

Chinese Economy after Global Crisis

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Abstract

Since Chinese economy takes a fast growth path toward the top of the world economy, it is interesting to examine China's way of development. This paper will demonstrate what china was doing, is doing and will do for its economic expansion during and after global crisis. Many thoughts and theories about Chinese economic reforms are analyzed. The road map and goal of Chinese economic growth are examined and outlined in this paper. How to keep Chinese economy fast growth is this paper's key issue which is thoroughly discussed.

Key words: Chinese economy, high growth, economic reform, competitive, global crisis

JEL code: C1

Introduction

Since 2008, the global economy has been experiencing the deepest downturn in the post–World War II period, as the financial crisis rapidly spreads around the world. A large number of advanced economies have fallen into recession, and economies in the rest of the world have slowed abruptly. Global trade and financial flows are shrinking, while output and employment losses mount. Credit markets remain frozen as borrowers are engaged in a drawn-out deleveraging process and banks struggle to improve their financial health. As the world economy comes out of a deep global recession, global activity is forecast to expand by about 3 percent in 2010 after contracting by about 1 percent in 2009, according to the International Monetary Fund (IMF) projections.

The recovery is being led by strong growth in emerging Asian powerhouses like China and India, real GDP growth is forecast to reach almost 5 percent in 2010, up from 1.75 percent in 2009, while the US, Europe and Japan are just beginning to emerge from devastating recessions. Advanced economies are projected to expand sluggishly through much of 2010, with annual growth in 2010 projected to be about 1.25 percent, following a contraction of 3.50 percent in 2009, and with unemployment continuing to rise until later in the year. Europe could face unemployment of nearly 12 percent by the end of 2011, while the US jobless rate will peak at 10 percent in 2010, the IMF said. Other emerging economies too are staging modest recoveries, supported by policy stimulus and improving global trade and financial conditions, it said. Downside risks to growth are receding gradually but remain a concern.

The recovery is expected to be slow, as financial systems remain impaired, support from public policies will gradually have to be withdrawn, and households in economies that suffered asset price busts will continue to rebuild savings while struggling with high unemployment, the report said. The key policy requirements remain to restore financial sector health while maintaining supportive macroeconomic policies until the recovery is on a firm footing. While the future of the world economic downturn continues to be unforeseeable, only the Chinese economy appears to be an exception. The Chinese economy began to recover from the bottom of the business cycle in February or March in 2009, and will continue to achieve rapid growth this year as well. What China as an important economy entity has done, is doing and will do will have a significant influence to the global economy. This paper will provide all around insights on the following aspects on Chinese economy: global crisis influence; china's response to global crisis; Chinese economy in a long run; Chinese economy's fast growth; Chinese economic reforming; China as global economic growth engine. It is my goal to provide broad views on Chinese economy and some thoughts on global economy after global crisis.

Table 1: The growth rate for each year of 1978 – 2008

Year	Growth Rate	Year	Growth Rate
1978	11.7%	1994	12.6%
1979	7.6%	1995	10.5%
1980	7.8%	1996	9.6%
1981	5.2%	1997	8.8%
1982	9.1%	1998	7.8%
1983	10.9%	1999	7.1%
1984	15.2%	2000	8.0%
1985	13.5%	2001	7.5%
1986	8.8%	2002	8.3%
1987	11.6%	2003	9.5%
1988	11.3%	2004	10.1%
1989	4.1%	2005	10.4%
1990	3.8%	2006	11.6%
1991	9.2%	2007	13%
1992	14.2%	2008	9%
1993	13.5%	2009	9.1%
Average 9.6%			

The impact of the global crisis on Chinese economy

Chinese economy growth rate reached the peak in 2007, it starts to slow down since the third quarter of 2007, but keeps a growth rate above 10%. The global crisis's effect emerges since the third quarter of 2008: the fourth quarter's growth rate was just 6.8%, and decreased to 6.1% in the first quarter of 2009. The global crisis effect to Chinese financial market is small due to the fact that Chinese capital market is not completely open to international funds, foreign capital can't flow into Chinese capital market freely; Chinese banks didn't purchase much subprime debts; foreign reserve mostly is in dollar-valued US government debts; therefore, the direct influence of the global crisis to Chinese bank sector is light and most Chinese banks are doing very well. The influence of global crisis to Chinese export industry is very heavy. Since October 2008, Chinese export has started to decrease. Chinese exported \$1.43 trillion goods and growth rate slowed by 8.6%; in the first season of 2009, china exported \$245.5 billion goods; it slowed 19.7% compared with the same season of last year. At the same time, the import is \$183.2 billion; it lowered 30.9% than last year. The effect of global crisis to Chinese job market is heavy, it produced about 30 million job lose in the first quarter of 2009, mostly due to Chinese export industry sector's huge decrease.

The global crisis effect characteristics of Chinese export are:

A) Labor-intensive products keep a relatively faster growth rate, such as costume grew 9.9%、shoes 7.7%、bags 11.7%,etc, this shows china is still holding some advantage in these products.

B) Electronics and machines、fertilizers、steels' exports decreased heavily, such as steels export decrease 59.5%, electronics and machines decreased by 18.8%,etc

China's responses to the global crisis

To reduce the effects of global crisis and recover quickly, Chinese government takes many decisive and high efficient procedures to tackle the financial turmoil which include:

A. Implement expansionary monetary policy. Include:

1) lower the deposit reserve rate.

In order to stimulate banks to release loans, the government lowered the deposit reserve rate four times consecutively since September, 2008.

2) lower the interest rate of deposits and loans.

The 3-year loan rate lowered from 7.56 in December of 2007 to 5.4% of present, it was lowered by 2.16%.

3) encourage loans.

In the first quarter of 2009, total loan increased by 4.58 trillion RMB; total loan grew 4.91 trillion RMB in the whole year of 2008. As a matter of fact, the growth rate of national loan keeps at a rate above 27% /month, mostly financed by commercial papers.

B. Increase government spending heavily.

The central government made a two year plan to invest 4 trillion RMB. It is equivalent to 16% of Chinese 2007 GDP. The plan includes central government investment of 1.18 trillion RMB, and the rest are from the local government. The major goal is pushing for a better housing, peasants' living in rural area; a modernized railway transportation; more environmental protection projects and recovery of earth quake of Sichuan province. The plan is developing very well now.

C. Take structural reduce of taxes.

This procedure includes medium to small size enterprises and housing industry favorable tax reform; eliminating and stopping 100 administration Services fee. Together, the policy will reduce corporates' and individuals' cost by 500 billion RMB each year.

D. Undertake reform and promotion of industry.

The central government outlined reform and promotion plan for steel, auto, equipments, electronics and information, textile, chemical, oil, color-metal, ship, light-industry, logistics industry. The major goals are taking decisive steps to regroup industry, to get rid of production of low-tech, to develop advanced productivity, to concentrate enterprises and to raise the resource allocation efficiency. As results of these procedures, Chinese economy made a 9.1% growth in 2009 which is the fastest growing economy in the world after recession. China is eyeing on a double digit growth for 2010. Now all the macro-economic indicators are showing that Chinese economy are shaking off the global crisis influence and runs toward a full swing high growth development.

Section 3 Chinese economy in a long run

Since 1978, the free market reform has been the major task of Chinese economy. Since then, Chinese economy keeps growing at a rate around 9.6% each year for more than 30 years. Now China takes over Japan as the second largest economy in the world which is an obvious economic miracle of the world. In order to secure a fast and sustainable development of Chinese economy, China now is taking many important measures to facilitate Chinese economy's growth. The strategy of sustainable development is considered as the center piece of guideline of Chinese future development. In China, any level enterprise and public must make a plan for its own sustainable fast growth. The center government and local government are working jointly to make sure the sustainable development is the major policy making strategy. According to the strategy, all level government must outline an operational plan, stimulate creativity and eagerness of enterprises and individual, efficiently allocate resources, push free market reform, enhance intension management, encourage participation of enterprises and individuals.

1. Enhance the ability to lead the sustainable growth. China now is training its governing body and advertising the ideology of the sustainable development to build it into its political system, market mechanism, public and enterprises decision procedures. The goal is obviously to enhance the decision making ability of all aspects of the nation's economy to secure the high efficient realization of the sustainable development strategy.
2. Environmental protection and management are reformed to facilitate the free market requirements. The procedures include: a) setting up and complete the environmental legal system and laws; b) using market procedure to protect environment, such as pollution fee, environmental tax, etc. c) enhancing the public service in the environmental protection sector, such as, protecting clean drinking water, clean air, clean living conditions.

Turn the traditional industry society toward a knowledge-based economy informational society. Technology and knowledge take over natural resources as the major factor of the economic growth. In

- 1 informational age, sustainable development goes with a new development direction: a) global net of information leads to a complete open sustainable development system which leads to a global resource efficient allocation. b) high technology industry is the leading growth point of the economy. c) knowledge-based economy growth leads the production factor change from natural resources consumption to the knowledge production.
- 2 The international corporation entities and channels are becoming more diversified. China as a WTO member will enjoy as a equal trade partner to cooperate with any other members. This will widen china's corporation channels and strongly enhance china's development opportunities.

Section 4 Fast grow toward the top of global economy

Chinese economy has grown at an average rate above 9.6% since 1978 when the free economy reform started. How to keep the high growth rate for next 20-30 years is the key issue of any policy making in China. But the fact to improve the quality of Chinese people living standard is the only fundamental driving force for Chinese economy to grow. To satisfy this goal, China will take the following steps to realize the modernization of Chinese people's life, include: industrialization, urbanization, informationalization, technology-driving economy toward a all around modernized and homogenous economy for a new China.

1 Industrialization process will be a leading driving force for Chinese economic growth

A Regional corporation as a driving force

Due the fact that Chinese is a huge territory which leads to a non-homogeneous economy development for the present, China will push for the regional - corporation to utilize compensate advantages to speed up the growth of the industries. The regional corporation will take advantages of resources reallocation, production redistribution, position advantage, infrastructure development, raw materials supplies, labor movement in a large scale fashion to stimulate the demands, raise the industrial structure, drive economy fast growth.

B industrial structure reshaping as a driving force

China will push for its service industry growth and modernization. At the same time, the high technology manufacture industry is also a direction for Chinese further industrialization. Chinese manufacture industry will put its development strategic emphasis at those advanced and high-tech ends such as equipment making, airspace and aerospace equipment making . This kind of industry restructuring will stimulate new growth rounds of Chinese industrialization and economy. Specifically, China will do the following two things to secure its high growth in industrialization:

Strategic industries integration and strengthen

China will push for the strategic industries fast growth, such as advanced equipment making, aerospace equipment manufacturing, information industry, resource industry, logistic industry, nano-structure industry, etc.

1) Resource industries development

China is full of all kinds of nature resources, such as, minerals, forestry and agriculture, sea, ecological resources. China will develop large scale resource-based industries, the goal is to further develop and utilize Chinese natural resources, extend the production-chain, enhance the added value and change the resource advantage to industries and economic fast growth.

C financial system modernization as a driving force

China will complete its financial system modernization process, which include: completing the laws for financial system; developing more instruments for the financial market; reducing the government control of the investment and financing; pushing for a global free conversion RMB; participating the international capital flow; building a more efficient and high informational financial system, etc. The modernization of Chinese financial industry will be a supporting factor of china economic growth.

2. Urbanization will be a key push for china economic growth

By 2009, china urbanization rate is just 46.6%. To 2030, China will try to reach a goal to put this rate at 65%, which is a completion of Chinese basic urbanization process. In order to realize this goal, China will raise 1% population each year into the urban living standard. Due to this process, China will keep a high growth rate for its economy. The reasons are

1. Urbanization will enlarge the scale of cities and its population. This process will build more infrastructures, houses, high ways, which eventually expand the demands and drive the economy grow.
2. Newly urbanized people will produce new demands for those durable consumption products. Such as houses, cars, TVs, computers, schools, etc. The new demands will stimulate the growth of economy.
3. Urbanization will produce more service industries. In 2009, Chinese service industry is just 43.3% Chinese GDP, which is lower than world average 68% much. Urbanization will produce more demand for service industry and stimulate its fast grow.

4. Urbanization will leave smaller population of farmers which will raise the production efficiency and income of individual farmer. Eventually It will enhance the productivity and technology of agriculture industry.

3. Informationalization will be an important way to speed up Chinese economy. Information technology is the key modernization criteria for every country. How to obtain and use the information is a key issue for all modern life.

Information will enhance the efficiency of modern decision making, management, living. So to push for the informationalization, i.e. to use information to decide what to do will basically change people'

1. Management precision and significantly reduce the cost of all production、consumption and living processes. Information is a productivity, which leads to high quality growth of economy.

2. To build up Chinese information system will stimulate the demands、speed up Chinese modernization and support china economy growth.

4. Technology is the key factor for Chinese economic growth.

By using high technology, China can reduce the cost for its products, produce new products which lead to new broad consumption market, raise the efficiency of its production, enhance its competitiveness of its goods. The discovery and innovation will take place each every day, which will change our life in daily basis. China can keep a sustainable and efficient growth road in a long run through technology innovation. China is pushing its industry to build up research and development sectors, and will invest more money into those strategic high tech industries, such as nano-structure、aerospace、gene engineering、new energy、new materials, etc. China will produce more scientists and engineers by invest more to its education system and pushing for research-oriented universities.

In order to lead the world in technology innovation in the long run, China will raise its huge population resources into a innovation resources. Technology-driving economy will be a key for China to succeed. These driving forces will support china economy high growth rate which basically is the fact that Chinese people will complete a modernization process which delay too much. China will take many rational policies to use all these driving forces to keep its growth rate above 8% for next few decades. By 2030, China will be No.1 economy in the world. China already passed Japan as the world No.2 economy earlier this year. The road toward the top is bright and fast though China will have to face many challenges, such as, energy shortage、political reforming、international competitiveness, etc.

Table 2. Projected GDP for China [growth rate 10%] and USA[growth rate 3%]

Year	China GDP[\$trillion]	USA GDP[\$trillion]	Year	China GDP[\$trillion]	USA GDP[\$trillion]
2008	4.2	14.3	2019	11.98309017	19.79454435
2009	4.62	14.729	2020	13.18139918	20.38838068
2010	5.082	15.17087	2021	14.4995391	21.0000321
2011	5.5902	15.6259961	2022	15.94949301	21.63003307
2012	6.14922	16.09477598	2023	17.54444231	22.27893406
2013	6.764142	16.57761926	2024	19.29888654	22.94730208
2014	7.4405562	17.07494784	2025	21.2287752	23.63572114
2015	8.18461182	17.58719628	*2026	23.35165272	24.34479278
2016	9.003073002	18.11481216	2027	25.68681799	25.07513656
2017	9.903380302	18.65825653	2028	28.25549979	25.82739066
2018	10.89371833	19.21800422	2029	31.08104977	26.60221238
			2030	34.18915474	27.40027875

As projected, China will pass USA as No.1 economy in the year 2026.

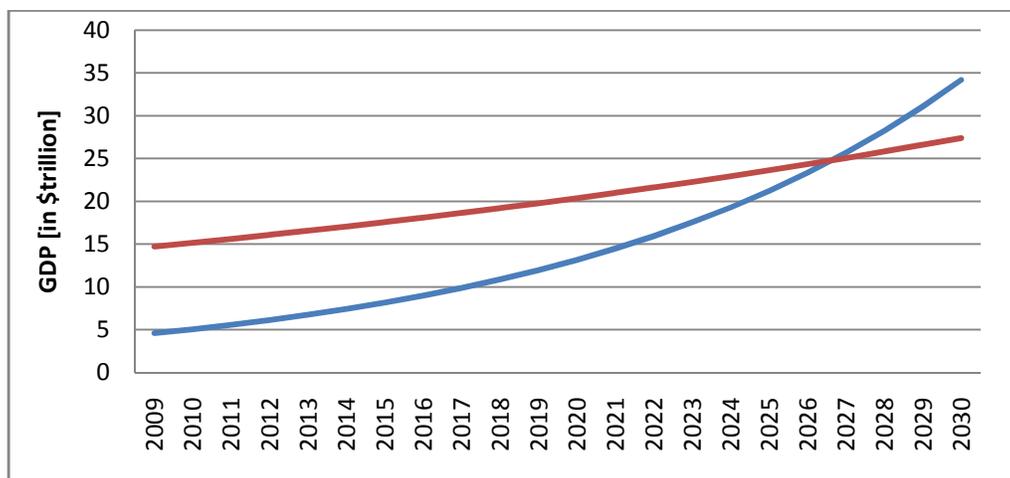


Figure 1: Projected Chinese and USA GDP in the near future. Red line: USA GDP; Blue line: Chinese GDP. The cross point is at the year 2026.

Section 5 Chinese economic reforms

Since 1978, China has undertaken many decisive reforming of its old style political and government-controlled economy. From economic point, It can be viewed as four stages by now: 1) The starting stage. 1978-1984, it is the period of free marketing idea emerging and breaking through from the government-planned economy. 2) All around reforming stage: 1984-1992.

China takes steps to reform its state-owned enterprises toward private enterprises. 3) System innovation: 1992-2003. It is a stage to find new and suitable economic system to release Chinese economic productivity. 4) Perfection of reforms. 2003-now. It is a stage to improve and perfect the free marketing reforms. To guide this historical reform of huge-population long history country, China used many useful and effective theories, such as the theory to build a Chinese characteristic society; the theory to develop a Chinese style free market; the theory to proceed stage by stage reform of Chinese economy; the theory to form a harmonic society. Specifically, China put its reform emphasis on the following fields:

1).Reform the agriculture economy and rural peasants management; 2) open economy and set up many special economic regions for free market; 3) privatize enterprises and develop other economic systems from free economy; 4) Reform public finance and modernize financial system; 5) Reform price forming mechanism and market system; 6) Reform employment and income distribution and build up an efficient social security system; 7) Restructure education、 science and technology 、 culture system ; 8) Reform health and human services sector.

The key approaches for Chinese reform are lying in three aspects:

Reform from the local to central government: this kind of reforms include rural peasants、 non-state-owned economy.Reform from the central to local government: such as public finance、 financial system、 foreign currency system、 administrative examination and approval system reform.Reform by the corporation of central and local government: such as, state-owned enterprises、 price reform、 market system building、 open economy.Since 2003, China uses a new theory named scientific development outlook to guide nowadays economic reform. The central pieces of this theory are human oriented ideology and sustainable development. That is to say Chinese economy reform are based on improving peoples ‘ life and will take a road to develop Chinese economy in a sustainable fashion. Through more than 30 year’s reform, Chinese economic reform is going further into a new stage, which characterizes as the following changes:

1.from government control to market-oriented economy; 2) from large amount of public enterprises to small number of quality public corporations; 3) from efficiency and fair to free market; 4) from managing the state-owned economy well to develop all economy in the country effectively; 5) from state-owned economy reform to public administration reform.

So far, Chinese reform is a success and a miracle of economy in Chinese and world history. With the guidance of the new theory, China is endeavoring to become a stable, progressive, harmonic nation. It is china's ambitious goal to make its people living in a prosperous and peaceful environment and in the world No.1 economy and innovation center in about 20 years.

Section 6: Leading the world economy as a major economic growth engine

After recession, China quickly and strongly restored its high economic growth. China achieved a 9.1% growth in the year 2009, which is the fastest recovery of the world. In 2010, China reached a 11.9% growth rate in the first quarter. As expected China will obtain a 11% growth in the year 2010. With the huge potential of Chinese market, Chinese economy shall be able to expand in a fast fashion for next few decades. Eventually, not in a long time, China will overtake USA as the world No.1 economy. And naturally China will become the major growth engine of the world economy. According to IMF's calculation, China count a 25% share of world economic growth last year, already No.1 driving force in the world. At the same time, in 2009, USA is a decline in its economy which is the largest growth driving force for last few decades. In order to lead the world in economy effectively, China will enhance its GDP scale and the competitiveness. In 2008, USA GDP is around \$14.3 trillion; China GDP is about \$4.2 trillion. USA GDP is around 4 times bigger than Chinese GDP. China just passed Japan as the No.2 in the world economy. It will take another 10-20 years to take over USA if China take an average 10%-8% growth rate. Even China reach the No.1, but in GDP per capital, China is still far below USA. This means as the world No.1 Economy, China's potential to develop is still huge.

The advantages for Chinese economy to compete and grow fast are:

1. The low cost of fundamental production factors.

The cost for workers' is just 1/30 of Japan, 1/40 of USA. China has educated around 40 million college level work forces, with 3 million college graduates each year. Chinese workers are diligent and hard-working, which is attractive for many big international companies.

2. Huge potential and volume of Chinese market.

China is now growing rapidly, its demand for product and services is strong. This fact will make many products huge in amount and scale even if with low ratio of share in Chinese market, for example, The number of Chinese mobile phones already passed USA but the mobile owners account still a lower portion of its population than US. The huge growth potential attracts many famous companies and big investments to Chinese market, which speed up high technology and capital transferring to China.

3. Jump start of many products by using advanced skills of the world.

By using advanced and already existing skills and management experiences, China will take a more straight way toward the efficient production of many high tech goods and services. It will reduce large amount of cost and time for china to catch up. In the catch up process, China grow rapidly to lead the economy grow. But eventually, with Chinese own innovation power, China will lead the technology innovation.

To strengthen China's competitiveness, China will take the following steps:

- 1) Raise productivity and lower the unemployment rate.
- 2) Improve state-owned enterprises' efficiency and scale up private enterprises.
- 3) Push for products and enterprises upgrade.
- 4) Modernize education and scientific research system.
- 5) Protect environment and peaceful utilize world energy resources.
- 6) Form a stable financial and political circumstance.
- 7) Strengthen defense power to secure Chinese national interests.
- 8) Push for multi-polarized world for a peaceful growth environmental.
- 9) Build up a rational social security system to narrow the poor-rich differences.
- 10) Develop a homogeneous economy for the whole nation.

China's influence becomes more and more important: China owns the biggest foreign reserve; China is the largest consumer of energy; China produces and consumes largest amount of cars, computers, TVs and mobile phones; China generates more electricity power than any other countries in the world, etc. With all rightful and rational efforts, China will be the leading driving force in economy for next 100 years after USA.

Conclusion

China takes expansionary fiscal and monetary policies to deal with the global crisis, by investing huge capital to the infrastructures, reducing taxes for individuals and small businesses, cutting bank loan interest rates, lowering deposit reserve rates, etc. China achieved a 9.1% growth in 2009 for its GDP, which is a demonstration of its effective policies against global recession. This year, China will harvest an 11% growth as it is right in the track now. The global crisis forced China to reform its economic structure to put more emphasis on domestic consumption instead of export, which will significantly reduce the Chinese economic reliance on foreign economies and secure Chinese economy against future international crisis. All these policies will not only keep Chinese economy expansion as fast as usual and also will have a long term effect for Chinese economy to grow effectively.

In the long run, China's economic development can be classified as two stages: first, China will try to get all its people a modernized living standard as fast as possible, that is to say, China will be a manufacture center of modern products. Chinese economy will expand real fast at this stage due to its huge population and its large demand for good living. I will call this stage the quantitative expansion period. In the second stage, China will expand its market and economy by technology innovation mainly, which I will call it a qualitative expansion stage. At this stage, China will use new technology products to create consumption and keep its people already-modernized living standard abreast with the brand new technology frontier. In the second stage, Chinese economic growth rate will significantly rely on scientific and technologic breakthroughs and shall be slower than the first stage. But with its largest human resources, China will be able to create more new products if Chinese education, scientific and research systems are effective. In about 20 years, China will reach the top of the world economy by overtaking USA. But Chinese average individual people's living standard is still 1/4 of USA. China will keep its fast growth for another 20 years and will be the top driving force for world economy. China's modernization is a long and fast process.

By finishing this process, China will contribute the world a 1.3 billion good living people and stronger economic growth engine than ever before and any other country in the world history. It is a beautiful thing to see China's run toward its modernization era.

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