The Fantastic Rise of Chinese Economy

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***Abstract* - Prior to the initiation of economic reforms and trade liberalization nearly 40 years ago, China maintained policies that kept the economy very poor, stagnant, centrally controlled, vastly inefficient, and relatively isolated from the global economy. Since opening up to foreign trade and investment and implementing free-market reforms in 1979, China has been among the world's fastest-growing economies, with real annual gross domestic product (GDP) growth averaging 9.5% through 2018, a pace described by the World Bank as "the fastest sustained expansion by a major economy in history." Such growth has enabled China, on average, to double its GDP every eight years and helped raise an estimated 800 million people out of poverty. China has become the world's largest economy (on a purchasing power parity basis), manufacturer, merchandise trader, and holder of foreign exchange reserves. This in turn has made China a major commercial partner of the United States. China is the largest U.S. merchandise trading partner, biggest source of imports, and third-largest U.S. export market. The Chinese government has embraced slower economic growth, referring to it as the "new normal" and acknowledging the need for China to embrace a new growth model that relies less on fixed investment and exporting, and more on private consumption, services, and innovation to drive economic growth. China's growing global economic influence and the economic and trade policies it maintains have significant implications for the United States and hence are of major interest to Congress. While China is a large and growing market for U.S. firms, its incomplete transition to a free-market economy has resulted in economic policies deemed harmful to U.S. economic interests, such as industrial policies and theft of U.S. intellectual property.**

***Index Terms* - Chinese Government, global economy, economic growth, trade policies, foreign exchange reserves, manufacturer, merchandise trader, import – export.**

INTRODUCTION

China's rise from a poor developing country to a major economic power in about four decades has been spectacular. From 1979 (when economic reforms began) to 2017, China's real gross domestic product (GDP) grew at an average annual rate of nearly 10%.1 According to the World Bank, China has "experienced the fastest sustained expansion by a major economy in history—and has lifted more than 800 million people out of poverty." 2 China has emerged as a major global economic power. For example, it ranks first in terms of economic size on a purchasing power parity (PPP) basis, value-added manufacturing, merchandise trade, and holder of foreign exchange reserves. China's rapid economic growth has led to a substantial increase in bilateral commercial ties with the United States. According to U.S. trade data, total trade between the two countries grew from $5 billion in 1980 to $660 billion in 2018. China is currently the United States' largest merchandise trading partner, its third-largest export market, and its largest source of imports. Many U.S. companies have extensive operations in China to sell their products in the booming Chinese market and to take advantage of lower-cost labour for export-oriented manufacturing.3 These operations have helped some U.S. firms to remain internationally competitive and have supplied U.S. consumers with a variety of low-cost goods. China's largescale purchases of U.S. Treasury securities (which totalled $1.1 trillion as of April 2019 have enabled the federal government to fund its budget deficits, which help keep U.S. interest rates relatively low.4 However, the emergence of China as a major economic power has raised concern among many U.S. policymakers. Some claim that China uses unfair trade practices (such as an undervalued currency and subsidies given to domestic producers) to flood U.S. markets with low-cost goods, and that such practices threaten American jobs, wages, and living standards. Others contend that China's growing use of industrial policies to promote and protect certain domestic Chinese industries or firms favoured by the government, and its failure to take effective action against widespread infringement and theft of U.S. intellectual property rights (IPR) in China, threaten to undermine the competitiveness of

U.S. IP-intensive industries. In addition, while China has become a large and growing market for U.S. exports, critics contend that numerous trade and investment barriers limit opportunities for U.S. firms to sell in China or force them to set up production facilities in China as the price of doing business there. The Chinese government views a growing economy as vital to maintaining social stability. However, China faces several major economic challenges that could dampen future growth, including distortive economic policies that have resulted in overreliance on fixed investment and exports for economic growth (rather than on consumer demand), government support for state-owned firms, a weak banking system, widening income gaps, growing pollution, and the relative lack of the rule of law in China. The Chinese government has acknowledged these problems and has pledged to address them by implementing policies to increase the role of the market in the economy, boost innovation, make consumer spending the driving force of the economy, expand social safety net coverage, encourage the development of less-polluting industries (such as services), and crack down on official government corruption. The ability of the Chinese government to implement such reforms will likely determine whether China can continue to maintain relatively rapid economic growth rates or will instead begin to experience significantly lower growth rates. China's growing economic power has led it to become increasingly involved in global economic policies and projects, especially infrastructure development. China's Belt and Road initiative (BRI) represents a grand strategy by China to finance infrastructure throughout Asia, Europe, Africa, and beyond. If successful, China's economic initiatives could significantly expand export and investment markets for China and increase its "soft power" globally. This report provides background on China's economic rise; describes its current economic structure; identifies the challenges China faces to maintain economic growth; and discusses the challenges, opportunities, and implications of China's economic rise for the United States.

LITERATURE REVIEW

Why is China becoming the world's largest manufacturer?

By – Jennifer Jen Stewart

China has seen the most significant economic growth in the whole world, thanks to the growing outsourcing sector in the country. It has been a leading provider of manufacturing services to the world for many decades. Countless firms have taken advantage of the skilled labour, cheap raw material, technological innovation, and business-friendly laws of the country. To meet the demands, business of China is rising its investments in equipment that dependable and valuable for production their commodities. Technology, on the contrary, is another element. Buying and selling their products to other region is produced achievable by the advent of new technologies. Import goods or nationwide products is a competition to measure the technology stage because China provides large tools, adding their products to their specific marketplace in other nation is achieved.

China's Comparative Advantage of Low Labour Costs: Think Again

By- Russ Coff

Comparative advantage is about nations leveraging their unique resource advantages. There was a time when, for China, that referred to cheap labour. However, today's news also highlights that Foxconn, the World's largest contract manufacturing company, is replacing 60,000 workers with robots. Wages in China do remain below those in other countries. However, the comparative advantage is no longer about cheap unskilled labour. In fact, China has produced about 60 million college graduates in the last ten years. At this rate, the World Bank predicts there to be up to 200 million by 2030.

How did China become the manufacturing hub of the world? What are some of the things (politics, economic policies, technology, R&D, etc.) that other developing countries can learn from China to improve manufacturing?

By- Paul Denlinger

Reform and opening-up in China began in 1979. This coincided with the rise of globalization, and the financialization of western economies. The US and UK of the time thought that as manufacturing became less important as a part of the economy, new employment opportunities would be created in new areas. In the US, growth was slowing, but the political elite continued to support globalization. The belief was that the US would continue to dominate capital markets, and that the US dollar would continue to be the global reserve currency. If this was the case, what did it matter where jobs went.

Why is labour in China so cheap?

By – Katie Pedro

Labour's wage is decided by labour market economics. Normal economics supply and demand, equilibrium applies to the labour market. When supply of labour exceeds demand for the labour, price, i.e., wage goes down. When demand of labour exceeds supply, wage goes up. Then other factors pitch in, such as barrier of entry (how much training required to perform the job, how easy to learn, how accessible the hiring facility is, local regulations

Impact of Corona virus on the Chinese Economy

China's industrial output reduced by the fastest rate in the first two months and employment hit an all-time low. The latest activity and spending data were much weaker than expected. China's gross domestic product contracted 13 per cent during the first two months. The actual shock could be much bigger than those deeply negative January-February numbers suggest, because the lockdowns started only from 23 January. Beijing officials try to put a positive twist on numbers, but the impact was temporary.

China's belt and Road Initiative

The Belt and Road Initiative was introduced for better connectivity and cooperation on a transcontinental scale. It's an open arrangement in which all countries are welcome to participate. The project is planned to have an estimate of US$575 billion if completed. BRI transport projects could reduce travel times along economic corridors by 12%, increase trade between 2.7% and 9.7%, increase income by up to 3.4% and lift 7.6 million people from extreme poverty. BRI transport projects have the potential to substantially improve trade, foreign investment, and living conditions for citizens in participating countries

China's Economic Growth Slows as Challenges Mount

By – Keith Bradsher

China's economic slowdown worsened in the July-to-September period, according to data released on Friday, as the trade war with the United States and a host of other problems leave Beijing struggling to meet its goals. China's economic output grew 6 percent in the third quarter compared with a year earlier, according to official statistics, the bottom end of Beijing's full-year target of 6 percent to 6.5 percent. In the first three-quarters of the year, its output grew 6.2 percent compared with a year ago.

China's Economic Rise: History, Trends, Challenges, and Implications for the United States

As China's economy has matured, its real GDP growth has slowed significantly, from 14.2% in 2007 to 6.6% in 2018, and that growth is projected by the International Monetary Fund (IMF) to fall to 5.5% by 2024. The Chinese government has embraced slower economic growth, referring to it as the "new normal" and acknowledging the need for China to embrace a new growth model that relies less on fixed investment and exporting, and more on private consumption, services, and innovation to drive economic growth. Such reforms are needed for China to avoid hitting the "middle-income trap," when countries achieve a certain economic level but begin to experience sharply diminishing economic growth rates because they are unable to adopt new sources of economic growth, such as innovation.

China says its foreign direct investments increased 5.8% in 2019

-CNBC

Foreign direct investment (FDI) in China in 2019 grew the most in two years, though outbound investment declined. FDI was up 5.8% year-on-year to 941.5 billion yuan ($136.71 billion) last year, the biggest rise since 2017, when it grew 7.9% in yuan terms. China remains the second largest recipient of FDI globally. China's outbound direct investment (ODI) declined 8.2% to $110.6 billion in 2019. The structure of ODI is more "balanced" with most flows to rental and commercial services, manufacturing, distribution, and retail. China's non-financial ODI rose just 0.3% in 2018 having dropped sharply in 2017 as authorities kept a tight grip on outflows for what they termed "irrational" overseas projects. Investment by Chinese firms was once a significant driver of global asset prices from property to mergers and acquisitions. But it has fallen sharply since Beijing tightened capital controls in 2016. China's total ODI declined 6% to 807.95 billion yuan in 2019.

Government Policies - China

China shifted from extreme socialism post the military coup of 1976. Since then, China has increasingly adopted capitalism in their economic system. Some of the major signs/factors of this are (i) investments by transnational corporations, (ii) the activities of global finance, (iii) the influence of imperialist- controlled institutions like the World Bank and World Trade Organisation, and (iv) the channels of culture and ideology. China has since then become the industrial hub of the world by exploitation of wage labour. It attracts so much foreign direct investment towards its industrial manufacturing sector that it is the largest holder of U.S. dollars. Although many of the enterprises are funded by foreign investment, the state still controls many of the crucial components and enterprises, such as banking and insurance. The gov't of China, CCP, exercises a lot of control over the economy via the monetary policy and tax policy. Earlier, the gov't focused on utilizing the cheap labour available and providing them the required skillset. Now, they have shifted their focus to producing more advanced and capital-intensive goods. Again, the gov't is doing so via FDI but requiring joint ventures with local enterprises to enable technology transfers from these transnational corporations.

METHODOLOGY

The research paper is based on secondary data obtained from various relevant sources including- Journals, Statistics available from authentic sources, reports. The data Information and statistics obtained from various sources have been put in a logical sequence to bring out this research paper.

OBJECTIVES

Our objective is to analyse the growth of China into one of the world's leading trade manufacturer, exporter, and merchandise expert. In this report we have analysed the impact of various factors that have contributed in achieving China an incredible growth rate and being able to double the GDP every eight for a long time in history.

ANALYSIS

Foreign Direct Investment (FDI) in China

China's trade and investment reforms and incentives led to a surge in FDI beginning in the early 1990s. Such flows have been a major source of China's productivity gains and rapid economic and trade growth. There were approximately 4,45,000 foreign enterprises registered in China in 2010, employing 55 million workers or 16% of the urban workforce. As indicated in Figure 1, foreign enterprises account for a significant share of China's industrial output. That level rose from 2.3% in 1990 to a high of 36% in 2003, but fell to 25.9% in 2011.28 In addition, foreign enterprises are responsible for a significant level of China's foreign trade. At their peak, foreign enterprises accounted for 58.3% of Chinese exports in 2005 and 59.7% of imports, but these levels have subsequently fallen, reaching 41.7% and 43.7%, respectively in 2018. (United Nations Conference on Trade and Development, 2019)

The United Nations Conference on Trade and Development (UNCTAD) reports that China has become a both a major recipient of global FDI as well as a major provider of FDI outflows. China's FDI inflows in 2018 were $139 billion, making it the world's second largest recipient of FDI after the United States. China's FDI outflow grew rapidly after 2005 and exceeded FDI inflows for the first time in 2015. China's FDI outflows reached a historic peak of $196.1 billion in 2016, but declined in 2017 and 2018, reflecting a crackdown by the Chinese government on investment deemed wasteful and well as greater criticism by foreign governments of China's efforts to obtain advanced technology firms and other assets. Still, China was the world's second-largest source of FDI outflows.

The sharp increase in China's global FDI outflows in recent years is largely driven by several factors, including government policies and initiatives to encourage firms to "go global." The government wants to use FDI to gain access to technology, know-how, famous brands, etc., to move Chinese firms up the chain in manufacturing and services, boost domestic innovation and development of Chinese brands, and help Chinese firms become major global competitors. China's slowing economy and rising labour costs have also encouraged greater Chinese overseas FDI to help firms diversify risk and expand business opportunities beyond the Chinese market, and to relocate less competitive firms from China to low-cost countries. China's Ministry of Foreign Trade

(MOFCOM) reports that in 2018, Chinese non-financial FDI in BRI countries totalled $15.6 billion, up 8.9% over the previous year. Additionally, increased FDI outflows may be the result of the Chinese government attempting to diversify its foreign exchange reserve holdings (which totalled $3.1 trillion as of April 2019—the world's largest holder). The largest foreign investors in China were Hong Kong (52.6%), the British Virgin Islands (10.6%) and Japan (6.1%).

China's Merchandise Trade Patterns

Economic reforms and trade and investment liberalization have helped transform China into a major trading power. Chinese merchandise exports rose from $14 billion in 1979 to $2.5 trillion in 2018, while merchandise imports grew from $18 billion to $2.1 trillion. China's rapidly growing trade flows have made it an important trading partner for many countries. According to China, it was the largest trading partner for 130 countries in 2013.40 From 2000 to 2008, the annual growth of China's merchandise exports and imports averaged 25.1% and 24.2%, respectively. However, China's exports and imports fell by 15.9% and 11.2%, respectively, due to the impact of the global financial crisis. China's trade recovered in 2010 and 2011, with export growth averaging 25.8% and import growth averaging 31.9%. However, since that time, China's trade growth slowed sharply. From 2012 to 2014, China's exports and imports grew at an average annual rate of 7.2% and 4.1%, respectively. From 2015 to 2016 exports and imports fell by an average rate of 4.7% and 11.6%, respectively (Figure 3), reflecting a sluggish global economy and a decline in commodity prices (such as oil and ores). However, in 2017, China's exports and imports rose 6.7% and 17.4%, respectively. Exports and imports in 2018 rose by 9.3 and 17.8%, respectively. However, during the first three months of 2001, China's exports grew by 1.0%, while imports fell 1.1% year-over-year. China's merchandise trade surplus grew sharply from 2004 to 2008, rising from $32 billion to $297 billion. That surplus fell each year over the next three years, dropping to $158 billion in 2011. However, it rose in each of the next four years, reaching a record $679 billion in 2015 before falling to $611 billion in 2016, $489 billion in 2017, and $382 billion in 2018. In 2009, China overtook Germany to become both the world's largest merchandise exporter and the second-largest merchandise importer (after the United States). In 2012, China overtook the United States as the world's largest merchandise trading economy (exports plus imports). As indicated in Figure 4, China's share of global merchandise exports grew from 2.0% in 1990 to 14.1% in 2015, but fell to 13.4% in 2016 and to 13.2% in 2017 (United Nations Conference of Trade and Development, 2019)

China's Major Trading Partners

Table 1 lists official Chinese trade data on its seven largest trading partners in 2018 (based on total trade). These include the 28 countries that make up the European Union (EU28), the United States, the 10 nations that constitute the Association of Southeast Asian Nations (ASEAN), Japan, South Korea, Hong Kong, and Taiwan. China's top three export markets were the United States, the EU28, ASEAN, while its top sources for imports were the EU28, ASEAN, and South Korea. According to Chinese data, it maintained large trade surpluses with the United States ($282 billion), Hong Kong ($274 billion) and the EU28 ($129 billion) and reported large trade imbalances with Taiwan ($112 billion) and South Korea ($74 billion). China's trade data differ significantly from those of many of its trading partners. These differences appear to be largely caused by how China's trade via Hong Kong is counted in official Chinese trade data. China treats a large share of its exports through Hong Kong as Chinese exports to Hong Kong for statistical purposes, while many countries that import Chinese products through Hong Kong generally attribute their origin to China for statistical purposes, including the United States.

Table 1: China's Major Merchandise Trading Partners in 2018

($ billions)

Country	Total Trade	Chinese Exports	Chinese Imports	China's Trade Balance
European Union	681	408	273	135
United States	631	477	154	323
ASEAN				

	575	318	257	61
Japan	327	147	180	-33
South Korea	313	109	204	-95
Hong Kong	310	302	8	294
Taiwan	225	48	177	-129

Major Chinese Trade Commodities

China's abundance of low-cost labour has made it internationally competitive in many low-cost, labour-intensive manufactures. As a result, manufactured products constitute a significant share of China's trade. A substantial amount of China's imports is comprised of parts and components that are assembled into finished products, such as consumer electronic products and computers, and then exported. Often, the value-added to such products in China by Chinese workers is relatively small compared to the total value of the product when it is shipped abroad. Major imports included electrical machinery and equipment; mineral fuels; nuclear reactors, boilers, and machinery (such as automatic data process machines and machines to make semiconductors); ores; and optical, photographic, medical, or surgical instruments. China's biggest exports were electrical machinery and equipment; nuclear reactors, boilers, and machinery; furniture; plastics; and vehicles

Measuring the Size of China's Economy

Changes in China's Wage and Labor Cost Advantages

Labour's wage is decided by labour market economics. Normal economics supply and demand, equilibrium applies to the labour market. When supply of labour exceeds demand for the labour, price, i.e., wage goes down. When demand of labour exceeds supply, wage goes up.

Then other factors pitch in, such as barrier of entry (how much training required to perform the job, how easy to learn, how accessible the hiring facility is, local regulations - some job only allow local residents to apply), minimum wage mandated by law, competition for labour in other sectors (for example fast development in online shopping increased demands of delivery workers, took away supply of assembly workers, caused the factory labour cost to increase), income tax and social security costs, and other regulatory changes (such as recent change on maternity leave) etc. caused the labour cost to fluctuate.

China's labour cost is relatively cheaper than more developed countries because all the above-mentioned factors. The urbanization of rural area caused the farming land allocated to each family unit in the village small enough that only one or two adults can take care of it. So, the rest of the people went to the city looking for jobs. Many worked as maids, nanny, construction, handyman, delivery, service sector and in factories. If there are more people look for these jobs than existing job opening, you got cheap labour. Sometimes you just don't get enough labour in certain area, you got not so cheap labour. For example, nanny specialized at taking care of new mother and her new-born baby. China has high demand on this kind of nanny. It is hard job. The live-in nanny will cook nutritious food for mother to recover and produce milk, take care of new-born, clean after the baby, and even help new mother to learn how to deal with her baby. Hard to learn, hard work, odd hours. So, there is shortage of specialty nanny. The current price for an experienced nanny is RMB15,000/month. In comparison, average salary for fresh university graduates in first tier cities are RMB6,500/month.

Look at China's labour market trend, factors like low birth rate, growing higher education institutions, growing service sector, growing eCommerce decreased the supply for factory workers, which is a upward driver for labour cost. Factors like automation, moving factories to even lower wage countries, weakening global economy decreased demand for labour, drive down wages.

Other factors, such as a hike on minimum wage or a hike on social insurance costs increased the cost of hire thus lowered the demand for labour, leave some less competitive worker jobless.

You see that's how equilibrium of labour markets dictate how cheap or how expensive China labour price will be.

In fact, the supply of work can't catch up the demand of worker. The workers can find their next job in no time. The short supply of worker has caused China labour price steadily increase year over year. I think automation is beneficial for China's manufacturing sector if China still wants to be the number one manufacturer of the world.

Chinese labour, however, is no longer as cheap as it once was due to competition for both skilled and unskilled labour, a trend towards increasing unionization, the weakening dollar, and other factors.

Although the price of labour is increasing, which is a natural response to increasing standards of living in China, the idea that China is quickly running out of competitively priced labour is a false one.

China's current labour force is a little over 800 million. Over 40% of those 800 million workers still work in agriculture. This means over 300 million Chinese workers are still low-tech farmers, a number that is greater than two times the total work force of the United States. The United States, a net exporter of agriculture, only needs less than half of one percent of its population to be employed in agriculture. It was due to a combination of smart policy, hard work, good luck, and timing.

China as World’s Largest Manufacturer

Reform and opening-up in China began in 1979. This coincided with the rise of globalization, and the financialization of western economies. The predominant idea in the west in the 1980s, under Reagan and Thatcher, was that western economies would move towards service economies and away from manufacturing. Also, under Reagan and Thatcher, special preferential treatment was given to the financial industry on Wall Street and in London, to The City. This would be where all the high-income jobs of the future would come from.

The US and UK of the time thought that as manufacturing became less important as a part of the economy, new employment opportunities would be created in new areas. Mrs. Thatcher was convinced that the greatest single impediment to this coming true was the socialist trade unions, which stubbornly resisted her demands for social change. This was a major reason why she took such a hard stance against the trade unions and was determined to break them. Her hope was that by breaking the trade unions, and the Labour Party, which provided the political backing for the trade unions, that this would usher in a new age of economic prosperity for Britain, which would most likely be under Tory rule.

In the US, growth was slowing, but the political elite continued to support globalization. The belief was that the US would continue to dominate capital markets, and that the US dollar would continue to be the global reserve currency. If this was the case, what did it matter where jobs went. Reagan was a great believer in the trickle-down economy, or the belief that cutting taxes would encourage investment, and that eventually the wealth would trickle down to everyone.

This was just the time when China began to plug into the global economy. Overseas Chinese from Hong Kong and Taiwan were the first to invest in opening factories in China, and gradually, the Chinese learned and mastered mass manufacturing. With its own very large domestic workforce, many sought jobs in foreign factories. The Chinese government even became involved in encouraging Chinese to work in factories by making TV serials about life for young Chinese in factories. At the same time, the Chinese government loosened controls on Chinese, making it easier for Chinese to move around the country, and find their own jobs, instead of depending on the government for job assignments.

American corporations then promoted the virtues of outsourcing, and beginning in the early 1990s, almost all of them moved their manufacturing operations to China. Wall Street promoted globalization and outsourcing as irresistible world trends and portrayed anyone who resisted as backward and as Luddites. Politicians who resisted globalization, such as Ross Perot in the 1992 presidential election, were dismissed as goofy, and disappeared.

China did not become the manufacturing solely based on the Chinese governments and peoples’ efforts, although they were important. A good portion of it was driven by global policy trends which favoured China.

Now though, the world economy still has not completely recovered from 2008. If someone is very wealthy, they are unlikely to have been affected by the events of 2008. Those with less though are likely to have been hit hard and are spending less. In the US now, if you talk about the virtues of the trickle-down economy, the idea which Reagan promoted, in the wrong parts of the country, or to the wrong people, you are likely to get punched. This is because the wealth gap in the US has become large, and it is growing. The money, which was supposed to trickle down didn't trickle down, while the jobs largely disappeared.

Basically, China got on the tail end of consumerism, and rode it to its heights. Now though, global trade is gradually drying up because there is much less economic activity. (The Baltic Dry Index is a good indicator of trade volume; and in 2016, it is not in good shape.) This means that there is much less trade in 2016 than there was in 2006. Less trade means that there is less demand for manufacturing, which also explains why many factories in China are having trouble keeping their heads above water, while a few have been able to move up the value chain.

The conditions which made China the world's manufacturing hub are unlikely to be reproduced again soon. For this reason, I don't think that there is much to be learned. We are in virgin territory, and what succeeded in the past is not likely to be the path to success in the future.

Chinese exports are a thing of terror to manufacturers in India and Africa who have long been protected by import barriers. Globalization is coming to these places, and they will have to adjust and learn to attract FDI as China did. That takes charismatic leadership and authoritative economists. A shortage of which will make it a slow and unstable process for many countries.

China's Incomplete Transition to a Market Economy

Despite China's three-decade history of widespread economic reforms, Chinese officials contend that China is a "socialist-market economy." This appears to indicate that the government accepts and allows the use of free market forces in several areas to help grow the economy, but the government still plays a major role in the country's economic development.

China's transition to the market has been astoundingly successful, the more so as its reforms, though far-reaching, are incomplete in many important dimensions. Although China has irrevocably committed to establishing a market economy, the situation is yet to progress to the point where the markets are entrusted, with minimum encumbrance, to allocate goods, services, and factors of production. The Government reserves the right to intervene in markets when developments are not to its liking, even where the better (meaning more market friendly) policy might be to liberalize further rather than to re-impose administrative controls. Our review suggests that market development has progressed most in the goods markets, with services next, and factor markets still lagging. To improve the function of China 's markets, more of the right sort of competition is needed. We hypothesize that four broad types of government actions can heighten fair competition and improve the way in which Chinese markets work. In the approximate order in which they are likely to contribute to efficiency gains, they are:

(1) phase out remaining barriers to the freedom of movement of goods, services, and factors of production in the domestic markets

(2) roll back the barriers to foreign participation in the Chinese economy in accordance with, but not limited to, the undertakings for accession to the WTO

(3) compile and disseminate more information of all kinds to improve participants' knowledge of China's market environment

(4) experiment in introducing more complementary markets (for example, forward markets, markets for derivatives) and market supporting services (rating agencies, specialists in grading products and valuing assets, marketing, and more). (University, Standford)

Industrial Policies and SOE's

According to the World Bank, "China has become one of the world's most active users of industrial policies and administrations." China's State Council has said that there are currently 150,000 SOEs at the central and local government level. China's SOEs may account for up of 50% of non-agriculture GDP. In addition, although the number of SOEs has declined sharply, they continue to dominate a number of sectors (such as petroleum and mining, telecommunications, utilities, transportation, and various industrial sectors); are shielded from competition; are the main sectors encouraged to invest overseas; and dominate the listings on China's stock indexes. One study found that SOEs constituted 50% of the 500 largest manufacturing companies in China and 61% of the top 500 service sector enterprises. Not only are SOEs dominant players in China's economy, but many are also quite large by global standards. Fortune's 2016 list of the world's largest 500 companies includes 103 Chinese firms (compared to 29 listed firms in 2007). Of the 103 Chinese firms listed, Fortune identified 75 companies (73% of total) where the government owned 50% or more of the company. Together, these 75 firms in 2016 generated \$7.2 trillion in revenues, had assets valued at \$20.7 trillion, and employed 16.2 million workers. Of the 28 other Chinese firms on the

Fortune 500 list, several appear to have financial links to the Chinese government.

China and Global Steel Overcapacity

China has become a major global producer of steel. From 2001 to 2016, China's production of raw steel rose from 152 million metric tons to 805 million metric tons, an increase of 459.9%. During this period, China's share of global production rose from 17.9% to 50.3% and China accounted for 87.1% of the increase in global steel production. While much of China's increased steel capacity has been in response to domestic demand (resulting from China's large-scale fixed investment), it is also a major exporter. In 2015, China was the second-largest exporter of semi-finished and steel products (after the EU) at 111.6 million metric tons, or 24.1% of global total. Concerns have been raised over the past few years over the effects of increased global steel production despite falling global steel demand. Following an EU Symposium on Excess Capacity and Structural Adjustment in the Steel Sector in April 2016, then-U.S. Secretary of Commerce Penny Pritzker and then-USTR Michael Froman issued a joint statement that said that the "U.S. steel industry is in a crisis driven in large part by global excess capacity.... led by unsustainable expansion in steelmaking capacity by China," and noted that global steel overcapacity had impacted the U.S. industry through price declines, decreased profitability, and over 13,000 jobs lost. Many analysts contend that China's steel industry is heavily supported by government entities at the central and local government level through low-cost credit and subsidies. These enable many Chinese steel firms to operate, even when they are unprofitable and heavily in debt—these are termed by some as "zombies." The government is reluctant to allow such firms to go bankrupt due to concerns over effects layoffs could have on social stability. One study by Renmin University estimated that half of Chinese steel firms were "zombie enterprises. In April 2016, the USTR released a list of 86 government subsidies from 2011 to 2014 given to Hebei Iron & Steel Company, one of the largest steel companies in China, which was obtained from the company's annual reports. In February 2016, the Chinese government announced plans to shut 100 million to 150 million metric tons of crude steel capacity over the next five years and cut 500,000 jobs. The USTR's 2016 report on China's WTO compliance stated that China had committed to "ensure that no central government plans, policies, directives, guidelines, lending or subsidization targets the net expansion of steel capacity," and to take steps to reduce existing capacity, including "actively and appropriately dispose of 'zombie enterprises' through bankruptcies and other means (Wind data, Citic China Securities Research, 2018)

Matrix of State Industrial Policy Sectoral Plans

A State-Dominated Banking Sector, Excess Credit, and Growing Debt

China's banking system is largely dominated by state-owned or state-controlled banks. According to one analyst, the mangers of China's state banks are drawn from the ranks of the Chinese Communist Party cadre system, which "enables the party and government leaderships to exert influence over bank lending." In 2015, the top five largest banks in China in terms of assets were state-owned entities. The percentage share of assets held by state-owned commercial banks (including the five large state-owned banks), the three government policy banks, and joint-stock commercial banks (where government entities are a major stockholder), together accounted for 68.5% of total bank assets in China. Foreign participation in China's banking system is relatively small, accounting for 1.6% of total bank assets. SOEs are believed to receive preferential credit treatment by government banks, while private firms must often pay higher interest rates or obtain credit elsewhere. According to one estimate, SOEs accounted for 85% ($1.4 trillion) of all bank loans in 2009. It is believed that oftentimes SOEs do not repay their loans, which may have saddled the banks with an ever-increasing amount of nonperforming loans. Many analysts contend that one of the biggest weaknesses of the banking system is that it lacks the ability to ration and allocate credit according to market principles, such as risk assessment. The Chinese central government uses the banking system to boost credit in order to help meet its GDP growth objectives and to, when needed, offset the impact of global economic downturns, such as after the 9/11 terrorist attacks and the global financial crisis. From 2007 to 2016, China's domestic credit increased in dollar terms by 218% (see Figure 18), and as a share of GDP, the level rose from 125% to 212%. As indicated in Figure 19, China's combined household, corporate, and government debt levels as a percentage of GDP as of mid-2016 are comparable to those of the United States and South Korea and lower than those of Japan and the European Union. However, China's debt levels (in both dollars and as a percentage of GDP) have risen sharply within a relatively short time, which, some have speculated, could spark an economic crisis in China in the future. From 2006 year-end to mid-2016, China's total nonfinancial sector debt as a percentage of GDP increased from 143% to 254% (up 111 percentage points). Much of the rise in that debt came from the corporate sector, which, as a percentage of GDP, rose from 107% in 2006 to 171% in mid-2016 (up 64 percentage points). In dollar terms, China's corporate debt rose from $3 trillion to $17.8 trillion (up $14.8 trillion) and currently greatly exceeds U.S. corporate debt levels (see Figure 20). Several observers have warned that China's credit growth may be too extensive and could undermine future growth by sharply boosting debt levels, causing overcapacity in many industrials (especially extending credit to firms that are unprofitable to keep them operating), contributing to bubbles (such as in real estate), and reducing productivity by proving preferential treatment to SOEs and other government-supported entities. Local government debt is viewed as a big problem in China, largely because of the potential impact it could have on the Chinese banking system. During the beginning of the global financial slowdown, many Chinese subnational government entities borrowed extensively to help stimulate local economies, especially by supporting infrastructure projects. In December 2013, the Chinese National Audit Office reported that from the end of 2010 to mid-year 2013, local government debt had increased by 67% to nearly $3 trillion. The Chinese government reported that local government debt rose to $4.3 trillion as of 2015. Efforts have been made over the past few years by the central government to restructure local government debt and restrict local government borrowing, with mixed success, according to some press reports, because of pressures on local governments to maintain rapid economic growth. Many economists blame China's closed capital account for much of China's debt problems. The Chinese government has maintained restrictions on capital inflows and outflows for many years, in part to control the exchange of its currency, the renminbi (RMB), against the dollar and other currencies in order to boost exports. Many argue the Chinese government's restrictions on capital flows have greatly distorted financial markets in China, preventing the most efficient use of capital, such as overinvestment in some sectors (such as real estate) and underinvestment in others (such as services). (FAS.org)

Government Policies

The key rise of China's economy begins post 1978's launch of economic reforms under the helmsman-ship of Deng Xiaoping. It majorly covered the four sectors of industry, agriculture, national defence, science, and technology. Xiaoping believed that by making enterprises relatively independent economic entities responsible for their own profit and loss and linking incomes with job performance there would be social stability, rise in output, improvement in standards of living and increased state revenue. China shifted its focus from the political struggle to economic improvement. Under the 6th five-year plan, emphasis was paid to improving and growing farming and industrial modernization. An example of one of the newly implemented policies was of the "Household Responsibility System" under which individual households were given the freedom and held responsible for making decisions regarding farming. Land, machinery, and other inputs were contracted to the households via state-owned enterprises while the decisions regarding the practices adopted and cropping were left to the households. Surplus of output over the assigned quotas were rewarded to the respective households. New practices were adopted along with imports of machinery, seeds, fertilizers, and pesticides from Japan to increase the output. On the industrial part, the "Provisional Regulations on Expanding the Autonomy of Enterprises" was introduced which included the "Dual Track System" that permitted the enterprises, exceeding their production quotas, to sell their products outside the state plan at as much as 20 percent above the state price. SEZs (Special Economic Zones) were created to attract foreign investment and technology. Later under the leadership of Zhou Rongji, the program of "grasp the large, drop the small" was introduced which encouraged retaining the highly profitable firms while the remaining were to be merged or adopt various privatized corporate models.

A major turning point for the Chinese economy came after the enlistment of China as a member of the WTO (World Trade Organization). China wanted to become a member to be able to settle and dispute the restrictions on its exports, have a say in the future trade laws, expand its reach to more nations, and be visible as a globally trading nation. Subsequently, China brought in several major reforms due to the WTO including the removal and cancellation of several trade related policies such as Regulation on Administration of Financial Institutions' Trading Spot and Forward Foreign Exchange on Behalf of Clients; the Administration Measures on Foreign Exchanges for Overseas Investments; the Administration Measures on Overseas Financial Institutions; and the Interim Measures for the Quota Administration of Import Tariff on Agricultural Products. China also reviewed and changed more than 2,300 of its other pre-existing policies. As a result of this, the import tariffs reduced from 15.3% in 2001 to 9.9% 2005. Since then, China's efforts have continued towards liberalization and privatization of the economy in certain non-strategic sectors such as consumer electronics and food whereas the strategic sectors such as finance, energy, and military are highly controlled by the state.

After 2001 China realized the glaring issue of unequal income distribution and development with a large section of the society remaining in absolute poverty. The focus was laid on the "Three Rural Issues" being agriculture, countryside, and farmers. In 2002, the reform of "tax-for-fee" was introduced while later in 2005 the agricultural tax was completely abolished. Additionally, a comprehensive national health insurance system (at a minimal level of coverage) along with increased spending on education was introduced. Further, the Chinese government formulated the "Outline for Development-Oriented Poverty Alleviation for China's Rural Areas (2001-2010)." In 2011, the official poverty line was revised resulting in an increase of 257% people qualifying as poor forcing a hike of more than 20% in funding for the poverty relief program.

Post 2011, China has been aiming to address environmental concerns, sustainable development, and job creation through its 12th and 13th five-year plans. Special emphasis is paid on technological and scientific development, innovation, poverty eradication, and creation of local demand and market.

Since China itself is nearing development and consequently achieving absolute growth in terms of GDP per year it is shifting focus to other LDCs (less developed countries). It is investing in such countries for economic as well as political gain. An example of this would be the building of one of Africa's largest dams in Guinea. The project is being constructed by a Chinese firm while being partly funded by the state-owned and controlled EXIM Bank of China. Several other examples such as this can be found throughout the rest of Africa like Kenya's fast railway project and Ethiopia's light railway system. The loans for these projects are being provided at either low or zero interest rates and are expected to cost more than benefit the bank. Still, China is pushing through with them as it is building political, economic, and strategic ties with these countries that will benefit it in several ways. Firstly, it is expecting to exploit these countries' natural resources and low wage unskilled labour for its own manufacturing. By doing so the African countries will play the role of China, as China did for the world. Additionally, Chinese firms have expanded to these African countries and are taking advantage of the developing market. Another benefit is the political advantage as African countries which recognized Taiwan as an individual country, in opposition of China, in the UN, were found to be given 2.7 fewer Chinese infrastructure projects per year. On the other hand, African countries that increasingly voted along with China, in the UN GA, were found to be given 1.8 more Chinese infrastructure projects per year.

Impact of Coronavirus on the Chinese Economy

China's industrial output contracted at the fastest pace on record in the first two months of this year and urban unemployment hit its highest rate ever in February, as the coronavirus brought the world's second-largest economy to a standstill. The official data — some of the worst official figures ever reported by China — suggest President Xi Jinping's attempts to expedite an economic recovery in late February have not had the desired effect. Industrial output tumbled 13.5 per cent in the first two months of this year, the National Bureau of Statistics said on Monday. This would represent the largest contraction on record, according to Reuters data. The urban unemployment rate also surged to 6.2 per cent in February, the NBS said. The latest economic data also showed that China retail sales plummeted 20.5 per cent year on year in January and February and fixed asset investment fell 24.5 per cent, down from 5.4 per cent growth when the data were last reported. The numbers were well below analysts' expectations with many China experts expressing surprise that government officials were willing to report such devastating figures. "The latest activity and spending data were much weaker than expected and point to a far deeper downturn than during the global financial crisis," said Capital Economics in a note on Monday. Growth in services production contracted 13 per cent in the first two months, according to official data. Coupled with the industrial production figure, the data suggest that China's gross domestic product contracted 13 per cent during the first two months of the year, according to Capital Economics. "The actual shock could be much bigger than those deeply negative January-February numbers suggest, because the lockdowns started only from 23 January," said Nomura's chief China economist Ting Lu. Officials in Beijing attempted to put a positive spin on the numbers, saying the impact was temporary. "The economic development in the first two months was affected by the outbreak of Covid-19," said Mao Shengyong at the National Bureau of Statistics. "However, from a comprehensive perspective, the impact of the viral disease is short term, external and manageable." But the data bode poorly for the country's economic outlook in 2020.

China's Belt and Road Initiative

China proposed the Belt and Road Initiative (BRI) in 2013 to improve connectivity and cooperation on a transcontinental scale. Quantifying the impacts of the BRI is a major challenge, which is why the World Bank Group has produced empirical research and economic models that assess the opportunities and risks of BRI projects. Since May 2018, the World Bank Group has produced a series of 19 background papers (available below) and one summary report that provide independent analysis of the BRI's links to trade, investment, debt, procurement, environment, poverty reduction and infrastructure. Our research presents data that enables policymakers in countries along BRI corridors to make evidence-based assessments of how to maximize the benefits and minimize the risks of participating in the BRI. The research also aims to inform the public debates surrounding BRI, by grounding the discussion in data and analysis. China has presented the BRI as an open arrangement in which all countries are welcome to participate. However, an official list of participating countries does not yet exist. In our research we have focused on 71 economies geographically located along BRI transport corridors, including China. In 2017, these economies received 35% of global foreign direct investments and accounted for 40% of global merchandise exports. For the 70 BRI "corridor economies" (excluding China), projects in all sectors that are already executed, in implementation, or planned are estimated to amount to US$575 billion If completed, BRI transport projects could reduce travel times along economic corridors by 12%, increase trade between 2.7% and 9.7%, increase income by up to 3.4% and lift 7.6 million people from extreme poverty. The BRI presents risks common to many major infrastructure projects: debt risks, governance risks (corruption and procurement), stranded infrastructure, environmental risks and social risks BRI transport projects have the potential to substantially improve trade, foreign investment, and living conditions for citizens in participating countries—but only if China and other corridor economies adopt deeper policy reforms that increase transparency, expand trade, improve debt sustainability and mitigate environmental, social and corruption risks.

CONCLUSION

The Chinese model of development is not a silver bullet of development policies that can be easily replicated in other developing countries. Rather, China's development experience should be seen as a process toward a more efficient, market driven, and lately equitable final goal through gradual reforms, experimentation, and learning-by-doing. 42 Going forward, whether China can succeed in its transition to a new growth model, and how it decides to meet countless challenges that will undoubtedly emerge, will have socioeconomic consequences not only for the Chinese but also for the rest of the world.

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