

# **The Balassa-Samuelson Effect in China During the Transition**

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過渡期における中国のバラッサ・サミュエルソン効果

## Abstract

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This paper examined the Balassa-Samuelson effect, which asserts that the higher growth province should experience appreciation of the real exchange rate using Chinese provincial data. The real exchange rate is measured by the relative prices of a local province vis-à-vis those in the benchmarks (Beijing and Liaoning). Considering cross sectional dependency in our data, we implement recently developed panel unit root tests, and find evidence of convergence in Chinese relative prices (i.e., PPP) and relative productivity. We use several productivity measures to trace the Balassa-Samuelson effect in China and we find weak evidence of the Balassa-Samuelson effect in China. We conclude that either our findings are correct and the Balassa-Samuelson effect is not robust in China, which seems to suggest that the China economy does not work as market economy completely yet, contrary to the findings by Guillaumont Jennevey and Hua (2002) and Fan and Wei (2006), or the B-S effects do exist in China, but we were unable to identify them due to the mediocre quality of data and imperfection of econometric techniques.

## **Contents**

|   |           |
|---|-----------|
| <b>1. Introduction</b>  | <b>1</b>  |
| <b>2. The Balassa-Samuelson Effect</b>                            | <b>6</b>  |
| <b>3. Data</b>  | <b>12</b> |
| <b>4. Empirical Results</b>                                       | <b>15</b> |
| <b>4.1 Test of Stationarity -----The Choi Test</b>                | <b>18</b> |
| <b>4.2 Heteroskedasticity Tests----- the Breusch-Pagan Test</b>   | <b>20</b> |
| <b>4.3 Determinants of relative price</b>                         | <b>21</b> |
| <b>4.3.1 Determinants of relative price by sector</b>             | <b>22</b> |
| <b>4.3.2 Determinants of relative price by industry</b>           | <b>23</b> |
| <b>5. Other measures to evaluate the Balassa-Samuelson effect</b> | <b>24</b> |
| <b>6. Conclusions</b>   | <b>25</b> |
| <b>References</b>   | <b>29</b> |
| <b>Acknowledgements</b>   | <b>32</b> |