

left other states unaffected, increasing economic inequality not only in the economic hubs, but also between these hubs and the backwaters. About 80 per cent of Indians still have a daily per capital expenditure of less than US\$2. All this goes to support the contention that India's social development has been 'modest' and 'gradualist', if not downright 'glacial'. The anthology makes this point through general overviews, such as the chapters written by Vivek Chibber and Atul Kohli, and, more convincingly perhaps, by the other empirically richer chapters.

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Liming Wang (ed), *Rising China in the Changing World Economy*, Routledge, Routledge Studies on the Chinese Economy 46, 2012, pp. 422, ISBN 978-0-415-61095-7 (hardback).

In *Rising China in the Changing World Economy*, the authors of each chapter advance their explanation of how and why the Chinese economy is so heavily involved in other economies. This book shows the relationship between economic transition in China and changes in the world economy. The 16 papers collected in this volume are self-contained and independent, but there are strong inter-relationships between different chapters. These papers are responding to unanswered questions of previous studies or trying to provide a missing link. One outcome is that the papers tell us that China has changed its own internal economic structure and inter-relationship between different sectors within the country as its external impacts on the world economy have grown.

Rather than discuss each chapter, I will present the key ingredients that I thought to be important, especially in line with the economic questions and micro-level facts to be explained. The book has two main questions, both very insightful for beginners and experts of the field alike. First, this book asks how existing economic theory can successfully explain the development of the Chinese economy. Second, this book asks whether existing economic theory should be reframed to explain the rapid transformation of the Chinese economy under its

rapid integration with the world economy. Answering both questions requires an investigation into the key assumptions and parameters of interest, that is, what drives households' preferences and technologies of firms, knowledge about how markets and intermediaries work, the characteristics of politically connected firms, and econometric specification of the Chinese economy. These two main questions are not new, but many of the chapters in this book are good at helping us to understand an empirical and theoretical bottom-line of the relationship between China's economic transition and the world economy. They give us an opportunity to re-examine which economic assumptions are essential to answer questions on the rapid growth of China, and overall, the book helps us to think about what types of new assumptions we should impose on the existing model of the interdependence between a growing China and other economies. Likewise, it is also useful to think about what kind of old, heavy or unrealistic assumptions we could remove from the existing model when we have in-depth information about the relationship between local politics and business groups behind China's involvement in global production networks, for example.

The first chapters provide an overview of the facts. This is useful for economists in the field but also for people who are interested in China's rapid transformation from the perspectives of political economy, political science, sociology, demography, anthropology, public health, or international business. The remainder of the book tries to get at a deeper or more quantitative understanding, using a collection of sector-level, provincial-level, firm-level and individual-level datasets discussing the causes and consequences of changes in China's domestic economy. Some of the chapters focus on the geographic coverage of China's economic influence as well as the rapid shift from a traditional to modern economy within China. As China grows across different sectors and its economy has developed, micro-level problems in the domestic economy have become more visible and have become more vulnerable to global and macroeconomic shocks. According to the remainder of the book, we can learn how government support to firms' industrial upgrading has changed over time and across sectors (Chapters 5 to 10). Secondly, we learn how distributional effects of China's growth have changed across households and regions (Chapter 11, 12 and 16). Finally, we see how macroeconomic volatility and the unpredictability and inefficiency of financial intermediaries play a key role in a firm's internationalization (Chapters 13, 14 and 15). These detailed, more microeconomic investigations allow us to answer the key questions of the book on whether

existing theoretical frameworks can successfully explain the causes and consequences of China's rise in the global economy.

Returning to the main questions of the book, let us summarize the facts to be explained for China's rapid transformation. According to the first four papers in this book, which provide an overview, we have the following facts on China under transition and economic globalization. First, China and the world economy have experienced a remarkable transformation over the past 30 years, especially the last 20 years. Second, macroeconomic and export growth have occurred rapidly in China, while income disparity in China has increased within and across regions over the last 30 years. Finally, these changes are accompanied by gradual increases in the old age dependency ratio, rapid increases in unequal opportunity of education and healthcare between the rich and the poor, massive increases in cultivated land, clean water scarcity and tremendous increases in the pressure for not only political reform but also monitoring of government-business nexus to reduce corruption or land-grabbing. Since these microeconomic problems might be interdependent, solving one of these problems could also mediate between different problems that have worsened together.

At the same time, the recent global economic crisis due to the sub-prime lending crisis in the US has had a negative impact on China's export-driven economic growth. Exports to developed economies from China have fallen sharply, especially to the US and Europe. Since this also has uncovered the vulnerability of export-driven growth for the economy, coastal regions are aiming to become more knowledge-based and energy-saving to reduce China's vulnerability. To achieve this, interior regions must start manufacturing and support the domestic market. This also has led to the importance of 'continental drift', which refers to the movement of economic development from coastal to interior regions. As the vulnerability of export-driven growth increases, several microeconomic problems have come to the forefront, problems that have become more visible with China's rapid aggregate growth and the prosperity of coastal regions. The remainder of the book tells us that understanding these microeconomic problems should play a key role to produce sustainable development.

There is a rich set of results in the book, which is one of the best and most informative among recent studies that have documented the macroeconomic aspects of China's rapid growth and microeconomic problems uncovered by the rapid transformation. But I do have three criticisms of the book. First, the links across the papers should have

been highlighted. It helps us to pin down how a set of microeconomic problems – such as restructuring state-owned enterprises, internationalization of firms, developing in-house R&D or arm's length technology transfer, or productivity growth of manufacturing – could be related to each other and why these could move together, for example, in the case of industrial development. When considering the policy implications, detecting the linkages between poverty and the prevalence of public services also helps us to find key obstacles to the poor's access to public services. Thus, future research should detect which channels of economic globalization have an impact on income inequality across households in China (Goldberg & Pavcnik 2007). It is not only important to diagnose the impacts of macroeconomic fluctuations on a firm's investment, income disparity, or the government–business nexus, but also to identify a broad set of complementary variables to be reformed.

Second, it is necessary to pay attention to how changes in housing and real estate markets play a role for the above microeconomic and macroeconomic problems under China's rapid growth. The book is silent on housing and real estate markets compared to a rich analysis of product, labour, capital and futures markets. However, housing and real estate are important durable assets around the world and prices could directly change the wealth distribution across households. In addition, firms also use real estate as collateral to start a new project when they lack access to credit. The value of housing or real estate could also affect firms' operation and investment in an imperfect financial market (see Chaney, Sraer & Thesmar 2012). Since this collateral channel magnifies the small changes in housing and real estate prices, small negative shocks to the housing or real estate markets can have a large impact on investment in the aggregate economy. Thus, it may amplify an economic downturn in China. Future research should include the role of housing and real estate as collateral to understand the causes and consequences of rapid transformation of demand for land.

Third, the first four introductory chapters discuss many questions that social scientists should be looking at. The reader will find that the remaining 12 papers, through their quantitative investigation, have each addressed their own microeconomic questions well, but the reader will also find that some of the questions raised in the first four chapters are not necessarily answered. Recently, Song, Storesletten and Zilibotti (2011) constructed a theoretical framework to explain the macroeconomics of China's transformation: high output growth, sustained returns on investment and capital accumulation, large productivity differences

across heterogeneous firms, reallocation of capital and labour from low- to high-productivity firms within manufacturing, and building of a large trade surplus. The model successfully explains China's great transformation by assuming the imperfections in financial markets and contracts, leaving the standard model in place. It is true that the model cannot explain the microeconomic problems behind China's great transformation that the book addresses, but future studies should take into account economic assumptions that such recent research uses.

The experience of combining *Rising China in the Changing World Economy* with recent research developments explaining both macro- and micro-level facts, gives us an opportunity to check which economic and political assumptions are essential to answer questions on the rapid growth of China. In doing so, we can keep on working towards an understanding of what drives China's great transformation and its hidden aspects as well as the relationships among them, and the reforms needed to address the micro-level problems that have resulted.

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