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### **The Chinese model of economic modernization.**

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#### **Abstract**

The attention to such phenomenon as economic modernization has sharply increased in the modern world. Therefore, this paper is devoted to the topical issue of economic modernization model. Nowadays lots of countries are suffering from the economic disruptions, facing new economic problems and challenges. Taking into consideration the successful results of the Chinese economic modernization strategy would be very useful for other modernizing economies. The article investigates some key issues of China's modernization process. It is necessary to outline that adoption of a long-term development strategy with a deliberate five year planning system, as well as a properly guided country's leadership, stimulated economic growth. Building a new economy Chinese government modernized all the spheres of state and demonstrated its success.

*Keywords:* economic modernization model, Chinese economic reforms, economic system, modernization;

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#### **1. Introduction**

The economic reforms initiated by China slightly more than thirty years ago are an integral part of the ambitious plan of the country's modernization which pursues a global goal - the revival of a great power, a civilization based on a combination of global achievements, local cultural and historical traditions and a rich philosophical heritage.

Despite various negative phenomena in the modern world (such as global financial crisis), the realities of life show that modernization strategy chosen by the country's leadership is working successfully.

#### **2. The essence of the economic modernization**

China has chosen transformation way of economic system, while maintaining the political system. This has allowed to develop and maintain during the period of three decades high and stable economic growth in the country. Transformation strategy in China refers to the "catching up" strategy, implemented previously in Japan and newly industrialized countries. One of its main typical features are leading role of the government, high savings rate, support of national producers in the development of export-oriented production, promoting the export of products with high added value, attracting foreign investments, creation of a stable macroeconomic environment in the country.

The transition to a market economy was gradual. Until 1992, planning system was only complemented by market system; in 1992 it was announced about the construction of a socialist market economy. Thus, private sector and market processes are gradually replacing the state planning and control, while at the same time a mechanism of indirect macroeconomic regulation by the state is creating.

According to the rector of the Singapore State University's Institute of East Asian Studies Zheng Yongnian the essence of Chinese reform model has its roots deep in the history of Chinese civilization. "Chinese model" is a specific Chinese political and economic arrangement, and these two factors (political and economic) are linked and reinforce each other mutually.

Success of the "Chinese model" is in the balance of numerous factors, loss of balance will lead to a crisis and a subsequent decline.

China has a mixed model in the economic sphere, which is characterized by the presence of both public and private sectors, government and market should keep a balance, once the balance is broken, and everything would collapse like a house of cards. There is no economic model similar to Chinese in the world, in which

over such a long period of history such a powerful public sector would be presented, and where the state would play a direct role in key economic areas.

The public sector has a number of functions associated with the state activities, such as the construction of public infrastructure, help in overcoming various crises, balancing market forces and so on. All of these things were clearly described in the treatise "Yantelun" as early as the Han Dynasty (206 BC - 220 AD).

The beginning of the reforms is considered to take start at the end of 1978, when the 3rd Plenary Session of the 11th CPC Central Committee convocation was held. The plenum was convened by the pragmatists' wing of the Communist Party of China initiative, led by Deng Xiaoping. At the plenary session it was decided to stop political campaigns and focus all efforts of the party and society on economic problems. A number of priorities were drawn up. It was necessary to reduce excessive centralization of power, to reduce the administrative staff of economic management at all levels and transfer the most significant part of their rights to enterprises and cooperative societies, to delimit powers of the party, government and enterprises, to share responsibility levels, to extend the competence and responsibilities of management organizations and managers to reduce the number of meetings and official papers, to increase productivity, etc [1].

Periodization of the reforms can be viewed in connection with the Congress of the CPC, where political decisions and five-year plans were taken. In China, the most widely used division is by: 1978 – 1984 years, 1984 – 1989, 1989 – 1992, 1992 - present. There are three major reform stages: the end of the 1970's – 1992 years, 1992 - 2000, 2000 – present [2].

The period of the late 1970's - 1992's is characterized as experimental. The definition to this period – "cross the river by feeling for the stones» was given by Deng Xiaoping. It characterizes all the reform process. At this time the reform was carried out in the village. Family contact and dual-track price system were introduced (fixed part of rural products was purchased by strict government prices, the excess could be sold by farmers at the market).

Enterprises were gradually endowed with the right of independent activity; some cities were opened to foreign trade. All of this advantaged revival of the economy (considering the low starting level after the "cultural revolution").

Light industry began to overtake the heavy, their growth rates were 11.7% and 6.6%, respectively. In 1984 the dual-track price system for manufactured goods was introduced, but by 1988 more than 50% of goods were sold at market prices.

By the end of 1980, China had a lot of large-scale investment objects which were under construction; there was a shortage of capital to finance them. Consumer demand was huge; the purchasing power of the population exceeded the supply of goods. Government spending was more than income, the size of loans increased, too much currency was released. As a result of mismatch of demand to supply, imbalance of economic structure appeared, agricultural development had stalled, and limited resources were invested in the manufacturing and non-manufacturing objects, with the rapid growth of production, shortage of energy, resources and transport facilities exacerbated. In 1988 inflation indicators became in a form of double-digits, retail price index reached 18.5%, increasing investments influenced price increase, which in 1989 amounted to 17.9% [3].

The situation was worsened by the unbalanced development of city and village, abuse of managers and officials, maintenance of the old "danway" system (state enterprise), in which enterprise provided all aspects of worker`s life – employment, housing, food, medical treatment, pension and education.

The imbalance of the economic sphere had caused social instability, events of 1989 in Tiananmen Square evidenced that. The government was forced to resort to measures of economic "cooling": to reduce the amount of capital investment, to balance the investment structure, to control consumption, savings rates were increased twice, a system of long-term deposits in yuan was introduced, strict supervision of key products' sales was set. Political campaign to pacify protestants was also carried out.

In the period 1989 – 1992 measures to reform state-owned enterprises were carried out: division of the functions of government and enterprises, officials and managers, improvement of the contract system at enterprises, proliferation of corporatization procedures, reform of wage system was launched.

In 1992 at the XIV CPC Congress [4] the goal of building a "socialist market economic system with Chinese characteristics" and the course of further opening were introduced, which marked the beginning of a new stage of reform and modernization.

Congress defined the main directions of the reform:

- simultaneous development of different forms of ownership with the leading role of the public sector;
- continuation of state enterprises' economic mechanism reform, the establishment of modern enterprise system (optimization of management, solution of debt problem, rationalization of investment);
- formation of open market system, joining a town market with rural, inner with the world;
- review of the government functions in economy management, etc.

A specific feature of this period is the export-oriented strategy of economic development. Reliance on foreign economic cooperation started to play especially important role during the period of deflation in the mid-1990s. Supply for many goods in the domestic market exceeded demand. Another important problem was

the excess capacity, the investment data reduced. Lots of market enterprises had to sell products at prices below cost, contractors' profit percentage was lower than bank interest. A further development was connected with the consequence of the Asian financial crisis. The result was a glut of the internal market by goods. These events showed the transition of China's economic difficulties from the production sphere to marketing.

Since 2000 the modern stage is characterized by the official development plans' refusal from the growth pursuit, however the pace of GDP growth in 2003 exceeded 10% per year. Strategic directions of social and economic development have been introduced at the XVI CPC Congress in 2002 [5].

At the Congress Party got a new task for the first 20 years of the 21st century. It is comprehensive construction of the "Xiaokang" society, which includes establishment of a modern enterprise system, development of agriculture, construction of a "harmonious society" based on the well-off standard of living, increased attention to environmental protection, increasing domestic demand instead of expanding export-oriented economy, development of the social security system.

The congress also adopted a program for the first 20 years of the 21st century: a four-fold increase of GDP against level of 2000, or increase to more than U.S. \$ 3,000 per capita, and thus fulfill the task of "building a comprehensive well-off society." Congress also noted that in 2002 the use of foreign investments will exceed \$ 50 billion. In the early 2000's a law on land contract as a main form of land relations was adopted, contract can be transferred by contractor to others for use. Minimum prices for agricultural products were set, conversion of agricultural taxation was realized on an experimental basis, between the key measures – the abolition of agricultural tax in 2006 [6]. Agriculture got a new impetus to development. Along with the growth of demand for agricultural products, lack of natural resources, primarily land, the cost of labor in the countryside increased. In 2007, prices for food grew up. Considering the boom in the stock market, rapid growth of real estate prices, appreciation of RMB (transition from the fixed-rate policy to adjustable was held in 2005), the threat of serious inflation would continue for the near future in China.

As a part of a modern enterprise system the Government instructed to solve the problem of "bad debts" to special asset management companies. Initial public offering of major Chinese banks stocks was held.

Considerable attention is paid to the development of the social security system, its extension to rural population, labor laws are improving.

In 2001, China joined the WTO that also contributed to the further development of economy and attraction of investments.

The standards for a "well-off" society were marked: by 2020, the proportion of urban population should be above 60%, the unemployment rate – 3-6%, the income gap between urban and rural population reduced in three times.

In 2007, the XVII Congress of the CPC [5] was held. The "harmonization" of society was defined as the main direction of economic policy. At the convention the decisions concerning building a well-off society and commitment to the goal of building a socialist society were taken. It was noted that it is necessary to deal with "dizziness from success" among workers of the party and state apparatus, among the public.

At the beginning of a new century the concept of "going outside" had been actively developed, including replenishment of raw materials lack, export and import of new machinery and equipment, development of new industries, creation of own multinational corporations and promoting economic development of the Third World. China itself became an active investor in the global market.

After abolishment of the fixed rate of the RMB rapidly increased gold and foreign currency reserves of the country facilitated this process. At the same time, government began to limit presence of foreign capital in the country.

In general, gradual reforms and flexibility of the government to changing conditions resulted positively.

### **3. Conclusion**

In conclusion it is worth noting that the adoption of a long-term development strategy stimulated economic growth. A key issue of the country's gradual economic modernization policy is the rise of productive forces through the financial interest, implemented through the mechanism of market relations, hence, a widespread introduction of household responsibility in the countryside instead of people's communes, based on non-economic coercion, diversity of ownership in the economy of city and village, introduction of the principle of distribution according to work, introduction of statement for expedient achievement of prosperity primarily by a part of population and regions, refusal from unnecessary centralization of management sphere, policy of comprehensive development of science and technology as a primary productive force, general economic, foreign policy and cultural integration with other countries.

It should also be added that successful reforming was possible due to China's openness to the outside world, foreign policy of peace, absence of large-scale privatization, protecting country interests' policy, creating

comfortable living conditions for population, etc. So, China's modernization process was considered in outline and succeeded due to a developed system of deliberate planning.

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