ABSTRACT

Abstract of thesis entitled Government Size and Economic Growth of China in the Reform Period. Submitted by Lin Son Sam (M-A5-6801-8) for the degree of Master of Social Sciences in Economics at the University of Macau in July 2007.

Endogenous growth theories imply the vital role of government in economic development and exploited empirical studies on the relationship between government size and economic growth. Many previous studies have examined the growth determinants of the Chinese economy while seldom place direct examination on the relationship between government size and economic growth of China. This study attempts to fill the gap in literatures in analyzing the relationship between government size and economic growth of Chinese provinces in the reform period. This paper employs the two-sector growth model developed by Ram (1986) [posted on the Journal of American Economic Review] to examine the relationship between government size and economic growth of China in the reform period. Studies at the national level are likely to mask the economic condition and characteristics of individual provinces and encounter the insufficient time span of data. In this study, panel data techniques are employed to control individual effects and enhance sample size. This study investigates the relationship between government size and economic growth of 28 Chinese provinces during the period of 1987-2005 in three aspects. Firstly, empirical evidence shows the overall relationship between government size and economic growth is positive and the helping hand of the Chinese government did have some positive effect on the Chinese economy. Secondly, the size (output) of government sector (government consumption) exerts a positive externality effect on the non-government sector. Thirdly, the fact that government sector has a lower marginal factor productivity than the non-government sector is indicated.