Chapter-III

Chinese Economic Reforms Since 1978: Ramifications for the U.S. Trade and Economic Interests
Introduction

Since the initiation of economic reforms in 1978, China has been one of the world’s fastest growing economies. According to the data available, China’s real GDP grew at an average annual rate of 10% between 1979 and 1999, increasing the real size of the Chinese economy by five times its 1978 level and substantially raising Chinese living standards. Much of China’s recent economic growth has been driven by a high rate of capital accumulation and large productivity gains, both largely the result of economic reform.1 Foreign investment and trade have played a major role in China’s economic growth. US-China commercial relations have sharply expanded; China is now the fourth largest US trading partner. Many analysts predict that China’s economy is likely to continue to experience rapid growth in the near future, especially if economic reforms are expanded and deepened. As a result, the US-China economic relations could be greatly enhanced.

China’s rapid rise as an economic and trade power has been of great interest to US policy makers, especially because such growth has led to a substantial increase in US-China economic relations. China’s trade and economic reforms since 1978 have important ramifications for US economic interests. The prospect of future high levels of Chinese economic growth could play an important role in fastening Sino-US bilateral trade and economic relations. An overview of the causes of China’s rapid growth is useful in understanding the implications of China’s economic development.

3.1 China’s Economy Prior to Economic Reforms

3.1.1 An Overview:

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The economic development of China since the founding of the Peoples’ Republic in 1949 has transformed the face of the country. The economy of old China and that of today are so radically different that it is difficult to express the scale of the changes that have taken place. There can be no doubt that China has achieved great successes in its search for economic growth. Nevertheless, the process of development has not been easy. There have been successes and failures and the speed of the economic development has varied.

The year 1949 marked the final liquidation of the semi-colonial heritage of present day China. The establishment of the People Republic of China, which heralded a new period of modernisation had been aborted so many times previously. The general direction in the economic sphere was unmistakable. Industrialisation was top priority. The dual emphasis on small as well as large industries, the strategy of “walking on two legs” - was not a half-hearted drive at industrialisation but a strategic move to make full use of the existing resources. It is therefore different from the Gandhian Cottage Industries pitted against the modern sector, or even the Soviet model of “big is beautiful.”

The movement forward modernisation between 1949 and 1978 was impressive, as judged by the usual indicators or total output in agriculture, industry, technology and defence. Indeed, many observers, dissatisfied with the stagnation and underdevelopment of the Third World, hailed the Chinese model of development as worthy of emulation, apart from or inspite of the priority placed on social goals such as egalitarian distribution, full employment and the prevention of excessive urban growth. After 1952, when reconstruction or recovery had been accomplished China achieved an overall rate of growth that was surpassed by few other developing countries. There was an increase in agricultural production as well as advancement in industrial output also.

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3.1.2 The Chinese Economy, 1949-1978

For most of the period 1949-1978 China was insecure internationally. The Korean War (1950-53) was a terrible trauma for China and solidified the mutual hostility between China and the West. The erstwhile USSR initially provided China with a degree of international security, but relationship was fragile and collapsed in the late 1950s. In the 1960s, China was more isolated and threatened than even the USSR had been in the 1930s. Under such conditions policies, which maximised national economic independence, received high priority. The communist leadership under the aegis of the Chinese Communist Party (CCP), which came to power in 1949, has launched China on the path of modern economic growth within a socialist framework. The objectives postulated by the new leadership were not confined to rapid industrialisation and economic growth. Rather, economic growth was combined with a commitment to improve income distribution, assure full employment, free of inflation and promote development with honour through a policy of self-reliance, that is, by minimising or obviating China’s dependence on foreign countries.

The pursuit of these objectives posed a number of dilemmas, both as ends and means. A ‘vanguard’ communist party, with a long tradition of centralised operation stretching back to the 1920s, monopolised political power. All the main economic policies were decided by a small group of key personnel in the politburo at the centre of the party, with Mao-Tse-tung at its head. The high degree of centralisation combined with deep party penetration of the economy meant that it had a much greater capacity than a market-based

3 Ibid. p. XVI.
economy with dispersed decision-making to make great nationwide policy 'leaps', sometimes with undesirable results.\textsuperscript{6}

The performance of the Chinese economy is appraised in terms of its quest for stability, the pursuit of economic growth, the degree of self-reliance attained and the improvements in income distribution. The initial resources at the disposal of the new regime required a potent ideology - to mobilise the resources.\textsuperscript{7} It also required organisation provided through a set of new institutions to carry out, control, and shape this mobilisation process.

\subsection*{3.1.2.1 Socialist Transformation}

In the context of the time, the Chinese embraced the Soviet type model for their economic development. Though the Chinese revolutionary leadership had their differences with the Soviet Union before 1949 and though the experience of the Chinese revolution differed markedly from that of the Bolshevik Revolution in 1917, they adopted the basic institutional features of the 'Soviet Model' in both politics and economics in the early 1950s.\textsuperscript{8} This reflected not only a shared ideological heritage of revolutionary Marxism - Leninism, but also the perception that the Soviet Union had achieved, in a relatively short period of time, the kind of rapid economic transformation that China was so eager to achieve.\textsuperscript{9}

The massive process of institutional transfer took place as a vast latticework of Soviet-derived political and economic institutions was laid down across China: the party was extended into every sphere through an apparatus of party committees and branches which acted as a king of political nervous

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\textsuperscript{6} Nolan and Funeng, op.cit., n.4, p.4                      \\
\textsuperscript{7} Eckstein, Op.cit., n.5, p. XI.                      \\
\textsuperscript{9} Ibid. p.2.                                      
\end{flushleft}
system throughout the body of the soviet society. A complex edifice of agencies for economic planning and management was established to control the whole economy and move it forward in a decisive dash for industrialisation through a series of five-year plans. Different sectors of the population were incorporated into ‘mass organisations’ under the party’s command. Besides, productive units were converted into state enterprises and collective farms through the ‘socialist transformation’ of industry and commerce and agricultural collectivisation.

The social transformation of agriculture, handicrafts and industry and commerce represented a basic change in the national economy. It was a large-scale socialist revolution in the relations of production and a vivid expression of the law that the relations of production must correspond to the nature of the productive forces. Once this transformation was completed, the Chinese people were in a position to develop the national economy according to the requirements of the basic economic law of socialism, the law of planned and proportionate development of the national economy and the principle of “from each according to his ability, to each according to his work.”

Alexander Eckstein in his major work on China’s Economic Revolution (1977) has analysed the different phases of development that the Chinese economy has moved through since 1949. He has broadly divided this major period (1949-1975) into the following ten phases:

1. Recovery and Rehabilitation (1949-1952)
2. Plan Preparation (1953-1955)

10 Nolan and Funeng, op.cit. n.4, p.9.
13 Eckstein, op.cit. n.5, p.196.
4. Retrenchment (1957)
5. Great Leap Forward (1958-1960)
6. Great Crisis (1960-1962)

During this period, the Chinese government sought to make China’s economy relatively self-sufficient by following centrally planned measures. As a result, it limited trade to obtaining only those goods, which could not be produced domestically. During the 1960s and 1970s, the central government mobilised domestic savings and undertook large-scale investments in physical and human capital in order to support rapid industrialisation. China’s massive investment in heavy industry helped produce an average annual GDP growth rate of about 5.3 percent from 1960-1979. However, China’s economic policies kept the Chinese economy relatively stagnant. Economic analysts have viewed this due to the lack of profit incentives for firms and farmers, competition was virtually nonexistent and price and production controls caused widespread distortions in the economy. China’s investment in heavy industry generally came at the expense of agriculture, which lagged in production for much of the 1960s and 1970s.

3.1.3 Unresolved Problems: Motives for Change

Prior to 1978, China’s economy met both success and failures. Despite successes on different front, the Chinese failed to solve certain fundamental economic problems of that time. The most fundamental of China’s unresolved problems had been the lag in the nation’s agricultural output in relation to its growing needs. Another almost equally disturbing problem had been China’s

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14 Morrison, op.cit.;no.1,p.3
failure, since the late 1950s, to achieve any significant increase in the productivity of industrial labour. In the late 1970s, China’s new leaders believed that unless more progress can be made in solving these problems, the country would face an uncertain economic future. Their basic rationale for carrying out far-reaching changes in China’s approach to development since 1978 has been that more flexible and pragmatic policies are essential to deal with China’s economic problems and that their solution is imperative to speed up overall growth and modernisation.

However the initial need for change in the course of China’s economic development surfaced during the Cultural Revolution (1966-1976).

3.1.4 Cultural Revolution (1966-1976) and the Need for Change

The main objective of Cultural Revolution was to accomplish an intellectual and moral reformation. What it did possess was a guiding ideology that favoured continuous development of egalitarian relations of production; a supreme leader committed to that ideology and a brief developmental history that in many respects contradicted it.

In launching it in 1968, Mao-Tse-tung set out to denounce, Khrushchev’s ‘goulash communism’ and reaffirm the principles of genuine socialism. The Cultural Revolution can be best described as Mao’s attempt to resolve the basic contradictions between the egalitarian view of Marxism and the elitist tendencies of Leninist organisational principles. By drawing the Chinese masses into the political process, Mao wanted to reverse the trend

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16 Ibid. p.27.
toward restratification caused by the bureaucratisation of the party, and he also wanted to build a mass consensus on the future direction of the society.19

To the political objective of the movement was added an economic one. The former was meant to purge the masses; all those outside the party cadres, the later were designed to fan revolutionary favour and stimulate production. The participation of the masses was to be the best guarantee of productivity.

3.1.5 Failure of Maoism and the Rise of the Reformers

Policy and ideology in the Cultural Revolution decade were a complex mixture of the two layers of Maoism that is developmental Maoism and radical Maoism.20 The first form was developmental Maoism, which emerged during the mid-1950 and reflected to a considerable extent Mao's own diagnosis of defects in the imported Stalinist modes. This was the ideology behind the massive and ultimately disastrous, upsurge of the Great Leap Forward and, the formation of 'rural peoples' communes' in 1958-1959.

Cultural Revolution of early and mid-1960s signifies the form of radical Maoism. In this view, the 'socialist' society already established in China embodied certain vested interests and incipient class forces, which obstructed the advance of genuine socialism and threatened a 'reversion to capitalism.' Thus institutions and people need continually to be transformed alongside economic technical modernisation. This transformation involves a prolonged political struggle waged by a 'Proletarian Party', conducted under the banner of 'the continuation of class struggle in socialist society' in a process of 'continuing revolution'.21

20 Young, Graham and Woodward, Dennis 'From Contradictions among the People to Class Struggle: the Theories of "Uninterpreted" and "continuous revolution", Asian Survey, vol. XVIII, no.9 (September), 1978, pp.912-33.
21 White, Gordon, op.cit. n.8, p.23.
In their different ways, these two forms of Maoism envisaged a form of ‘socialist development’ which went far beyond mere economic improvement to include a wide range of social and political objectives, to be achieved through the pervasive intervention of an activist party/state. But there was huge amount of slippage between Maoist pronouncement and practice. In the economic sphere, instead of achieving ‘leaps forward’ in developing the human and material potential of the nation, Maoism served to restrain growth in productivity by stifling initiative and penalising excellence. In the political sphere, it failed to shake off the institutional imprint of orthodox Marxism-Leninism, its real impact was a grotesquely distorted mirror-image of its proclaimed intentions.

In 1975, when Deng Xiaoping took charge of the day-to-day work of the central authorities, things took a turn for the better. Steel production rose from the 21 million tons of 1974 to 24 million tons and grain output went up from 275 million tons to 298 million tons. But after the death of Zhou Enlai in January 1976 and the Tiananmen Incident of April 5, the ‘Gang of Four’ intensified their sabotage. They launched the movement to “criticize Deng Xiaoping and counter the right deviation trend to reverse the correct verdicts on the Cultural Revolution”. They virtually destroyed the fine traditions of the party and caused great losses to the nation’s material wealth.

The fifth Five-Year Plan began in 1976. With the overthrow of the ‘Gang of Four’ in that year, the national economy began to improve. The Chinese economic reforms of 1978 were brought out in this phase of Fifth Five-Year Plan.

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22 In Chinese history, the chief members of the radical faction that played a key role in directing the Cultural Revolution and tried to seize power after the death of the communist leader Mao Zedong 1976. It included his widow Jiang Qing; the other members were three young Shanghai politicians: Zhang Chunqiao, Wang Hongwen, and Yao Wenyuan. The coup failed and the Gang of Four were arrested. Publicly tried in 1980, they were found guilty of treason.
3.2 Economic Reforms Since 1978

Serious reforms of the post-Mao Chinese economy can be dated from the historic Third Plenum of the Eleventh Central Committee of the Central Communist Party in December 1978. Between then and the mid-1990s substantial changes occurred. However, there was not a clear programme. Indeed, China’s reforms in the 1980s have been likened to a person crossing a river who moves forward from stone to stone without a clear idea of where the next one is since it is hidden under the water ahead. The main unifying theme to the reforms was the move away from the Stalinist economy.24

Following the traumatic decade of the ‘Gang of Four’, the central committee called for ‘emancipating our minds, seeking truth from facts, and doing everything in the light of China’s realities’.25 China began to shift the focus of national work towards the realisation of socialist modernisation calling on the entire people to strive to achieve ‘four modernisation’ i.e. the modernisation of industry, agriculture, national defence and science and technology during the remaining years of this century. It was decided that for a period of several years beginning from 1979 China first tackle the existing imbalances and carryout a policy of “readjustment reform, consolidation and improvement”.26 The programme of correcting past errors and building socialism with specific Chinese Characteristics found full expression in the sixth Five-Year Plan (1980-85) launched in 1979. The traditional development model which concentrated on the speedy achievement of quantitative targets of output, capital accumulation and material inputs, was to be substituted by a strategy of ‘systemic’ development, which involved other aspects of

23 Dixin, op.cit; no.11, p.10.
24 Nolan and Fuereng, op.cit., n.4, p.7
25 Muqiao, Xue, China’s Socialist Economy (1986), and Beijing: The Foreign Language Press, p.1.
26 Dixin, op.cit., n.11, p.14
modernisation - such as proportions, structures, efficiency, etc. - which required 'qualitative optimisation'.

The communique of the Third Plenary Session of 1978 stressed on the need of revisions in the economic plans as the economy was beset by major imbalances and by 'some disorder in production, construction, circulation and distribution; moreover there were long-standing problems of livelihood affecting both urban and rural populations. The objective for the next few years therefore was to solve these problems, achieve 'comprehensive balance' and thus 'lay a solid foundation for rapid development'.

3.2.1 An Outline of the Economic Reforms

The new economic strategy, which emerged after the year 1978, had two major policy thrusts, 'readjustment' and 'reform' or 'restructuring'. Readjustment reflected an attempt to correct certain basic structural imbalances in the economy, which it was argued, originated from China's adoption of the Soviet model in the 1950s. The main areas of imbalance were identified as follows:

(i) The rate of overall capital accumulation had been too high till 1978; the share of accumulation in national income was over 30 per cent. In future, argued reform economists, this should be kept down to 25 per cent or below, and correspondingly more attention should be paid to raising levels of personal consumption and social welfare. The capital

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27 The CASS group of studying the experience of the sixth Five-Year Plan, "Economic Construction and Reform During the Sixth Five Year Plan Period", Social Science in China, 2, 1986, p.23.

28 Riskin, op.cit., n.17, pp.184-186

29 White, op.cit.;no.8, pp.13-15

accumulation was US$253 in 1979 and it was proposed to raise this to US$1000 by the year 2000.31

(ii) State investment priorities were to be changed. Though heavy industry would still retain priority, the share going to light industry and agriculture should be increased.

(iii) In the urban sector, the previous stress on large scale, capital-intensive forms of production in state enterprises was to be amended by encouraging more labour-intensive collective industry outside the state sector. This rebalancing was at least in part an effort to address a serious and growing problem of urban unemployment.

These readjustments were accompanied by a thoroughgoing structural reform of the system of economic planning and management in China. The reforms began in all sectors in the late 1970s and it as follows:

3.2.1.1 Rural Sector Reform

Reform of the economic system in rural areas preceded that in urban areas in part because the task in the rural areas was easier and in part because many of the previously described conditions necessary for a well-functioning market were already in place before the reform effort began. The Chinese leadership also appreciated the fundamental importance of agriculture in a poor economy like that of China. Moreover, Peasants responded enthusiastically to each step in the rural reform feeling that they could only gain by it.32 They began tentatively contracting land out to groups within the production team, but progressed rapidly by 1983 to full scale contracting out of collective farmland to individual households. Under this form, individual households contracted for


use of collective property in return for a payment to the collective in cash or kind. The farmers would keep all profits and were responsible for their losses. This new contractual relationship came to be known as a “responsibility system”.33 This was in effect, the largest and most egalitarian land reforms in history, since land was mainly divided among China’s 200 million rural households on a locally equal per person basis. ‘Decollectivisation’ did not apply to many types of large agricultural means of production or to some important collective activities. However, the rural labour process underwent a revolution. Peasants were working for themselves, and could retain any surplus produce or income after meeting compulsory state quotas.

A further potential stimulus to peasant incentives was provided by a sharp improvement in the intersectoral terms of trade for peasants. Two concomitants to this process also moved relatively quickly. First, as decollectivisation proceeded, many restrictions on private commerce gradually were lifted. Markets sprang back to life, and the state pulled back its regulation of them where it used to set prices for a wide range of goods. Now it mostly set maximum prices only second, the rural economy was depoliticised. Economic and political administration was separated institutionally. As the responsibility systems proliferated, farmers began to gain and communes began to lose control of concrete production issues such as cropping choices and labour allocation.34

3.2.1.2 Urban Sector-Industrial Reform

Like rural economic reform, industrial reform was the subject of lively debate and activity at the outset of the Deng’s period in the late 1970s.

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33 Blecher, Marc China Against the Tides: Restructuring Through Revolution, Radicalism and Reform (1997), London: Pinter/Cassell, p.22.

Criticising China's economic planning system for being overly centralised and for not allowing enterprises enough space to take initiative, the Chinese leadership insisted that, planning should be grounded firmly in market like realities such as actual economic capacities, scarcities, and preferences - i.e., in supply and demand.

On October 20, 1984, the Chinese government released a document on urban reform. The document was meant to form the system of Soviet style central planning which China had established in past decades. There was no clarion call for the introduction of market socialism. Instead there was talk of increasing the role of economic levels i.e. market combined with continued central planning for goods of particular importance to the economy and an expanded role for something called "guidance planning".35

The essential features involved in making the Chinese market system work outlined below:

A. Input and Output Markets

In the 1960s and 1970s most Chinese industrial products were distributed through administrative channels in accordance with the dictates of central and provincial plans. By 1984-85 a considerable share of these inputs and outputs were being purchased and sold on the market prices largely set by market forces. The products included not only minor inputs and few consumer goods but also steel, machinery and raw materials.

Compared with agricultural markets the industrial ones are less developed. ‘Small’ industrial products were relatively full of controls but ‘large’ industrial products, i.e. materials and equipment, remained controlled by

the government. The factor markets compared to product markets could not bring much change through reforms, as labour markets remain underdeveloped, especially in the urban industrial sector. The capital market in China is limited to inter-bank loans and security markets.

B. Management of Enterprises

Socialist ownership in industry and wholesale trade a well-known characteristics of the Chinese economy, was predominantly ‘state’, ownership or ‘ownership by the whole people’, in agriculture, rural industries, handicrafts and retail trade. However, the style preferred was ‘collective ownership in the co-operatives’ which took different forms such as communes, brigades and teams in villages or neighbourhood cooperatives in towns. Management decisions in these collectives had for long been left to the members thereof. State enterprises were preferred to collectives, which were also required to adhere to patterns set by the provincial and central governments. Thus, prior to 1978, not only was all ownership collective but management decisions also were more or less bureaucratically controlled.

The 1978 reforms brought about a change: ‘Now the publicly owned economy continued to develop and play the leading role, but at the same time collective economies, individual economies, joint enterprises with Chinese and foreign investments and enterprises financed solely by foreign businessmen have all flourished to varying degrees. The market framework for the state firms facilitated the maintenance and incremental reforms of the management system of state enterprises. The change in the state sector was from a bureaucratic to a managerial system, rather than from collective to individual responsibility.

37 CASS, op.cit. no.27 p.36.
As state firms faced increasing competitive pressures, governmental officials experimented with ways to improve incentives and management capabilities within the state sector. This experimental process focused on a steady shift in emphasis away from plan fulfillment and toward profitability as the most important indicator of enterprise performance. Moreover, the combination of increased competition, improved incentives, and more effective monitoring of performance did improve state enterprise performance over the 1980s. It is characteristic of China’s reform that the improved - and in some ways intensified - monitoring of state enterprise performance was an alternative to large scale privatisation.

C. Setting the Prices that Equate the Supply and Demand

Flexible price system equating the supply and demand came to play an important role in the Chinese economy. Industrial producer goods and industrial consumer goods were both sold at market prices and floating prices. The difference between the two categories of prices is that market prices are determined by buyers and sellers in response to market forces whereas under floating prices enterprises are allowed to determine prices within certain limits or adjusts them below a ceiling or above a floor price set by the government. Thus relative domestic prices approximate relative scarcities much more closely now.

The introduction of the dual price system under which both the controlled and market prices are allowed to co-exist for the same good, most producer and consumer marginal decisions are now made at the uncontrolled market prices. For the decontrolling of some prices allows prices to fluctuate according to changing cost and demand conditions, where as retention of some


39 Chai, op.cit., n.36, p.235
price controls allows the government to maintain a degree of price stability as well as to set certain prices with government objectives in mind.

### 3.2.1.3 Open Door Policy

The liberalisation of foreign economic relations refers to the opening up of the economy through the reduction or elimination of barriers to trade and foreign investment, the objective of which is to integrate the domestic economy with that of the world. The previous Maoist emphasis on national economic 'self-reliance' was condemned as a form of economic chauvinism which denied China the befits of participation in the international division of labour through trade and of infusions of foreign capital which could spur domestic development. Economic theorists reasserted the 'rational kernel' of Ricardo's theory of comparative advantage and argued in favour of the liberalising Chinese foreign economic relations.40 They advocated an increase in the ratio of foreign trade in the economy, the acceptance of foreign credits from both governmental and private sources, encouragement of direct foreign investment through wholly-owned or joint ventures, and the establishment of 'special economic zones' (SEZs) and 'Open Cities' to foster foreign participation in the economy.

The shift towards an open policy away from Maoist isolationism took a big step forward with the 1979 law on Chinese Foreign Joint Ventures. This was the first of the numerous laws intended to encourage foreign investment. Initially, foreign investment was isolated from the rest of the economy in four 'special economic zones', but the way was quickly opened for wider access of foreign investment to China, in which the most important measure was the establishment in 1984 of 14 'open coastal cities'.41 In 1980, China resumed its membership of the International Monetary Fund (IMF) and the World Bank.

40 White, op.cit., n.8, p.14

41 Nolan and Funeng, op.cit. n.4.
These steps were important in terms of both access to capital and also the considerable weight of policy advice that subsequently flowed from those institutions to the Chinese government.

A number of measures were taken to enliven the over-centralised administration of international trade so that more direct contact could be established between the domestic enterprises and international buyers and suppliers. Alongside some decentralisation of the organisation of foreign trade went a considerable devaluation of the Yuan, and exporting enterprises were even permitted to retain a proportion of the foreign exchange earned from exports. The increased role of market forces within the domestic economy meant that domestic enterprises were keen on to take advantage of opportunities to profit from international trade. Moreover, the gap between the domestic economy and the world economy had started shrinking compared with the Maoist period.

3.2.1.4 Macro-Economic Stabilisation

The consequences of the 'open door policy', decontrol and liberalisation on the domestic economy had generated noticeable concern by mid-1980s about ensuring macro-economic balances under the new system.\textsuperscript{42} Macroeconomic stabilisation policies involve four steps: (a) the eradication of the 'monetary overhang', i.e. the involuntary accumulation of financial claims or repressed inflation; (b) the removal of the flow causes of the chronic excess demand; (c) the development of a set of indirect instruments for effective macroeconomic control; and (d) the minimisation of price instability.\textsuperscript{43}


China has tried to achieve some success in the eradication of the monetary overhang. Owing to the existence of a booming private sector and the introduction of the two-track system in the state sector, repressed inflation or involuntary held liquid assets have been significantly reduced. Progress in respect to removing the flow causes of chronic excess demand in the state sector and the creation of indirect macro economic control mechanics has, however, been limited since financial discipline at the enterprise level was not yet restored, economic liberalisation tended to be accompanied by a surge in investment and wage expenditures. At the same time, the supply responses of the enterprises remained weak. Consequently, the growth of aggregate demand continually outstripped that of aggregate supply. The reassertion of administrative controls have tried to check the periodic outbursts of inflation in the Chinese economy.

The above outline of economic reform has been abstracted from the reform process as it unfolded in the 1980s. When it began in 1978, many of these ideas were still embryonic and provided an initially easy basis of consensus among the party leaders who wanted to get rid of Maoism. There was no ‘Plan’ of reform in the sense of a clear idea of some ultimate end-state and a series of steps or phases to each of it.44 In practice, the reforms were to involve a constantly moving interaction between ideas, policies and practical results in a context of changing political alignments.

Although there was no initial reform plan, however, it did have a clear strategic political goal, to re-establish the hegemony of the Chinese Communist Party and its version of state socialism. But the reform process carried within it a basic asymmetry from the start: while economically progressive, it was to be politically conservative, economic reform was to outturn political reform. In other words, the economic system could be changed in major ways while

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44 White, op.cit., n.8, p.14
keeping the basic institutions of Leninism and Stalinism intact. This is why the Chinese reform experiment has been named by the critics of it as ‘market Stalinism’ rather than ‘market socialism’.45

3.2.1.5 Chinese Economic Initiatives Announced in 1998

In March 1998, the then newly appointed Chinese Premier Zhu Rongji outlined a number of major new economic initiatives and goals for reforming China's economy and maintaining healthy economic growth. This measure was taken seriously as it was announced in the midst of the Asian crisis. These included:

- **Respond to the effects of the Asian financial crisis** by expanding domestic demand, especially through increased spending on infrastructure, and by maintaining the pace of previously planned economic reforms.

- **Reform and restructure loss-making medium-and-large-sized state-owned enterprises (SOEs)** to make them profitable. In September 1997, Chinese President Jiang Zemin stated that China would take steps which, if implemented, would essentially privatize (although referred to by the Chinese as "public ownership") all but 1,000 out of an estimated 308,000 SOEs by cutting off most government aid and forcing them to compete on their own. Under this plan, some unprofitable SOEs will be closed, while others will be merged with more profitable enterprises. Many firms will be allowed to issue stock in order to raise funds. Another source of revenue for SOEs will come from workers who will be allowed to purchase their own homes, and SOEs will be released from the responsibility of providing subsidised housing. The central government has stated that it plans to maintain support and control of 1,000 large and medium-sized enterprises deemed as key industries, but

45 Blecher, op.cit, no.33, p.116.
to reorganize and restructure them into large conglomerates in the hope of making them more competitive. Chinese government also intended to deal with the problem of displaced workers when and if the SOE reform plan is fully implemented. Chinese officials may be anticipating that continued rapid economic growth will provide new jobs for most displaced workers and that overseas investors will play a major role in restructuring the SOEs by becoming joint owners.

- **Reorganize the banking system** to increase the regulatory and supervisory power of the central bank and make commercial banks operate independently. Substantially reduce the size of the government and reorganize the remaining government institutions. On January 16, 1998, the central government announced it would attempt to implement new reforms to enhance the power of the central bank over the provincial and state banks and to improve the management systems of all Chinese banks. Such reforms would attempt to lessen the power of local officials to pressure banks into making "bad loans." In addition, the government has indicated that banks will be allowed to make bank loan decisions based on commercial, considerations. The government announced plans to issue bonds to recapitalize the state banks to enable them to write off bad loans. However, due the precarious nature of its banking system, Chinese officials appeared hesitant to allow foreign banks to expand their operations in China, due to concerns that doing so would force many Chinese banks into bankruptcy.

- **Developing Infrastructure:** Commercialize government housing, reform the health insurance system, improve the system for circulating grain, rationalize the system for approving investment and finance projects, and improve tax collection.
In July 1998, the government ordered the Chinese People's Liberation Army (PLA) to divest itself of its business holdings, estimated to total 15,000 enterprises, by the end of the year. In October, a similar order was issued for enterprises directly controlled by the Communist party and state bureaucracies.

Zhu Rongji's economic plan has been viewed by many analysts as representing the most significant restructuring of the economy to date, since it would substantially reduce the size of the government and diminish its control over various sectors of the economy, dismantle much of the remaining "iron rice bowl" of cradle-to grave benefits for government and SOE workers, enable banks to make loans on a commercial, rather than political basis, and force a large share of SOEs to operate according to free market principals. Implementation of such policies would take China significantly closer towards a functioning market economy.

3.3 An Assessment of Chinese Economic Reforms

The most striking part of the Chinese economic reforms when viewed as a whole is the succession of incremental, steadily accumulating measures of economic reform that have gradually transformed the economy in a fundamental way. China's economic reform programme has been extraordinarily robust under difficult circumstances. Always improvised, never clearly formulated in advance, the programme has nevertheless been shaped by a distinctive logic and set of circumstances that have given it considerable coherence. China has experienced substantial marketisation, liberalisation and opening to the outside world all in the context of rapid economic growth.

47 Ibid.
48 Naughton, op.cit.; no.35, p.12
By a number of statistical measures, China’s economic reform programme has achieved notable success. Key statistical indicators of this success are summarised below:

### 3.3.1 Rapid Growth

Since the introduction of economic reforms, China’s economy has grown substantially faster than during the pre-reform period (see Figure 3.1). Chinese statistics show real GDP from 1979 to 1999 growing at an average annual rate of 9.7%, making China one the world’s fastest growing economies.

**Figure 3.1**

China’s Average Annual Real GDP Growth (1960-1999)


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According to the World Bank, China's rapid development has raised nearly 200 million people out of extreme poverty. This acceleration in output growth occurred simultaneously with a decline in the annual growth rate of population to only around 1.3 percent in the 1980s. At least as important as the overall acceleration in the growth rate was the striking change in the balance of growth.

3.3.2 Accelerated Employment Growth

During 1979-1999, total employment grew at an average rate of 4%, exceeding the rate of 2% achieved during 1958-1978. As labour productivity in agriculture rose rapidly releasing workers from farm production, during 1978-1999, non-agricultural employment growth accelerated to an average rate of 7.5%. During this period there is an impressive cut in the urban unemployment rate also.

3.3.3 Rapidly Expanding External Sector

Enormous changes occurred in China’s international trade under the ‘open door policy’ initiated through the reform process. Following a long period of slow export growth and a steadily falling share of world trade, China’s export performance improved markedly in the 1980s as well as in the 1990s. Economic reforms have transferred China into a major trading power. Chinese exports rose from $14 billion in 1979 to nearly $195 billion in 1999, while imports grew from $16 billion to $166 billion (see Table 3.2). China's ranking as a trading power rose from 27th in 1979 to 10th in 1998. Historically, China has run trade deficits in some years and surpluses in others. Over the past 5 years, China has run trade surpluses; in 1999 that surplus totaled about $20 billion. Merchandise trade surpluses and large-scale foreign investment have

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enabled China to accumulate the world's second largest foreign exchange reserves, which totaled $145 billion at the end of 1998.

Table 3.1
China's Trade with the World ($ billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>13.7</td>
<td>27.3</td>
<td>62.1</td>
<td>91.7</td>
<td>151.1</td>
<td>194.9</td>
</tr>
<tr>
<td>Imports</td>
<td>15.7</td>
<td>42.5</td>
<td>53.3</td>
<td>104.0</td>
<td>138.8</td>
<td>165.7</td>
</tr>
<tr>
<td>Total</td>
<td>29.4</td>
<td>69.8</td>
<td>115.4</td>
<td>195.7</td>
<td>289.9</td>
<td>360.6</td>
</tr>
</tbody>
</table>

Source: PRC General Administration of Customs, MOFTEC (http://www.moftec.gov.cn)

Equally impressive have been qualities changes associated with the growth of trade as product quality, production technologies, managerial efficiency and marketing strategies have all been substantially upgraded. Along with the growth in merchandise trade, China has become a major destination for the foreign direct investment. The foreign direct invest was negligible prior to the economic reforms of 1978. Even this particular area didn’t show much improvement after the initiation of reforms both in the domestic and external economic sector. The foreign investment to China started growing gradually only after a decade of all these reforms. From 1979 to the late 1980s the FDI to China increased quite slowly. However, it has got the momentum in the 1990s. By the end of 1999, the FDI to China in various forms stands at $40 billion (see Table 3.3). Equity joint ventures as well as the wholly foreign owned enterprises are attracting a majority share of the total FDI into China. Besides, these impressive growth in both foreign trade and investment sector, China was able to join the international economic institution like International Monetary Fund and World Bank within a relatively short period. However, China’s persistent effort is still on to gain the membership of World Trade Organisation.

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Table 3.2

Foreign Direct Investment in China
Utilised FDI in China by Type of Enterprise, 1979-1999 ($ billion)

<table>
<thead>
<tr>
<th>Type of Enterprise</th>
<th>1979-96</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Joint Ventures</td>
<td>90.72</td>
<td>19.50</td>
<td>18.35</td>
<td>15.83</td>
</tr>
<tr>
<td>Cooperative Enterprises</td>
<td>38.03</td>
<td>8.93</td>
<td>9.72</td>
<td>8.23</td>
</tr>
<tr>
<td>Wholly Foreign-Owned Enterprises</td>
<td>42.55</td>
<td>16.19</td>
<td>16.47</td>
<td>15.55</td>
</tr>
<tr>
<td>Joint Shareholding Companies</td>
<td>0</td>
<td>0.29</td>
<td>0.71</td>
<td>0.29</td>
</tr>
<tr>
<td>Cooperative Development</td>
<td>5.28</td>
<td>0.36</td>
<td>0.18</td>
<td>0.38</td>
</tr>
<tr>
<td>Others</td>
<td>--</td>
<td>--</td>
<td>0.04</td>
<td>0.04</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>176.58</strong></td>
<td><strong>45.26</strong></td>
<td><strong>45.46</strong></td>
<td><strong>40.32</strong></td>
</tr>
</tbody>
</table>

Totals may not add up because of rounding

Source: PRC General Administration of Customs, MOFTEC (http://www.moftec.gov.cn)

3.3.4 Rising Living Standards

There has been a considerable improvement in living standards of the Chinese people during the reform decade. Chinese data show a doubling average real material consumption per person between 1978 and 1997.\(^{51}\) It included increase in grain consumption, cloth consumption and even housing space person.

However, the most remarkable increases were in consumer durables, produced by better-motivated state enterprises, heavy industry reallocating

\(^{51}\) Ibid.
some of its capacity and the rapid expansion of small-scale, mainly collective enterprises.

Many aspects of great importance to people's quality of life are difficult to quantify enormous changes in these areas occurred in the 1980s, mostly in a direction that improved the quality of life. Although the CCP still exercised strong control over social and cultural life, the boundaries of individual freedom widened greatly.

The above achievements have not been obtained without substantial costs growing economic inequality, rising economic insecurity, greater price instability, rising corruption and greater political and social instability. Indeed, the reform process during the 1980s was marked by four fundamental, closely related failures. These were the failure to create a new fiscal system, the failure to clarify or restructure property rights, failure to put real accountability into the investment system and repeated and excessive delays in reforming some of the more distorted aspects of the price system. All of these failures were the result of continuing inability of the Chinese government to design and carry through co-ordinated or rationalising reforms. So many changes needed to be made that it was acceptable to defer the tasks that were most difficult administratively and ideologically.

The administrative capability of the government was strained to the limit during a process of wide-ranging change and the government rarely had the ability to design and then carry out long-term, multi-stage reform programmes. Moreover, improvised policy responses were made within the bounds of ideology, factional rivalries and bureaucratic power and interests. So, the two dimensions of change often had moved in tandem. But as the events of 1989 drew the decade to a close, it became clear that economic change had advanced

52 Chen, Jefferson and Singh, op.cit, no.49, pp.201-225.
53 Naughton, op.cit., no.38p.13
more rapidly than political change. In other words, the leadership had achieved broad consensus on the need to transform the Maoist period economic system, but were committed to maintain the basic political institutions of the Maoist period: monopolistic rule by the Communist Party and tight restrictions against both civil liberties and an autonomous political sphere of civil society.\textsuperscript{54}

Since the Chinese leadership most hostile to political reform also tended to take a less radical position on economic reform: Their ascendance marked the beginning of an extended period of economic retrenchment. For more than two years after the crackdown economic policy emphasised austerity, slowed growth to tame inflation and circumscription of the market.\textsuperscript{55} Tightened credit and fiscal policies served to curtail industrial investment, while investment focussed on state-owned enterprise rather than the collective or private sectors. Renewed investment priority subsidies-advanced to keep urban prices low while maintaining higher prices paid to farmers - consumed a huge portion of the state budget contributing to a growing deficit and looming financial crisis. Price controls were reinstated for both producer and consumer goods, to this same deflationary end, the money supply was shrunk.

Perhaps for these measures, the economy showed a better turn persuading the leadership to reopen the economy. In early 1992 economic reform gained renewed momentum. In January the conservative Premier Li Peng declared that the period of "improving the economic environment and rectifying the economic order" was over.\textsuperscript{56} One again Deng Xiaoping’s ideological pragmatism was on display as he trumpeted the view that markets were not to be equated with capitalism and that socialism’s real nature is to liberate productive forces. By the end of the year, the target rate for economic

\textsuperscript{54} Blecher, op.cit. no.33, p.33.

\textsuperscript{55} Fewsmith J., \textit{Dilemmas of Reform in China} (1994), New York: M.E. Sharpe, Inc., pp.247-249

\textsuperscript{56} Blecher, op.cit.,no.33, p.36
growth was raised to 9%. The state once again initiated price and marketising reforms. These economic reforms are being followed by Deng’s successors until now. And by the end of 1999, the Chinese economy has achieved something of a soft landing from its dangerous altitude during the previous years. Economic growth has reached quite impressively to 9.1%.

3.4 Ramifications for US economic interests and growth of its China trade

The economic reforms introduced in China in 1978 and subsequently in later years have greater ramifications for US economic interests in China. It has enhanced United States perceptions of the benefit of developing closer economic ties with China. The US administration perceived the reform in two significant terms such as pragmatism and economic opportunity.

Pragmatic reform was aimed at making economic progress in China by “opening the Chinese door” to the outside world. Most pragmatic Chinese leaders supported an open-door foreign policy towards the West, because maintaining good relations with the United States and other Western countries would help obtain technology and financial investment.

China’s economic reforms also enhanced the US perception of new economic opportunities in China. The Third Plenum of the Eleventh Central Committee of the CCP decided to shift its “working gravity” from emphasising politics to promoting economic development. China also committed itself to achieving the “four modernisations” by the year 2000. With regard to these programmes, China had to import much of the needed capital and technology.

57 Tan Qingshan, op.cit, no.56, p.62.
58 The Four Modernisations Programme was first put forth by Premier Zhou En-lai in 1975 as a programme to modernize agriculture, industry, national defence and science and technology. After Zhou’s death and the downfall of “Gang of Four”, a revised outline of the programme was announced by premier Hua Guofeng and approved by the Fifth National People’s Congress in March 1978. Again in December 1978, the Central Committee of the CCP revised it.
from the West. During the first decade of Chinese economic reforms, Chinese real imports increased at the rate of 12 to 15 percent annually.

3.4.1 The Growth in US-China Bilateral Trade and Investment

The growth in the Chinese economy has helped to boost US-China economic relations. In fact, the period since 1979 began with a new surge in US-China trade. US exports to China grew from $0.8 million in 1978 to $13.0 billion in 1999 (see Table 3.3).

Table-3.3

<table>
<thead>
<tr>
<th>Year</th>
<th>US Exports to China</th>
<th>US Imports from China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total ($ billions)</td>
<td>U.S. Rank</td>
</tr>
<tr>
<td>1978</td>
<td>0.82</td>
<td>32</td>
</tr>
<tr>
<td>1987</td>
<td>3.50</td>
<td>18</td>
</tr>
<tr>
<td>1996</td>
<td>12.0</td>
<td>15</td>
</tr>
<tr>
<td>1999</td>
<td>13.1</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: U.S. Department of Commerce, CIA: The World Fact Book of Various Years

Imports grew faster, rising from $0.3 billion to $ 81.1 billion. The importance of China as a trading partner grew considerably. China went from the 32nd largest US export market in 1978 to 11th in 1999 and from the 57th largest source of US imports to 4th. China in 1999 accounted for about 2.4% of US exports and 8.4 of US imports. China has become an important source for a variety of products for the United States, namely toys, footwear, textiles and electronics. China has become an important US export market for such products.
as aircraft, fertilizers, textile fibers and machinery. The table 3.4 and table 3.5 illustrates the major U.S. export and import commodities in its bilateral trade with China.

Table: 3.4
Top US Exports to China ($ million)

<table>
<thead>
<tr>
<th>HTS #</th>
<th>Commodity</th>
<th>1999</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>84</td>
<td>Power generation equipment</td>
<td>2,571.7</td>
<td>-5.4</td>
</tr>
<tr>
<td>88</td>
<td>Air &amp; spacecraft</td>
<td>2,317.1</td>
<td>-35.4</td>
</tr>
<tr>
<td>85</td>
<td>Electrical machinery &amp; equipment</td>
<td>1,985.4</td>
<td>13.2</td>
</tr>
<tr>
<td>31</td>
<td>Fertilizer</td>
<td>931.7</td>
<td>-12.4</td>
</tr>
<tr>
<td>90</td>
<td>Medical equipment</td>
<td>792.0</td>
<td>16.5</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>522.5</td>
<td>20.9</td>
</tr>
<tr>
<td>12</td>
<td>Oilseeds</td>
<td>370.6</td>
<td>22.0</td>
</tr>
<tr>
<td>48</td>
<td>Paper &amp; paperboard</td>
<td>346.8</td>
<td>3.3</td>
</tr>
<tr>
<td>29</td>
<td>Organic chemicals</td>
<td>318.9</td>
<td>43.0</td>
</tr>
<tr>
<td>87</td>
<td>Vehicles and parts thereof</td>
<td>213.2</td>
<td>43.3</td>
</tr>
</tbody>
</table>

**Source:** US International Trade Commission, US Department of Commerce, and US Bureau of the Census

Table: 3.5
US Imports from China ($ million)

<table>
<thead>
<tr>
<th>HTS #</th>
<th>Commodity</th>
<th>1999</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>Electrical machinery &amp; equipment</td>
<td>15,051.9</td>
<td>17.9</td>
</tr>
<tr>
<td>95</td>
<td>Toys &amp; games</td>
<td>11,079.7</td>
<td>5.0</td>
</tr>
<tr>
<td>64</td>
<td>Footwear &amp; parts thereof</td>
<td>8,434.1</td>
<td>5.3</td>
</tr>
<tr>
<td>61, 62</td>
<td>Apparel</td>
<td>5,774.8</td>
<td>1.8</td>
</tr>
<tr>
<td>94</td>
<td>Furniture</td>
<td>5,548.0</td>
<td>40.6</td>
</tr>
<tr>
<td>42</td>
<td>Leather &amp; travel goods</td>
<td>3,006.5</td>
<td>2.8</td>
</tr>
<tr>
<td>39</td>
<td>Plastics and articles thereof</td>
<td>2,471.2</td>
<td>18.4</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>90</th>
<th>Medical instruments</th>
<th>2,302.4</th>
<th>3.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>72, 73</td>
<td>Iron &amp; steel</td>
<td>1,607.3</td>
<td>17.1</td>
</tr>
</tbody>
</table>


### 3.4.1 Normalisation of Sino-US Bilateral Relations

China’s economic competitiveness with the United States market surged to its economic reforms and “open door policy” of 1978. Along with this, there was another factor responsible for this increased bilateral trade activity was the establishment of diplomatic relations with China in 1979. The normalisation of relations permitted US business people to conduct business in China with US government help. One of the main reasons that Japan and Western Europe were able to explore the Chinese market successfully was that their governments played an important role in financing their trade with China. Realising that the United States lagged behind Japan and Western Europe, many US businesses were eager to have official relations with China. The Chinese economic reforms provided new prospects for increasing imports of industrial products, advanced technology, grains, and other raw materials by China from the United States.

With the normalisation of bilateral diplomatic relations, it gave opportunity to large numbers of US business people to go to China to explore possible business transactions. There were a number of bilateral trade agreements signed for several large transactions. The Flour Corporation signed an agreement for a proposed $800 million complex to mine and process copper. Beijing ordered three Boeing 747 SP planes. Agreements were signed to set up Coca-Cola bottling plants as well as iron ore processing plant. Pan American Airlines, through its subsidiary Inter Continental Hotels, negotiated a $500

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million agreement to build luxury hotels. Despite the rapid increase of Sino-US trade, however some remaining problems such as granting of MFN status to China hindered further development of bilateral economic relations. Another problem was that the Export-Import Bank Act of 1945, as amended, prohibited the bank from conducting any credit transactions (export credits and credit guarantees) involving a socialist country, except in cases where the President considered that restriction contrary to national interests. This ruled out Export-Import Bank financing for any business transactions between two countries. These problems had a general impact on the bilateral trade, reducing China's exports to the United States and weakening China's ability to purchase US goods, since its imports were largely financed by exports. Moreover, these problems restricted the United States on competing with Japan and Western Europe for a market share in China.

An important development in bilateral trade and investment relations occurred as U.S. manufacturers began direct investment in China. These investment projects were aimed mainly at China's cheap labour and low tax and tariff rates, especially in the coastal special economic Zones (SEZs). The United States foreign direct investment in different sectors prior to economic reforms was negligible. Over the years it has increased and by the end of 1999 the United States has become the second largest investor after Hong Kong to invest in China (see Table 3.6)

61 Tan Quingshan, op.cit.no.56, p. 62.
62 Ibid.
U.S. investment in China is growing at fast pace. More than 10,000 U.S.-China joint venture companies are in operation with a total U.S. investment exceeding 10 billions US dollars. In the year 1999 itself there were more than 2000 projects where U.S. has invested (see Table 3.6). Many world famous U.S. companies have established joint ventures or wholly owned companies in China. GM, FORD, CHRYSLER, GE, MOTOROLA, UNITED TECHNOLOGY, AT&T, DUPONT, PHILIP MORRIS, P&G, COCA COLA, PEPSI COLA are all involved in various types of cooperation in China and some of them have worked out long term strategy on China market. Generally speaking, this also reflects the high appreciation for U.S. joint ventures by their Chinese partners for attaching great importance to management, to quality of products, to transfer of technology and to personnel training of their Chinese staff64.
The Chinese economic reforms as well as the normalisation of the bilateral relations enhanced the U.S.-China commercial relations till 1989. The year 1989 witnessed a huge setback to the expansion of this bilateral trade and investment relation. Following the Tiananmen tragedy, the U.S. government decided to suspend high-level exchanges between the two nations and imposed sanctions against China, especially regarding technology transfers. Under pressures from Congress, trade unions, human rights organisations and other special interest groups, the Bush administration linked the approval of extension of China’s MFN trade status with its human rights practices. As the sale of high-tech equipment to China became increasingly restricted, many American Companies decided to restrain their business expansion in China, and a few pulled out from the Chinese market. As a result, the expansion of U.S.-China commercial ties slowed down significantly.

However the situation began to change in 1992, when the Chinese government decided to make great efforts to boost its economic growth and reform. Following Deng Xiaoping’s trip to China’s southern coast in that year, China’s reform and growth blossomed.65 As the capital inflow accelerated, demand for imported capital and consumer goods jumped. At the same time, Chinese exports to major developed countries including United States picked up strongly. Within a relatively short period of time, the US has become the second largest trade partner of China (see Table 3.7)

Table 3.7
China's Top Trade Partners (Total Trade, $ million)

<table>
<thead>
<tr>
<th>Rank 1998</th>
<th>Country</th>
<th>1999</th>
<th>% change</th>
<th>% of Total PRC Trade</th>
<th>Rank 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Japan</td>
<td>66,167.3</td>
<td>14.2</td>
<td>18.3</td>
<td>1</td>
</tr>
</tbody>
</table>

64 Backgrounder: Sino-American Commercial Relationship and MFN from http://www.china-embassy.org/eng/7030.html
65 Huan, op.cit, no.63, p.92.
<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP (US$)</th>
<th>Growth Rate (%)</th>
<th>Inflation Rate (%)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>United States</td>
<td>61,425.7</td>
<td>9.2</td>
<td>17.0</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Hong Kong</td>
<td>43,783.0</td>
<td>-3.6</td>
<td>12.1</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>South Korea</td>
<td>25,035.6</td>
<td>17.7</td>
<td>6.9</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>Taiwan</td>
<td>23,478.6</td>
<td>14.5</td>
<td>6.5</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Germany</td>
<td>16,114.2</td>
<td>12.1</td>
<td>4.5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Singapore</td>
<td>8,563.3</td>
<td>4.7</td>
<td>2.4</td>
<td>7</td>
</tr>
<tr>
<td>8</td>
<td>United Kingdom</td>
<td>7,874.1</td>
<td>19.6</td>
<td>2.2</td>
<td>8</td>
</tr>
<tr>
<td>9</td>
<td>France</td>
<td>6,705.5</td>
<td>11.2</td>
<td>1.9</td>
<td>11</td>
</tr>
<tr>
<td>10</td>
<td>Netherlands</td>
<td>6,422.9</td>
<td>7.1</td>
<td>1.8</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: PRC General Administration of Customs, MOFTEC (http://www.moftec.gov.cn)

In the last five years, China's average annual economic growth rate has been around 10%, the average annual income for the city dwellers was more than doubled and that for the people in the countryside increased by 1.5 times. The domestic savings of the Chinese people are also growing fast.

The success of China's reform and opening has brought great benefits to the Chinese people and provided tremendous opportunities of trade and investment to countries in the Asia-Pacific region and the world at large, which in itself is a very significant contribution to the stability and prosperity of the world economy.

China has made an ambitious plan for the economic development in the next five years and long term development objective to the year 2010 with the projected annual economic growth rate of around 8%. A whole bunch of major projects of capital construction will be undertaken during this period, which include new railway lines, highways, pipelines for gas and oil as well as a number of sea ports. The total investment will be more than 30 billion US dollars. Besides, many new power stations will be built. Priorities will be given to building hydropower stations, at the same time, many thermal power
stations and a couple of nuclear power stations will also be under construction. In the next five years, 70 to 80 million telephone lines will be added and the optical fiber cables for long distance calls will cover 150,000 km. It is estimated that in the coming 5 years, China will need to import about 1 trillion US dollars worth of commodities, advanced technology and equipment.67

The above analysis of the Chinese economy reflects the potentials for bilateral trade and business opportunities in future. American companies are eagerly looking forward to take part in the construction of these projects. With worldwide experience and advanced technology, the American companies are in a very strong position to compete with companies from other parts of the world on the Chinese market.

Sino-U.S. bilateral trade and investment relations during this period was not free from the frictional issues like growing trade imbalances, granting of MFN/Permanent normal trade relations status, intellectual property rights, Taiwan issue etc. which has been discussed later part of the thesis. However, further expansion of economic relations between the two countries would be determined by the following major factors: China’s economic growth, as well as its export capacity and its demand for imported goods, the likelihood that China will join the WTO in near future, political relations between two countries, competition from other countries for both U.S. and Chinese markets; and U.S. growth and structural changes in its economy as well as in its trade policies.

66 Backgrounder: op.cit, no.64.
67 Ibid.