AN INTROSPECTION INTO CHINESE ECONOMY

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Abstract: As china is in major focus during this era hence exploring the Chinese economy is a major concern right now. We attempt to identify the factors responsible for China’s growth over few decades with the implementation of economic reforms and liberalisation of trade and provide the synopsis for same. The ultimate factor for China’s rapid growth has been driven by policy reforms that significantly reduced the market frictions. The policies implemented in China enhanced the growth of country with the efficiency on the production part.

The total productivity of China has increased contributing approx. 40% to gross domestic product as compared to just 13% in 1950’s which is ten times. Also the gross domestic product of China increased at a huge pace as compared with US and India.

KEYWORDS: China’s economy, Growth, Economic reforms, GDP, Exports, Imports, Investment, Liberalization.

I. INTRODUCTION

China grew over the past half century due to freedom of economy for performing foreign trade, investment and execution of free market reforms after 1979, resulting from same, there was an increase of 9.5% of gross domestic product in 2018.

In today’s time, China is classified as second biggest economy in world, largest holder of foreign exchange reserves, major exporter, vast manufacturer and trading partner with US firms. The main contribution towards world’s gross domestic product amounting 16% was made by China. China is the major support for treasury reserves in US and financed their government for meeting their financial obligations and provided lower interest rates. During the last eight years, the gross domestic product of China has amounts increased by 50% and reduced poverty and brought 800 Million of population above poverty line.

While implementing these reforms, there has been a huge increase in profitability and wages for establishments in China and helped it to expand its economy to stand at second place in the world. Regular interaction with the third parties across the world benefitted China to have more advanced technologies and innovations and become focussed. This has permitted China to convert segment profit into huge additions from trade.

China was announced as largest economy in the world in the year 1820 when the study was conducted by Angus Maddison. The contribution of China to world’s GDP was 32.9%. After the implementation of economic reforms in China post 1970’s, China gained significant economic power. Back 1979, the government empowered the farmers to sell a portion of their harvests at free price and provided subsidies for farmers. The coastal areas and urban areas were allocated to farmers as development area helping the farmers to expand their operations and avail tax benefits. This helped the farmers to gain foreign investment. Government also implemented the measures for decentralizing monetary policy in the exchange area. The control on the financial front was allocated to local government which was earlier with state government. The people were asked to establish their firms and sell the product without control by state prices. Trade liberalization played an important role in monetary development. Competition enhanced due to dismissal of the exchange barriers and pulled in FDI inflows.

II. OBJECTIVES

The ultimate purpose of the study is to explore the condition of China’s economy around 40 years back, before implementation of trade liberalisation and economic reforms and its development after launching economic reforms mentioned below.

❖ To study the China’s share of worldwide GDP
❖ To analyse factors responsible for expansion of trade and economic growth in China
❖ To examine the condition of China after introduction of the economic reforms
III. LITERATURE REVIEW

The first research paper talks about the Economic Growth of China, about the success and challenges faced in the journey written by Shenggen Fan Ravi Kanbur. This paper is submitted in NATIONAL BUREAU OF ECONOMIC RESEARCH. This paper methodology depicts China’s economy and poverty reduction performance, which was seen for the first time in the history of the world. The paper does not only focuses on the economic spheres, such as exports, infrastructure, reserves, FDI (foreign direct investment) and development assistance, but also growth has been seen in inequality, corruption in economy, an underclass of migrant workers, spatial divergence, reduction in environmental pollution and carbon emissions. This paper introduces a new perspective on the Chinese economy’s – Its Past, Present and Future. The Household responsibility system (HRS) laid the foundation of miracle in the history of agriculture in China in the late 1970s. Land cultivation rights were granted to the farmers which empowered them to make their own production decisions increased incentives, production and larger income. Millions of farmers sold their land and moved to non-agricultural industry. The availability of labour at low cost from China in foreign market is a competitive advantage. It also adopted a development strategy focussed on exports. Further increasing trend was observed in global integration, when China entered WTO. Being a coastal provinces it could become a growth pole. The migrant workers were provided jobs with increased income resulting into the increased number of migrants from 25 million to approx. 145 million over two decades. Poverty could not sustain in China for long. It was towards a declining rate due to the contribution of rapid economic growth. Far since 1971, more than 600 million Chinese had escaped from poverty. It had dropped to about 8-10% in 2010. No one can doubt on the scale and speed of poverty reduction that was observed in China. Overcoming host of emerging challenges, fulfilling the growing demands of the increasing markets, utilising the resources to their fullest, dealing with climatic, air pollution and water issues, China is on the trajectory path of its Economic Growth.

The second research paper by Wayne M. Morrison depicting Economic rise in China along with its Trends and reforms. Before trade was liberalized and policies could help economies flourish, talking back to about 40 years ago China’s economy was very poor, it was halted, and controlled centrally, inefficient and isolating china from the global economy. China became fastest growing economy in world with the market reforms in 1979 and Foreign Direct Investment. Through 2018, the Growth domestic product ie. GDP of China has been growing at a continuous pace of 9.5%. China has attained the fastest sustained Economic growth in the history. On an average, China has attained such a growth where it is doubling its GDP in nearly a span of mere 8 years. This has lead to fast economic growth, reduction in poverty in the country. China is now a major commercial partner of us as it holds largest foreign direct investor funds, largest manufactures. China become the third largest exporter with the help of capital investment, foreign direct investment and productivity increase. China is innovation focussed economy, focussing more of innovations, it believes it can project a high-income threshold by 2025. Belt and Road initiative was launched by President in China during the year 2013 for increasing the international relations and integration with other nations by becoming their trading partners. This initiative aimed at increasing competition of Chinese industries strengthening their brands. It reduces the dependency on the world’s technology by developing new technologies in house. These reforms helped China to gain development and become global power.

The third research paper is all about China & the Global Economy written by Justin Yifu Lin. The paper discusses about the key role of Asia in the post Global Economic Crisis. The main focus of the paper is scattered over China’s achievements from the starting of economic reforms in 1979. The paper also discusses about the main prospects for China’s growth, challenges China faced during its future growth and its role in growing world. The growth rate of China was 9% in late 90’s with China’s reform. The growth was doubted by many scholars, but China showed a drastic increase of 10.4% from 1990-2010. China created a huge impact by becoming a global economy as it showed an extraordinary growth. Rapid Urbanisation, growing industrialisation, a dramatic transformation was the reason behind their growth. China showed a sparingly outstanding performance during the first economic crisis. China has shown a rapid growth over the past 20 years. In the 1980’s and 1990s G7 were the major contributors for GDP, except China. However this all changed after 2000, when China became the top most contributor of GDP. In 2019 China contributed to approx. 19.24% of the world Global GDP.

Only Japan and US sustained in the fight for growing economy among G7. China has shown a multipolar growth and it emerged as a world economy in the 21st century. China has shown drastic innovation in industrialisation, export market, agriculture etc. making it withstand the new growth poles of growing economic markets. China is now the major exporter of many commodities all over the world. Both the high-income developed countries and developing countries would be benefited. The opportunities would be created for the world to grow and shared among all. For all the developed countries, China’s growth will help in the expansion of the markets for intermediate, consumer goods and capital goods and all sorts of exports. With regards to the agricultural field, many countries are still facing issues for resources. Exporters would be supported continuously by China with adequate supply and prices. China is the center of structural transformation. China has been playing the role of a leading dragon, beneficial for growth of not only China itself but also for the overall economy of developed and developing nations. The world desperately needs engines of growth major being China. With continues strong economic policymaking of Dragon’s Economy it will provide an impetus for economic growth.

The fourth research paper talks about China’s economic growth and poverty reduction by Hu Angang. As China has shown tremendous achievements in the reduction of poverty of the country, this paper guides us through the economic growth and poverty reduction. China is a major contributor to the world’s economy. China’s achievements in the reduction of poverty have made huge contributions in the reduction of poverty worldwide. Along with the reduced poverty rates, development in the field of agriculture helped in economic growth.

A lot of speeding up in urbanization sector has been seen in China. China has experienced a large growth in GDP and More of FDI in the country after formation of various polices and reforms and opening-up was carried out. China has taken multiple actions to prevent poverty through political reforms. For protecting the rights of farmers, government relaxed the prices of agricultural products by initiating few reforms. China also provided the public basic health services to the poor population below poverty line. It also invested in people’s to create important contents of anti-poverty. China’s contribution to reduce its own poverty line and its effort to decrease international poverty line can never be defied.

The fifth research paper talks of the fastest pace of Growth of Chinese economy with the role of Sai Ding. This paper discusses about the fast growth observed in the China’s Economy by other indirect factors such as opening the doors for global economy. All the data studied
is based on a cross-province dataset. China has bought about a major structural change. The share of trade in gross domestic product, including import and export developed the economy. Privatization of economy is another factor responsible for growth of China along with sectoral changes.

The sixth research paper is all about The impact of China’s economic development on the global economy by ZHANG Jun. This paper talks about the impact China’s fast-growing economy have on the global economy and trade flow and pattern over the globe. An important aspect to be kept in mind is the impact of China’s economic rise on foreign direct investment (FDI) front. To see its impact on the global forefront one must understand the back dated historical changes that china had bought about in its own economy. This paper talks about China’s aggregate performance, its performance in the main sectors and their trends. It also discussed about the issues of inequality in many dimensions, and the most important China’s role in the world economy. The best of young Chinese researchers based in China and outside are the major contributors of these entries. This paper provides our own perspectives on the Economics of China—Their learning from the past experience and talking much about the future prospects. The economist are very positive about China’s growth since 1970’s and have foreseen the growth of 10% every year in last three decades. China now stands among 5 largest economy. China is the biggest country for trades and where the people are interested in investing their money. Both competitive and complementary effects could be seen on the export growth of the country. With lower labor costs, China’s has always been a labor-intensive country which took the advantage of its labour to become one of largest exporters in the world’s economy. Due to china’s large competition has occurred in the market. The demand for raw materials and power has increased in China. It stimulates exports from the other countries. China has strong networks as a result of which an increase in development could be seen potentially over the complete Asia. China had been growing at a

IV. METHODOLOGY

I have gathered information on the topic “China’s Economy” from online sources. I have also done thorough investigation of research papers to reach the conclusion. The first research paper depicts growth of economy of China and lessening down of poverty which was witnessed for the first time in the history, the second one is related to rising trend of the economy. This clearly highlights that I have paid emphasis on how the china’s economy evolved in forty years and what changes could be observed after implication of new economic reforms which were a reason for China to undergo a sea change and well establish itself. I chose this topic for I have already studied about the China’s economy in my last semester and I was keen to study more about it.

V. DATA ANALYSIS AND INTERPRETATION

China turned into a major trading force post Economic reforms and the liberalization of trade and investment. There was an increase in exports of Chinese merchandise from $14 billion in 1979 to $250 billion in 2018 along with expansion of imports merchandise from $18 billion to $480 billion This rapid increase in the trade flows in China made them the largest trading partners with many countries. In 2013, China became the main trade partner for around 130 countries across the world and from 2000 to 2008, import and export in China increased by an average of 25.1% and 24.2% respectively. Figure Below shows China’s Exports and Imports Data being compared from 1979 to 2018.

Due to financial crisis across the world, there was an huge impact on export and import of China with a fall by approx. 5%. However, China recovered again with the growth in the export and import by 25.8% and 31.9 % respectively in the year 2010 and 2011. There was drastic impact on the development of Chinese economy. The prices of products including oil and ores fall drastically in 2015-2016 by half. China overtook Germany in 2009 to become largest trader of goods along with US in 2012 for becoming the biggest trading partner. Post 2016, there was smooth rise in import and exports.

Post the introduction of reforms by China, its economy grew at immense rate. From 15.26 % in 2012 China’s share in global GDP has increased to 19.72% in 2020, focused to grow to 21.39% by 2024. Industrial sector accounts to about half of the total China’s GDP. The below figure describes China’s Share in the global GDP.
VI. FINDINGS

VI. A Reasons for Economic Growth In China

Two major factors responsible for economic growth of China is huge expenditure on infrastructure and increase in productivity. These were huge deposits and investments by domestic and foreign organizations. These factors were together responsible for economic growth. There have been huge savings by China with domestic savings of 32% of gross domestic product. The savings were done in state owned companies for investing in domestic firms by central government.

Privatisation has also lead to development of China’s economy. The growth of economy would have been stagnant if the production was in hands of government. The impact of ownership by states in the organisations had a negative impact whereas the ownership by private individuals and organizations had a positive impact. The production by private companies had a significant impact on the overall industrial goods generated and formed 22% of the total output of industry.

The production increase and simultaneous performance improvement are significant factor for economic development. The increase in production has resulted from proper resource allocation and its efficient use. The rise is basically in the sectors owned by central government including agriculture, manufacturing etc.

Technical advancement in China led to increased productivity and increase in GDP. This made China a hub for advanced technology and innovation for other countries who are facing economic stagnation. In 1997, China has moved from low income to middle economy and in 2010 shifted to high-middle income economy as per the report of world bank. The Chinese government wanted to reach the level of highest wages by 2025.
VI.B World’s largest manufacturer

China has been rated as the biggest competitive producer by Deloitte in 2016 under the Global Manufacturing Productivity Ranking whereas United States was ranked as second. However, the recent studies depicted that US will outclass China and become the most competitive country due to its huge investment in talent, continuous research and development, advanced technologies expenditure. China is also expected to be at top in the manufacturing industry considering high level of R&D and moving towards advanced manufacturing, innovative policies, scientific research. China has been successfully remediating gaps of labour cost, decline in demand and growing population. The average output of China in 2016 was 49.2 % greater than US. The gross contribution by China was 28.7% towards gross domestic product while for US was only 11.6%. The global competitive index placed china as 28th competitive country out of 160 countries, whereas US was placed at first rank.

VI.C Foreign Direct Investment

The opportunities for investment in China through foreign direct investment started in 1990’s. The investment had increased the productivity in China and lead to economic growth. The foreign invested enterprise had increased the production in China and is responsible for international exchange. The outflow of foreign direct investment reached its peak of $196.1 billion in 2016 and thereafter significantly declines. This showed the investment was wasteful and required China to perform scrutiny of firms. Still China was considered as second largest country for FDI outflow after Japan.

China was also the receiver of foreign direct investment at second level as per the World Investment Survey post US and Hongkong. The China economy attracted multi-national companies for making trillions of investment in 2017 and 2018 due to its liberalization plans. The development of technology and free trading favoured the growth. Despite of the disputes with US over trade matters, the investors were keen to do the investment and set more than 60,000 firms in China in 2018. Year by year, this investment increased at the rapid pace counting $12.68 billion in 2020. The investment was huge in the high tech sector. The investment was mainly done by countries like Singapore, South Korea, Japan. In 2020, there was a downfall in the investment due to Covid-19 outbreak.

VI.D Made In China 2025

The advancement in the planning of monetary policy to improvise China manufacturing sector through government help and programs including Made in China 2025. The plan is to utilise the mechanical arrangements and reduce dependency on foreign innovations and dominate the market across the world.

Robert Lighthizer in 2017, reported that this activity is a great test to China and worldwide exchange system. The main motive of China is to transform from giant manufacturer to largest manufacturing power in the world. The plan includes implementation of local manufacturing by 2020, performing media transmission and developing electrical hardware’s by 2025, developing robotics, mechanization and energy vehicle business by 2025. This has increased the stress of US firms and policy makers.

VI.E China’s Major Trading Partners

They comprise the 28 members of the European Union (EU28), the United States, the 10 nations of the Group of Southeast Asian Nations (ASEAN), Japan, South Korea, Hong Kong and Taiwan. The top three export markets for China were the United States, EU28, ASEAN42, while the main import outlets were the EU28, ASEAN and South Korea. China's exchange statistics vary significantly from those of several of its trading partners. Such disparities tend primly to be influenced by the way China's trade through Hong Kong is counted in official Chinese commercial documents. China treats a large proportion of its exports via Hong Kong as Chinese exports to Hong Kong for statistical purposes, while other countries which import Chinese products: In general, Hong Kong traces their roots to China for comparative reasons, particularly for the United States.

VI.F Demographic challenges

The reforms introduced by China focussed on the underemployed people leading to rapid growth of economy. Huge availability of workforce means endless supply of labour at low cost which can help the forms to earn more profit. China government planned to lesser down the age of working population leading to lose its control over labour. The one child policy introduced by China in 1979 majorly impacted the Chinese economy.

This policy of having one child also contributed towards increasing age of Chinese population. Most of the population of China aged 60 years and above and the numbers will rise year by year. With the lesser workforce and increasing age of population, the government is facing issued increasing productivity.

VI.G 19th Party of the Communist Party and their goals

In November 2017, basis the submission of President Xi's to the 19th Party Congress, the Chinese characterized socialism reached a new phase. President emphasised on the fact that China will become a stage country in every way by improving the living standard of poor and rural people, addressing income discrimination, allowing private consumption, reducing pollution. They planned to create China as major producer with advanced manufacturing and encourage use of internet coverage with artificial intelligence. Planning to help the existing factories with latest upgradation and increasing the speed of new factories to upgrade them to international standards. China will continue to implement the trade reforms and promote liberalization, investment facilitation, implement treatment system for organizations, allowing market access. In furthermore to same, the country planned to provide equal treatment to all the organizations registered in China.
VI. H. China's Belt and Road Initiative

The belt and road initiative by China implemented in 2013 for integration of the Chinese economy with world. In APEC summit in November 2017, the president Xi emphasised on this project requiring collective commitment and required strong commitment towards infrastructure building and mobility, improved economic growth, and policy cooperation for achieving shared prosperity. This initiative was started by China and is now part of the global world focussing on the continents such as Asia, Europe and Africa and opening doors to all partners.

Any US observer views the BRI differently from the way it is portrayed by Chinese leaders. Nadege Rolland from National office of Asian Studies considered this initiative as a strategy for the funding and development of transportation projects throughout Eurasia. Development of infrastructure is in reality just one of the five components of BRI which involves enhanced regional political collaboration, unimpeded commerce, financial integration and exchanges between citizens.

This gave growth to economy and soft-power reputation a major boost. China aims to achieve a decent return on its foreign exchange assets, build new investment prospects for Chinese businesses abroad, establish new markets for sectors already overanticipated, and promote economic growth in China's poorest regions. However, this plan might face the financial risk if any of the lenders didn’t repaid back the loan or this initiative didn’t helped. Rex Tillerson secretary demarcated the facets of this initiative and ascertained that it will increase the debt levels.

VII. FUTURE SCOPE AND LIMITATIONS

China has taken various measures in order to satisfy the growing demand of 1.38 billion population. China’s major dependency on exports has been reduced due to inhouse retail market. Major benefits were acquired due to less relying on government or public retained companies and more on private companies.

Also, Chinese leaders still persist on the fact that they need economic reform. In line with the same, President Xi Jinping granted acceptance to "Made in China 2025" plan. China has also modernized into a world leader in solar technology. It has reduced the exports and have initiated the production of steel and coal. This policy has led to transformation of China from a poor, stagnant, centrally planned economy into an increasingly market-driven economy. 740 million people in China have been able to overcome the poverty over the last 40 years and has recorded continuous economic growth. Basis the reports from economic experts, China has succeeded the economic growth of 9.7% for 28 years and maintain an annual growth rate of 9% for 20 years.

The factors of the country production inputs including land, capital and labour needs to be assessed in order to forecast the country's economic growth. If there is an increase in factors at the same time, there are possibilities of further growth. China has been facing problems with the factors. Firstly, the factors including China’s land is limited and there are no possibilities to increase the same. Secondly, the limitation on population increase has constrained the availability of labor force. Therefore the most important factor for the economy growth and economic development of China is national capital. However, increasing the capital is not sufficient if the technology is not advanced. In furtherance to same, multiple other factors including global and domestic trends are responsible for slow down the growth and progress in China. Any inefficiency or liabilities on banks and governments will result in a fiscal and financial crisis and it will be difficult to foresee the consequences.

VIII. CONCLUSION

In 2019, 70th anniversary of China was celebrated and it became second-largest economy post all its economic achievements achieved in past 70 years. The economic growth has been very significant in the country and this cycle started in 1978 with implementation of strategies. China has been very open to the market changes making a remarkable transition in the past 40 years from being a closed society to open one in the world and paving ways to the world. Its production system and value chain was integrated with global system leading to inseparable growth of China from the world. China feature transparency, independent nature and mutual benefit and multilateral trading mechanism, liberalization and facilitation in free markets and investment, international economic development and leads to an integrated world economy.
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