

**CASE FOR UNDERSTANDING  
CHINA TODAY  
&  
FORESEEING CHINA  
TOMORROW**



Term Paper for **Lectures on Chinese Economy & Society**  
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# 1 Introduction

As globalization these days is thriving and therefore markets converging it is vital to understand the development of different involved countries from the present perspective as well as the retrospective. That is why fruitful future progresses can possibly only be foreseen through the knowledge of former times. As this topic is too extensive the elaboration will start with a brief historical review of the Era of Reconstruction mainly influenced by Deng Xiaoping beginning in 1976. Not much attention will be paid to the Mao Zedong Era including the Great Leap Forward which is regarded as the first try to transform China mainland from a primary agrarian economy into a modern and industrialized country. Rather the Era of Reconstruction under Deng Xiaoping and its partial economical opening-up process towards the rest of the World and especially towards the United States in the beginning will be taken into consideration.

As China currently is on the brink of transformation from an elongated workbench as an emerging country to an advanced country it is essential to foresee the further development of the potential China of tomorrow by applying the knowledge from the last decades. The investigation of former economical achievements and upcoming challenges of China's economy will be consulted to find a proper conclusion for the recent development.

## 2 Research Questions

These assumptions lead to the following research questions which are to be resolved in this essay:

- *“Is China going to manage the transformation of currently being an elongated workbench and emerging country, into an advanced country with remarkable tertiary and quaternary sectors of industry?”*
- *“Will China be able to re-establish former digits of GDP growth and if so additionally manage to stabilize its constantly declining economic growth?”*

### 3 Methodology

The main source of research that helps to elaborate this topic is the Internet, where recent data is retrieved from. As well secondary literature of renowned China experts is taken into consideration. The main target of this paper is to find an algorithm between historical given phenomena and recent changes in China's economy.

### 4 Historical Review

After the death of the three very influential Chinese characters Zhou Enlai, Zhu De and Mao Zedong in 1976 the country was stuck and thought that heaven took away the "mandate" from the former political leadership (Kuan & Häring-Kuan, 2008: 25). The political and economical "saviour" in these times was Deng Xiaoping who opened-up the relations of China to the United States besides becoming the first political leader to visit the United States in 1979. Commonly they re-established the broken diplomatic relations between the US and Taiwan, and even Sino-Japanese relations gained remarkably. Through Deng's proclamations of "Reforms and Openness" the modernizations of the agriculture, industry, science and technology were boosted significantly in a newly establish socialist market economy. This "socialism with Chinese characteristics" seemed to help China's GDP grow constantly (Kuan & Häring-Kuan, 2008: 25-27).

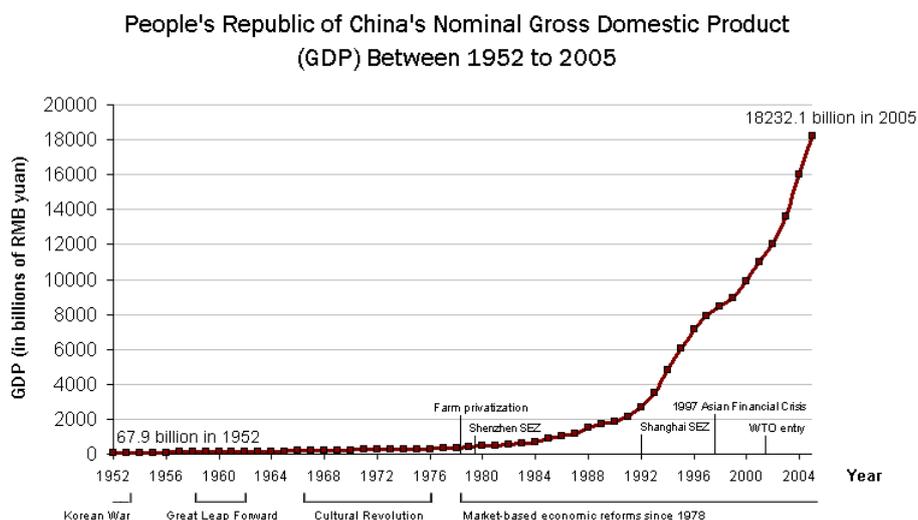


Figure 1 GDP growth during market-based economic reforms since 1978

*“During the period 1978-2000, when the annual growth rate of China’s GDP reached 9.5 percent, growth rates in certain years were as high as approximately 15 percent and in other years were low, with the 1990 growth rate being slightly lower than 5 percent. On the other hand, inflation rates in most years were below 10 percent with only three years of more than 15 percent.” (Cai & Wang, China & World Economy: 2002)*

As a result the year 1978 set off a remarkable growth process which even more gained in the third millennium after joining the World Trade Organization on 11<sup>th</sup> Dec. in 2001. The GDP of China is mainly generated proportionately by agriculture 14,4%, industry and construction 53,1% and services: 32,5%. This Global Trading System of the WTO helped China to further open trade relations to the rest of the world and on top to quadruple its exports and triple its imports till the end of 2007 totalling a trade surplus of \$ 262 billion. The figure below emphasizes trade relations to the main trading areas EU, USA, Japan, Hong Kong, South Korea and Taiwan.



**Figure 2** China - Merchandise exports by region, 2007

*“Some 45 per cent of its trade receipts stem from Asia, while Europe and North America each receive 21 per cent of China’s exports.” (International Trade Statistics: 2008)*

## 5 China in Transformation

As a main transformation of China under Deng Xiaoping already was covered in the historical review, the current transformation is to be dealt with in this chapter.

*“The word ‘economy’ signifies the rule by which the house should be ordered, especially with reference to the relation between expenditure and income. Economy, as we understand the term, may be displayed in three several ways: by limiting the number of wants, by preventing waste, and by the adjustment of forces in such a manner as to make a little represent a great deal.”* (Smith, Arthur H.:1890)

This definition is more than one hundred years old and somehow still is valid for the definition of a developing country's economy. As China especially on its East Coast has grown some extraordinarily modernized megacities with vital financial centers for the whole country it is on the brink to become an advanced economy. Due to a very adequate saying of Wen Jiabao, the current Premier of the PR China, it is challenging for such a huge and therefore diversified country as China to transform quickly.

On the one hand *“...every small opportunity multiplied by 1.3 billion would become big business...”*, on the other hand *“...every little issue multiplied by 1.3 billion would become a huge problem...”* (Premier Wen Jiabao).

The challenge of Chinese Economy and current top priority of the government is to maintain constant GDP growth and economic development. In the 3<sup>rd</sup> quarter the string of 10 consecutive quarters with double digit growth was broken. As a consequence the GDP growth for China in the 3<sup>rd</sup> quarter stands at 9%. The Consumer Price Index as well is cooling down to 4,6% from reference number 7,1% in the first half of the year (Shanghai Daily, 2008).

Inflation is artificially caused through interest rate cuts in order to promote domestic growth. However, monetary policy doesn't seem to be enough as fiscal policies have to be taken as well. After the Olympic Games closure the industrial output slumped distinctly as well. More government activities have to be taken additionally to recent interest rate cuts to maintain growth in the long run (Bloomberg.com, 2008).

As a result of the recent interest rate cuts the GDP growth in the fourth quarter of this year due to prediction is plunging to 8% and another essential indicator, the Consumer Price Index, sliding to 3,8%. Although a decline in manufacturing is constipated the economy's export industry is predicted to further grow by 17%. The manufacturing industry in China is regarded as a key factor to influence economical development (China Daily, 2008).

*"A lower interest rate will help domestic enterprises to cut business costs, and boost economic development. This is in line with the country's expectation"* (quoted from Tang).

## **6 Conclusion**

As China has a huge competitive advantage by the means of workforce exactly this has to be distributed more efficient. Agriculture only adds up to 14,4% of China's GDP although half of the workforce is employed in this field. Much potential can be found here in terms of shifting labor to stronger sectors like industry and services. The tertiary sector would be strengthened and former GDP stability reached again. If demand from the United States is kept up the export industry will further flourish. China currently is suffering thriving GDP growth declines and decreasing export rates mostly because of the global economic downturn as well as vanishing consumer confidence and plummeting consumption. Huge governmental stimulus packages ought to prevent the economy from future destabilized GDP figures amid the global financial crisis.

To sum up the conversion of China to an advanced country isn't likely to be achieved during the next decades. The economy should restructure their main sectors in order to create further demand for exports from China. In order to keep demand up, a stable Chinese Yuan towards the Dollar would be helpful not to overstrain certain lock-in effects of both economies, the United States and China.

## 7 References

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