



# INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

## THE DECLINE AND RISE IN CHINA'S ECONOMY.

ZUBEE KHANAM

M.A., UGC NET (POLITICAL SCIENCE)

JHANSI, UTTAR PRADESH

**Abstract :** The history of China is both, fascinating and complex. Its culture has been describe as both peaceful and warlike. China was created by conquest and has essentially been ruled by a series of warlords. However, China has also experienced period of peace and active trade with its neighbours. There have also been extensive periods where China isolated itself from outside. According to a study by economist Angus Maddison, China was the world's largest economy in 1820, accounting for an estimated 32.9% of global GDP. However, foreign and civil wars, internal strife, weak and ineffective governments, natural disasters (some of which were man-made), and distortive economic policies caused China's share of global GDP on a PPP basis to shrink significantly. By 1952, China's share of global GDP had fallen to 5.2%, and by 1978, it slid to 4.9%. The adoption of economic reforms by China in the late 1970s led to a surge in China's economic growth and helped restore China as a major global economic power. Before 1978 China was one of the poorest economy in the world, China's economic backwardness was because of its leader Mao Zedong and his disruptive policies. The economic reforms brought under the efficient mentoring of Deng Xiaoping in 1978. Despite China's four-decade history of widespread economic reforms, Chinese officials contend that China is a "socialist-market economy." This appears to indicate that the government accepts and allows the use of free market forces in a number of areas to help grow the economy, but the government still plays a major role in the country's economic development. China's rise today has been something unprecedented in the 21<sup>st</sup> century. Where once, under the leadership of Mao Zedong, China practiced a 'closed door' economic policy – as it had in the days of imperial rule – it has now flourished into a formidable capitalist- based economy, ranked the second largest in the world, and stands as "the largest, the fastest growing and the most heavily engaged in international business and investment"

### THE DEVELOPMENT OF CHINA'S ECONOMY

**THE INITIAL STAGES:** Back in 1949, after the Chinese Communist Party (CCP) came to power, they adopted an economic system and management style patterned after the Soviet model where the entire economy was centralized under the government and decisions that were made through administrative organs were duly executed by the enterprises. Through this centralized system, everything was under the strict control of the government – from priority industries that were given attention for materials and resources needed, to the micromanagement of every aspect of (a company's) operation. However, in spite of the state's

central role in promoting economic growth, it only prevented Chinese firms from becoming innovative and profitable. 1952 saw the introduction of the first Five Year Plan, inspired by their counterparts in the Soviet Union. The Plan was aimed at improving industrial economic development to increase the production of coal, steel, petrochemicals and the automotive industry in order to construct large, sophisticated, and highly capital-intensive plants. The Great Leap Forward (Second Five Year Plan) of the People's Republic of China (PRC) was an economic and social campaign led by the Chinese Communist Party (CCP) from 1958 to 1960. The central idea behind the Great Leap was that rapid development of China's agricultural and industrial sectors should take place in parallel. The hope was to industrialize by making use of the massive supply of cheap labour and avoid having to import heavy machinery. Mao established a direct relationship between agriculture growth and industrialization. Under this plan unrealistic goals were set up for agricultural outputs, but the agriculture sector remained backward and all investment directed towards industrialization. Due to this food production decreased rapidly, but the authorities put the production in surplus to please Mao. Mao felt the production was in surplus, so he started exporting. Due to exporting, China faced massive food shortage in 1959 and estimated 15 to 40 million people died out of starvation. At the end Great Leap Forward became a disaster of China's economy.

The failure of the Great Leap Forward (1958-62) weakened Mao's position considerably in the Communist Party as factions began to form against him. His sense that the party was shunting him aside probably lies behind his call for a Great Revolution to Create a Proletarian Culture, or Cultural Revolution for short subverted the revolution. Its stated goal was to preserve Chinese communism by purging remnants of capitalist and traditional elements from Chinese society, and to re-impose Maoism as the dominant ideology in the PRC. The movement was fundamentally about elite politics, as Mao tried to reassert control by setting radical youths against the Communist Party hierarchy. But it had widespread consequences at all levels of society. Young people battled Mao's perceived enemies, and one another, as Red Guards, before being sent to the countryside in the later stages of the Cultural Revolution. Intellectuals, people deemed "class enemies" and those with ties to the West or the former Nationalist government were persecuted. Many officials were purged. Some, like the future leader Deng Xiaoping, were eventually rehabilitated. Others were killed, committed suicide or were left permanently scarred. Some scholars contend that the trauma of the era contributed to economic transition in the decades that followed, as Chinese were willing to embrace market-oriented reforms to spur growth and ease deprivation. The end is considered to be Mao's death on September 9, 1976 and the subsequent arrest of the Gang of Four, a radical faction of four political leaders including Mao's wife, Jiang Qing, in October. Although the Cultural Revolution lasted a decade, much of the most extreme violence occurred in the first few years. The Great Leap Plan and Cultural Revolution were completely destroy the economy of China.

### **Era of economic reforms begins :**

Starting in 1970, the economy entered into a period of stagnation, and after the death of Mao Zedong, the Communist Party leadership decided to abandon Maoism and turn to market-oriented reforms to salvage the stagnant economy. In 1978 Deng Xiaoping comes in power. Deng's first reforms began in agriculture, a sector long mismanaged by the Chinese Communist Party. By the late 1970s, food supplies and production had become so deficient that government officials were warning that China was about to repeat the "disaster of 1959", the famines which killed tens of millions during the Great Leap Forward. Deng responded by decollectivizing agriculture and emphasizing the household-responsibility system, which divided the land of the People's communes into private plots. Under the new policy, peasants were able to exercise formal control of their land as long as they sold a contracted portion of their crops to the government. This move increased agricultural production by 25 percent between 1975 and 1985, setting a precedent for privatizing other parts of

the economy. The bottom-up approach of the reforms promoted by Deng, in contrast to the top-down approach of the Perestroika in the Soviet Union, is considered an important factor contributing to the success of China's economic transition.

The Communist Party authorities carried out the market reforms in two stages. The first stage, in the late 1970s and early 1980s, involved the de-collectivization of agriculture, the opening up of the country to foreign investment, and permission for entrepreneurs to start businesses. However, a large percentage of industries remained state-owned. The second stage of reform, in the late 1980s and 1990s, involved the privatization and contracting out of much state-owned industry. At the same time, in December 1978, Deng announced a new policy, the Open Door Policy, to open the door to foreign businesses that wanted to set up in China. For the first time since the Kuomintang era, the country was opened to foreign investment. Deng created a series of Special Economic Zones, including Shenzhen, Zhuhai and Xiamen, for foreign investment that were relatively free of the bureaucratic regulations and interventions that hampered economic growth. At the end, Economy is carefully opened and liberalized and people are given economic liberty which increases productivity.

### **In a meanwhile China learnt from others nation's mistake too:**

- 1- Perestroika-** From the mid to late 1980s, the newly appointed General Secretary of the Communist Party Mikhail Gorbachev implemented revolutionary reforms of the Soviet Union: Perestroika (restructuring) and Glasnost (openness). The reforms were linked to the “new thinking” and were adopted following a decade of economic stagnation, declining production, major shortages, and poor living conditions in the USSR. Gorbachev believed that with the existing degree of centralization and bureaucracy, the Union could not develop and achieve economic revival. So he tries to reform the political system first but he fails.

Through this China learnt that economic system must be reformed first, political system can follow later. That's why China adopted some of the principles of capitalism in the economic sphere but allowed communism to remain in the political sphere.

- 2- 1997, Asian Financial Crisis** - The Asian financial crisis may well be seen as a turning point in reforming China's financial system. The Asian financial crisis, which broke out in Thailand in July 1997 and then spread to other parts of Asia, had a major impact on the regional and the world economy. The Chinese economy shows a remarkable resemblance to those of pre-crisis Thailand, Indonesia, South Korea and Malaysia - especially the asset bubbles, high reliance on banking intermediation, poor prudential supervision, and fragility of the financial system. Yet, China defied the common prediction and did not succumb to the financial crisis. When the financial crisis unexpectedly hit the high-performing East and Southeast Asian economies in mid-1997, it was widely believed that the Peoples Republic of China (PRC) would be the next domino to fall. But, China avoided the Asian financial crisis primarily because its financial system was relatively closed. Domestic financial liberalization had not yet begun, limiting China's vulnerability to a currency crisis. Yet China remains vulnerable to a domestic banking crisis and through this China learnt that the financial sector and banking sector must be under control of government to avoid financial crisis. That's why China liberalized their market but banking sector and financial sector will be under control of government and other sectors should be left free for private individuals and market.

### Some important features of China's economy:

- **Authoritarian Government-** The People's Republic of China has an authoritarian political system controlled by the Chinese Communist Party (CCP). Since 2007, Chinese authorities have tightened official controls over the media and civil society, and backtracked on legal reforms they enacted in the 1990s and early. Central government authorities regularly reject multiparty democracy as based on Western concept. They have harshly suppressed leaders of movements calling for political reforms including the Chinese Democracy Party, founded and banned in 1998. Chinese leadership advocated that the need of government stability is important for economic growth and economic development. Due to this, Official corruption remains pervasive in China. Concentrated political power in the hands of a few, limited checks on party and government officials, and lack of governmental transparency enable networks of corruption to thrive.
- **Strategic Investment Abroad:** Outward foreign direct investment is a new feature of Chinese globalization, where local Chinese firms seek to make investments in both developing and developed countries and resource rich areas around the world. Chinese companies choose to enter in a foreign market through Merge & Acquisition (M&A). Many Chinese companies would prefer M&A because fast M&A is the fastest way for a company to expand into another country by acquiring brand, distribution, talents, and technology.
- **Emphasis on Technology Transfer:** When a domestic government compels foreign companies to share their technology, which includes intellectual property such as software code, formulas, product research, development plans, architectural drawings, processes, procedures, and designs. In return for this technology transfer, the domestic government will give the foreign company market access. China has ambitious plans to be the world's leader in technology by 2049. In 2015, the Chinese government launched a ten-year plan to update China's high-tech manufacturing sector in ten key areas. The rallying slogan, "Made in China 2025," has become a state-led industrial policy that relies on government subsidies funding China-owned enterprises to pursue intellectual property acquisition to catch up to Western-led technological leaders and eventually pass them. Foreign companies are attracted towards Chinese market and cheap labour so through this China's population acts like it's strength.

**Major long term challenges facing the Chinese economy:** China is currently undergoing a major restructuring of its economic model. Policies that were employed in the past are to essentially produce rapid economic growth at any cost were very successful. However, such policies have entailed a number of cost such as heavy pollution, widening income inequality, overcapacity in rising corporate debt and numerous imbalances in the economy and therefore, the old growth model is viewed by many economics as no longer sustained. China has sought to develop a new growth model that promote more sustainable economic growth that puts greater emphasis on private consumption and innovation as the new growth model that sustains healthy economic growth could prove challenging unless, China is able to effectively implement new economic reforms. Many analysts warn that without such reforms China face a period of stagnant economic growth and living standard a condition referred to by economist as the Middle- Income Trap.

Despite all these challenges present President of China announced ambitious projects (Made In China 2025) aimed at increasing the competitiveness of Chinese industries, fostering Chinese brands, boosting innovation, and reducing China's reliance on foreign technology by making China a major or dominant global manufacturer of various technologies. According to Chinese media, the initiative intends to "transform China from a manufacturing giant into a world manufacturing power" by 2049. Chinese President Xi- Jinping has followed "Go Global" strategy aggressively

and ordered all companies to invest in foreign locations, in it's Belt & Road initiative is most important. China is expanding to Asian, European and African countries under the Belt and Road initiative. Some of the analyst have opinion that China is planning to build military bases through Belt & Road Initiative.

### Conclusions:

Although China occupies a unique niche in the world's political economy-its vast population and large physical size alone mark it as a powerful global presence-it is still possible to look at the Chinese experience and draw some general lessons for other developing countries. Most important, while capital investment is crucial to growth, it becomes even more potent when accompanied by market-oriented reforms that introduce profit incentives to rural enterprises and small private businesses. That combination can unleash a productivity boom that will propel aggregate growth. For countries with a large segment of the population underemployed in agriculture, the Chinese example may be particularly instructive. By encouraging the growth of rural enterprises and not focusing exclusively on the urban industrial sector, China has successfully moved millions of workers off farms and into factories without creating an urban crisis. Finally, China's open-door policy has spurred foreign direct investment in the country, creating still more jobs and linking the Chinese economy with international markets. China's strong productivity growth, spurred by the 1978 market-oriented reforms, is the leading cause of China's unprecedented economic performance. China's historical path in pursuit of economic development has been complicated. Overall, however, the story is a positive one.

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