



TOWARD A STRONG CHINESE ECONOMY

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ABSTRACT

How to keep Chinese economy's high growth rate in a long run toward the fully modernized era of China is the major topic of this paper. This letter will develop some theories as a guidance of Chinese economic reforms and development and show the necessary reforms and strategies for a long term prosperity into Chinese future.

Keywords: Economic reform, Information age, Chinese economy, Economic growth, Financial crisis

JEL Code: C1, C23

INTRODUCTION

China has undertaken the free market reform since 1978. From then, Chinese economy keeps a high growing rate around 9.6% each year for more than 30 years (People's press, 2008). China took over Japan in 2009 as the second largest economy in the world which is an obvious economic miracle of the world. How to secure a fast and sustainable development of Chinese economy is the huge task of China. To do that, China now is taking many important reforms and efforts to sustain Chinese economy's high growth rate.

The strategy of high speed and healthy growth is considered as the center piece of guidelines of Chinese future development. In China, as a step toward to sustainable high growth, all enterprises and publics must draw out a plan for its own healthy fast growth (China Daily, 2010). The center government and local government are striving jointly to make certain the sustainable high speed growth is the key strategy of any policy making. According to this plan, all level governments must outline an concrete road map, enhance creativity and innovation of individuals and enterprises, efficiently distribute resources, drive more free market reforms, stimulate market participation of enterprises and individuals and raise intension management.

METHODS

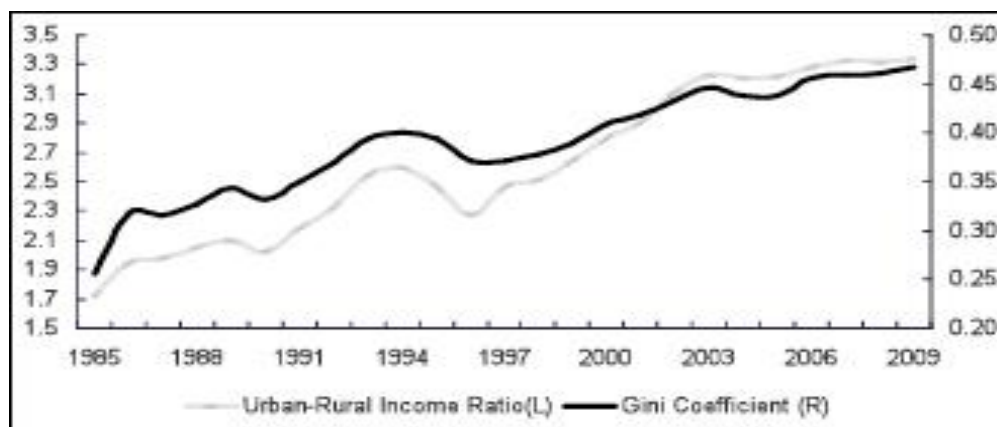
Starting from Chinese basic economic and social facts, in order to develop Chinese economy through a fast, healthy and sustainable way, what key measures China needs to take are as follows:

- 1) Raising the decision ability for the sustainable growth. China now is training its all level governing body and promoting the ideology of the sustainable development to build it into its political system, public and enterprises decision procedures, market mechanism. This is obviously to enhance the policy making ability of all aspects of the nation's economy in order to secure the efficient realization of the sustainable development strategy.
- 2) Protecting and Living and Nature Environment. Environment management systems are reformed to facilitate the free market requirements. The procedures should include: a) setting up and completing the environmental protection legal systems and laws; b) utilizing efficient market procedures to protect environment, such as pollution fees, environmental taxes, etc. c) strengthening the public service in the environmental protection sector, such as, protecting clean drinking water, clean air, clean living conditions.
- 3) Turning the traditional industry society toward a knowledge-based economy informational society. Nowadays, knowledge and technology has taken over natural resources as the major factors of the economic growth. In this informational age, sustainable developments are going with a new direction: a) global information net provides a complete open sustainable global development system which leads to a very efficient allocation of global resources. b) high technology industries are the leading growth point of the economy. c) knowledge-based economy growth leads to many changes of the production factors from natural resource consumption to the knowledge production.
- 4) Diversifying the international corporation entities and channels. China as a WTO member will enjoy as an equal trade partner to cooperate with any other members. This will enlarge China's corporation channels and strongly increase China's development opportunities.
- 5) Enhancing the competitiveness of Chinese industries. China is urging its all level industries to form its own research and development centers, utilizing new technology, participating international competition, educating high quality workers in order to sustain Chinese industries high growth.
- 6) Raising people's knowledge and quality. Through educating Chinese people with scientific knowledge and law-governing ideology, China is trying to form a supportive culture base for the long run into its modernization era.

For the effective long term growth, China will attach greater importance to long-term optimization of the economic and social structure. For this, operational steps have to be adopted to expedite the country's social construction in an all-round way in order to clear the path for sustained and healthy economic development. China should try to avoid of so called middle income trap problem. As a matter of facts, many emerging Asian economies encountered this problem (Sharma, 2009) in their

process of economic development due to their lagged- behind social construction efforts. For example, a few countries (World economic outlook, 2010), such as Brazil, Malaysia, Argentina, Chile and Mexico have suffered even a long economic slowdown or stagnation because of their failure to resolve economic contradictions, or owing to their ill-conceived development strategies or outside impacts. The key reason why such a trap arose in those countries (Mile, 2009) was because they put too much significance to economic growth and pay little attention to social development. Then the rich-poor income gap got worse with a result of weakened domestic demand. During their accelerated urbanization process, those countries (Kefi and Zouhaier, 2012) ignored to build up a strong social security system to make their growth healthy and even, then a new dual social structure formed which deteriorated the existing severe social contradictions. Besides, inadequate expenditure human capital and education made the imbalance in their industrial structure and fuelled an extensive economy worse.

Figure-1. Urban–rural income gap and Gini coefficient among households of China



Source: National Bureau of Statistics (NBS) of China, various years, China Statistical Yearbook, China Statistics Press, Beijing.

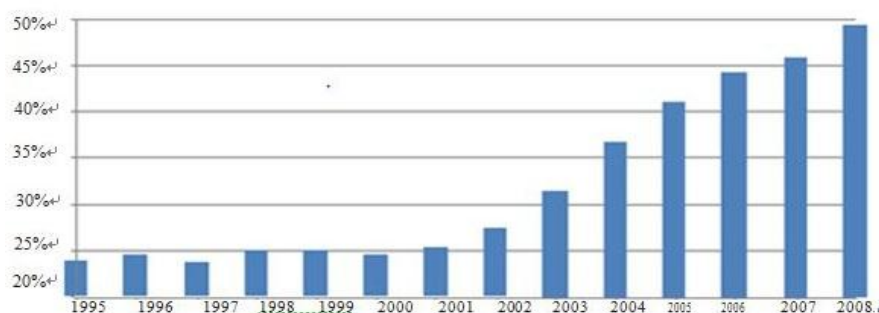
Entering this economic stage (Figure 1), a similar problem will hurdle China. As a matter of fact, China is facing the widening gap between urban and rural income. At the beginning of the 1980s, the rural–urban income gap actually narrowed due to the fact that agricultural income was boosted by the implementation of the household self-responsibility system in the countryside while urban reforms were slow to gather momentum. Over time, however, the gap has widened quickly. In 1981, average urban income was about two times that of rural income. In 2005, this ratio increased to 3.2. In 2011, this figure become even larger as 3.4. It is probably due to the result of government restrictions on rural labor migration and faster productivity growth in the urban due to the stronger urban economic reforms.

China will speed up its social construction and overcome the "middle-income trap" as an important task of the scientific development outlook (Liang-Xin Li, 2010). The key steps lie in the following

procedures: 1) China is striving to complete its building strong social security systems and making a harmonic society, from employment generation and social security to housing and healthcare to improve people's livelihood, though its expenditure on public services and other social areas still far from enough now. 2) China will enhance a more even income distribution social structure through better, efficient and comprehensive education for all level people's needs, such as, job training, technology applications, college educations, higher educations, etc. The efforts to prepare people's various needs to find suitable jobs will drive the income distribution more even and rational. 3) Another important measure to sustain its high growth is that China will put more emphasis on raising people's quality by educating them scientific knowledge and strengthening the ideology governing the country by law to form a strong supporting culture and value for its modernization process.

China now is making greater efforts to reduce the country's excessive dependence on investments (Figure 2) for economic growth by changing its bigger share of GDP growth to consumption. In fact, investments have been used as a forcible tool to sustain the country's high economic growth over the past three decades. It is obvious that large investments have bolstered the country's decades-long fast growth. But it is also a fact that they have consumed huge amounts of natural resources and energy. To handle the natural resource shortage problem, the governments are taking some systematic and effective measures for boosting technological innovation, seeking environmental friendly energy, fighting pollution, cultivating a more efficient human capital market, improving its investment performance and forming a market oriented industry. This will help avoid of building up of surplus production capability under the investment-driving growth pattern (Mutaqin and Ichisahi, 2012). The top goal of Chinese economic development is to improve people's life, and the bigger consumption will be the key for a better life of people which will be a sustainable driving force for Chinese economy to grow.

Figure 2 China's Investment Rate in recent years



Source: The data bank of Zhongjing.

Furthermore, the old national income distribution pattern should be modified to increase the ratio of people's consumption to the GDP. The fast economic growth of the past three decades has

boosted China's wealth accumulation. But the growth in people's wealth has been far behind the nation's GDP growth. An imbalance in wealth distribution has been a key cause for the rising economic structural imbalance and soft demand. Statistics show people's consumption level has fallen on a yearly basis during the past three decades, with its ratio to the country's GDP being less than 60 percent. From 1998 to 2010, the average income of labors grew by an average of 9.9 percent per year, less than one-third of the 30.52 percent annual growth in China's industrial profits. Between 1995 and 2010, the income share of households decreased from 68 per cent to 10 per cent which is much lower than any developed countries such as USA with the ratio around 70 per cent. This trend could be an important course for the declining share of consumption in GDP.

To cure this, a modernization of the country's wealth distribution mechanism is needed through a series of procedures, ranging from raising laborers' share in the country's primary income distribution, enhancing the country's financial transfer payment, strengthening social security supporting efforts, undertaking tax cuts to boosting people's income and ensuring they get their rational share in the expanding national wealth.

Besides, China now is making greater efforts to ensure industrial interests are distributed fairly. In fact, the huge share of the country's fixed assets investment went into State-owned enterprises or the monopoly industries. To correct such distribution pattern, the government should encourage more competition in petroleum, power, railways, finance, telecommunication, housing, education and some service sectors to make use of free market process to form a rational income distribution for all workers.

Theory

China's strategy is endeavoring to reform all those sectors that hurdle its sustainable growth without sacrificing its high growth rate with controllable, well-regulated reforming approaches. By obeying the following two principles, China is going to handle all kinds of obstacles that hurdle china's economic growth and modernization development.

Principle 1: in all circumstances, there will be at least one field as a growth point whose growth and development will lead and drive the whole economy to grow.

Principle 2: to a developing economy, its growth will generally be classified as two phases: quantitative growth and qualitative growth.

By using the first principle, China will adopt different growth points to drive its economy toward a fast and strong development, such as information industry as a growth point now, with environmental industry, energy industry, life industry, space industry following on. This principle means to any economy, at any situation, there is always one or few key growth fields that will

break throw and grow fast to lead the whole economy to expand, either for the driving of raising people's living standard or by technology innovation. The more growth points, the larger the potential the economy grow, and the faster the economy will grow. For Chinese economy, right now, the growth points are lying for the enhancement and modernization of people's living conditions. For example, the information industry, auto industry, and materials industry, infrastructure industry, environmental industry, energy industry, transportation industry, etc. There are so many growth points which means Chinese economy can be stimulate to grow easily and will sustain for a long period fast expansion.

For the second principle, in the long run, China's economic development can be classified as two stages: first, China will strive to get all its people a modernized living condition as fast as possible, that is to say, China will be a world manufacture center of modern products. Chinese economy will grow very fast at this stage due to its large population and its huge demand for good living. I put this stage as the quantitative expansion period. In the second stage, China should expand its markets and economy mostly by technology innovations, which I will call it a qualitative expansion stage. At this stage, China will use its own newly invented high technology products to create consumption, world markets, competitiveness and keep its people already-modernized living standard abreast with the brand new technology frontier. In the second stage, Chinese economic growth rate will mainly rely on its scientific and technologic breakthroughs and will be slower than the first stage. But with its huge human resources, China should be able to create more new technology, new products and new markets if Chinese scientific, education and research systems are effective.

CONCLUSIONS

In about 20 years, China will reach the top of the world economy by overtaking USA (Morrison, 2008). But average Chinese individual people's living standard is still 1/4 of USA. Urbanization process has been one of the leading driving forces and by some calculations the process is just only half-completed. Despite all the progress since 1978, China is still a much poorer country than most people realize – it is not even in the top 100 in the International Monetary Fund's ranking of gross domestic product per capita. That means plenty of room to keep fast expanding.

China will keep its rapid growth for another 20-40 years and will be the top engine for world economy. China's modernization process is a long and fast road. By completing this process, China will contribute the world a 1.3 billion good living population and stronger economic growth driving force than ever before and any other country in the world history. It is beautiful to witness China's run toward its modernization era on this beloved planet.

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