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CHINA'S ECONOMY CURRENT TRENDS AND PROBLEMS

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ABSTRACT

This article describes the current trends and problems of the Chinese economy.China is a developing economy. And, of course, statistics are provided, with a focus on specific and ways to deal with the challenges of a systemic economic pandemic. The Economic Issues series aims to make available to a broad readership of nonspecialists some of the economic research being produced in the International Monetary Fund on topical issues.

Keywords: *Current Trends, poblems, GDP, export, import, systemic economic, China reduced the value-added tax (VAT), growth, International Monetary Fund (IMF) business.*

АННОТАЦИЯ

В данной статье описаны современные тенденции и проблемы китайской экономики. Китай является развивающейся экономикой. И, конечно же, приводится статистика с упором на конкретные и способы решения проблем системной экономической пандемии. Серия «Вопросы экономики» призвана сделать доступными для широкого круга неспециалистов некоторые экономические исследования, проводимые Международным валютным фондом по актуальным вопросам.

Ключевые слова: *Текущие тенденции, проблемы, ВВП, экспорт, импорт, системная экономика, Китай снизил налог на добавленную стоимость (НДС), рост, Международный валютный фонд (МВФ) бизнес.*

INTRODUCTION

The economy of the People's Republic of China is a developing market-oriented economy that incorporates economic planning through industrial policies and strategic five-year plans. Dominated by state-owned enterprises and mixed-ownership enterprises, the economy also consists of a large domestic private sector and openness to foreign businesses in a system described as a socialist market economy.

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DISCUSSION AND RESULTS

China Growing So Fast, In 1978, after years of state control of all productive assets, the government of China embarked on a major program of economic reform. In an effort to awaken a dormant economic giant, it encouraged the formation of rural enterprises and private businesses, liberalized foreign trade and investment, relaxed state control over some prices, and invested in industrial production and the education of its workforce.[https://www.railfreight.comchina]. By nearly all accounts, the strategy has worked spectacularly. While pre-1978 China had seen annual growth of 6 percent a year (with some painful ups and downs along the way), post-1978 China saw average real growth of more than 9 percent a year with fewer and less painful ups and downs. In several peak years, the economy grew more than 13 percent. Per capita income has nearly quadrupled in the last 15 years, and a few analysts are even predicting that the Chinese economy will be larger than that of the United States in about 20 years. Such growth compares very favorably to that of the "Asian tigers"--Hong Kong, Korea, Singapore, and Taiwan Province of China--which, as a group, had an average growth rate of 7-8 percent over the last 15 years.[Zuliu Hu received his Ph.D. in economics] .Curious about why China has done so well, an IMF research team recently examined the sources of that nation's growth and arrived at a surprising conclusion. Although capital accumulation--the growth in the country's stock of capital assets, such as new factories, manufacturing machinery, and communications systems--was important, as were the number of Chinese workers, a sharp, sustained increase in productivity (that is, increased worker efficiency) was the driving force behind the economic boom. During 1979-94 productivity gains accounted for more than 42 percent of China's growth and by the early 1990s had overtaken capital as the most significant source of that growth. This marks a departure from the traditional view of development in which capital investment takes the lead.[Kutbitdinov yu.Chinese vetor economy.]. This jump in productivity originated in the economic reforms begun in 1978.

Measuring Growth Economists studying China face thorny theoretical and empirical issues, mostly deriving from the country's years of central planning and strict government control of many industries, which tend to distort prices and misallocate resources. In addition, since the Chinese national accounting system differs from the systems used in most Western nations, it is difficult to derive internationally comparable data on the Chinese economy. Figures for Chinese economic growth consequently vary depending on how an analyst decides to account for them.

Although economists have many ways of explaining--or modeling--economic growth, a common approach is the neoclassical framework, which describes how productive factors such as capital and labor combine to generate output and which offers analytical simplicity and a well-developed methodology. Although commonly applied to market economies, the neoclassical model has also been used to analyze command economies. It is an appropriate first step in looking at the Chinese economy and yields useful "benchmark" estimates for future research. The framework does, however, have some limitations in the Chinese context.

Original data for the new IMF research came from material released from the State Statistical Bureau of China and other government agencies. Problematically, the component statistics used to compile the Chinese gross national product (GNP) have been kept only since 1978; before that, Chinese central planners worked under the concept of gross social output (GSO), which excluded many segments of the economy counted under GNP. Fortunately, China also compiled an intermediate output series called national income, which lies somewhere between GNP and GSO and is available from 1952 to 1993.[Mohsin S. Khan macroeconomic models]. After making appropriate adjustments to the national income statistics, including adjusting for indirect business taxes, these data can be used to analyze the sources of Chinese economic growth.

China's recent productivity performance is remarkable. By comparison, productivity growth for the Asian tigers hovered around 2 percent, sometimes slightly more, for the 1966-91 period. China's rate of almost 4 percent simply puts it in a class by itself. Exactly how did China's economic reforms work to boost productivity, especially in an economy still burdened by extensive government controls. In the important rural sector the story is particularly interesting. Prior to the 1978 reforms, nearly four in five Chinese worked in agriculture; by 1994, only one in two did. Reforms expanded property rights in the countryside and touched off a race to form small nonagricultural businesses in rural areas. Decollectivization and higher prices for agricultural products also led to more productive (family) farms and more efficient use of labor. Together these forces induced many workers to move out of agriculture. The resulting rapid growth of village enterprises has drawn tens of millions of people from traditional agriculture into higher-value-added manufacturing.

Cumulative foreign direct investment, negligible before 1978, reached nearly US$100 billion in 1994; annual inflows increased from less than 1 percent of total fixed investment in 1979 to 18 percent in 1994. This foreign money has built factories, created jobs, linked China to international markets, and led to important transfers of technology. These trends are especially apparent in the more than one dozen open coastal areas where foreign investors enjoy tax advantages.[Saidbekova B .Chinese economy book Toshkent-2011]. In addition, economic liberalization has boosted exports--which rose 19 percent a year during 1981-94. Strong export growth, in turn, appears to have fueled productivity growth in domestic industries.

China emerged in June 2020 as the first major country to announce a return to economic growth since the outbreak of the COVID-19 pandemic. product (GDP) growth in the second quarter and 4.9% GDP growth in the third quarter of 2020. The International Monetary Fund (IMF) projects China’s economy to grow by 1.9% in 2020. China is still grappling with a slow recovery of domestic demand and its top export markets and has relied on government spending and exports to boost growth. China is facing growing restrictions on its overseas commercial activities and access to foreign technology and pressures for firms to diversify China-based supply chains. Against this backdrop, China’s leadership is deliberating the country’s economic direction and industrial plans for the next 5 to 15 years.

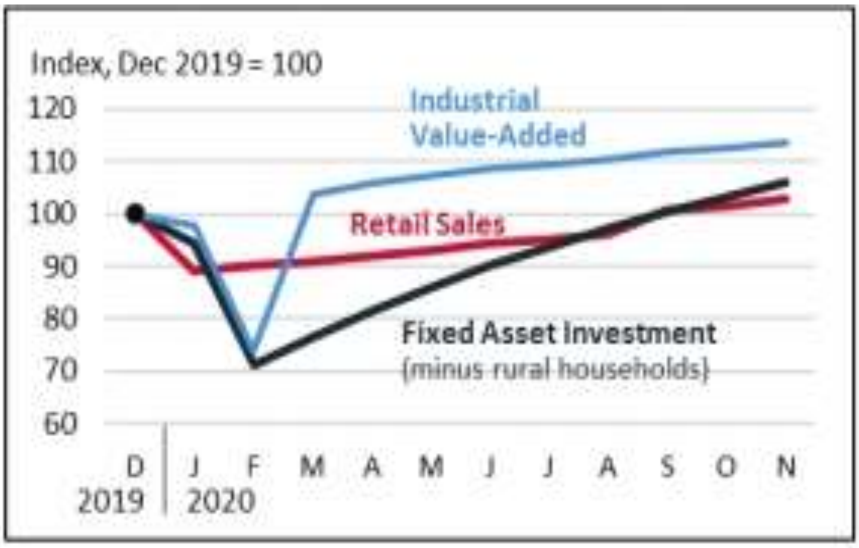
COVID-19 Support Measures to Boost Growth The IMF estimates that China’s announced fiscal measures and financing plans amounted to $740 billion, or 4.7% of its GDP, as of November 2020. The government increased its budget deficit target to a record high of 3.6% of GDP, up from 2.8% in 2019. Key measures included spending on epidemic control and medical equipment, unemployment insurance, tax relief, and public investment. Between January and November 2020, China’s fixed asset investment grew over the same period in 2019 in ecommerce (32%), pharmaceuticals and medical products (27%), health (26%), computers (20%), and education (14%). China reduced the value-added tax (VAT) rate and introduced VAT exemptions for certain goods and services.

China’s central bank extended monetary support with interest rate cuts, eased loan terms, and injected liquidity into banks. Shifting from efforts to reduce debt, the government announced the issuance of $142.9 billion of special treasury bonds for the first time since 2007; increased the quota for local government special bonds (a source of infrastructure funding); and fast-tracked the issuance of corporate bonds to cover pandemic costs but with potential broader uses.[Liu, X. (2018, February).

Analysis of logistics service supply chain for the of China. Transportation Research https://doi.org/10.1016/j.tre.2020.01.09].The government says it seeks to control credit risk but the need for additional fiscal and monetary support to boost growth may undermine this goal.

Systemic Economic Challenges China is grappling with economic challenges that predate the pandemic, including slowing domestic growth, rising labor costs, trade pressures including U.S. tariffs, rising consumer inflation, and rising corporate and government debt levels. In November 2020, China’s Purchasing Manager’s Index was 52.1% and value-added manufacturing was up by 7.7 percent over November 2019—in a sign of manufacturing expansion. November 2020 retail sales increased 5% over November 2019, but January to November 2020 sales were down 5% over the same period in 2019. The ongoing outbreak of African Swine Flu since 2018 has decimated over half of China’s pork herd and led to acute shortages. The government initially tapped strategic pork reserves and increased imports from Europe and Brazil, but could not compensate for the drop in imports from the United States since China imposed tariffs in 2018. China has increased U.S. pork imports in 2020. In August 2020, President Xi launched a campaign against food waste, signaling a focus on boosting domestic food supply and agricultural technology, including a focus on seeds. The Communist Party of China (CPC)’s Politburo meeting in April 2020 prioritized strengthening food, energy and supply chain security and stabilizing employment, financial and market operations, and foreign trade and investment.

Figure 1. China’s Industrial Production and Retail Sales (December 2019 to November 2020)

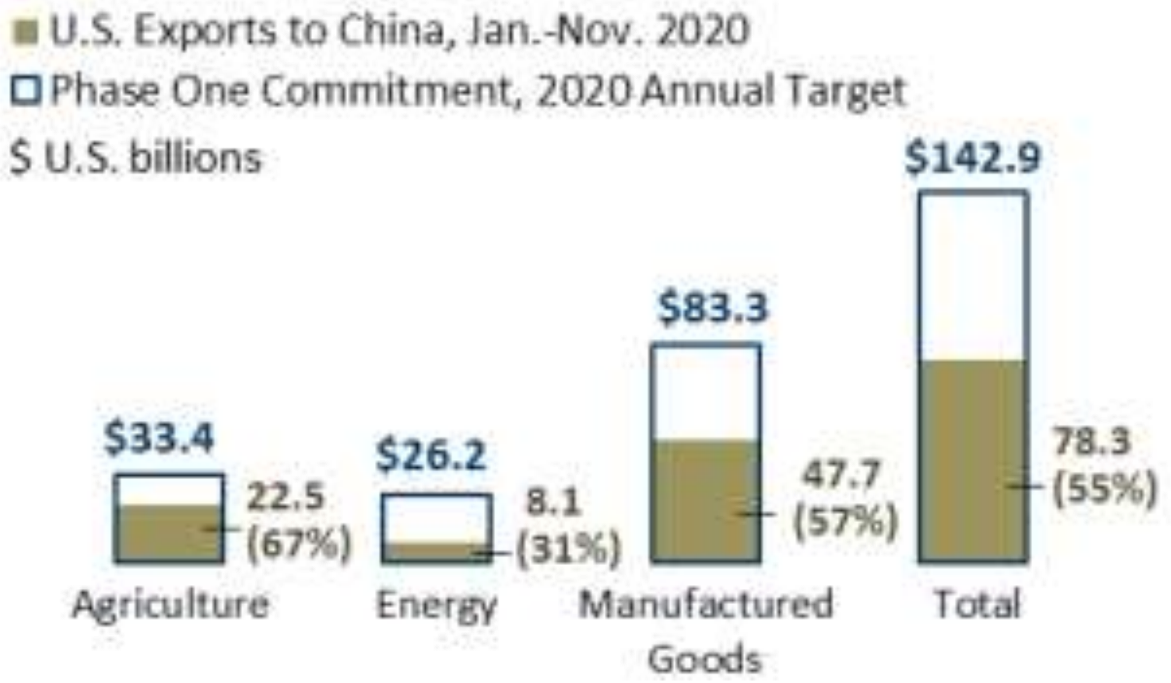


[Statistic/china.com.912/ht.]

Source: CRS with data from China’s National Bureau of Statistics.

Since 2019, the Chinese government has pursued a deleveraging campaign to reign in bad debt accrued by local governments, commercial banks, and unauthorized “shadow” lending. China’s total debt across sectors— household, corporate, government, and financial sector— could reach 335% of GDP in 2020, according to the International Institute of Finance. China also has an estimated $90 billion and another $100 billion in U.S. dollar-denominated debt due in 2020 and 2021, respectively. Onshore, Chinese companies owe an estimated $694.6 billion in 2020 and $706 billion in 2021. The deleveraging campaign led to several regional bank bailouts in 2019. While the number of defaults dropped in 2020—likely due to stimulus measures and laxer rules— debt and nonperforming loan challenges persist and could grow if policies push loan forbearance and growth. In late 2020, the government reined in Alibaba’s lending business, signaled it may increase its role in Ant Group, and took control of economically-troubled Hongxin Semiconductor and Honor, Huawei’s smartphone business.

Figure 2. Phase One Trade (January-November 2020)



Source: CRS with U.S. export data from the U.S. Census Bureau.

Notes: This data does not include China’s $67.8 billion commitment in services imports for 2020.

January 2020 Phase One Trade Deal The U.S.-China trade deal included a commitment for China to buy $468 billion over 2 years of U.S. agriculture, energy, goods, and services. To date, China has purchased 55% of its 2020 commitment and some purchases fall below 2017 levels (e.g., coal). China’s efforts to diversify sources of agricultural imports—resulting in record imports from countries, such as Argentina and Brazil—may hinder its ability to meet its commitments.[Zhuangzhi,S.(2007,January).Chinese economy, Retrieved from file:///C:/Users/Professional/Desktop/research%20materials/articles/%20china.pdf]. When global oil prices collapsed in March 2020, China imported 53.18 million tons of crude oil from non-U.S. sources to replenish its strategic reserves.[Fazilov, X. C. (2018, December). Re-centering Central Asia: China‟s “New Great Game” in the old Eurasian Heartland. Palgrave Communications, 4(1), 1-18. https://doi.org/10.1057/s41599-018-0125-5 Hojaev, A. (2018, October 31). Svobodnoe mnenie. Retrieved January 2020, from https://nuz.uz/svobodnoe-mnenie/36535-uzbekistan-i-novyy-shelkovyy-put.html#]

CONCLUSIONS

In conclusion, in this article we have mainly discussed the current trends and problems of the Chinese economy, and although China occupies a unique niche in the world's political economy--its vast populace and large physical size alone mark it as a powerful global presence--it is still possible to look at the Chinese experience and draw some general lessons for other developing countries. Most important, while capital investment is crucial to growth, it becomes even more potent when accompanied by marketoriented reforms that introduce profit incentives to rural enterprises and small private businesses. That combination can unleash a productivity boom that will propel aggregate growth. For countries with a large segment of the population underemployed in agriculture, the Chinese example may be particularly instructive. By encouraging the growth of rural enterprises and not focusing exclusively on the urban industrial sector, China has successfully moved millions of workers off farms and into factories without creating an urban crisis. Finally, China's open-door policy has spurred foreign direct investment in the country, creating still more jobs and linking the Chinese economy with international markets. China's strong productivity growth, spurred by the 1978 market-oriented reforms, is the leading cause of China's unprecedented economic performance. Despite significant obstacles relating to the measurement of economic variables in China, these findings hold up after various tests for robustness. As such, they offer an excellent jumpingoff point for future research on the potential roles for productivity measures in other developing countries. the economy of the People's Republic of China grew by 1.9% in 2020 in a pandemic, which is a good result. China is still combating the slow recovery of domestic demand relying on high export markets and government spending and encourages export growth, which is certainly a clear indication that the Chinese economy is doing well.

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