

China's Economy: Achievements and Challenges

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Abstract

At present, as the global second-largest economy, the continuous slowdown of China's economic growth rate is attracting much attention at home and abroad, the future of China's economy again became a hot topic across the world. Though China's government put forward the economy must adapt a "new normal" in the pace of growth and has already took a series of "mini stimulus" countermeasures to curb the declination of economic growth rate, the trend of slowdown seems to be unavoidable. The root of slide of China's economic growth mainly is its export- and investment-driven growth model, which led to the long-term insufficiency of private consumption in China. Therefore, in order to step out of economic dilemma early, it is especially important for China and other developing nations to deep study and reflect the advantages and disadvantages of China's growth model in the last three decades, which not only contribute to rationally understanding the tremendous achievements China's economy scored and problems China encountered, further promote the construction of China's consumer-driven economic growth model, but also help other developing countries avoid detours in the process of economic development.

Keywords: China's economic growth model, export- and investment-driven economy, the income disparity, consumer-driven economy

中国の経済：成果と挑戦

アブストラクト：現在、世界で二番目に大きい経済体として、中国の経済成長率の継続的な減速は国内外で大きな注目を集め、中国経済の将来は再び世界中で話題となった。中国政府は経済成長のペースが「ニュー・ノーマル」を適応しなければならないと提唱し、すでに経済成長率の減速を抑制する一連の「ミニ刺激」対策を取ったが、減速の傾向は避けられないようだ。中国の経済成長の低下の根源は主に、その輸出と投資主導の成長モデルであり、これが中国の個人消費の長期的な不足につながっている。従って、早く経済ジレンマから抜け出すために、中国及びほかの発展途上国がこの三十年に渡る中国の成長モデルの長所と短所を慎重に研究することは特に重要である。これは多大な中国の経済発展成果と中国が直面する問題を合理的に理解することに貢献し、さらに中国の消費者主導の経済成長モデルの構築を促進するだけでなく、他の発展途上国が経済発展の過程で遠回りすることを回避するのにも役立つ。

キーワード：中国の経済成長モデル、輸出と投資主導の経済、所得格差、消費者主導の経済

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Introduction

After world War II, with the development of economic globalization and new science and technology revolution, the global economic environment changed profoundly. In the West, the U.S. economy got unprecedented boom and achieved a position of almost unchallenged domination. The production capability of European countries developed very fast. In Asia, Japan made remarkable achievements in economic development and passed the West Germany in 1968 as the second-largest national economy after U.S. The Asian Dragons, Hong Kong, Singapore, South Korea, and Taiwan, maintained exceptionally high growth rates (in excess of 7 percent a year) and rapidly industrialized between the early 1960s and 1990s. Due to continuing industrialization, expanding trade and unceasing progress of science and technology, such as communications and information technology, transportation technology and medical advances etc., the quality of people's daily life in these countries is improved greatly. In contrast, after the establishment of People's Republic of China (PRC) in 1949, although the economy made some progress, the Great Leap Forward (1958-1960) and the Great Cultural Revolution (1966-1976) severely impeded and disrupted the development of Chinese economy and the process of Chinese modernization. From 1952 to 1978, China's per capita GDP only rose by 3 percent per year, the problem of most people's food and clothing wasn't solved. In 1978, China was one of the poorest countries in the world. The real per capita GDP in China was only one-fortieth of the U.S. level and one-tenth of the Brazilian level.¹⁾

Confronting with the large gap of economic development and technological level between China and developed countries and in order to change the economic woes and outmoded production capacity, China began a process of reform. Under the leadership of Deng Xiaoping, China fundamentally deserted the wrong course of development and adopted the new policy of opening up and reform in 1978. Since then, China had begun to gradually transfer from the planned economy to the socialist market economy; correspondingly, changed the economic institution to adapt to the demand of the market economy. In this process, by means of continuously summarizing the experience and lessons of China's reform, Deng Xiaoping Theory was formulated, which emphasized on the principle of emancipating the mind and seeking truth from facts, regarded the economic development as the central task, insisted that the reform and opening-up are ways to make China powerful. So as to meet the new challenges at home and abroad, and to consolidate and strengthen CCP, Jiang Zemin, the successor of Deng Xiaoping, advanced "Three Representative", which especially underlined the approaches and the importance of strengthening CCP's structure. After entering into the 21st century, Hu Jintao, as the core of the fourth central leadership, put forward "Scientific Development", which persisted in people-oriented, comprehensive, coordinated and sustainable way of development. Just under the guidance of scientific theory, development always was viewed as the absolute truth from top to bottom. China's economy realized the rapid progress and achieved great success in the past three decades. The economic growth in China has maintained an average rate exceeding 8 percent per year, and Chinese people's living standard has been improved greatly. In 2011, China became the second-largest economy in the world and produced 9.3 percent of global GDP. As a result of the extraordinary performance, China's status in the global economy gained unprecedented importance. During the Asian Financial Crisis (1997) and during the global crisis (2008), China withstood the shocks and maintained sustaining growth in both crises, which has been a great driving force for the recovery of the crisis-affected countries and the global economy.

Undoubtedly, as a country with 1.3 billion people, the enormous achievements of Chinese economic development over the past decades largely contributed to the progress of Asia and the world at large. When many economists have been surprised at Chinese Economic Miracle and have intensively discussed this phenomenon abroad and at home, we should pay attention that such miracle is by no means costless. It cannot be ignored that there are many serious issues and challenges existing in China's economy. If China continues to stay with the current growth model and fails to address mounting internal and external sustainability constraints, then a middle-income trap could become a very real possibility. So it is very meaningful to analyze the achievements of Chinese economic boom and the challenges encountered in the economic development, which can be used for reference for most developing countries in the world.

I The Historic Background of the Formation of China's Growth Model

After the Cultural Revolution ended with Mao's death in 1976, the long period of turmoil had brought China's economy to the brink of collapse. Although the planned economy, since the 1950s, had ever made great contribution to the recovery and development of China's early economy, its shortage exposed gradually more and more obviously as time went on. In July 1977, when Deng Xiaoping returned to the leadership, confronting with the stagnant economy, he began to reflect what is the superiority of socialism and concluded that China could no longer follow the old-fashioned way and must reform. In order to better understand the gap between China and developed countries, in 1978, many delegations which were mainly consisted of China's senior leading cadres, went abroad for a visit through Hong Kong. According to the feedback of these delegations, the central government really realized that there is a huge gap between China and developed countries, meanwhile, also acquired that west countries wanted to find the market for their merchants, capital, technology, and hoped to develop the relations with China. Under the economic woes and the social pressure, in December 1978, the Third Plenary Session of the 11th central committee of the CCP ushered in a new era of reform, opening-up and modernization. Of course, Deng Xiaoping played a decisive role in this historic change.

China's reform originated from the reform of country's economic system. From 1980, the family-contract responsibility system was implemented across China's rural area, which greatly initiated the enthusiasm of farmer's production, boosted the enormous progress of agricultural productivity, contributed to the emergence of rural enterprises and increased the peasant's income. Further, the development of China's agriculture provided a number of funds for the industrial development and the construction of China's infrastructure. As it were, the family-contract responsibility system laid a solid foundation for China's socialist market economy. In this process, it is worth mentioning, Du Runsheng as an expert on agricultural economy, who played a very important role to promote the reform of China's rural economy system and was called "the father of China's agricultural reform". The countryside marketized reform promoted the reform of urban economy system. Since 1984, the focus of economy system reform had been shifted from rural to urban. China's government had relaxed the control of price and the state-owned enterprises, and the market began to play an increasingly important role in the economic development. By 1992, the fourteenth National Congress of the Chinese Communist Party brought forward the strategy goal for building socialist market economy; the conception of market had gradually immersed in every field of the society. Market increasingly became a player to a fundamental function of resource deployment. Meanwhile, China reformed the fundamental economic institution and put forward that public ownership would be the mainstay and multiple forms of ownership would develop side by side, which

greatly promoted private economic development. In this historic transformation, many excellent economists at the time, such as Yu Zuyao, Xue Muqiao, Ma Hong, Liu Guoguang, Wu Jinglian and so on, positively proposed new significant ideas of China's economic reform according to their long-term thought and research for China's and Western economy. Among them, Xue Muqiao, Ma Hong and Liu Guoguang are the earliest initiators and the strong supporters of market-reforming orientation. Yu Zuyao is the earliest frontrunner and the largest contributor of socialist market economy. All were familiar with the inherent defections of planned-economy and the advantages of the market economy, proactively offered advice to Deng Xiaoping and other central leaderships for China's reform and made enormous contributions to China's economic development.

During the early years of China's reform and opening-up, confronting with the foreign exchange in short supply and domestic enterprises' lack of competitive power, China's government began to expand the opening-up, positively attracted foreign investment and developed the export of foreign trade. To a large degree, it could be concluded that China's government actively guided and fully supported enterprises' development to drive the growth of domestic economy, and positively attracted foreign investment through opening-up policy, which respectively drew upon experience of Japan and Southeast Asian Nations, especially Taiwan. Under the guidance of China's government, from the special economic zones to the coastal open cities, to the border and inland areas, Chinese economy has transferred from a closed and semi-closed economy to an all-round open pattern, and foreign trade and amounts of using foreign capital have taken the lead in the world. China's export had experienced an explosive growth in the last two decades. In this process, in order to attract foreign investment, China had continuously invested a huge number of funds in the construction of infrastructure, such as transportation, airport, port, telecommunication, bridges and so on, which also stimulated the economic growth at a large extent. Therefore, we could say, over the past thirty years, export and investment were the most important engines to facilitate China's economy growth.

II The Introduction of China' Growth Model

China's economic growth model, known as the traditional growth model, is the economic pattern which relied heavily on exports and investment to drive economic growth. The core characteristics of this model are "government-sponsor plus market regulation" and "investment attraction and export-orientation". The latter characteristic has also become the development strategy of China's economic growth model. This model could promote the high growth of China's economy for three decades because it gave importance to the advantage of China's policy and resource, and took the opportunity of the global industrial transition.

From the beginning, China's reform was dominated by the government. The government-led reform not only avoided the economic risk big ups and down, but also provided a long and stable political environment which dramatically reduced the risk of foreign investment. At the same time, the basic role of market forces in allocating resources was brought into play, so the efficiency of resource utilization was sharply enhanced, comparing with the times of planned economy. So a conclusion could be drawn, that the combination of government-sponsorship and market regulation was right mix of transition model for China. Until now, a powerful government remains an important symbol of China's economy.

In addition to the above factors, there is another development strategy, that is, the strategy of external economic development. The advantage of this strategy can be noted in the following aspects: First, it had contributed to stimulating China's institutional innovation, further improving the soft environment of investment

substantially. For example, after joined WTO, China has already revised about 1,900 provisions of central laws and regulations and 23,000 local regulations in order to fit in with the need of economic development.²⁾ Second, it performed an important role in the upgrade of economic and industrial structure. By actively attracting foreign investment, developing foreign trade and making use of the advantage of backwardness, China's information industry and high-tech enterprises were thriving and keeping in step with the global development. At the same time, due to the great pressure of modern competitiveness, old device, outmoded technology and process which were used in planned economy for a long time, decreased their significance. This led to the great success of foreign reserve accumulation of large fund for the transition of China's industrial structure. Third, the rapid development of foreign investment and trade not only boosted China's economic growth, but also increased employment opportunities. As the amount of export of labor intensive consumer goods and mechanical and electrical products provided a large number of employment opportunities, the pressure of China's employment had significantly been reduced, which was particularly apparent in absorbing the surplus rural labor. Finally, large foreign capital accelerated substantially the growth of China's foreign trade and the increased export stimulated the whole development of China's economy and enhanced China's status in the world.

III Achievements of Chinese Economic Development

Since initiating reforms and opening-up in 1978, China has gradually shifted from a centrally planned to a market based economy, allowing and encouraging the existence and development of private sector and foreign investment, which unleashed the power of China's economy, stimulated the enthusiasm of people's production and creativity, and greatly promoted the rapid development of economy and society. From 1979 to 2010, China kept up an annual growth rate of 9 percent or above and became an influential economy in the world. From top to low in China, almost all people embraced a common view that development is the absolute principle, which is the most important theory of Deng Xiaoping, known as the architect of China's reform and opening-up. In the five-year plans of PRC after 1978, economic development is the constant theme.

3.1 The rapid growth of GDP and GDP per capita. Since opened its doors in 1978, Chinese economy has experienced enormous growth. China's GDP has surged from less than \$150 billion in 1978 to \$8,227 billion in 2012 (**Figure 1**).³⁾ In the process, China's economic boom has lifted around 660 million people out of poverty.⁴⁾

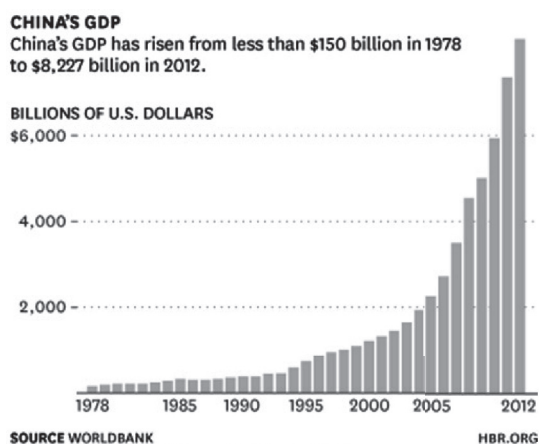
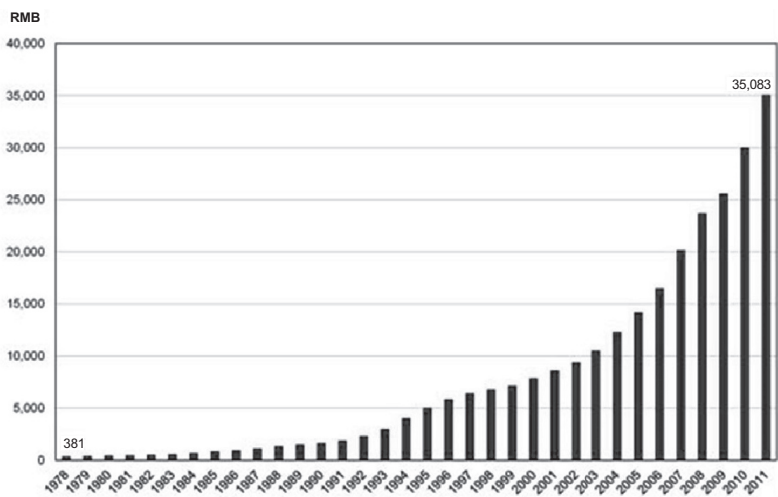


Figure 1: China's GDP

This is a remarkable achievement for any country, let alone one as geographically large and populous as China.

In 1979, when embarking on the reform of economic system, China's GDP was only 406.26 billion Yuan, accounting for 1.8 percent of global gross domestic product. Up to 2013, China's GDP reached 56884.5 billion Yuan and contributed about 12.3 percent of global GDP.⁵⁾ As the world's second-largest economy, the rapid growth of China's economy is projected to continue in future.

Accompanying with the economic development, China's GDP per capita grew from RMB 381 in 1978 to RMB 41,908 in 2013, according to the National Bureau of Statistics of China, and based on current prices. In 1987 this figure surpassed RMB 1,000 to hit RMB 1,112. Five years later in 1992, GDP per capita exceeded RMB 2,000 to reach RMB 2,311. In 2003 this figure rose to RMB 10,542; in 2007 to RMB 20,169; and in 2010 to RMB 30,015. Breaking down the price factor, China's GDP per capita in 2012 grew 16.2 times that of 1978, with an average annual growth of 8.7 percent.⁶⁾ According to the classification standard of World Bank, China has already joined the ranks of upper middle-income countries from the low-income countries (**Figure 2**).



Source: National Bureau of Statistics, China Statistical Yearbook, 2012

Figure 2: GDP per capita, 1978-2011

3.2 The substantial enhancement of disposal income and living standard. As China's economy has explored since 1978, the income of residents in urban and rural areas increased greatly (**Figure 3**). According to the National Bureau of Statistics (NBS) reported a blend of urban and rural household income stats that showed per capita disposable income rose 10.9 percent to \$2,993, or around 18,311 yuan of extra cash floating around people's houses in 2013. Disposable income of China's urban residents hit RMB 26,955 – a 78 times leap compared with the RMB 343 of 1978. Per capita net income of Chinese rural residents rose 12.4 percent to 8,896 yuan. Along with rising incomes, people's livelihood has also improved. The Engel coefficient - measuring food expenditure as a proportion of income - of the country's urban residents fell by 21.3 percentage points to 36.2 percent in 2012 from 1978, pointing to improving living levels. The coefficient of rural residents dropped by 28.4 points to 39.3 percent in 2012.⁷⁾

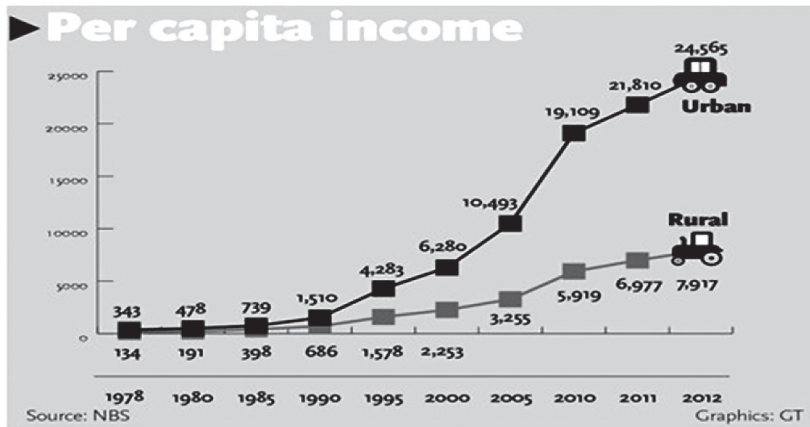


Figure 3: Per capita income

At the same time, people's living standard and quality of life have been greatly improved. In 2012, the per capita cash expenditure of China's urban residents was RMB 16,674 – 52.6 times that of 1978 – an annual growth of 12.4 percent. Chinese rural residents' per capita cash expenditure in 2012 was RMB 5,908 – 49.9 times that in 1978. Otherwise, in 2012, urban residents' per capita living area was 32.9 square meters, 26.2 square meters more than in 1978, while that of rural residents expanded to 37.1 square meters from 29 square meters of 1978.⁸⁾ More importantly, a variety of household appliances, such as TVs, fridges, air-conditions and telephone, are relatively commonplace, and the ownership rate of private cars and computers also has enormous risen. In 2010, China overtook U.S. as the world's biggest car market

3.3 The optimal upgrading of industrial structure. Over a long period of time, China has been limited by the division between production and non-production departments, placed undue emphasis on the development of industry, particularly the development of heavy industry. As a result, tertiary industry has stagnated. In 1978, the composition of primary, secondary and tertiary industries stood at 28.4:48.6:23 (Figure 4).⁹⁾ After that,

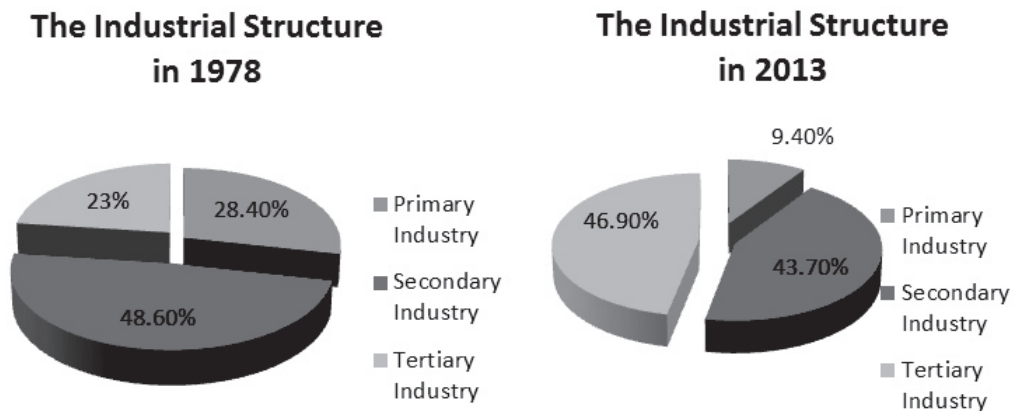
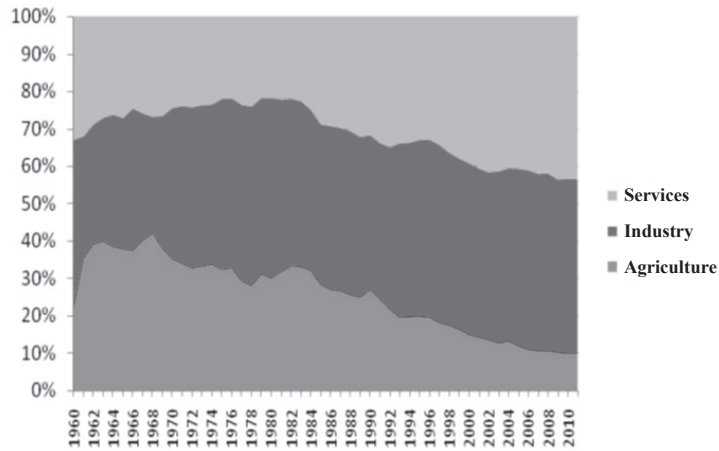


Figure 4: The industrial structure



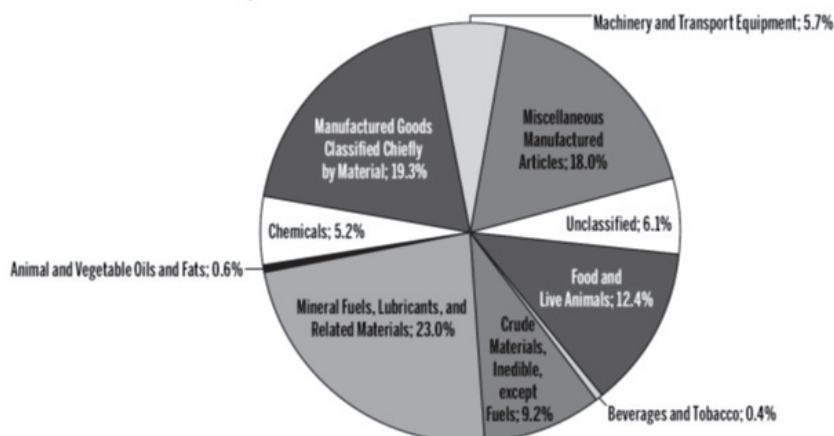
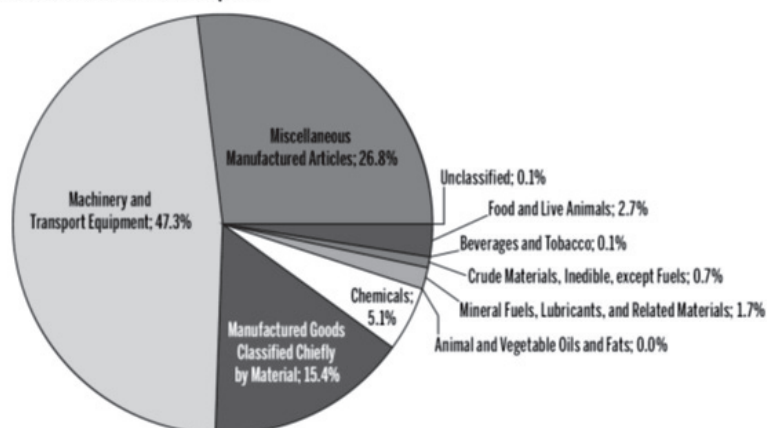
Data source: World Development Indicators, April 2013, World Bank.

Figure 5: Industrial structure: China (value-added as % of GDP)

with the rapid development of China's productive forces and the rise of per capita income, the relative size of agriculture gradually tended to decline while that of the industry and services expanded. Especially, in the Tenth Five-year Plan (2001-2005), after China's government came up very explicitly the task of "Optimize and upgrade the industrial structure", the tertiary industry achieved rapid development (Figure 5). By 2013, the ratio between the three sectors had changed to 9.4:43.7:46.9 (Figure 4),¹⁰ which, when compared with 1978, represented considerable progress in the ratios of the secondary and tertiary sectors and reflected the increasing rationalization of China's industry.

3.4 The rapid growth and the structural improvement in Chinese exports. Over the past three decade years, as the process of China's industrialization had been accelerated and China's increasing integration with the global economy has resulted in a faster growth in Chinese exports, thousands of products made in China flew to all parts of the world. Therefore, China has earned a reputation as the world's factory. Due to the comparative advantages of China's products and the significant amount of foreign direct investment, China's exports rose sharply. In 2009, China became the world's biggest goods exporters.

With the rising growth of export volume of China's products, the structure of China's exports has also changed fundamentally. In the early days of reform and opening-up, China mainly exported low value-added primary products and finished products due to the outmoded production capacity. With the increase of productivity, the structure of products in Chinese exports had successively undergone great changes (Figure 6).¹¹ The figure showed that China exports have already shifted from the primary to secondary industry, and have been shifting from labor-intensive to capital- and technology-intensive products with the secondary industry. Simultaneously, the figure also reflected the optimization of structure and the enhancement of competitiveness in Chinese exports across the world.

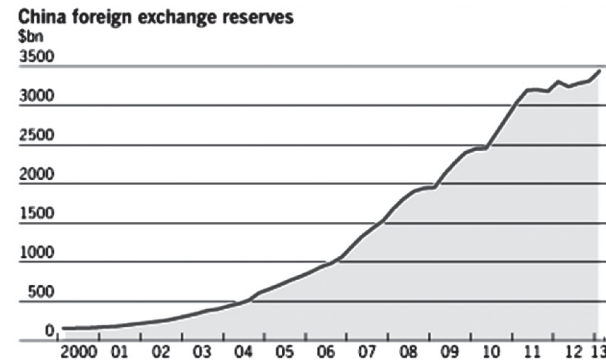
A 1984 Structure of Chinese Exports**B 2009 Structure of Chinese Exports**

a Data are not available prior to 1984 for this classification.

Source: WITS database.

Figure 6: Structure of Chinese exports

3.5 The sharply growth of foreign exchange reserve. With the rapid development of China's export-oriented economy, in 2006 China overcame Japan to become the highest in the world and has already maintained its record for seven years. According to the State Administration of Foreign Exchange, China has \$5.94 trillion in external financial assets as of end of the year 2013, up from \$5.2 trillion at the end of 2012. That's more than half of the country's \$8.3 trillion domestic economy, socked away in Treasury bonds and other securities — including hard assets — from continental Africa to California.¹²⁾ In contrast, at the start of the reform era at the end of 1978, China's foreign exchange reserves were minimal, only \$167 million, per capita \$ 0.17, ranked thirty-eighth in the world.¹³⁾ As Chinese foreign trade has developed very quickly and made great achievements, especially since joining WHO in 2001, the surplus on trade pushed up the rising increase of foreign exchange reserve (**Figure 7**).



Source: Thomson Reuters Datastream

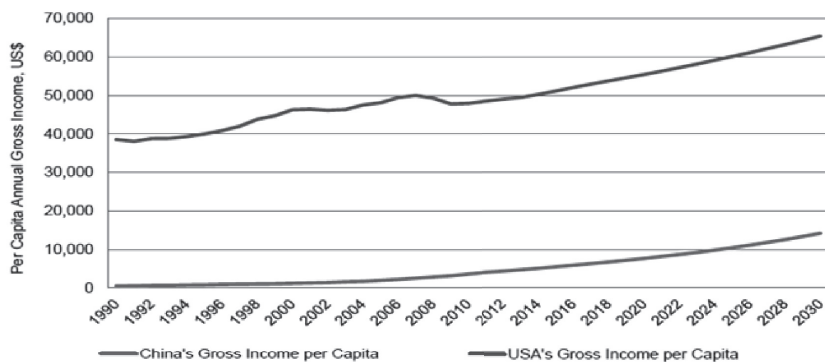
Figure 7: China foreign exchange reserves

IV Emerging Problems of Chinese Economic Development

Undoubtedly, the great achievements of China's economy have been made unprecedentedly since the reform and opening-up in late 1978. But at the same time, China has been facing severe economic challenges.

4.1 The slowdown of economic growth rate. At present, the biggest challenge in China is heightened pressure to arrest the pace of economic slowdown. China ended 2013 with a GDP growth of 7.7 percent.¹⁴⁾ In 2014, growth in China continued to slow, according to China Economic Update published in October, the growth forecast for 2014 has been revised downward to 7.4 percent, almost the lowest in 15 years. Looking to next year (2015), most economic experts in China estimated the growth rate will be set around 7%. Obviously, China's economy has already ended the gold growth phase of "high growth and low inflation". Although China has already become the second largest economy, China's per capita annual gross income is far below the U.S. level (Figure 8). So the development process in China still has a long way to go before a major slowdown

Per Capita Real Annual Gross Income in China and the USA: 1990-2030



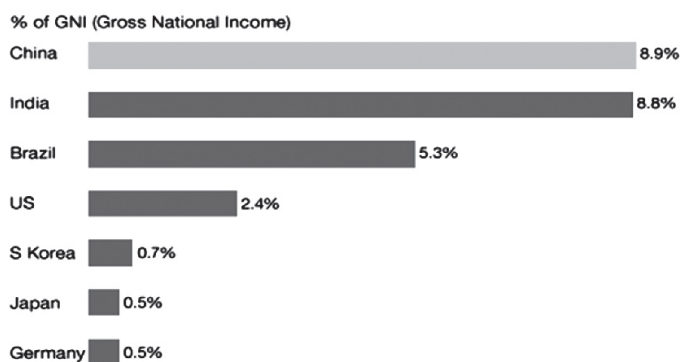
Source: Euromonitor International from national statistics.

Note: Data are in 2013 prices, fixed exchange rates; Data for 2014-2030 are forecasts.

Figure 8: Per capita real annual gross income in China and the USA: 1990-2030

becomes inevitable. In this situation, how to continue to maintain a relatively high growth rate will be the biggest challenges for China.

4.2 The pressure of ecology and environment. Over the past three decades, China adopted the extensive economic growth model characterized by high investment, high pollution and low profit, which led to the serious environmental pollution and the waste of resources in accompany with the rapid growth. The ecological environment was damaged unprecedentedly. According to the reports issued by China's MEP, in 2013 only three of 74 cities were able to meet China's new air quality standards, China's air pollution situation is "extremely severe", 90% underground water is polluted to some extent, 19.4% China's farmland is polluted. The situation of serious environmental pollution and ecology not only has aroused more and more people's discontent and brought about a series of social issues, but also has become the most protruding challenges to sustain China's economic development. The following chart shows China's economic cost to the environment in 2011 (**Figure 9**).



Source: World Development Indicators, World Bank, Shi M.J. & Ma G.X.

Figure 9: Economic cost to the environment (2011)

4.3 The income gap among provinces and between urban and rural areas. Since the start of far-reaching economic reforms in 1978, China has witnessed unparalleled economic growth that has fuelled a remarkable increase in per capita income and a decline in poverty. But despite its remarkable progress in economic and social development and poverty reduction, China still faces a serious challenge to narrow the income gap. Disparities in income among provinces and between urban and rural areas have been widening (**Figure 10**, **Figure 11**). Urban incomes are now more than three times higher than rural incomes, and poverty remains primarily a rural phenomenon.

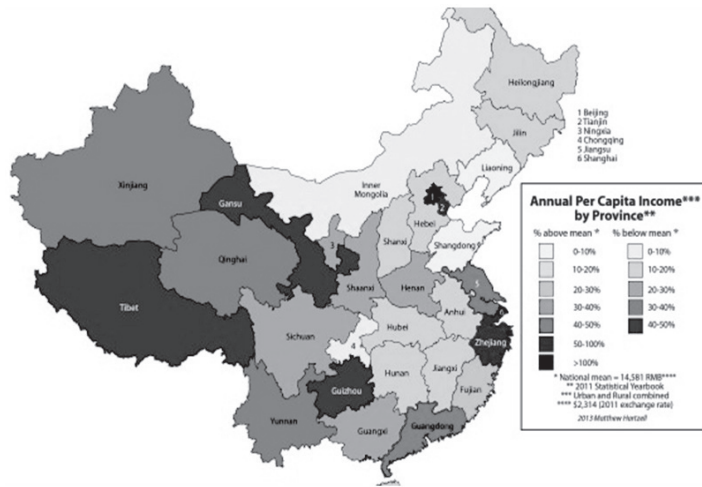


Figure 10: Annual per capita income

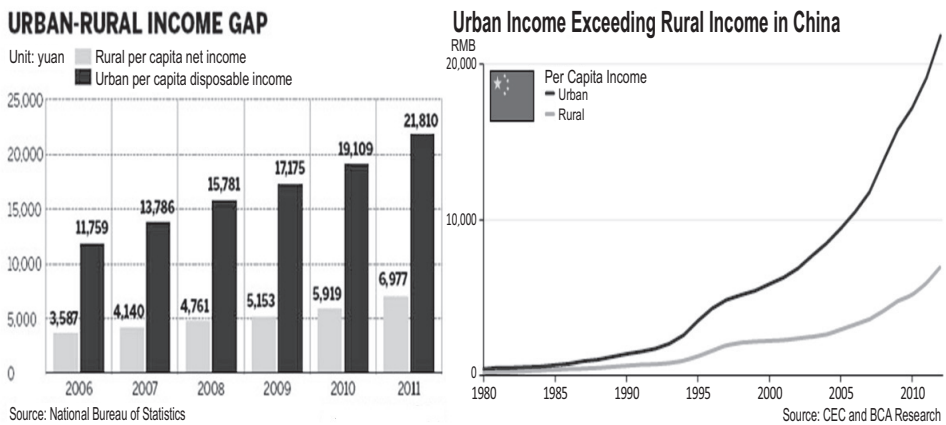


Figure 11: Urban-Rural Income Gap

4.4 The problem of fast aging process of China’s population. According to China’s Ministry of Civil Affairs surveyed, by the end of January 2014, the number of people aged 60 or above has already exceeded 200 million, accounting for 14.9 percent of the total population. This ratio obviously surpassed the 10 percent’s standard of UN’s aging society. In the next 20 years, China will step into the aging peak times, and the elderly population will increase 10 million every year on average. By 2050 or so, aging population in China will make up one-third of the total population. At present, the economy and society in China are still developing, the fast expansion of China’s elderly population will severely challenge the nation’s economic restructuring process because of the decrease in its labor force and the lackluster coverage of its social security system. Thus comparing with developed economies, China is facing the double pressure of improving the lives of the huge senior population and maintaining economic development.

4.5 The pressure of economic transition from an investment-driven development to a consumer-driven model. During the last decade, China relied increasingly on investment to boost its economy. As shown in the chart “Consumption urgently become the more important driving force” below, capital has been the key driver of China’s growth (Figure 12),¹⁵⁾ which was especially obvious during the financial crisis in 2008, when the government invested about 4 trillion RMB to enhance growth. However, under the background of imperfect market mechanism and institutional deficiencies, the large-scale investments relied on public funding in China have also brought about a series of serious problems, such as excess capacity, potential inflation, environmental pollution, local government debt, real estate bubble and so on. Further, credit-driven investments are generating steadily depreciating returns. So investments might not be sustainable in the long term. Confronting with the issues caused by the government-led investment, the nation’s leaders have already realized the seriousness of problems and emphasized that China must rebalance its economy from a traditional model that depended on exports and infrastructure investment to a consumer-driven development model. This is the overarching goal of

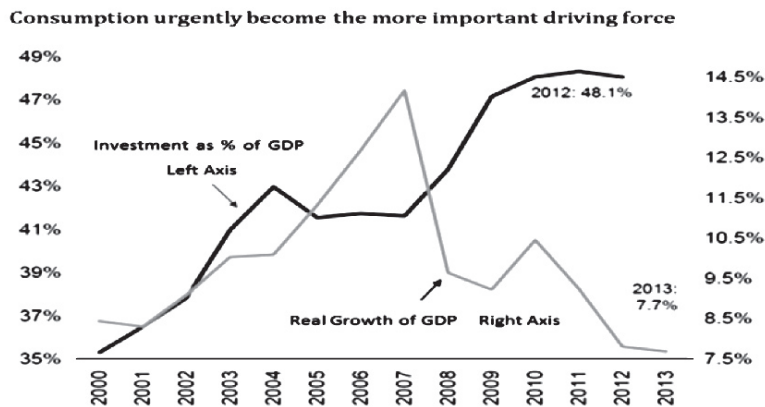
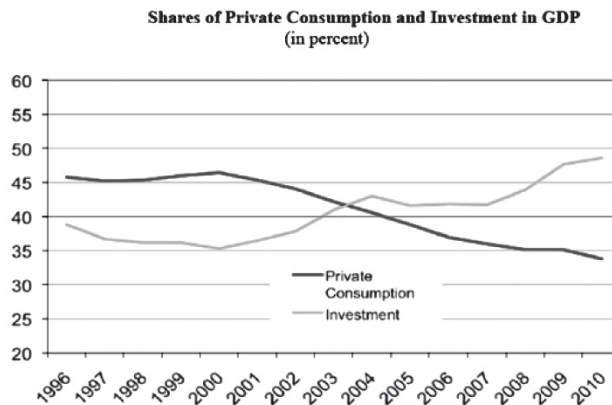


Figure 12: Consumption urgently become the more important driving force



Source: EIU CountryData. 2010 data are EIU estimates.

Figure 13: Shares of private consumption and investment in GDP

the 12th Five-Year Plan (2010-2015) in China. Nevertheless, Comparing to the economic and investment growth, China's consume power is seriously insufficient. In recent years, the rate of China's consumption only accounted for about 30 percent of its GDP (**Figure 13**). By comparison, US domestic consumption was 69 per cent of GDP in 2012.¹⁶⁾ So transitioning to a more economy, while maintaining current growth rates, will not be easy.

4.6 The pressure of excess capacity. In recent years, the capacity utilization rate in China has continued to decrease (**Figure 14**), which seriously suppressed the adjustment of its industrial structure. According to the Ministry of Industry and Information Technology in China, in the first half of 2013, the capacity utilization rate of China's industries is only 79 percent. The over capacity of steel, electrolytic aluminum, cement, sheet glass, shipbuilding industries, is especially prominent. By the end of 2012, the capacity utilization rate of above industries respectively is 72 percent, 71.9 percent, 73.7 percent, 73.1 percent and 75 percent, obviously under the general international level.¹⁷⁾ At the same time, there are still a number of projects in process or proposed projects. Therefore, the situation of excess capacity is becoming more and more serious.

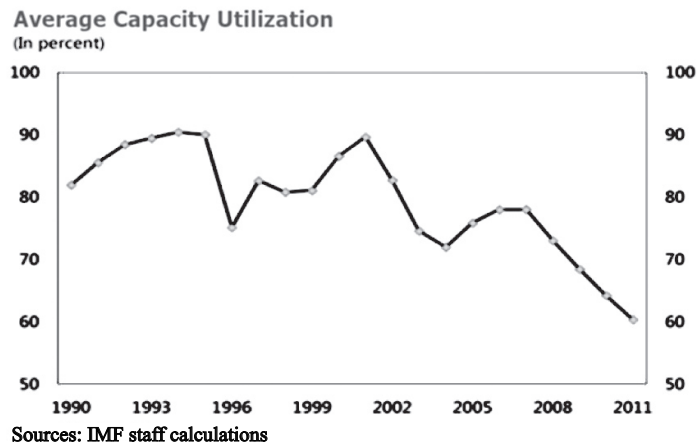


Figure 14: Average capacity utilization

V Analysis of China's economic development problems

Nowadays, the emergence of numerous problems and challenges in China's economy isn't accidental, which has many profound and complex reasons. In order to facilitate the elaboration, the causes relating to the above mentioned problems will be respectively analyzed.

5.1 The reason of the economic slowdown. In recent years, the continuous declination of the growth rate of China's economy mainly is the result caused by the increasingly unreasonable economic structure. As everyone knows, the economic growth in China has been driven by three carriages: export, investment and consumption since reform and opening-up in 1978, but in last decades, the growth rate of export, investment and consumption is radically uneven. From 2000 to 2010, the rising rate of export is much faster than the average 11.6 percent of GDP growth rate per year and grew by about 16.3 percent per year, that of investment grew by 13.3 percent per

year and consumption only grew by 6.7 percent per year.¹⁸⁾ By 2012, the export accounted for nearly 35 percent of China's GDP,¹⁹⁾ which reflected China's growth seriously relied on the international market. Since the financial crisis in 2008, with potentially deep recession setting in U.S. and Europe, the weak demand of international market, the western countries are slashing China's trade projections. In the meantime, the state-led large scale investment in China brought about the severe overcapacity. Along with the insufficiency of domestic demand, when the external strength which ever contributed to the rapid growth of China's economy gradually diminished, the slowdown of its economic growth will happen soon or later.

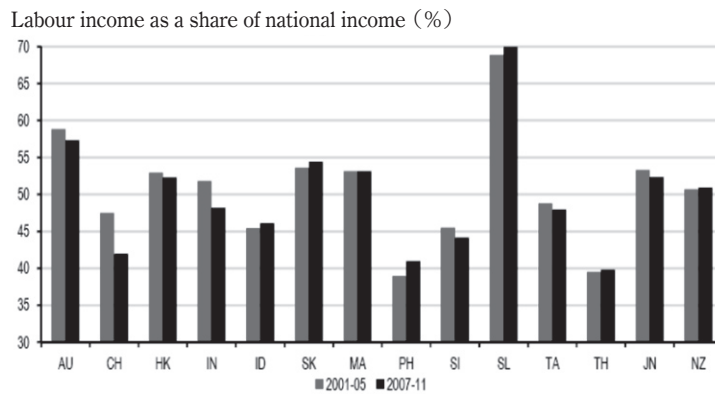
5.2 The reason of the continuous deterioration of China's ecological environment. Over the last one hundred years, due to the poverty and backwardness, China was subjected to bullying and humiliation. So after new China was founded, the people urgently hope the industrialization can be realized at an early time. But because of the Great Leap Forward and the Cultural Revolution, the process of China's modernization was delayed for several decades. In late 1978, when opening the door, people found that the gap between China and developed countries was widening enormously. In order to realize the industrialization and improve people's livelihood as soon as possible, development is the only goal at that time. In Deng Xiaoping's word, development is the absolute principle. It is also the key to solving all problems facing China. Since then, from top to bottom in China, economic growth became the overriding objective. In this context, all levels of government in China one-sided pursued the economic growth and neglected the environmental protection. Furthermore, as China developed the industry which is characterized by high investment, high pollution and low efficiency, so the rapid industrialization in China has created major environmental problems including serious air pollution, water contamination, soil pollution caused by heavy use of coal and other industrial waste, which damaged the ecological environment and harmed people's health.

5.3 The reason of the rising disparity between urban and rural areas. Since 1978, despite the farmer's income in China overall added, but comparing with the urban resident, the income of farmers still lagged, what's more, the gap is becoming expansion instead of reduction today. The enormous gap between rural and urban income in China has mainly been caused by the binary urban and rural division census register system, which was the result of the planned economy. Under the function of this system, rural population couldn't freely move to cities. There existed a serious inequality in opportunities of personal development and social status between rural population and urban population in China. Furthermore, as the power of a country is principally measured by the level of industrial development, during a rather long period, China depended on agriculture to prior develop the industry. For example, from 1950 to 1994, in order to support the industrial development, China totally extracted about 1.7 trillion yuan of the net agricultural surplus.²⁰⁾ Otherwise, an overwhelming majority of the investment in China was pumped into the construction of urban infrastructure and the public service of urban residents, such as power, traffic, education, social security, telecommunication, information and so on. The urban residents could enjoy the high quality of education, medical treatment, entertainment, social security. On the contrary, the fund invested in rural education, infrastructure, social security, medical assistance and so on, was far below the urban areas. The rural population has less chance to get the high quality of public service. Also, to curb the rise of urban resident's cost of living, the prices of agricultural and sideline products controlled by government directly influenced the increase of farmer's income. For these reasons and more, we could see China's rural areas played the part of service offering

to the urban areas most of time. Regardless of the fund support or the policy support to rural China, both of them were far from enough, which was the root of income disparity between urban and rural areas.

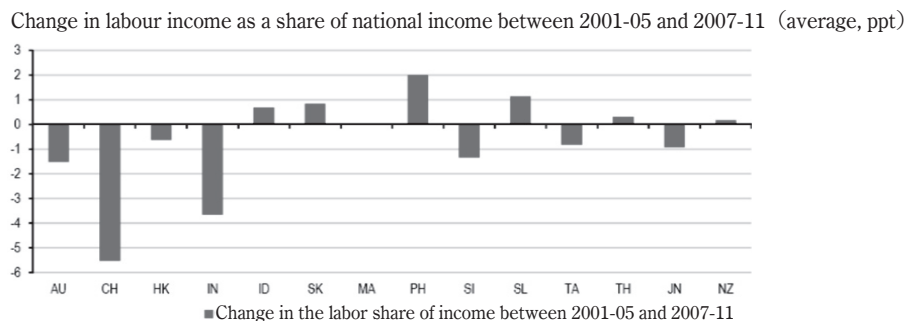
5.4 The causes of Chinese aging population. There are many reasons responsible for the acceleration of elderly population, but the main and direct reasons are the one-child policy and the lower mortality rate. In the late 1970s, in order to control the excess growth of population and relieved the economic and social pressure exerted by population, China began to implement the family planning policy known as “one family, one child” strictly, which sharply decreased the birth rate of China’s population. Meanwhile, with the rapid development of China’s economy, the enormous progress of science and technology, the improvement of medical conditions and living standard, China’s average longevity has been increased greatly: the average Chinese person lived to 76 in 2011.²¹⁾ The results of above factors are the ratio of young people further declined and the ratio of elderly people relatively increased, which finally gave rise to the arrival of the aging society early.

5.5 The causes of China’s consumer recession. Basically, the share of labor income in the whole national income still is too low. Although in the past decade years China’s labor wages increased, this share didn’t rise correspondingly, even declined (**Figure 15, Figure 16**). Otherwise, due to the vast bubble of real estate,



Source: Penn World Tables, HSBC

Figure 15: The labor income as a share of national income (%) in the Asian-Pacific region



Source: Penn World Tables, HSBC

Figure 16: Change in labor income as a share of national income between 2001-05 and 2007-11 in the Asian-Pacific region

high prices of housing occupied a large part of people's income, especially the middle class in cities. The industrialization of China's higher education brought about the sharp increase of education cost. Also, because of social security faultiness, unreasonable medical pattern, and relative lack of medical resources, as well as the factors of not perfect medical system itself, "hard and expensive to see a doctor" still is a serious problem. As people's worry about the uncertainty of future increasingly rose, which made people reluctant to spend or spend less, so the high saving and the lower consumer in China became a common phenomenon. Therefore, at present if China would construct the consumer-driven growth mode, it is urgent for China to enhance the labor income, improve the social security system and decrease the uncertainty of people about the future.

5.6 The reason of overcapacity in China. In fact, even before the financial crisis in 2008, the excess capacity had already existed in China. Because of rapid growth of China's export at that time, at some extent this problem was covered up. However, in 2009, in order to minimize the impact of the global financial crisis on China, China's central government invested 4 trillion yuan to stimulate economic growth. The investment accompanied by local governments later reached more than 10 trillion yuan. The huge fund originally was planned to invest in key areas such as housing, rural infrastructure, transportation, health and education, environment, industry, disaster rebuilding, income-building, tax cuts, and finance. But due to the lack of effective policies of government guiding and management, although some of those funds indeed were invested the construction of infrastructure, most were pumped into the state-owned or state-led enterprises, the market of real estate, stock and bill, which not only led to the repetitive construction and low efficient investment, but also brought about the serious bubble of real estate. Nowadays, the severe overcapacity of steel, electrolytic aluminum, cement, sheet glass, shipbuilding industries and so on, was the inevitable consequence of irrational large scale investment.

VI Recommendations for China's Further Economic Development

6.1 Optimize investment structure and increase returns on investment. Comparing with developed countries, China as a developing country, its infrastructure overall is poor, so China still needs to continue to increase the investment of infrastructure construction. For example, in order to relieve the more and more serious urban traffic congestion and environmental pollution caused by private automobiles, it is necessary for China to further develop the public transport, which not only will bring the convenience for people's travel, but also will contribute to decrease environmental pollution and save energy. Otherwise, sewerage system and garbage disposal of urban and rural areas such as these need to be improved urgently. If China could use the investment effectively and properly avoid duplicate construction and waste, the investment will continue to play an important role in the growth of China's economy in near future. Therefore, one of the urgent tasks in China would be enhance the efficiency of the investment and the returns on the investment through the slowdown of investment growth and scientific disposal funds.

6.2 Improve the utilization of resources and construct the green economy. As is well-known, China is the second-largest import country. From the industrial material and energy, such as iron and steel, copper, aluminum, crude oil, natural gas, coal and so on, to the regularly food, such as grain, bean and so on, all need import from abroad on a larger scale. At the same time, the waste in China is appalling. And it is a common phenomenon from the industrial production to the consumer goods. For example, the average utilization rate of China's energy is

only 30 percent. The energy consumption per unit of mainly industrial products is 40 percent more than oversea average level.²²⁾ Further, the circular utilization ratio of resources is lower for a long time. For another example, at present China's construction waste resource utilization ratio is only 5 percent.²³⁾ The utilization ratio of waste plastics in China is 23 percent in 2013.²⁴⁾ Comparing with Japan, there is a great gap in the resource recycling. In order to realize the sustainable development of China's economy, it is very important for China to increase the utilization ratio of resources and develop the circulation economy through learning the advanced technology and sophisticated experience of advanced countries in energy development, energy efficient buildings and recycling resources.

6.3 Transform the traditional development model and construct the consumer- and service-driven economic growth model. Over the past decades, the growth of China's economy relied on export, investment at a large extent, the continuous slowdown of economic growth has already testified that this mode no longer fit the times. Also, in the light of the world's economic development experience, especially Asian experience and lessons, at the certain stage of economic development, the advantage of economic development which was brought by the state-led large scale investment, will inevitably decrease. In order to adapt the new and higher demand of economic development, it is necessary to respect the inherent law of market economy and give full play to the power of market to allocate resources efficiently, rather than repeated government intervention, which will be a rational choice. Otherwise, due to the instability of external market, export-driven model has already become undesirable for current China. Boosting domestic demand is the basis and long-term strategy for China's economic development. So China must shift from a reliance on exports, investment to one driven more by consumption and services.

6.4 Reduce the income gap and expand the domestic demand. The rebalancing of the reducing income disparities and domestic demand will be the key to maintain the sustained growth of China's economy in future. In the past decades, household consumption as a proportion of China's GDP continued to drop. An important reason was attributed to the excess income gap, which has already caused the insufficiency of China's consumer demand at a large extent, because the MPC (marginal propensity to consume) of high-income groups is far below that of low-income groups. In other words, when the income difference is serious, that will decline the propensity to consume of a country, as a result will lead to the slowdown of the economic growth due to the weak domestic demand caused by the insufficient consumption. Otherwise, the excess income gap will bring about the high savings and low consumption, and its consequence will largely rely on exports or state-led investment because the demand of domestic consumption couldn't deliver economic growth. Nowadays, the income disparity in China is becoming more and more severe, so it is necessary for China to make great efforts to reduce the income gap in order to expand the domestic consumption. In this respect, the experience of developed countries is worthy of learning.

6.5 Reform the household registration system and unleash the latent potential of demographic dividend. In a long term, Chinese enterprises gained the superiority of global competition with low-cost labor-intensive products relied on the cheap labor transferred from agriculture to industry and service sectors, and promoted the continuous rapid growth of China's economy. However, China's ageing populations are become more and

more serious, and its demographic dividend is diminishing gradually, which is leaving a negative impact on the economy and affecting the most labor-intensive industries. As China's labor intensive industries still continue to exist in a rather long period, so it is very important for these industries to supply the labor needed. With the rising progresses of agricultural productivity in rural China, there is a large number of rural surplus labor, but a series of policy with the population registration system as the core in China is still impeding the free floating of rural labor. Simultaneously, most of rural labor entering into the cities, comparing with urban workers, they have no equal wage and no equal welfare treatment, either. All of these seriously hindered the full play of the potential of human resources in China. Therefore, it is urgent for China to reform the population registration system and promote equal access to public service for urban and rural labor, which will effectively boost the labor supply, relieve the pressure of the labor shortage and the upward trend of worker's wage.

Conclusion

Since 2013, China's government, concerned that the economy is faltering, has introduced a series of countermeasures of targeted reform, so called "mini stimulus", to boost growth. These measures including reducing costs for exporters, additional spending on railways, upgraded housing for low-income households, tax relief for struggling small businesses and so on. In May, 2014, China's president Xi Jinping said that the economy must adapt a "new normal" in the pace of growth. And that meant the stimulus measures like previous wouldn't happen again and also underscored a shift - reducing the power of the government and giving companies more space to operate - in Chinese government's approach to managing its economy. In other words, since the old model is no longer a fit for the new situation of economic development, the export- and investment-drive model that had ever propelled China's economic growth for the last 30 years may become history gradually, and the consumer-drive model would become the next goal of China's economic development. Moreover, as the urbanization level is far below the developed countries, and modern services industry is in the state of falling behind, China still has more space to promote the continuous growth of a consumer society.

Although at present China is facing numerous challenges in the process of its economic development, as the global second-largest economy, its economic power is obvious in the region and the world. Further, with the rapid increase of its GDP ratio to the world, accounting for 12 percent in 2013, China is playing a greater and more active role in the recovery and growth of the world economy. During the BRICS meeting, in July 2014, the creation of the BRICS Bank, a new multilateral development bank operated by Brazil, Russia, India, China, and South Africa, which will finance infrastructure and sustainable development projects, marks the rising force of the developing world. Headquartered in Shanghai, the BRICS Bank will set up the Contingent Reserve Arrangement, with \$100 billion in initial capital. Among of which, \$41 billion will be provided by China.²⁵⁾ Before long, in October 2014, 21 Asian nations including China and India signed on a new infrastructure investment bank, Asian Infrastructure Investment Bank (AIIB), which is proposed by China and mainly aims to meet the need for the construction of dams, ports, power plants and telecommunications networks in Asia. China also is providing USD 50 billion as an initial capital of AIIB.²⁶⁾ This is a landmark achievement, which testified, once again, China's influence is increasingly growing in the world, especially in Asia.

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