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Review of Chinese Economy Development from 1978 to 2022

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Abstract

As we all know, Chinese economy has achieved world-renowned success in the past five decades. This research will identify and analyze the development of Chinese economy from 1978 to 2022. There are four main stages of China's economic process. Specially, the first stage is from 1970 until 2000, the second stage is from 2001 until 2007, the third stage is from 2008 until 2014, the fourth stage is from 2015 until now.

Keywords: China, economic development, GDP, enterprises, different stages

1. Introduction

When the economic reform and open-door policy started to adopt in early 1980s, China was an agrarian, labor-abundant and low-income economy with 182 US dollars of per capita income and 9.7% of trade-to-GDP ratio (World Bank, 2009). Therefore, China started its growth to world prominence from a very low base. According to Das, in a span of almost five decades, China has experienced the same degree of industrialization that took two centuries to occur in Europe (Das, 2012, p.22). However, affected by Covid-19 pandemic and global economic depression, the speed of economic growth in China has slowed down. Overall, the Chinese economy experienced a distinctive growth, which is divided into four stages: from 1978 to 2000, over 2001 to 2007, from 2008 to 2014, during 2015 until 2022.

2. The First Stage of Chinese Economy (1978-2000)

The first stage of Chinese economy from 1978 to 2000 was recognized by the successful implementation of economic reform and open up. The economic reform and open-door policy embarked in 1978, including three solid accomplishments of institutional transition, structural transformation, and economic liberalization. This made China to successfully switch from a centrally-command economy to a market-oriented economy (Lin and Wang, 2008).

In terms of the institutional transition, it mainly reflected in the reform of state-owned enterprises (SOEs). This started around the mid-1980s and continued to the 1990s. Owing to the bureaucratic style and high corruption of SOEs, the state-owned enterprises are usually low working efficiency. Therefore, this enterprise reform was directed to improve working efficiency. Soon afterwards, by a combination of management and worker buyouts, the increasing number of SOEs was changed into private enterprises. Moreover, many state-owned enterprises with unsatisfactory business performance were shut down without government aids. In addition, the Chinese government encouraged the establishment and development of private enterprises, in particular SMEs (Lau et al., 2000).

With regard to the structural transformation, it mainly manifested in the industrial structure transformed from primary sectors (e.g. agriculture and extractive) into secondary sectors (e.g. manufacturing industries) and tertiary sectors (e.g. services). For example, in 1978, the urbanization rate was only 17.9% and 70.5% of total workforces were engaged in the primary sector. However, the economic reform triggered a shift in the utilization of labors from the agriculture field to the manufacturing and service fields. For instance, the urbanization rate reached 36.2% in 2000. Furthermore, the percent of labor forces involved in the primary sector declined to 45% in 2000, while 26% and 28% of overall manpower worked on the secondary and tertiary sectors respectively (Das, 2012).

In relation to the economic liberalization, it mainly embodied with the growing international trade and FDI. In the initial phase of economic reform and openness, the Chinese export business was confined to produce and process primary products, which represented more than 75% of total exports. However, with the in-depth implementation of economic reform, “soft manufactures” became the dominant export goods, including textiles, garment, footwear, bags, toys, household plastic products, metal hardware and other light industrial products, etc. For example, the export value of soft manufactures maintained a sustained and steady growth. This accelerated from 4.3 billion US dollars in 1980 to 53.5 billion US dollars in 1998 with a more than tenfold increase. Over the same period, the production lines of soft manufactures rose from 6.9% to 29.1% as well (Lardy, 2003).

In addition, a legal and institutional system for attracting FDI was created in 1979. Subsequently, the central government offered more freedom and authority to local governments. Based on different economic situation, the local government enabled to make their own plans, regulations, and administrative processes to invite foreign investment, which further simplified and liberalized FDI. For instance, during 1984 until 1988, FDI into China reached 2.2 billion US dollars annually (Das, 2012, p.16). Since the early 1990s, especially after Deng Xiaoping’s 1992 tour to the Pearl River Delta, China has established the special economic zones in the coastal regions in order to attract more FDI. This successfully received a great number of FDI inflows from developed economies and other emerging countries year after year. The FDI inflows broke a remarkable mark of 10 billion US dollars in 1992, and it spurted to more than 30 billion US dollars in 1993, which was regarded as one of the most important watersheds (Das, 2012). Take Qingdao City as a specific example, two economic zones, namely Economic and Technological Development Zone (ETDZ) and High-tech Industrial Park (HTIP), founded in 1984 and 1992 respectively. This was sponsored by the local authorities and encouraged by the central government. Since the establishment of two zones, it has attracted an increasing amount of FDI. Table 1 below shows the amount of FDI and its percent of GDP at ETDZ and HTIP in Qingdao City. The amount of FDI at ETDZ was 1.0 million US dollars in 1994 increased to 2.89 million US dollars in 2000. Furthermore, the percent of FDI in GDP at ETDZ was about 41.07% on average during 1994 until 2000, with a peak of 54.9% in 1994. On another hand, the amount of FDI at HTIP was 0.97 million US dollars in 1994 rose to 2.5 million US dollars in 2000. Moreover, the percent of FDI in GDP was 26.21% on average from 1994 to 2000 at HTIP in Qingdao City (ETDZ Statistics, 2001; Qingdao Commerce Investment Guidebook, 2001).

Table 1. The Amount of FDI and Percent of FDI in GDP at ETDZ and HTIP in Qingdao from 1994 to 2000

Year	Amount of FDI at ETDZ (100 million US dollars)	Share of FDI in GDP at ETDZ (%)	Amount of FDI at HTIP (100 million US dollars)	Share of FDI in GDP at HTIP (%)
1994	1.0	54.2	0.97	41.1
1995	1.5	54.9	1.14	33.2
1996	1.7	46.6	0.91	20.0
1997	2.0	41.2	1.4	23.6
1998	2.10	34.7	1.45	20.3
1999	2.20	28.0	1.7	20.4
2000	2.89	27.9	2.5	24.9

Source: ETDZ Statistics (2001); Qingdao Commerce Investment Guidebook (2001)

In short, with the successful implementation of economic reform and open-door policy, many great changes took place in China concerning the institutional transition, structural transformation and economic liberalization from 1978 to 2000 (Walter and Howie, 2011).

3. The Second Stage of Chinese Economy (2001-2007)

The second stage of Chinese economy from 2001 to 2007 was recognized by much closer integration between the Chinese and world economy after joined WTO in 2001. The negotiation of WTO agreement spent 16 years from 1985 to 2001. In this long process, China made more efforts and commitments to liberalize Chinese domestic markets, including the impressive reform of banking, insurance and financial systems, and less restriction on ownership takeovers. China also significantly decreased its tariff and nontariff barriers. This created a more business-friendly environment for foreign investors. Eventually, China became a formal member of WTO on December 11, 2001.

After entry into the WTO in 2001, the macroeconomic reform intensified with ceaseless liberalization and privatization. The Chinese economy opened up further with greater freedom to attract more FDI and encourage foreign trade. This provided a strong external position such as almost 3 trillion US dollars of the foreign reserves in 2008. However, it caused an unbalanced economic structure and an extensive pattern of economic growth where China heavily relied on exports as well as investment. For example, the export trade increased with an annual growth rate of 31.3% from 2003 to 2006, which was over twice than the annual growth rate of world exports. Specifically, on the eve of economic reform in 1977, the total foreign trade was 20 billion US dollars in China. This was the thirteenth largest trader in the world with only 0.6% of overall world trade share. However, the Chinese foreign trade was 1760.69 billion US dollars in 2006, including 969.07 billion US dollars of export values and 791.61 billion US dollars of import values (China Statistical Yearbook, 2007). In 2007, China reached the top of WTO league table as the third largest trading economy in the world (WTO, 2007).

In addition, the export structure had been changed from “soft manufactures” to “hard manufactures”, which consists of machinery equipment (e.g. telecommunications, electrical machineries, appliances and office machines), electronic products (e.g. MP3, MP4, mobile phones and computers) and chemical products. Furthermore, the vertical specialization of Chinese exports to the world was over 30% in 2002. In some production lines such as plastic products, steel processing, communication equipment, industrial machineries, metal products and computers, it reached over 50% (Dean et al., 2007). China moved to a world economic center by the manufacturing-led and export-oriented development (McKay and Song, 2010). Moreover, the R&D intensity of Chinese manufacturing exports grew steadily. For example, the high-technology export increased from 6% of total manufacturing exports in 1992 to 29% in 2008 (World Development Indicators, 2010).

On the other hand, the traditional industrial structure has been further improved. Figure 1 below shows the percent of primary industry in overall GDP reduced. However, the percent of secondary and tertiary industry generally increased during 1978 until 2008. Specifically, the primary industry came to a quarter of total GDP in the late 1970s and reached around 30% in 1984. However, it maintained a gradual decrease after1991, which declined to an insignificant proportion (9.9%) of total GDP in 2008. Moreover, the secondary industry remained its dominant position in the Chinese economy during the whole reform period, which accounted for 48.1% of GDP as the largest industrial field in 2008. On average, the percent of secondary industry in national GDP was around 50%, except for the early 1990s (under 50% of total GDP) and the period of 1994 to 2000 (over 53% of total GDP). Furthermore, the tertiary industry showed a gradually rising trend. It increased from 24% in the late 1970s to approximately 30% in the time of 1990 to 2000. And after 2000, the tertiary industry expanded dramatically, climbing to 42% in 2008. This transformation of industrial structure demonstrates the dynamic and viability of economic growth in China (Das, 2012).

Figure 1. The Percent of Different Industry in Total GDP

Source: World Development Indicators Online Database (2010); Das (2012)

Lastly, the sources of FDI have been more diversified since 2001. The FDI flows from the European Union, and North America showed visible growth. As one of the brightest investment destinations for MNCs, China was ranked as the top-priority host economy since 2002 (World Development Indicators, 2010). It also became the third largest recipient of FDI in the world, which was behind the United Kingdom and the United States in 2005 (Vincelette et al., 2011).

4. The Third Stage of Chinese Economy (2008-2014)

Although the global financial crisis affected most on the advanced industrial economies, China still weathered the world economic depression maelstrom with decelerating GDP growth. The third stage of Chinese economy has been recognized by the severe impacts of financial crisis and economic recession on Chinese economic environment from 2008 until 2014.

On average, China has maintained a double-digit growth rate of GDP for around three decades (Das, 2012). For instance, the Chinese economy was robust and remained 13% of annual growth rate of GDP in 2007. However, Figure 2 below describes the annual growth rate of GDP in China witnessed a remarkable decrease in 2009 affected by the global financial crisis. In order to boost economic growth and expand domestic demand, the Chinese central government proclaimed a historic package of four trillion RMB in November of 2008, which contained the significant investment in real estates, telecommunications, transportations, infrastructures, environment, health and education (Shen and D’Netto, 2012). As a result, the annual growth rate of GDP experienced a recovery in 2010, increasing to 10.4%. However, a double-digit growth rate of GDP has been replaced by a slow increase since 2012. For example, the annual growth rate of GDP declined from 9.2% in 2011 to 7.8% in 2012, and fell again to 7.5% in 2013. Furthermore, the cooling property market with weak investment and the unstable situation of exports have posted growing risks to the economy in recent two years. For instance, the annual growth rate of GDP dropped to 7.4% in 2014, undershooting the government’s target of 7.5% and marking the weakest economic expansion in 24 years. Moreover, the annual growth rate of GDP decreased by 43.08% in 2014 than that of 2007 (13%), prior to the global financial crisis (Trading Economics, 2015).

Figure 2. The Annual Growth Rate of GDP in China from 2007–2014 (%)

Source: TRADING ECONOMICS (2015)

We can see from Figure 3 and Figure 4 below, although there were some fluctuations of Consumer Price Index (CPI) and Producer Price Index (PPI) during the first and second quarters of 2014, it started to drop gradually from the beginning of the third quarter. For example, CPI decreased from 102.29 in July of 2014 to 101.44 in November of 2014. Additionally, PPI declined from 99.13 in July of 2014 to 95.31 in November of 2014. This downward trend indicates the slow economic growth will continue in the coming years. Meanwhile, the threats of deflation are increasing as well (The Ministry of Commerce of the People's Republic of China, 2015).

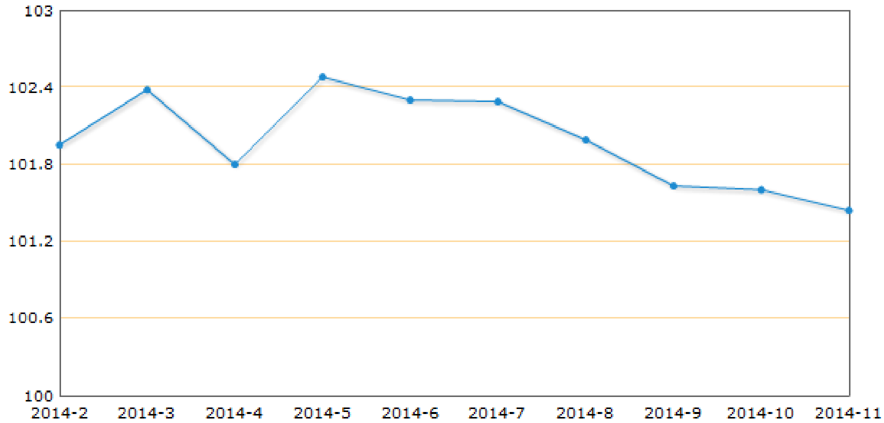

Figure 3. The Consumer Price Index (CPI) from February of 2014 to November of 2014

Source: The Ministry of Commerce of the People's Republic of China (2015)

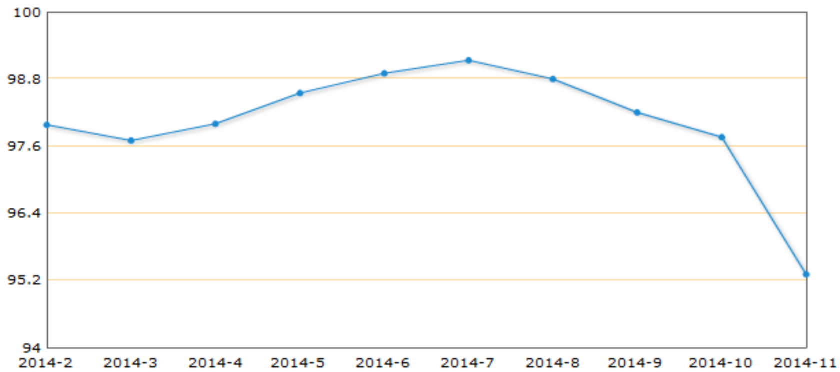

Figure 4. The Producer Price Index (PPI) from February of 2014 to November of 2014

Source: The Ministry of Commerce of the People's Republic of China (2015)

On the other hand, the manufacturing sectors are accelerating their speed of transfer from western developed economies to emerging countries in order to offset the adverse impacts brought by the economic depression (Zhao, 2010). This global industrial transfer will enhance the manufacturing industry in China, which has already become the second-largest manufacturing base all over the world in 2010 (Zhao, 2010). Consequently, Chinese SMEs will obtain more market shares in global business.

5. The Fourth Stage of Chinese Economy (2015-2022)

We can see from the Figure 5 below, the economic recovery in China were on track from 2015 to 2019. During this time, China has experienced a smooth economic growth. However, when the Covid-19 broke out from China in 2020, it subsequently spilled into the real economy, which caused disastrous consequences of dramatic GDP contraction, high unemployment rate and SMEs survival crisis. This epidemic also has exerted detrimental effects on the world. Following the most destructive pandemic for nearly a century, Chinese economy is still suffering by sluggish economic situation in relation to slow GDP growth, rising unemployment and high inflation rate (Trading Economics, 2020).

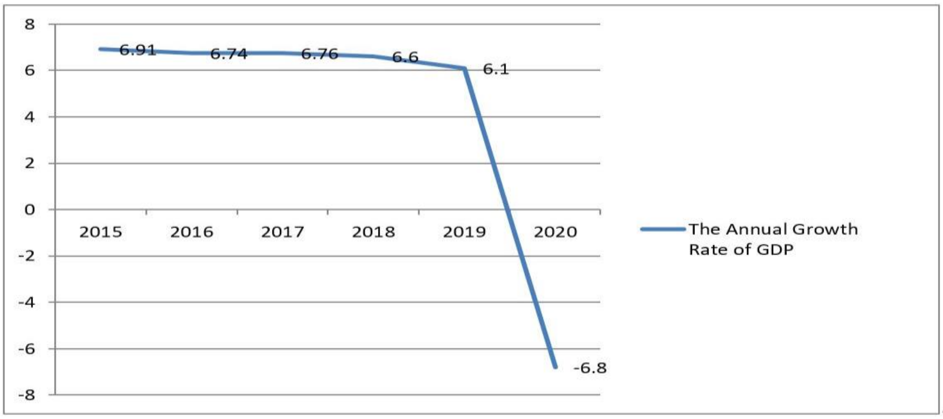

Figure 5. China annual GDP growth rate from 2015 to 2020

Source: TRADING ECONOMICS (2020)

6. Conclusion

In short, as an increasingly interconnected and interdependent world economy, the challenges coexist with opportunities in the current stage of Chinese economic environment. For example, the opportunities of global industrial updating and the negative effects of economic recession are juxtaposed. Enterprises in China should adjust their strategy implementation based on the development phases in different economic environment.

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