2.81 (54.99)	1.83 (41.97)	0.651	0.62 (12.17)	0.91 (20.87)	1.463
1977-85	8.78	10.25	1.167	1.69 (19.25)	1.48 (14.44)	0.876	3.30 (37.59)	3.77 (36.78)	1.142	3.79 (43.16)	5.00 (48.78)	1.319
1985-92	8.75	14.75	1.686	1.52 (17.37)	1.82 (12.34)	1.197	4.47 (51.09)	5.06 (34.31)	1.132	2.76 (31.54)	7.87 (53.35)	2.851

Notes :

Net Material Product(NMP) and Capital are deflated figures in 1980 prices obtained by using the methodology of D.H. Perkins, as explained in his "Reforming China's economic system", Journal of Economic Literature, Vol.XXVI No.2(June 1988), pp628-29; except for Guangdong's capital figures which are given in comparable prices.
Labour force is year-end figures.

Figures in parentheses are percentage shares in the contribution to NMP growth.

Sources :

Columns 1, 4, 7 and 10: Perkins, *ibid*, for 1952-85; and ZGTJNJ 1993, pp.33-35, 48 and 97, for 1985-92.
Columns 2, 5, 8 and 11: GDTJNJ 1991, pp.115; 1993, pp.76, 82 and 129; Guangdong Sheng Guomin Jingji he Shehui Fazhan Tongji Ziliao: Section on Balance Statistics, pp. 1-2, 19-20, 25-26, 31-32, and 53-54.