

## The Analysis of China's economic development and its relationship to reform policies

YANG LINGLIN<sup>1</sup>, DR. ABHIJIT GHOSH<sup>2a</sup>

<sup>1</sup>PhD Research Scholar in Business Administration, Lincoln University, Malaysia

<sup>2</sup>Professor in Lincoln University, Malaysia

Contact details: <sup>a</sup> abhijit@lincoln.edu.my

### ABSTRACT

The majority of explanatory models of democracy point to the economy as a forerunner to major political liberalisation, with either severe economic crises or fast economic development seen as the dominant cause element. Chinese Communist Party leaders, on the other hand, have managed to escape the socialist social compact with the urban working class without giving up their hold on power. What's more, China's economy has grown rapidly for nearly twenty-five years without any major political reform. Understanding China's post-1978 reform measures requires comparing it to other high-growth East Asian countries and also to other forms of socialist transition, such as Eastern Europe and Russia. China's success in implementing economic

reform without jeopardising political control hinges in large part on how and when it liberalises its foreign direct investment (FDI) market. China's ownership diversification pattern and China's style of integration into the global economy are two significant factors in this comparative research. This paper examines the impact of FDI liberalisation on worker-party relations and how these two factors contribute to the achievement of economic transformation without political liberalisation. When applied to China, "reform and openness" has sped up state building, undermined civil society (particularly labour), and slowed down political liberalisation.

**Keyword:** Economic, China Economic, Reform Policies, China's Economic Development,

### INTRODUCTION:

The transition from a command economy to a mixed crisis economy should be the ultimate goal of the economic reforms being implemented in China. Because of this, the nation's economic growth has been purposefully stunted in recent years. This is not a warning that the system is about to crash in the near future. This decision is in line with what Xi Jinping laid forth in a long-term plan for China that was released in 2015.

As a direct consequence of the changes, the expenditures of the government, the operations of state-owned businesses (SOEs), and exports at cheap prices would no longer constitute the basis of China's economy. It moves the economy in the direction of private investment, entrepreneurial activity, and consumption inside the home. The industrial sectors of China need reorganisation so that excess output may be reduced. Allow the market to absorb the backlog of recently built but empty houses before taking any further action. The government is concerned about the costs that are incurred by entrepreneurs. A growth rate of around 6.5% per year is considered satisfactory by China at this time. The expansion of China's innovative capacity can take place only if the country's intellectual property rights are better protected. The federal government need to provide businesses the opportunity to choose their own technology requirements for their products. In addition, free involvement in the process of establishing international standards is necessary. The plan prioritizes 10 sectors:

- New and Improved Data Processing Methods
- Robotics and Automated Machine Tools
- Space and Aircraft Paraphernalia
- high-tech kit for the marine industry Shipment
- The Latest in Rail Transport Technology
- Equipment and Vehicles using New-Energy Technology
- Mechanics' Tools
- Farm Machinery & Equipment
- Improved Products
- Biopharma & Medical Devices of the Future (Amadeo, 2021)

China's economy was poor, slow, centralised, immensely inefficient, and mainly isolated from the rest of the world's economic activities until the government initiated economic reforms and trade liberalisation about 40 years ago. Since opening its economy to global economic activity and financial transactions in 1979 and implementing free market reforms, China's economy has grown at a real annual GDP rate of 9.5% through 2018. This rate has been called "the fastest sustained expansion by a major economy in history" by the World Bank. China has increased its gross domestic product by a factor of eight in the past decade, pulling roughly eighty percent of the world's poor out of poverty. If measured by PPP, China now has the largest GDP, manufacturing capacity, goods trade volume, and foreign currency reserves. China, the United States' closest friend, has become one of China's most important trading partners. China has the most people on Earth. The United States' most major goods trading partner, and its biggest importer and third-largest export market. U.S. interest rates and the national debt are supported by foreign investors, with China being the largest foreign holder of U.S. Treasury securities. According to projections made by the International Monetary Fund (IMF), China's real GDP growth would decelerate to 5.5% in 2024, down from 14.2% in 2007 and 6.6% in 2018. The Chinese government asserts that slower economic growth is the "new normal" and that the nation has to embrace a new strategy for economic development that is based on reduced reliance on fixed assets and exports in order to combat this "new normal." On the other hand, people now have access to a vastly increased amount of data, which enables them to make their own judgements. The term "middle-income trap" refers to the situation in which an economy reaches a certain level

of prosperity but is unable to adopt novel means to acquire progress, such as the creation of new ideas; at this point, the economic growth rate of the country plummets. This is known as the "middle-income trap." Several prominent projects, for example "Made in China 2025," have been launched by the Chinese government to improve and modernise ten important areas of manufacturing in China industries with substantial administration support to be able to the country an important worldwide a major role-player in a number of different fields. There has been an increase in the level of anxiety around the possibility that China is actively working to minimise the country's dependence on foreign technology and to limit the ability of international enterprises to operate in China in order to achieve economic preeminence.

In 2017, the administration of President Trump initiated a Section 301 investigation of China's position on innovation and intellectual property, which was seen as harmful despite being beneficial for American businesses. The administration believed that China's position was a violation of intellectual property rights. On the other hand, China has placed duties of 25% on goods from the United States worth \$110 billion, with rates ranging from 5% to 26%. This year has seen a dramatic decline in bilateral commerce as a direct result of these rules. On May 10th, Trump said that he was contemplating placing additional tariffs on almost all of China's goods that had not already been targeted. If trade tensions between the United States and China continue to rise at their current rate, the Chinese economy will bear the consequences.

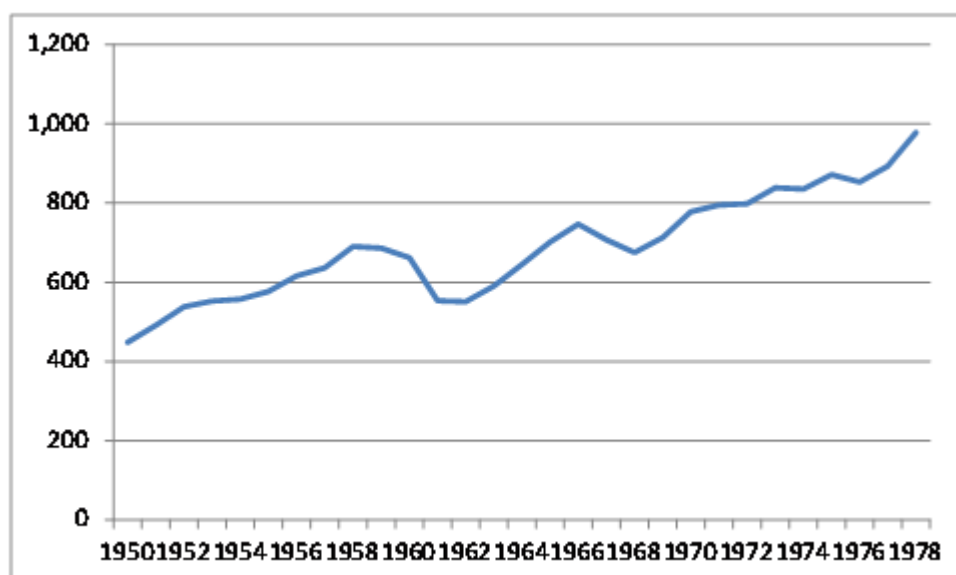
Concern has been growing in the United States Congress over China's growing economic dominance across the globe, particularly in regard to China's economic and commercial strategy. According to reports from American businesses, the Chinese market is massive and expanding at a rapid rate. The free-market movement has been incoherent, which has resulted in financial policies that are perceived as being in opposition to the interests of the United States. One illustration of this would be the passage of legislation in the industrial sector that make it more difficult for individuals to claim ownership over their own ideas. This article presents a summary of China's financial trajectory, highlights the obstacles China has in sustaining economic development, defines the existing monetary framework, and analyses the consequences of China's economic ascent for the United States (CRS Report, 2019).

### 1. BACKGROUND OF STUDY:

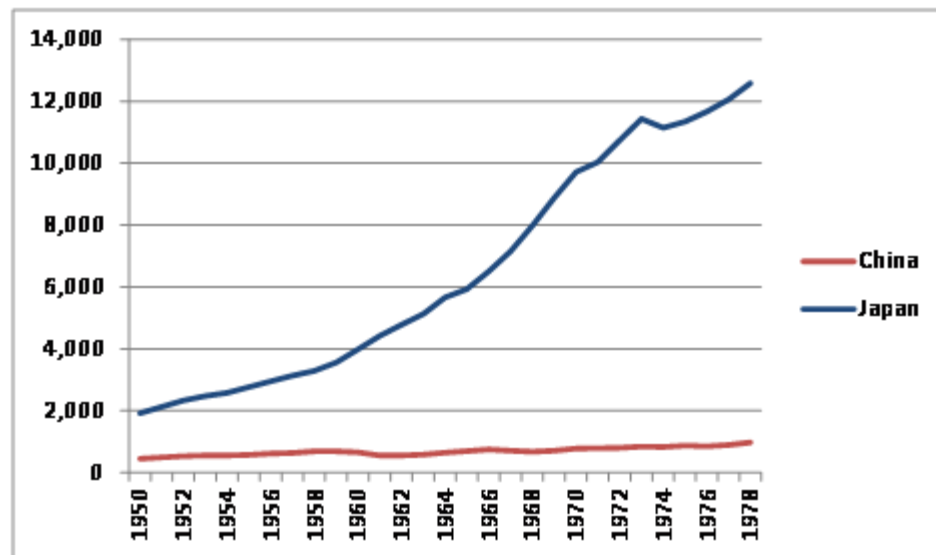
Prior to 1979, Chairman Mao Zedong's China had a command economy under his supervision. Setting production goals, deciding pricing, and distributing resources were some of the responsibilities of the state. In total, China's small family a place where farms were formerly located consolidated keen on massive co-operatives in the 1950s. During the 1960s and 1970s, the central authority made extensive expenditures the two are intertwined resources to promote rapid industrialisation. Consequently, state-owned companies (SOEs) generated approximately three-fourths of industrial output by 1978, pursuant to output objectives set by the central government. Generally, private, and foreign-invested businesses were not allowed to participate. It was a primary objective of Chinese descent leadership to create a modern China a substantially self-contained economy. External commerce remained mostly used to acquire items that could not be produced or purchased in China. The economy was distorted because of these measures. There were several little motivations to businesses, employees, farmers are also affected be if it's more efficient worried about the level of excellence with which they created it sectors a significant portion of controlled besides overseen government from the top down (since they they were primarily concerned with meeting the government's output targets.

As stated by the Chinese government, China's real GDP increased by 6.7 percent per year between 1953 and 1978, but many analysts have questioned the accuracy of these data because they contend that Government officials from the Chinese government particularly those at the regional level) frequently used for political purposes to inflate production during this time. According to Angus Maddison, a Chinese economist, says that yearly a rise in GDP was 4.4% on average throughout this period. 5 Economic downturns occurred often under Chairman Mao Zedong, notably the Great Leap Forward (1958–1962), which brought on a severe famine that claimed the lives of up to 45 million people<sup>6</sup>, as well as the Cultural Revolution (1966–1976) that lasted for almost a decade (It resulted in considerable political turmoil and a significant economic downturn). Economic output per head of population in China based on purchasing power parity, a typical indicator of a life conditions, increased from 1950 to 1978. The level of life in China deteriorated by 20.3% between 1958 and 1962, and by 9.6% between 1966 and 1968. (Have a look at Illustration 1). Figure 2 shows that the rise in Chinese living standards was dwarfed by that of Western nations like Japan.

Figure 1 depicts China's per capita GDP between 1950 and 1978. based on purchasing power parity



**Source:** Angus Maddison, Historical, Statistics of the World Economy: 1-2008 AD. Figure 2. Comparison of Chinese and Japanese Per Capita GDP: 1950-1978 (\$ billions, PPP basis)



Angus Maddison, Historical, Statistics of the World Economy: 1-2008 AD, is the source for this information.

Leadership in China made their decision in 1978 (shortly after Chairman Mao's he passed away in 1976.) to abandon Soviet-style economic policies in favour of free market principles and more access for foreign trade and investment in the hopes of spurring economic development and raising the country's quality of living. "Black cat, white cat, what does it matter what colour the cat is as long as it catches mice?" said He was the brains behind China's recent economic reforms, Deng Xiaoping.(CRSReport, 2019)

**2. PROBLEM STATEMENT:**

*“China’s open-door policy and import policy of foreign technology has had changed her rigid domestic economy.”*

Many components of the open-door policy were adopted in the 1950s, including foreign aid, loans, and investments from outside (from the Soviet Union). As a result, the connections to capitalism were no longer a secret. This was stopped by the Cultural Revolution in 1966, when China began importing entire industrial facilities from Japan and Western Europe. When the Cultural Revolution came to an end in 1970, Mao Zedong and Zhou Enlai started the process of reconciliation with the United States. Imports of industrial plants were reinstated in 1970. Hua Guofeng's administration utilised an overly ambitious strategy to modernization during the Ten-Year Plan (1976-85), including considerable imports of industrial units and a strong commitment to an open-door policy. Third Plenum rejected Hua's idea and method but reaffirmed the open-door policy's steadfast commitment. All but a few of Chinese authorities understood that access to foreign technology was necessary for the country's development. However, China's commitment to this initiative was unwavering despite its trade deficits in 1979-80 and 1984-86. Because of the agricultural and open-door policies that preceded them, industrial transformations were complicated and difficult. Because the agricultural reforms had been so successful, there was less opposition to further significant economic changes. In the face of restrictive industrial and urban sector regulations, rural industries and inter-city commerce flourished (Yun-wing, 1987).

**4.0 CONCEPTUAL FRAMEWORK:**



**5. THEORETICAL BACKGROUND:**

China has gone from a poor developing nation to a global economic powerhouse in only four decades. Since the beginning of economic reforms in 1979, China's real gross domestic product (GDP) has increased at an average annual rate of roughly 10%. More than 800 million people have been pulled out of poverty because of China's "fastest continuous expansion by a significant economy in history." China has emerged as a major global financial player. Strong monetary growth in China because of a significant increase in bilateral trade links with the United States. The United States trade data, numbers, show that total commerce between the two countries has expanded from \$5 billion in 1980 to \$660 billion in 2018. Imports from China have surpassed exports, making it the third-largest market for American goods in the world behind the United Kingdom and Germany. Many American firms have set up shop in China to market their products there.

Export-oriented businesses may take advantage of the burgeoning Chinese market and low-cost labour manufacturing. In certain cases, these activities helped some American companies maintain their worldwide competitiveness. competitive and have provided a wide range of low-cost items to U.S. customers. As of April 2019, China has purchased \$1.1 trillion in U.S. Treasury securities. was able to keep interest rates in the United States low by funding the federal government's budget shortfalls It's not that high. As a result, many people are concerned about China's rise to economic prominence. Some argue that China engages in unfair trade practises (such as undervaluing its currency) to gain an unfair advantage as well as governmental incentives) to flood the American market with low-cost items. That these activities put the livelihoods of Americans at risk is a well-known fact. Some people say that a rising reliance on industrial policy in China for the promotion and protection of certain local Chinese industries

The government's inability to take meaningful action against sectors or businesses that get government support threats to U.S. intellectual property (IPR) in China are a result of rampant infringement and theft of IPR harm the competitiveness of companies in the United States that rely heavily on intellectual property (IP). Trade and economic factors are also at play in China's rise as a key market for American goods, according to critics. Barriers to investment restrict the number of Chinese markets in which U.S. companies may sell their products or require them to construct Chinese facilities as a cost of doing business in the original nation.

As China's economic might grows, so does its involvement in global economic policies and projects, particularly those involving the construction of infrastructure. To fund infrastructure across Asia, Europe, Africa, and beyond, The Belt and Road Initiative has been initiated by China (BRI). Increasing China's "soft power" and expanding its export and investment markets are both possible outcomes of China's economic efforts, should they be successful. An overview of China's economic rise is provided, as is an explanation of the country's present economic structure, as well as a discussion of the difficulties China confronts in maintaining economic development (CRSreport, 2015).

**6. LITERATURE REVIEW:**

The export market and industrial economy in China are both the largest in the world. In addition to this, it is the consumer market that is growing at the fastest pace and is the second biggest importer of items in the whole globe. The outbreaks and economic slowdowns that have been caused by the pandemic have been reflected in China's economy, which has had occasional recoveries after the outbreaks. Even with the support of the government, GDP growth is expected to fall to 2.7% in 2022, before rebounding to 4.3% the following year as the economy starts to recover and flourish once again. The economy of China is now the world's second largest, behind that of the United States. However, after three decades of tremendous growth, China is now entering a slower development phase. This is logical given that China has transitioned from a developing economy to a mature economy, but it is still something to be aware of. In the 1980s, 1990s, and 2000s, China's GDP increased by double digits every year. For 2019, analysts expect that growth will be 6.3%; however, due to the impact of the trade war between the United States and China, the real figure will probably be closer to 6% (Peiyan, 2017).

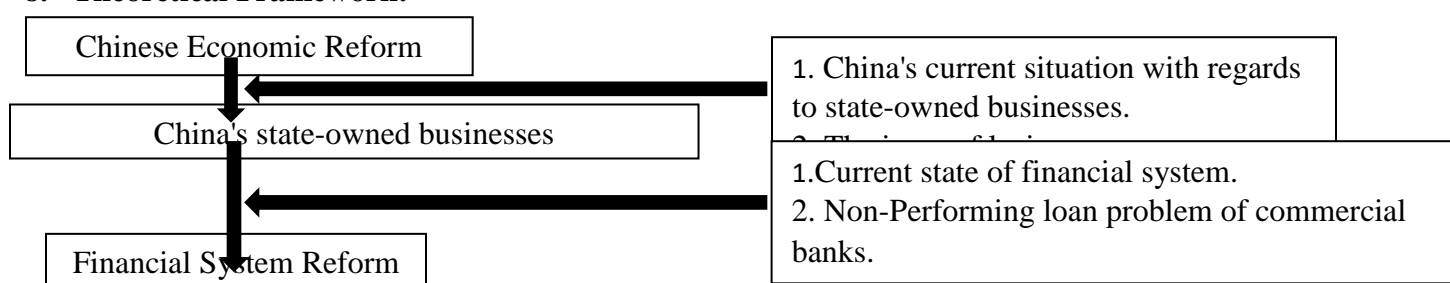
According to projections made by the International Monetary Fund (IMF), the GDP of China would increase by 6.3% in both 2019 and 2020, before slowing to 6% growth in 2021. According to these forecasts, China will continue to expand faster than any other major economy, and the country is already on track to overtake the United States as the largest economy in the world. Manufacturing, service industries, and agriculture are the three most important sectors in China, and collectively they are responsible for the great majority of employment creation and economic expansion in the nation. Since 1949, the Chinese central government has been in charge of all aspects of economic planning and control in the country. However, once Deng Xiaoping initiated market-based reforms in 1978, GDP truly began to take off, increasing by an average of 10% annually over the next approximately 30 years. Between 1981 and 2015, the value of China's gross domestic product (GDP) rose by a factor of 48, going from \$168.367 billion to \$11.01 trillion at constant 2015 prices.

**7. Relevance of Study:**

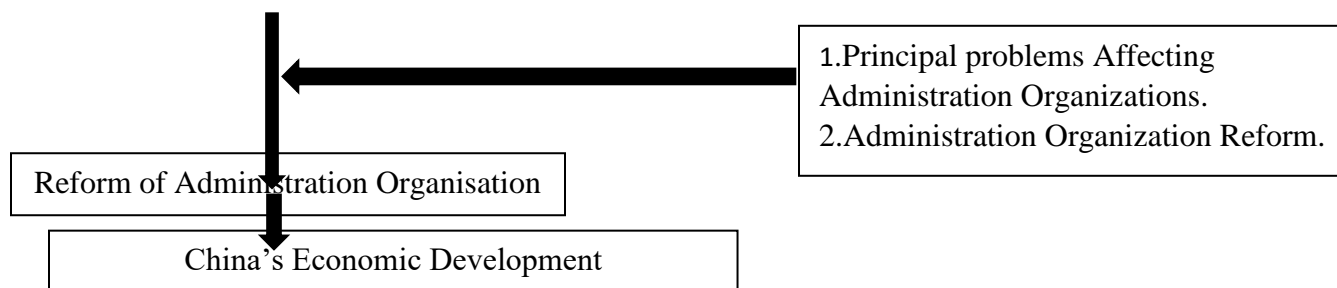
It's possible that China's pre-1978 socioeconomic tragedy and its subsequent socioeconomic triumph over the following two decades were both caused by the zigzag process of politicising and depoliticizing the "economic state." The economic stability of the nation has been harmed as a result of these acts since "de-economization" has been introduced into the Chinese administration. It is vital for the state to adopt a strategy that takes a more balanced approach to economic reform and social transformation (Chen, 2002). Several different investigations have found that: The following are some examples of them: (a) the importance of one leading sector, which is an essential part of the "sequencing issue" (b) the efficacy of gradual and partial reform, specifically in relation to the "speed" and "comprehensibility" of reform; (c) the significance of surrounding economies that are comparable as reform models and sources of resource transfer;

Our research is an attempt to characterise China's route to reform since 1978 and draw lessons from that road. Because it explains how and why it has worked, China's economic reform has been a success. This is one of the reasons why. Let's start by talking about the most significant economic institutions in China that need to go through some kind of transition right now. The next step is to compile a list of the main reforms that have been implemented in China, which will be followed by a synopsis of the most essential aspects of the reforms and a discussion of the key takeaways from the Chinese experience.

**8. Theoretical Framework:**







**9. Research Design:**

quantitative research is a kind of study that takes numerical readings of variables, runs those readings through one or more statistical models, and then reports on the correlations and correlation coefficients found. A deeper grasp of the social world is what quantitative research is all about. In order to study phenomena that have an impact on individuals, researchers often resort to quantitative techniques. Objective facts expressed plainly in figures and charts are the product of quantitative research. Numbers are the lifeblood of quantitative research, which entails a systematic approach to gathering and interpreting them. It may be used to average things out, generate predictions, investigate correlations, and extrapolate findings to larger groups. The collection and analysis of numerical data is the antithesis of qualitative research (e.g., text, video, or audio). The fields of biology, chemistry, psychology, economics, sociology, marketing, and many more all make extensive use of quantitative research methods.

**Sampling:** A pilot study was conducted with the questionnaire using a group of 20 customers from China and final study was conducted with the questionnaire on sample of 600 customers . A total of questionnaires was distributed among customers selected in a systematic random sampling. All the completed questionnaires was considered for the study and any incomplete questionnaire will be rejected by the researcher.

**Data and Measurement:** Primary data for the research study was collected through questionnaire survey (one-to-correspondence or google-form survey). The questionnaire was divided into two parts – (A) Demographic information (B) Factor responses in 5-point Likert Scale for both the online and non-online channels. Secondary data was collected from multiple sources, primarily internet resources.

**Statistical Software:** MS-Excel and SPSS 24 will be used for Statistical analysis.

**Statistical tools:** Descriptive analysis was applied to understand the basic nature of the data. Validity will be tested through factor analysis .

**10. Result:**

A total of 600 questionnaires were distributed to the respondents. Out of this number 775 sets of the questionnaire were returned and 649 questionnaires were analysed using the Statistical Package for social science (SPSS version 25.0) software.

**10.1 Factor Analysis:**

Confirming the latent component structure of a collection of measurement items is a common utilisation Factor Analysis (FA). The scores on the observable (or measured) variables are thought to be caused by latent (or unobserved) factors. Accuracy analysis (FA) is a model-based method. Its focus is on the modelling of causal pathways between observed phenomena, unobserved causes, and measurement error.

The data's suitability for factor analysis may be tested using the Kaiser-Meyer-Olkin (KMO) Method. Each model variable and the whole model are evaluated to see whether they were adequately sampled. The statistics measure the potential shared variation among many variables. In general, the smaller the percentage, the better the data will be suitable for factor analysis.

KMO gives back numbers between 0 & 1. If the KMO value is between 0.8 and 1, then the sampling is considered to be sufficient.

If the KMO is less than 0.6, then the sampling is insufficient and corrective action is required. Some writers use a number of 0.5 for this, thus between 0.5 and 0.6, you'll have to apply your best judgement.

- KMO Near 0 indicates that the total of correlations is small relative to the size of the partial correlations. To rephrase, extensive correlations pose a serious challenge to component analysis.

Kaiser's cutoffs for acceptability are as follows:

Kaiser's cutoffs for acceptability are as follows:

A dismal 0.050 to 0.059.

- 0.60 - 0.69 below-average

Typical range for a middle grade: 0.70–0.79.

Having a quality point value between 0.80 and 0.89.

The range from 0.90 to 1.00 is really stunning.

**Table 1: KMO and Bartlett's Test<sup>a</sup>**

KMO and Bartlett's Test <sup>a</sup>		
<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy.</b>		.958
<b>Bartlett's Test of Sphericity</b>	<b>Approx. Chi-Square</b>	4950.175
	<b>df</b>	190
	<b>Sig.</b>	.000
<b>a. Based on correlations</b>		

This demonstrates the validity of assertions for sampling purposes. To further verify the relevance of a correlation matrices as a whole, Bartlett's Test of Sphericity was performed. Kaiser-Meyer-Olkin Sampling Adequacy Value is 0.958. The p-value for Bartlett's sphericity test was determined to be 0.00. Bartlett's test of sphericity showed that the correlation matrix isn't an identity matrix, with a significant test result.

**10.2 Test for Hypothesis :**

A hypothesis is a conjecture or assumption that is put out for the purpose of debate and subsequent testing to determine the likelihood that it is correct. Aside from a general survey of relevant prior research, the scientific process begins with the formulation of a hypothesis. The results of investigation will be predicted in a hypothesis. An unproven hypothesis is a response to research question. Depending on the scope of study, may need to develop a series of hypotheses to investigate various facets of research issue.

If a manager or supervisor has a "open door policy," it means that they encourage workers to approach them with any concerns they may have, including questions, complaints, recommendations, and even challenges. The goal is to promote free flow of information and conversation among workers about any issues they may be facing. In 1899 and 1900, the United States issued a set of principles known as the Open Door policy. It pleaded for the upholding of China's geographical and administrative integrity and the guaranteeing of equal commercial rights for all nations with China.

When Deng Xiaoping opened China's economy to foreign investment in 1978, he did it under the banner of his "Open Door" policy. The programme sparked the beginning of China's economic rise. Xiaoping Deng's economic reform, often known as the Open Door Policy, transformed China forever ("Open door policy,"). China's reopening to globalisation, economic modernization, and increased interest in international trade and investment were all results of the policy known as "Open Door." The imperialist forces in China saw little profit in adopting the Open Door notes' suggestion that they implement a policy of self-denial in regions under their control, despite the fact that doing so supported American interests.

On basis of the above discussion, the researcher formulated the following hypothesis, which will analyze the relationship between open door policy and China’s economic development.

***H<sub>1</sub> : “There is a significant relationship between open door policy and China’s economic development.”***

***H<sub>01</sub>: “There is no significant relationship between open door policy and China’s economic development.”***

In our study (H<sub>1</sub>)“There is a significant relationship between open door policy and China’s economic development and (H<sub>01</sub>)“ There is no significant relationship between open door policy and China’s economic development.” was rejected as per the analysis.

**Table.2 : ANOVA test (H<sub>1</sub>)**

ANOVA					
Sum					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	74506.320	242	4382.725	259.935	.000
Within Groups	1382.590	406	16.861		
Total	75888.910	648			

In this study, the result is significant. The value of F is 259.935, which reaches significance with a p-value of .000 (which is less than the .05 alpha level). This means the “***H<sub>1</sub> : “There is a significant relationship between open door policy and China’s economic development.”***” is accepted and the null hypothesis is rejected.

**11. Limitation of Study:**

The validity of the resulting systematic review and meta-analysis is decided based on the methods used in each of the primary studies to estimate the effect. The other side of the coin is that carrying out a meta-analysis does not improve upon the shortcomings that were previously present in the initial research. Studies that demonstrate greater impacts are more likely to be recognised, summarised, and subsequently aggregated in meta-analyses than studies that reveal fewer effects. This is because selective publishing increases the likelihood that a study will be published (an issue referred to as publication bias). Since more than three quarters of meta-analyses, or 35 publications, did not reveal any empirical evaluation of publication bias, it is important to be aware of the true occurrence of this kind of bias. Garg, A. X., Hackam, D., & Tonelli, M. (2008).

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