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EDITORIAL

Minimizing drought effect

The four-month drought that has hit China's major wheat-growing regions in the north is a wake-up call for Chinese policymakers to step up efforts to protect agricultural production from extreme weather.

A record bumper harvest in 2010 allowed Chinese farmers, for the first time in many years, to enjoy a rate of growth in income above that of urban incomes and of GDP. It is only natural that they aspire to another good year.

That is one of the reasons why Chinese leaders should be extremely concerned about the severe drought in northern China that has badly damaged the winter wheat crop and left the ground very dry for the spring planting.

If its impact on agricultural production cannot be minimized, the drought will more than likely put a stop to the ongoing rise in rural incomes, a precondition to narrowing the country's huge income gap.

Another reason why authorities have called for all-out efforts to address the effects of water shortages on agriculture is that any drought-caused reduction in grain output will fuel food price hikes and undermine the government's fight against inflation.

Although China's grain output rose 2.9 percent year-on-year in 2010 to 546.41 million tons, such a record harvest failed to rein the food prices — which account for a third of the basket of goods in China's CPI calculation — from surging 7.2 percent over the previous year. Obviously, it will be far more difficult to manage overall inflation if grain output falls this year.

The good news is that policymakers have come up with an ambitious water conservancy development plan aimed at raising China's ability to control flooding and drought within five years and an emergency relief and assistance program for the eight drought-ravaged provinces.

It is still hard to predict when the drought will end, so policymakers must prepare farmers for the worst and do their best to ensure a good harvest.

Meanwhile, as one of the latest extreme weather events that have helped send global food prices to record levels, China's prolonged drought should remind the international community of the increasing urgency of jointly preventing a worldwide food crisis.

Global food prices tracked by a UN agency hit their highest level on record in January due to weather-related supply disruptions in mid-2010, including a severe drought in Russia and abnormally wet conditions in Canada. The situation looks set to worsen this year after a massive snowstorm in the United States, floods in Australia and the severe drought in China.

The world economy simply cannot step out of the recession amid a global food crisis. The world's leaders must face up to this real risk and combat all kinds of extreme weather events to ensure food security.



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Quality time for development

CHINA SHOULD LEARN FROM JAPAN'S ECONOMIC DEVELOPMENT IN MANY FIELDS

China's double-digit economic growth over the past years has helped it replace Japan as the world's second largest economy.

In terms of gross domestic product (GDP) China exceeded Japan from the second quarter of 2010 and its full-year GDP was more than 39 trillion yuan (\$5.93 trillion), as indicated by statistics from the National Bureau of Statistics. That means China now has the second largest global economic status that Japan held for four decades. China's percentage of the global economy also increased from 1.8 percent in 1978 to 8.5 percent in 2009.

However, despite its economic size, China's economic quality and overall development are still far behind its neighbor and many economic indexes show there still exists a wide gap between them.

China's per capita GDP is only one-tenth of Japan's. Statistics from the International Monetary Fund (IMF) show that China's per capita GDP is only \$4,412, far below Japan's \$42,431 and Japan does not include its overseas assets in its GDP value, a statistical method that makes its real national wealth underestimated.

Japan began to push for the transformation of its development strategy from trade-reliant to investment-reliant from the beginning of this century. In a white paper drafted in 2005, Tokyo put forward the strategy of increasing the return ratio of its overseas assets and improving its international investment structure and quality. It also vowed to double the country's payment surplus to the GDP ratio by the end of 2030. To this end, Japan has actively taken measures to remove various obstacles to its direct foreign investment.

In the last five years, the country has harvested an annual average of \$50 billion in interest on overseas securities, and its enterprises have made enormous profits on

overseas investment. All these have greatly increased Japan's gross national product (GNP).

Compared with its neighbor, China's overseas investment is still in its initial stage and its GNP, a more accurate reflection of a country's economic power, is less than Japan's.

Compared with Japan's GDP, of which individual consumption contributes nearly 60 percent, China's economic growth has been largely driven by domestic investment and exports, a growth model it can no longer sustain. From 1979 to 2009, investment alone contributed 38.42 percent to China's economic growth on average.

Also, despite the fast growth of China's national wealth, the gap between its rich and poor has been widening in recent years, with the Gini Coefficient, a measurement of a country's distribution inequality, expanding to 0.48, a level far higher than the international "alert line" of 0.4. The income gap between the country's top 10 percent and lowest 10 percent had already widened to 23-fold in 2007 from the 7.3-fold in 1988.

According to United Nations data, the Gini Coefficient was 0.25 in Japan in 2001, which was a low level even when compared with other developed countries. Japan's huge middle-class population, which accounts for more than 70 percent of its total population, constitutes a huge driving force for sustainable consumption.

Japan has around 60 percent of high value-added products in its exports and a green GDP development model that give it a huge advantage over China, whose exports of low value-added products have resulted in huge energy consumption.

Despite being labeled as the world's workshop, China still cannot be called a manufacturing power. The country's manufacturing volumes account for 6 percent of the world's total, but the sector's input in research is only

0.3 percent of the world's total. That means China's manufacturing technology and innovation are still at a relatively low level.

In technology and knowledge-intensive sectors, China's enterprises are still in a disadvantageous position and its manufacturing still lies at the middle and low end of the world's industrial chain. All these, if not changed, will weaken China's potential for further and sustainable development.

Compared with China, Japan's manufacturing productivity still leads the world, even though its manufacturing sector has maintained slow growth in recent years.

Statistics from Japan's Ministry of Economy, Trade and Industry show that the country's manufacturing productivity has maintained an annual average growth of 4.1 percent, which is behind only the 4.7 percent of the US when compared with the US, Britain, Germany and France. Japan has regarded the development of advanced manufacturing technologies, innovations and new products as the best way to sharpen the international competitiveness of its manufacturing sector.

A string of factors, such as an insufficiency of resources, the large proportion of rural and impoverished population, and an unreasonable economic structure, are obstacles to China's further and rapid development.

Over the past six decades, China has developed well from a poor and backward nation. The country is now at a new starting point for bigger development. However, China's development model is facing the severe challenge of profound transformation.

For a country that is at this particularly crucial stage, it is more important to push for its economic transformation from the quantity-focused to the quality-focused than to purely expand its economic size.

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