
*OLD
and
CURRENT DAYS
OF GREAT CHINA*



China's current status is that of the world leader. It is at the second position with regards to economics results, and leads in innovations, technologies or industrial subjects. From 1950 till now, we had observed how its development literally skyrocketed. Many of us are questioning how it is possible to achieve such results. Many of us are fascinated by these numbers but what is even more interesting is all the steps and facts hidden behind. It's very important to reveal all decisions, measures and strategies implemented which allowed to achieve these results. While searching for these facts, we are very likely to doubt the classification of China's growth as the Birth of the new world power. This recent presentation, spread within the society as something unknown and something that human history has never dated before, could and should be considered as misconception. Detecting the Chinese past-line we can determine that it is more correct to talk about simple (or maybe more complex but intuitive) Chinese recovery. The main reason why I dare to claim this is the historical importance and world widely leading position of China more than 1000 ago.

The topic of my work deals with the concept of China recovery which offers you different stages of Chinese history, its time-line, its ups and downs and main changes that are finely followed by the status of the World leader.

Veronika VEREBOVA

CHINA RECOVERY

As we talk about China recovery which is being the world's leading country is something that China had already beginning of the 2nd millennium.

1000

Early period of the last millennium is the period of Great China. At the time, around the year 1000, China was one of the most important and developed country of the world (maybe even the first one). Chinese innovations and capacities were something unknown in the other parts of the world.

AGRICULTURE

- Chinese agricultural production in the beginning of the 2nd millennium was more important in volume than the productivity of western countries in 18th century

INDUSTRIES

- STEEL
 - Chinese production of steel was 125 000 t in 1078, while in the UK in 1788 it was only 76 000 t of steel
- TEXTILE
 - China already knew all innovations of textile production in 1000, that means 7 centuries before "textile revolution" in western countries (UK or Netherlands)

TRANSPORT

- Chinese had very strong flotilla. From the both points of view: quantity and quality (or it is probably more correct to define its capacity in this context). Merchant ships of China in 1588 had almost 10 times bigger capacities than those of the UK. We have to mention the big number of private merchant boats present in China.

ECONOMY, TRADE, BANK and FINANCES

- Talking about bank and monetary sector, China was leading as well. Its banking system was stable and very developed for that period and the presence and use of bills was the equivalent of effectivity and possibility to innovate and to keep progressing.
- China developed its trading activities and got into commercial relations with every continent. China had very important commercial relations with Europe, Western and Southern Asia, countries of Orient, Africa and America.
- The income per capita was comparable with Europe during Industry Revolution, around year 1750.

China = leader in every domains

CHINA - LEADER IN EVERY DOMAINS

...TRADE BEFORE ANYTHING, TRADE THE KEY OF SUCCESS

Chinese main and the most accentuated goal was the commerce and that is why all of Chinese decisions, policies and strategies were commercially oriented. Their leading positions mentioned above were the key to achieve the dominant position in the world of global trade.

China intensified commercial relations with countries.

Thanks to its innovations, the demand rose very quickly and China became the source of “technologies” for western countries. As they traded within them, western countries gained access to these goods and they imported equipment needed for their own development. That is how they got material, which was necessary so that the Industrial Revolution could take place. That’s exactly what the UK did.

EUROPEAN REACTION *The response of Europe*

What was Europe’s reaction?

Was Europe thankful for everything they imported from China to start its own revolution and to progress?

Contrary to Chinese commercial strategies, the rest of the world, Europe (UK or France as well) had military-based strategies. What they wanted more was to control the rest of the world and not to trade with it.

It was the same with Europe-Chinese relations. While the ships from China to Europe were merchant, the ships of different direction were military. Taking the example of the UK they started its imperial expansion. They didn’t cooperate with China and Chinese incentive to open-market trading. The UK relied on tariff protection and on imperial and military policy. They got into China to take control over it through the way of “power”. Because nobody was able to compete Chinese trading capacities they had to use another strategy. British strategy was based on savage repression, conquer, rivalry, destruction and army-occupation.

COMPRADORES

The term "comprador" derives from the Portuguese word for "buyer"

As China was completely trade-oriented country, it was unable to act against military attacks. They didn't have army to protect them and that is why they were unable to defend themselves against offensives policy of western nations. Since all of the other nations knew about this flaw, they took advantage of it. That's how British use of army with no respect of Chinese rules and importing opium to China destroyed Chinese sovereignty.

As a consequence of incapacity to defend against conquerors, China ended up as colonized pillaged country.

Western countries knew that Chinese strength is the trade. Logically, by using army they took control over the trade in China to limit Chinese power and possible ability to "counter-attack" or defence.

As the suite of wars as it was after the Wars of Opium China had to pay indemnity to western countries, many barriers were imposed by conquerors, the number of treaties ports increased as well and some areas were ceded.

1839 -1842

1856 - 1860

THE 1ST OPIUM WAR

After the first Opium War (1839–1842), Treaty of Nanjing – peace proceeded consisted of paying the large indemnity as well as Britain got Hong Kong and 5 treaty ports and many other advantages such as the most-favoured-nation or right to be tried by British courts for British in China. These privileges were very soon extended to the other western countries.

THE 2ND OPIUM WAR

After the Second War of Opium where French allied with British the treaties of Tianjin were signed. It meant residence in Beijing for foreign envoys, opening of new Western Trade ports and measures to make the residence in China easier. That's what multiplied the European flows to China and also its impact in China.

...Britain got Hong-Kong...

5 treaty ports...

most-favoured nations....

Taking look at the social situation in China, a new “class” is born. Compradors appeared as new social status in Chinese society. Compradors were those who developed British or in general Western-Chinese relations. They exploited the situation and developed their influence and control over the market, imported goods, local take-overs etc.

When the monopolistic cohong (or Canton) system was abolished in 1842 after the first Opium War, compradors replaced the traditional Hong merchants as the main commercial intermediaries between Chinese and Western traders. They took the front position in Chinese society much “further” than common Chinese.

Internal situation in China was very difficult. Colonised Chinese people suffered from famine, attacks, corruption, injustice, massacres etc. After the Japanese attacks on China and their colonial policy, the situation became even worse. The interior pressure graduated and launched in Civil War.

By the end of the 1920s, with the Japanese imperial invasion, China ceased to exist as a unified country.

20th “radicals’ (Revolution) COMMUNIST REVOLUTION

The most important period of changes which could be considered as the medium to achieve today's image of China as an independent sovereign state is the last century. During the 20th century many changes were implemented to recover the

The rise of modern China to become the second largest economy in the world was made possible only through the success of the Chinese communist revolution in the mid-20th century.

The People’s Liberation “Red” Army defeated first the invading Japanese imperial army and later the US imperialist-backed comprador-led Kuomintang “Nationalist” army.

This allowed the reunification of China as an independent sovereign state.

The Communist government abolished the extra-territorial privileges of the Western imperialists, ended the territorial fiefdoms of the regional warlords and gangsters, and drove out the millionaire owners of brothels, the traffickers of women and drugs as well as the other “service providers” to the Euro-American Empire.

1945

A blue horizontal arrow pointing to the right, with four yellow vertical markers at regular intervals. The year '1945' is positioned above the fourth marker from the left.

Enclosure

We saw in the history that the power of China was achieved thanks to its openness but now the only possibility how to rebuild its power, to collect and put together any advantages and

For at least 30 years, China stayed concentrated to its interior affairs, making the plans for its development and future. In the view of control to improve and control its interior development China had to act. In 1949, the proclamation of People's Republic of China was restored by MaoTsé-Tung and China entered the Mao-Era.

Because the health of China was catastrophic its economy needed recovery and to reset. They needed to boost the internal - national economy and improve internal situation.

In 1950 the chain of reforms begun

China used the most performant and the most basic strategy targeting firstly the agriculture and common Chinese people. Through agrarian reform in 1950 they provided land, infrastructure, credits and technical assistance to hundreds of millions of landless and destitute peasants and landless rural workers.

As we know, the giant population of China, means labour abundant factor in economy and that's what made the realization of communist projects possible. Communists built roads, airfields, bridges, canals and railroads as well as the basic industries, like coal, iron and steel, to form the backbone of the modern Chinese economy. Communist Chinese vast free educational and health systems created a healthy, literate and motivated work force.

China's rapid economic growth was based on the development of its internal market, its rapidly growing cadre of scientists, skilled technicians and workers, and the social safety net which protected and promoted working class and peasant mobility, those were the products of Communist planning and investments.

China's rise to global power began in 1949 with the removal of the entire parasitic financial, comprador and speculative classes who had served as the intermediaries for European, Japanese and US imperialists draining China of its great wealth.

Mao died in 1976 and Deng Xiaoping took control over China.

1976



The reforms continued.
Deng Xiaoping's reforms were still radical but they were more moderated.

We can classify them into 4 periods.

1978-1984

The reforms in this period were micro-economically targeted.

In this communist period of China we are in the enclosed environment where the whole attention is oriented into internal development which is made through national planning. We absolutely miss the individual initiative. Even the communist plans, projects and every kind of build and investment recovery, the country and boost economic activity, individual action is inevitable for economic growth.

That's why the change in micro-economic managements and administration was necessary. During this period, the former commune and brigade enterprises became township or village collective enterprises, while new enterprises, collective or individual/private, were established.

TVE

Township and village enterprises (TVEs) as a sector absorbed rural surplus labor released from farming, contributed to rural economic growth, increased rural incomes, generated fiscal revenues for local governments and helped narrow the rural-urban gap. As people became responsible of their surpluses (they became owners of the rest after fulfilling duties) their productivity increased significantly.

HRS

By the reform in agriculture, Commune propriety became household responsibility in rural regions in 1983. That's what we call the Household Responsibility System (HRS). We implemented a kind of autarky system where land was redistributed among people as a function of the number of member in household. Because the surpluses stayed in their origins people are more initiative and internal trade was developed while national planning was declining.

By constitutional reform of enterprises new statuses were introduced. We start with the fact that private enterprise was authorized (allowed). The first application (apparition) was made in light industry and services. Very important is the emergence of mixed enterprises and inflows of foreign capitals.

... "OPEN DOOR" ...

That's how Deng Xiaoping started the "Open door" policy.
"Open Door Policy" enabled a partial liberalization of the factors of production and permitted private and corporate capital accumulation, which was mostly forbidden beforehand.
The "Open Door" strategy was developed and made mainly through concepts of FDI and SEZ. They played an instrumental role in the integration of China to the global economy and in its economic development.

OPEN DOOR ELEMENTS

Foreign Direct Investment

began to grow significantly. With strategic acquisitions in established economies, aimed at achieving market positions. Since China was conscious about its labor endowment, as CA they targeted at accessing the raw materials China needed to fuel its manufacturing engine and then exporting final products. The capital flows came also from abroad into China, **foreign enterprises** were implemented (=FIE **foreign invested enterprises**) and that's how China gained access to capital and "know how" of western world.

FDI

China Foreign Direct Investment

1997-2018 | Data | Chart | Calendar

Foreign direct investment in China increased by 7.9 percent year-on-year to CNY 877.56 billion in January to December 2017. In December alone, FDI declined by 9.2 percent from a year earlier to CNY 73.94 billion. Foreign Direct Investment in China averaged 433.72 USD HML from 1997 until 2017, reaching an all time high of 1343.03 USD HML in December of 2017 and a record low of 18.32 USD HML in January of 2000.

Historical Alerts Data API Forecast Survey



SOURCE: TRADINGECONOMICS.COM | MINISTRY OF COMMERCE OF THE PEOPLES REPUBLIC OF CHINA

Special Economics Zones

are strategically chosen areas in which foreign and domestic companies can trade and invest without the same control and regulations from Beijing as other parts of China (Britannica.com). These areas are designed to attract and encourage overseas investment and technology China and boost the country's economic growth. The Chinese government aimed to encourage foreign investment in the SEZs by introducing more relaxed regulations in these areas.

The first four special economic zones were created in 1980 in southeastern coastal China and consisted of what were then the small cities of Shenzhen, Zhuhai, and Shantou in Guangdong province and Xiamen (Amoy) in Fujian province. In these areas, local governments have been allowed to offer tax incentives to foreign investors and to develop their own infrastructure without the approval of the central government. Business

SEZ

enterprises have made most of their own investment, production, and marketing decisions, and foreign ownership of such ventures has been legalized.

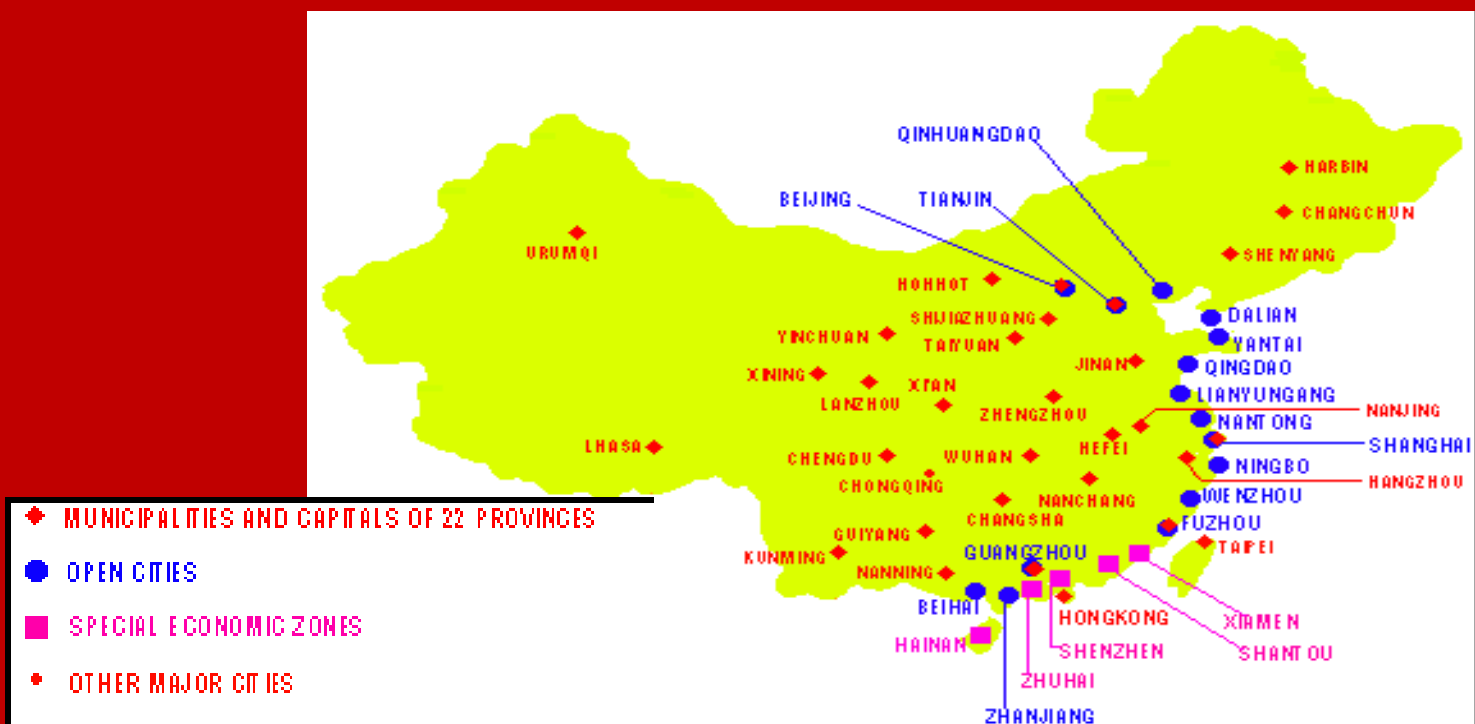
OPEN CITIES and ECONOMIC CLUSTERS

In 1984, encouraged by the ZES success, the Chinese government opened 14 larger and older cities along the coast for foreign trade and investment. These “open” cities offered foreign investors the same incentives as in the special economic zones, but their corporate income taxes were higher.

The importance of specific economic clusters was acknowledged in 1985 when the status of SEZ was expanded to the Yangtze River Delta, the Pearl River Delta, and the Xiamen-Zhangzhou-Quanzhou Triangle (Min River delta). This also provided additional space for the setting of industrial districts. In time, the Pearl River Delta would become the world's most important manufacturing cluster. The development of manufacturing clusters was also accompanied by the development of port terminal clusters in these deltas, particularly for the Yangtze River Delta and the Pearl River Delta.

In 1988 Hainan Island was made a separate province and a special economic zone, and in 1990 the Pudong area within the Shanghai municipality became a special economic zone with policies even more flexible than those already in force in the original four SEZs.

By 1992, 60 SEZs had been set in China, including 5 initial SEZs, 15 coastal port cities, 8 river port cities, 19 inland cities and 13 border cities. Then, the process received wide adoption, particularly through the coastal provinces of China as a lot of jurisdiction (provincial governments, municipalities, counties) started to develop and promote their own development zones. Ten years later, by 2005, there were 210 national development zones and 1,346 provincial development zones. China's geography of production is therefore strongly coordinated by its proximity to coastal areas and their capabilities to access global markets through port and airport terminals.



3 main reasons of Chinese attractiveness:

1st = low cost labor

China is the equivalent of vast pool of low cost labor.

It is one of the main incentive to locate the business in China.

2nd = accessibility

accessibility, infrastructure and land, planned development of main cities

organized, planned and project-based urbanization and development

The infrastructure was organized to easily and directly join coast and ports to get easy access to containers and so to encourage exports/imports.

3rd= trade policy

tax incentive

SEZs offered reduced corporate income tax rate, including income tax exemptions for foreign nationals working in SEZs.

No custom duties were levied on imported materials and parts, as long as they were for re-exports.

1984 - 1991

To enter the real capitalistic market, offer/demand market, all the reforms mentioned above have to be globalized and the system of responsibility and private possession must be recognized in every sector.

The status of private enterprise was enforced by the price liberalization of more than 1800 products in 1985.

During this period we notice this passage from controlled allocation to centralized resources, development of foreign investment, international trade, strategy of exportation and investment in general.

Till this period the bank system was dominated by one - People's bank of China.

Now 4 new banks were established: Bank of China, China Construction Bank, Industrial and Commercial Bank of China and Agricultural Bank of China.

Bourse of Shanghai was opened as well. Since 1990, Bourse of Shanghai is controlled by State Council of PRC and since then it attracts an important volume of foreign investment.

SYSTEMIC CHANGES

Management
Investment
Bank and Financial Sector

PRIVATISATION

1992-1997

MACROECONOMICS REFORMS

***More the adaptation to Market Economy
than
the privatization in its pure meaning***

These reforms are mainly prices targeted
factor prices (raw materials),
service and final products prices,
interest rate (price of capital),
exchange rate,
salary (labor price)

Actually, maybe it is not absolutely correct to talk about the privatization in China in pure sense. Maybe it would be better to define it as its adaptation to Market Economy.

Public sector seemed to be privatized but in reality it was more about elimination of non-performant enterprises and its shut down. So what happened in China was more about revitalization of public industry and changes in management. The situation could be described by "Keep big ones and let the small ones go". The public authorities weren't willing to lose control over the biggest public enterprises, that's why they chose the way of restructuring instead of privatization.

The unification of market in the interior of the country is useful and necessary to connect urban and rural areas.

In 1993, the real capitalistic market is officially introduced into Chinese constitution.

Bank sector was reformed as well. Central Bank of China is the Head Bank of Bank segment, that means, the Bank of Commercial Banks. The monetary policy is made by Comity, elected for the period of 6 years by the Chinese Government.

1997

The year 1997 was focused on industry sector. This year, the main goal was the restructuring of public industrial companies. These enterprises were reformed and the status of public limited company and shareholder was incorporated in combination with private investment.

Reduction was also made in the number of ministerial institutions as well as the elimination of a half of the functionaries' posts.

Privatization in real-estate sphere also happened in 1997 and social security, pension and retirement insurance were no longer covered by Public sector.

The fact that China remained away from the Asian crises in 1997-1998 just proved that China was still enclosed economy and with no perfectly capitalistic market. They were able to do so thanks to inconvertibility of yuan. They decided to conserve their currency undervalued. That's also why the USA suffered from the competition of Chinese products.

Labor-condition is one of the most investigated topic connected to China. On the first side low-cost labor takes the first ranking position of its attractiveness but on the other side it is the problem that China has to fight with till nowadays. It could be reasoned with low skills of workers but also by exploitation. They try to imposed the system of minimum wages, shift wages with the view of shifting the living standards and minimize urban-rural gap. The incentive is more in direction to develop and to keep Chinese CA of low-cost labor than to impose working standards or to respect Labor Code.

The main goals of reforms:

In 1999 the Private sector was defined as the important element of Chinese economy in national constitution.

The national recovery, public works, road works, planned projects and public investment brought the necessary cure to Chinese area to make the conditions for private sector development. Without this communistic concept in the beginning, it would maybe not be possible to almost triple the GDP during the period of 20 years (20 years result of Xiaoping´s reforms).

The first 10 years of post-communism reforms were marked by the 10% growth of GDP. Social wealth was improved as well because the GDP per capita grew by more than 8%. We observe that China succeeded to regain its main advantage, its prior strength forehead position in the global trade. Investment and exportation were the basis of the strategy and main fuel of the economic growth. It is remarkable that Chinese strategy is or was almost absolutely export-oriented and consumption was the modest part contributing to the astronomical GDP growth. Consumption dropped by almost 10% in between 1980 and 2000 and it counted for only 45% of Chinese production (while it counted for more than 60% in general in developed economies). The paradox is

	CONTRIBUTION ON TOTAL GDP		
	ANNUAL GROWTH 1980-2001	1980	2001
GDP	9,5	100	100
PRIVATE CONSUMPTION	8,5	54	45
PUBLIC CONSUMPTION	9,6	12	12
INVESTMENT	10,7	30	38
EXPORTATION	14	14	32
IMPORTATION	12	17	27

RECENT MILLENIUM

2001 - China became member of WTO

This is a very important step for China's future development. Progressive abolition of custom duties and tariffs will encourage international trade, develop the commercial relations and boost the economy. This step can be literally interpreted as the end of the past times and the choice of trade and market liberalization.

2002- entry of private sector into public policy

One year later, in 2002 the private sector also got its place in communist representative and private entrepreneurs can become member of CPC (Communist party of China)

PRIVATE PROPERTY

"All land under the heaven belongs to the King, and all people on the earth are the subjects of the King"

2004

The battle facing the private property law seemed to be finally in the victorious end.

Until 2004 there was no constitutional protection of private property in China outside SEZs.

The reform of Property Law consists of 5 parts

General provisions

Ownership

Usufructuary right

Right of Security

Possessions

2007

In 2007, the long awaited and highly debated Property Law of China finally passed the National People Congress (NPC). In this year, the Property Law has been widely hailed in the country as a milestone of modern Chinese history, granting legal protection to private property rights. Indeed, the Property Law is a significant piece of legislation in China because it fills in the country's "legal blank" with regard to private property and property in general. Furthermore, it helps to enhance the legal infrastructure of the country by establishing a framework that is badly needed for the regulation and protection of property rights.

2013 – FTZ and restriction of state intervention

The next step in the development of SEZs will be the creation of Free Trade Zones. In recent years cities across China, including Shenzhen and Shanghai have been vying for the opportunity to become FTZs.

These new areas are expected to have *more relaxed regulations* on the exchanging of currencies as well as less strict rules on the types of companies that can be set up. For example, foreign owned companies may no longer need a Chinese owned partner to help them develop their business on the mainland.

Restriction of State intervention: suppressions of examination process and of prior approval for investment (with exception of social securities and ecology) and the control over the price was replaced by the market principle of pricing (except public service).

State Monopolies were abolished in different sectors as for example railways, aviation, finance, energy or telephonies and the possibility of private capital was established with the possible mixed investment.

Many incentives to improve justice and its independence are conducted.

Another target is the land reform and agricultural reform to encourage farmer in their operations and to accord them the highest degree of the control over the land they cultivate and their properties.

Current incentives remain mainly on the fact about labor- condition, labor income and the low-cost labor status of China as well as the social gap, poverty, catastrophic ecologic situation, miss of internal consumption, human rights etc.

We can conclude that China succeeded to recover its lost status of Great China during less than half of the century (it depends if we count the communist Mao era or not). They marked astronomical growth and achieved unbelievable results. Between 1978 and nowadays, China moved from a poor, underdeveloped country to the world's leading emerging economy. China's share of world GDP increased from less than 3% in 1978 to about 1/5 by 2015. While the average national income per adult was approximately €120 per month in 1978 (expressed in 2015 euros), it exceeded to €1,000 per month in 2015. Even 1000€ could be in theory classified as a perfect score, however it just notifies one of the main problems remaining in recent China: social gap where the heritage of "compradors" still concentrate the wealth in their hands while common Chinese people and rural areas suffer from poverty. According to data, almost 1/2 of national income is harvested by top 10% income shares (while it used to be less than 1/3 before the reforms period). We also estimate that top 1% income harvests approximately at 14% of national income. This proves the significant increase of the gap. This gap is in company of important corruption across the sectors and across the whole country.

Even though China moved significantly in favour to the private property nation, we still can't talk about entirely capitalist country. The share of public property declined by more than 1/2, private wealth of national income almost quadruplet in its share but Chinese corporations are still publicly owned by more than 1/6. That's why it is more correct to talk about China as about the mixed economy with a strong public ownership component. According to data, the public ownership is more important in recent China than it used to be in the West in the post WW2 period.

What we can conclude and to be sure about is that China is big and complex country. The complexity is proved by the fact that different parts of China deal with different problems. The same problem can be interpreted differently across the country also as its size and causes change as well. We are not able to analyse this country as a whole unity with some uniform model and to get a clear and uniform explanation.

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