

To Question the Economic Success of China

M. Yu. Karelina

Moscow Automobile and Road State Technical University
Moscow, Russia
karelinamu@mail.ru

E.A. Karelina

Moscow State University of Technology "STANKIN"
Moscow, Russia
opferpriesterin@mail.ru

V.V. Moiseev

Shukhov Belgorod State Technological University
Belgorod, Russia
din_prof@mail.ru

K.V. Zhigaeva

Moscow State University of humanities and economics, 49
Losinistrovskaya St., Moscow, 107150, Russia,
Kamilla25@icloud.com.

C.E. Zaslavsky

Financial University under the Government of the Russian Federation,
Leningradsky Prospect, 49, Moscow, 125993, Russia,
SEZASL@mail.ru

Abstract—For the last four decades in a row (1978-2018), China's economy has been developing almost without crises, at high rates, sometimes adding 10% a year. Today, China is the leading economic power, its gross domestic product (GDP) increased from \$ 255.7 billion in 1979 to \$ 12 trillion in 2017, i.e. more than 46 times. The authors not only reveal the factors of the Chinese phenomenon, but also attempt to analyze the main components of China's success in economic development. The article considers the key aspects of Chinese reforms, analyzes strategic directions of modernization of China's national economy based on strengthening liberalization of the country's foreign economic activity as one of the main conditions for further large-scale borrowing of advanced technological experience of the highly developed countries of the world. A separate place is given to the consideration of the program of socialist modernization, conducted by Deng Xiaoping. The relevance of the study is due to the importance of China as one of the main leaders in social and economic development in the world, the growing role of China's border economic cooperation and the special significance of developing and strengthening long-term trade and economic cooperation between China and other countries of the world.

Keywords—China; economy; reforms

I. INTRODUCTION

The specific issue of the model of China's social and economic development in the last four decades (1978 - 2018) has been forced economic growth, which allows us to be confident with the official forecasts of China that it will have achieved absolute leadership in the world economy by 2050.

The founder of economic reforms in China is Deng Xiaoping, a prominent statesman and politician. Pushing out the strategy of "socialist modernization with Chinese peculiarities", Deng Xiaoping began to implement the policy adopted by the Chinese leadership in January 1975 to carry out "four modernizations" - agriculture, industry, defense, science and technology. The economic basis of this model was public ownership of the means of production, while encouraging the development of the private sector. Deng Xiaoping refused to oppose the plan and the market, considering them as a tool in the hands of the state, not defining its essence.

In accordance with his strategy, Deng Xiaoping engaged in the implementation of the policy adopted by the leadership of the PRC in January 1975 for radical changes in the economy and social sphere of the country. When developing the program of socialist modernization, Deng Xiaoping did not have any ready answers to the most complicated questions of its implementation in such a huge country like China. The development of this program was carried out by the method of "crossing the river while groping stones." This slogan is used in China as a synonym for a cautious approach to solving economic problems. One of the main factors that predetermined the success of the Chinese reforms was the gradual, evolutionary nature of the reforms [9, p. 191].

An economic reform, according to Deng Xiaoping's theory, was impossible without the reform of the political system. The ruling party, the Communist Party of China (CCP), as a guarantor of ensuring social and political stability, without which it is impossible to successfully implement the modernization course, is of special importance in carrying out the reform of the political system and, in general, in the process of modernization. Therefore, the issues of party building, strengthening of party discipline and strengthening of inner-party control have always been and are in the center of attention of the CCP leadership. The political life of the country was built in accordance with the "four basic principles" put forward by Deng Xiaoping: to follow the socialist path, adhere to the dictatorship of the proletariat, the leadership of the Communist Party of China, and the ideas of Marxism-Leninism and Mao Zedong in order to ensure the main internal condition of the normal course of reforms-political stability. No deviations from this line towards politico-ideological liberalization were allowed [11, p. 24].

In December 1978, the Third Plenum of the 11th Central Committee of the CPC was held in Beijing. The plenum worked out an installation for carrying out the above-mentioned "four modernizations." After the third plenum, Deng Xiaoping formed the key theoretical and programmatic provisions of the reform strategy [9, p. 189].

Deng Xiaoping started the economic reform from the weakest sector of the economy - agriculture. The process of

modernization provides strong state power. The supreme Chinese government, acting with its inherent wisdom, abandoned the simultaneous liberalization of prices and the comprehensive privatization of the public sector of the economy, thereby acknowledging the method of “shock therapy” used by President B.N. Yeltsin in the early 1990s in Russia.

Thus, the transformations in the vast country began with well-thought out and verified reforms, the author of which was Deng Xiaoping, the state, military and party leader of China, who, after the death of Mao Zedong in 1976, was the most influential figure in the Chinese leadership. The restructuring carried out on his initiative in China presupposed the reform, first of all, of the economic structure of society with a gradual transition to a market economy.

At the Fifteenth Congress of the CPC in 1997, the Party's Charter included a provision on the leading role of the “theory of Deng Xiaoping” in the initial stage of socialism. This theory is regarded as a new stage in the development of Marxism in China, the second theoretical achievement in China after the “ideas of Mao Zedong” - the scientific system of building socialism with Chinese peculiarities [11, p. 25].

Deng Xiaoping's reforms were successfully continued by his successors - Jiang Zemin (1989-2002), Hu Jintao (2002-2012) and Xi Zemin (from 2012 to the present). Thanks to their well-coordinated work on managing the country's social and economic development, the steady implementation of the course developed by Deng Xiaoping, as early as 2010, the Chinese economy had outperformed the Japanese economy and became the world's second economy by nominal GDP, and since December 2014 has been the world's first GDP in parity purchasing power.

A key feature of China's economic development strategy was the building of market relations under the leadership of the Communist Party on the basis of five-year plans, almost like in the Soviet Union during its heyday. Like the USSR, China has achieved impressive results.

Thanks to the reforms initiated by Deng Xiaoping, China has made an unprecedented leap forward in the development of the economy and bringing the Chinese society to the level of “average prosperity,” gaining a strong status as one of the strongest countries in the world economy [9, p. 193].

At the same time, the uniqueness of the model of China's social and economic development lies in the fact that the development of the country's economy in recent years has occurred on the basis of using a combination of state planning mechanisms and market regulation.

II. PROBLEM STATEMENT

One of the main issues of this study was the issue of the effectiveness of state management of China's economy and social sphere.

On the eve of its collapse (1990), the USSR produced goods and services for \$ 404.5 billion, that is, more than then in China [8, p. 12]. In 2000, when Vladimir Putin was elected the second president of Russia, China's GDP was already 1192.8 billion dollars, which was three times more than our country. After 17

years, the ratio of the economies of the two countries has changed even more dramatically. In 2017, China's economy produced goods and services for almost 12 trillion USD which was more than 9 times than that of modern Russia. The Chinese gross domestic product became the second one in the world in nominal GDP, lying behind the United States of America [13].

The conclusion from this brief analysis is that the economic strategy adopted and implemented in China proved to be more effective than the state management of the economy in Russia. Thanks to their well-coordinated work on managing the country's social and economic development, continuity and consistency in achieving the goals, the Chinese economy developed almost without crises at a high rate, which cannot be said of Russia which is positioning itself as a world economic power. However, a special path of social and economic development in Russia has not justified itself, unlike China.

The construction of a market economy in China was carried out under the leadership of the Communist Party on the basis of five-year plans, almost like in the Soviet Union during its heyday.

As in the USSR, China has achieved impressive results. Today, China is the leading economic power with a huge scientific and technical potential, as well as nuclear weapons and the army, the largest in the world in terms of the number of military personnel. By 2007, more than 130 automotive companies were built in China, which produce a total of more than 90 brands and 260 car models [5].

Over the past decade (2008-2018), China's GDP has been growing steadily, even despite the global crisis of 2008-2009. This can clearly be seen in Fig. 1 [2].

Reforming the Chinese economy gradually led to structural changes in the location of industry and other sectors of the economy and then to the rapid growth of nominal GDP. It should be pointed out that, among other branches of China's economy, engineering and metallurgy had the highest priority. Enterprises of heavy industry remain state property. Key industries also include arms production and light industry [6].

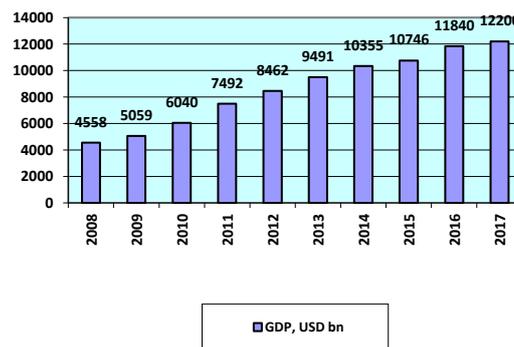


Fig. 1. Dynamics of China's GDP in current market prices in 2008-2017, in billions of US dollars.

As a result of the implemented reforms in the economy, production at enterprises supported by local authorities (especially in villages and small towns), as well as in enterprises with participation of foreign capital, has seriously increased. By

the beginning of the XXI century there were already 7.9 million industrial enterprises in the country, while full employment in state enterprises exceeded 24 million people [3]. The petrochemical and automotive industries have grown substantially in recent years. The main export industries were electronic products and engineering products. The construction sector has also grown substantially.

One of the priority places in the national economy of China is the textile industry which occupies a leading position in the world, as well as electronics and IT-technologies. Investing in oil and gas production and transportation, there is expected return in 12 years in Russia, for example, while the Chinese investing in electronics might return all the costs four times within the same period.

An important place in the structure of China's modern industry belongs to the automotive industry. China is the undisputed leader in the production of both passenger cars (22.2 million units in 2017 or 34.5% of world output) and cargo cars (6.8 million units in 2017 or 22% of world production). The total production of cars in the country amounted to 29.0 million (29.9% of world production) in 2017. In 1975-2017, according to the calculations of the authors, car production in the country grew 175 times. Already in 2010 the country took the leading position in the world automotive industry.

China made significant progress in the development of national energy. With the adoption of a set of measures to rationalize energy consumption in the 1980s, the structure of energy consumption in the country was substantially adjusted. A number of energy-saving measures were implemented (closure of obsolete production, attraction of the latest technologies and foreign enterprises to the country) which allowed to reduce the total energy consumption in the country by 40%.

One of the most important branches of the country's economy continues to be agriculture, although its share in GDP had declined in 1981-2015 from 21.8 to 9.2% [1]. In 2010, a record grain harvest (550 million tons) was recorded in the country. In Russia, a similar record was set in 2017 - 132 million tons. To stabilize the growth of prices for agricultural products in the country, the Ministry of Agriculture continues to provide assistance to rural areas in the production of pork, oilseeds, grains and other goods.

The development of transport and infrastructure in China is given significant attention, since these industries are strategically "tied" to the national economy. Annual investments in the development of transport and infrastructure are about 10% of GDP.

These and other successes in the economic development of the country were analyzed at the XVIII Congress of the Communist Party of China which was held in Beijing from November 8 to 14, 2012. The report of the Secretary-General of the CPC Central Committee Hu Jintao stated stable and accelerated development of China's economy and a significant increase in national power. The Congress noted that the achievements in the economy and social sphere became possible due to the improvement of the modern market system, macro-regulation of the economy, the promotion of the reform

of state enterprises, the sphere of taxes, finance, science, the successful development of the private property sector. In addition, as a result of ongoing reforms, significant progress has been made in regulating the structure of agriculture, increasing urbanization, and expanding infrastructure. Particularly noted in the report are successes in creating an innovative state, thanks to which breakthroughs in manned space flights, the creation of supercomputers and the construction of high-speed railways have been achieved.

In the social sphere, there have also been significant changes for the better: the employment of the urban and rural population has increased, its incomes have risen, the criteria for the subsistence level and support for the poor in the city and village have increased, the level of social and medical care as well as that of pensions has been raised (free education has been introduced everywhere and a new system of social assistance, including old-age).

At the XVIII Congress of the Communist Party of China, it was noted that the construction of a "moderately prosperous society" implies progress towards a society of general welfare, viewed as the "basic principle" of socialism with Chinese peculiarities. The implementation of this principle is associated with the preservation of the socialist economic system and the distribution system, the ordering of the distribution of citizens' incomes and the solution of the problem of income disparity so that "the results of development are more equitably distributed among the entire population." The report of the Secretary-General of the CPC Central Committee, Hu Jintao, stated that it had not yet been possible to overcome the uneven development in the country, especially between town and country, between the developed coastal belt and the internal parts of the country and an excessive gap in the incomes of the population. Problems in the field of employment, social security, income distribution, education and health, housing, the safety of drugs and products, ecology, justice and public order are identified.

The XVIII Congress of the CCP urged the Communists and the entire population of the country to "firmly advance along the road of socialism with Chinese peculiarities and struggle for the full construction of a moderately prosperous society." [14]

To implement the decisions of the Congress in China, a certain work was done. In particular, in order to stimulate domestic demand and increase consumption, a number of short-term measures were implemented, including: a significant increase in salaries for education workers and benefits for low-income groups.

In March 2014, the State Council of China presented the National New-Type Urbanization Plan for 2014-2020, which focused on the quality of growth and well-being of urban residents.

The reforms that promote China's growth in modern conditions are continuing. This was confirmed by the regular plenum of the Central Committee of the CPC, which took place on 26-28 February 2018 and the 1st session of the All-China Committee of the People's Political Consultative Council of China (CPPCC) of the 13th convocation. "We are entering a new era, and the CPPCC will constantly open new pages in

history, more and more closely interacting with the Central Committee of the Communist Party of China (CPC Central Committee), whose ideological core is the Chairman of the People's Republic of China, Xi Jinping, "We will make persistent efforts to ensure that our ideas and initiatives are an incentive for further comprehensive transformations," said the official representative of the session, Wang Guoqing [7].

The main function of the CPPCC is to conduct political consultations, monitor the implementation of key government programs approved by the CPC Central Committee and other state bodies of the People's Republic of China, implement fiscal projects, formulate and discuss key issues of national importance in the field of national politics, economy, culture and social development. The March (2018) session of the CPPCC is of great importance for mobilizing the party and the entire population of China to transfer the ideas of a "decisive victory in the full construction of a moderately prosperous society" and the achievement of the "great victory of socialism with Chinese peculiarities" into a new era.

At the June 14, 2018 meeting of the State Council of the PRC, topical problems of the country's social and economic development under new geopolitical conditions were considered, measures were taken to expand imports that would facilitate the restructuring of the industrial structure and a balanced development of foreign trade, and would also bring more benefits to the population of the country. It was noted at the meeting that the goals of import expansion with the stabilization of exports were to promote the implementation of an openness strategy characterized by mutual benefits and common gains, protecting free trade, transforming and modernizing domestic industry, and satisfying the diverse needs of citizens.

The State Council of the People's Republic of China decided to support the import of consumer goods for domestic needs, medicines, rehabilitation equipment and equipment for elderly care and ensure implementation of measures to reduce import duties on part of the goods; the importance of the all-round development of trade in new services and the promotion of the import of manufacturing services, covering research and development, logistics, consulting services, energy conservation and environmental protection was pointed out; also the need to increase the import of equipment that facilitated the transformation and modernization of the country's production was stressed. Premier Li Keqiang said that China would actively increase imports and reduce import duties on cars, a part of consumer goods for domestic needs and other goods. "We are ready to give greater openness to the Chinese market in order to stimulate the modernization of production facilities, ensure a balanced development of trade, and thereby give consumers more options," he stated [10].

One of the consequences of China's accession to the WTO was a sharp increase in the number of agreements on foreign direct investment. Already in the first year after accession, the volume of commitments for new investments had increased by more than a third, and the cumulative influx of foreign investment reached \$ 350 billion, with an annual increase of \$ 40 billion. Despite the fact that the role of foreign investment in the country is high, almost 80% of all foreign direct investment

in the economy is the investment of ethnic Chinese (Chinese - huaqiao) who live abroad.

Great importance in the development of the country's economy and attracting foreign investment was the development of free economic zones (FEZ).

In the next decade, the projected volume of China's direct investment abroad is expected to amount to \$1.25 trillion. China's investment abroad helps national companies from different industries to conquer new markets, acquire the necessary managerial experience, technologies, brands; it allows human capital to become more competitive.

III. RESEARCH QUESTIONS

In the article the authors examine the key features of the Chinese economic development strategy, the priority directions of its modernization: public administration reforms aimed at the priority development of the economy and social sphere, state regulation of the economy, its diversification, analyze the features of attracting national and foreign investments for a breakthrough in social and economic development.

Examining these and other issues, the authors compare them with the strategic goals and objectives of the development of the Russian Federation for the period until 2024, set out in the presidential decree of May 7, 2018.

IV. PURPOSE OF THE STUDY

The purpose of this study is a comprehensive analysis of key features of China's economic development strategy.

V. METHODS OF RESEARCH

In the article, the authors used the analytical, comparative, institutional and sociological methods.

VI. FINDINGS

As a result of the study, the authors came to the following conclusions.

1. Since the late 70s of the last century, China has reoriented from a closed, centrally planned economy to an economy oriented toward the development of market relations. The accession of China to the WTO in 2001 contributed to the active expansion of its participation in international trade, especially in 2002-2008. In the Asian region, China became the leader of foreign trade in 2004, ahead of Japan. In 2007, China outperformed the United States, and in 2009 - Germany, becoming the world export leader.

2. Since the beginning of the policy of reform and opening up, China has achieved impressive successes in foreign trade. For nine consecutive years, China has remained the world's largest exporter of goods and the second largest importer of goods in the world. In 2010, for the first time, China became the largest exporter of goods in the world. The economic reform began with agriculture, followed by a reform of the financial system, liberalization of prices, increased autonomy of state-owned companies, an extensive banking system, stock markets, increased share of the private sector, increased openness towards foreign investment and foreign trade.

Under the conditions of liberalization of foreign economic activity, the transformation of the model of China's investment cooperation with foreign countries has a significant impact on the evolution and state of trade and economic cooperation between Russia and China.

3. For more than half a century, there has been a demographic transition in the country from the "high mortality-high fertility" model to the "low mortality-regulated birth rate" model, then to the "low mortality-low fertility" model which corresponds to the demographic policy of the newly industrialized countries.

4. In order to stimulate structural changes in the economy, China is actively developing the education system, it organizes the training of its students at the expense of the state in foreign countries (especially in Japan and the USA), stimulates the import of technologies for the development of such progressive sectors as information and telecommunication technologies, biotechnology.

5. Restructuring the economy and increasing the efficiency of using the demographic potential led to more than 10-fold GDP growth in 1978-2017. At the purchasing-price parity of China's GDP, until 2014, only the United States of America were inferior. At the same time, the value of output of industry and agriculture (in dollar terms) exceeded similar indicators of the USA.

Despite the huge social achievements that have occurred in the country over the past four decades, China's income per capita remains below the world average which is a consequence of the large population - about 1.4 billion people at the beginning of 2018. [12]

VII. CONCLUSION

As a conclusion, the authors make a well-founded statement that the key features of China's economic development are the modernization of the economy on a market basis with state control in the social sphere and the high resource potential of China.

The development of the economy in China, the United States of America, Russia and other countries of the world depends critically on the effectiveness of public administration. In fact, the leadership of the Communist Party of China has shown in practice that market relations can and should be applied for the country's sustainable social and economic development. At the same time, an indispensable condition should be a sound economic strategy based not on a raw material, as it is in Russia, but on innovative ways of development, as well as the steady implementation of the plans stipulated.

The effectiveness of the state leadership of the economy led the United States of America to world leadership, made it possible to turn a territory inhabited by half-savage Indians into a powerful prosperous country with a highly developed economy based on the latest scientific knowledge, innovations and investments. The annual volume of goods and services produced in the United States is an order of magnitude higher than that produced by Russia which is proud of its millennial history but in no way of highly developed industry and the

living standards of its citizens. But in terms of natural resources or territory Russia is still superior to the United States of America today. The example of China clearly shows that even in the absence of the necessary natural resources (for example, oil is supplied to China from Russia), almost one and a half billion people can make an unprecedented leap in the development of the country provided effective state leadership.

The high growth rates of the economic potential of the People's Republic of China are ensured as a combination of modernization of the economy on a market basis with state control in the social sphere which ensures internal stability of development and the availability of high resource potential of China, while not excluding the real need for importing resources. At the same time, the demographic factors of the country's socio-economic development (stabilization of high birth rate, changing the age and sex structure towards aging of the population, etc.) impose increasingly large restrictions on the country's economic growth rates.

As a result of successful reforms, China is the leading economic power today that has a huge scientific and technological potential, as well as nuclear weapons and a multimillion army. Modern China is the world's largest producer of the absolute majority of industrial products: cars, televisions, radios, mobile phones, watches, cameras, washing and sewing machines, bicycles and motorcycles, cotton and silk fabrics, shoes, as well as coke, cast iron, steel, aluminum, zinc, tin, nickel, fertilizers, cement, meat, wheat, rice, sorghum, potatoes, cotton, apples, tobacco, vegetables and silk cocoons. China has the world's largest livestock of birds, pigs, sheep, goats, horses and yaks, and is also leading the way in catching fish. Today, even the United States of America, the founder of a unipolar world, is forced to reckon with China, which has a highly developed military-industrial potential.

In the long term, the emphasis in the transformation of China's social and economic development strategy will be put on the following issues: a tenfold increase in GDP per capita; the completion of diversified industrialization, the full development of the field of information and communication technologies; a new stage of development based on an economy which lies on knowledge and the transformation of the high-tech industry into a key economic sector; the achievement of the average world level of urbanization; the completion of the construction of a "socialist economy with Chinese peculiarities"; the creation of mature economic institutions; the level of developed countries in the world in terms of technological development.

It is important to understand that without modernization of society it is hardly possible to modernize the economy and change the model of its development. Otherwise, any transformation of the economy will be unstable and the system will sooner or later return to its original, pre-modernization form.

References

- [1] Agriculture, value added (% of GDP), 2016. Retrieved from: <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=CN>

- [2] China Economic Outlook, 2018. Retrieved from: <http://webcache.googleusercontent.com/search?Q=cache:https://www.focus-economics.com/countries/china>
- [3] "China Statistical Year Book," Beijing: China Statistical Press, 2011.
- [4] "China's GDP grew by 15 times in 30 years," 2008. Retrieved from: <http://russian.people.com.cn/31518/6555668.html>
- [5] "Chinese Automobile Miracle," 2007. Retrieved from: http://expert.ru/magazine_auto/2007/07/kitayskoe_avtomobilnoe_chudo/
- [6] Gao Ying, "Features of the formation of high-tech industries in China," Author's abstract on the thesis of PhD in economic sciences, 2008.
- [7] "In China, the session of the main advisory body was completed," 2018. Retrieved from: <https://ria.ru/world/20180315/1516398351.html>
- [8] V.V. Moiseev, "Why Russia can not yet become a prosperous country," Moscow, Berlin, 2017.
- [9] D.B.-O. Regzenova, "The basic principles and essence of the reforms of Deng Xiaoping," 2010. Retrieved from: <https://cyberleninka.ru/article/v/osnovnye-printsiy-i-suschnost-reform-den-syaopina>
- [10] "Summit of SCO in Qingdao," 2018. Retrieved from: <http://russian.people.com.cn/n3/2018/0615/c31521-9471752.html>
- [11] D.A. Smirnov, "Deng Xiaoping and the modernization of China," Problems of the Far East, No. 5, 2004.
- [12] The population of China, 2018. Retrieved from: <http://countrymeters.info/en/China>
- [13] "World Development Indicators: Gross Domestic Product," 2017. Retrieved from: <http://gtmarket.ru/ratings/rating-countries-gdp/rating-countries-gdp-info>
- [14] "XVIII Congress of the CPC on the tasks of building a moderately prosperous society," 2012. Retrieved from: <http://mir-politika.ru/3319-xviii-sezd-p-o-zadachah-postroeniya-srednezazhitchnogo-obshchestva.html>