

## China's Economic Rise after 1978

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### Abstract

*Since the implementation of its market reforms in 1978, China has gradually shifted from a centrally-planned economy to a socialist market economy and has succeeded in obtaining significant economic development gains. China's spectacular economic rise represents one of the most remarkable phenomena of the last four decades. Since 1978, the Asian Dragon has undergone an astonishing economic transformation under the post-Maoist generation of Communist leaders. The aims of the paper are to present and briefly analyze the Chinese economic rise in the last four decades. In order to achieve the aims of the paper the authors used a quantitative research method. The paper briefly analyzed China's economic rise by taking into account the evolution of its GDP and economic growth rate. The results demonstrated the impressive economic performance obtained by the Asian Dragon even in the period of global crises.*

**Key words:** economic growth, economic reforms, China, Chinese Communist Party, Deng Xiaoping

**J.E.L. classification:** O4, O53.

### 1. Introduction

Since the implementation of its market reforms in 1978, China has gradually shifted from a centrally-planned economy to a socialist market economy and has succeeded in obtaining significant economic development gains. With a population of more than 1.39 billion people (National Bureau of Statistics of China, 2018) and a gross domestic product (GDP) at purchasing power parity of more than \$23 trillion in 2017 (Central Intelligence Agency, 2019) the People's Republic of China (PRC) achieved the status of a superpower at the global level (Fishman, 2005; Urio, 2018). It already became the world's largest exporter of goods, the "world's factory" and a huge consumer of commodities (Zhang, 2006; Gilhooly *et al*, 2018).

China's spectacular economic rise represents one of the most remarkable phenomena of the last four decades. Since 1978, the Asian Dragon has undergone an astonishing economic transformation under the post-Maoist generation of Communist leaders (Benson, 2016). In this respect, China's successful economic story began with the historical decisions adopted by the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China in December 1978 when re-adjustments of the economic policies and market-oriented reforms were implemented (Feuchtwang *et al*, 1983; Fewsmith, 1994; Garnaut *et al*, 2018). As a result, the GDP per capita rose from 385 yuan in 1978 to 59,660 yuan in 2017 (National Bureau of Statistics of China, 2018).

The aims of the paper are to present and briefly analyze the Chinese economic rise in the last four decades. The next section of the paper displays the literature review. It is followed by the research methodology. Thereafter, the findings of the paper are illustrated. The paper ends with conclusions.

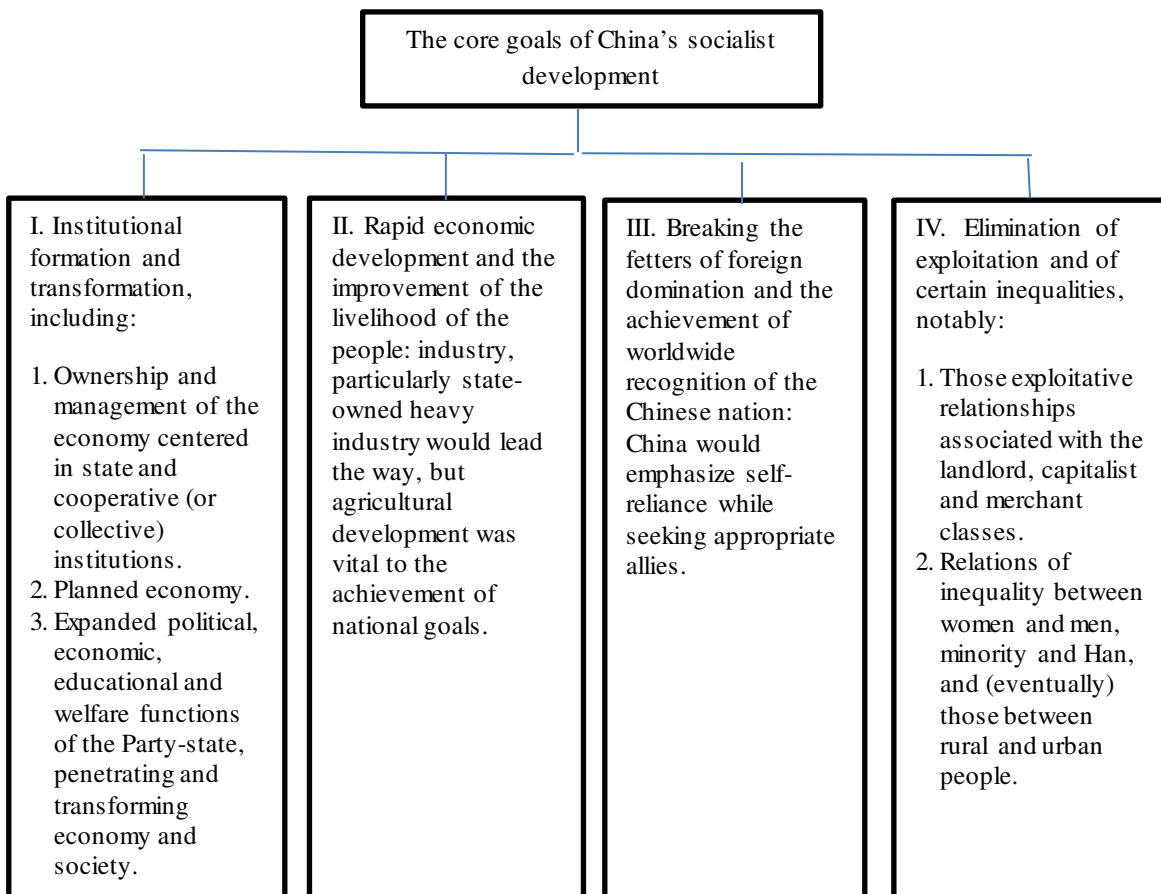
## 2. Literature review

China's impressive economic rise after 1978 has constituted a topic of interest for researchers and practitioners all over the world in the past decades. After the end of the Second World War, China faced three great challenges as follows: the effects of wartime inflation, the effects of wartime real dislocation of resources, the civil war (King, 1968).

The civil war ended with the victory of the communists over the Nationalist forces and Mao Zedong proclaimed the PRC on 1 October 1949. The adoption of Marxism-Leninism with 'Chinese characteristics' led the Chinese Communist Party (CCP) to the establishment of a centrally planned economy and of four key goals of the socialist development of the country (Figure no. 1).

From 1949 to his death in 1976, Mao ruled the country and highly influenced its evolution. From the beginning, he declared that "the time had come for the CCP's centre of gravity to switch to the cities, which were to focus on production rather consumption" (Fenby, 2013, p. 357). Therefore, the PRC, with its "highly centralised and hierarchical power structure" (Stuart-Fox, 2003, p. 154), its "unique 'socialism with Chinese characteristics' political model but its ancient thought, traditions and attitudes" (Brown, 2017, p. 8) and with Soviet aid, designed and implemented the First Five-Year Plan (1953-1957) that put accent on the industrial development, especially the heavy industry, combined with the socialist transformation of agriculture, handicrafts, and commerce (Guo, 2010, p. 84). Under the Communist regime, it gradually became one of the greatest industrial powers of the world in several domains such as cotton, coal, iron, cement and paper at the end of the 1950s and the beginning of the 1960s (King, 1968). Despite the fact that the economic growth averaged almost 9% between 1952-1957 and less than 5% from 1958 onwards (Pyle, 1997), the country remained poor, rural, and mainly underdeveloped from an economic point of view until the late 1970s.

Figure no. 1. The core goals of China's socialist development after the Second World War



Source: (Selden, 1984, pp. 1-2)

The end of the 1970s witnessed a major change in the PRC when Mao's radicalism was replaced by Deng Xiaoping's economic reforms and open-door policy. In other words, "the most significant single development in China since the death of Mao has been the shift from revolution to reform" (Dittmer, 2018, p. 2). Thus, "'socialist modernization' became the watchword, with decentralization, rationalization, performance-linked rewards and management responsibility at its core" (Fenby, 2013, p. 539). China's economic structure underwent a transition to a new economic system as follows:

"(1) Popularly owned enterprises have begun to transform themselves into independent commodity producers; and managers with the power of decision making in the original organisations are taking up positions within administrative organisations.

(2) Fully nationalised ownership has given way to various forms of shared interest with a majority public component.

(3) The mechanism of economic operation has begun to be transformed from that of mandatory allocation and distribution to a combination of planned economy and market regulation.

(4) The form of economic policy making has changed from the former centralised strategic command system, with its lack of distinction between the responsibilities of the state and the enterprises, to one involving a redefinition of governmental functions and the introduction of multi-level responsibility.

(5) The principle of social provision has begun to shift from the former egalitarian system - everyone 'eating from a big common pot' - to a variety of forms that operate on the basis of distribution according to contribution, etc." (Gao, 1996, p. 11).

The economic reform period can be split in the following three main phases of approximately five years each: agricultural reforms, urban/industrial reforms, financial reforms (Pyle, 1997).

After the inauguration of the so-called "four modernizations" (in industry, agriculture, science and technology, and the military) in the early 1980s, China achieved double-digit economic growth for several years. Later, the fall of the Berlin Wall and the spread of globalization imposed the replacement of politics by economics as the main focus of attention of the PRC (Stuart-Fox, 2003).

The end of the second millennium and the beginning of the third millennium found the Chinese economy engaged in a process of strategic restructuring aiming at the development of manufacturing industries (e.g., electronics, automotive), petrochemical industries, building industries, environment protection industries, and high-tech industries (Zhang, 2000).

After more than half a century of constant change today's China economic system represents a combination of "a predominantly market economy, emerging capital markets, and large and important government-owned corporations" (Tsai *et al*, 2015, p. 2). China's emerging model of state capitalism emphasizes the prominence of state-owned enterprises and banks in an economy that has grown in recent years at an average of around 7% (World Bank, 2019).

China's economic rise constituted the subject of numerous studies that have been published especially after the 1980s. Most of them focused on various aspects related to this topic such as the structure of the Chinese economy, the huge population, the role of state, the abundance of many natural resources or the influence of the political system (Lippit, 1987; White, 1993; Bao *et al*, 2002; Guo, 2010).

### **3. Research methodology**

In order to achieve the aims of the paper the authors used a quantitative research method. First, they collected the secondary data through the deployment of a comprehensive literature review. Second, the authors revised articles, reports and books found in Romanian libraries and electronic databases. Third, they analyzed and synthesized the data.

### **4. Findings**

After the death of Mao, Deng's liberal policies encouraged Chinese people to get rich through their work and efforts. The creation of the special economic zones, the launching of the program of expanded state-owned enterprise autonomy and the implementation of the contract system highly

contributed to the rapid economic rise of China after 1978.

In the period 1978-2017 China's GDP rose from around \$150 billion to \$12,238 billion (Table no. 1). In other words, it increased over 80 times in four decades, a remarkable economic boost for the PRC.

*Table no. 1. The evolution of China's GDP and growth rate in the period 1978-2017*

| <b>Year</b> | <b>GDP (current US\$billion)</b> | <b>Growth rate (annual %)</b> |
|-------------|----------------------------------|-------------------------------|
| 1978        | 149.541                          | 11.667                        |
| 1979        | 178.281                          | 7.6                           |
| 1980        | 191.149                          | 7.807                         |
| 1981        | 195.866                          | 5.172                         |
| 1982        | 205.090                          | 8.934                         |
| 1983        | 230.687                          | 10.835                        |
| 1984        | 259.947                          | 15.139                        |
| 1985        | 309.488                          | 13.443                        |
| 1986        | 300.758                          | 8.94                          |
| 1987        | 272.973                          | 11.689                        |
| 1988        | 312.354                          | 11.235                        |
| 1989        | 347.768                          | 4.186                         |
| 1990        | 360.858                          | 3.907                         |
| 1991        | 383.373                          | 9.294                         |
| 1992        | 426.916                          | 14.216                        |
| 1993        | 444.731                          | 13.868                        |
| 1994        | 564.325                          | 13.052                        |
| 1995        | 734.548                          | 10.949                        |
| 1996        | 863.747                          | 9.928                         |
| 1997        | 961.604                          | 9.231                         |
| 1998        | 1,029                            | 7.838                         |
| 1999        | 1,094                            | 7.667                         |
| 2000        | 1,211                            | 8.492                         |
| 2001        | 1,339                            | 8.34                          |
| 2002        | 1,471                            | 9.131                         |
| 2003        | 1,660                            | 10.036                        |
| 2004        | 1,955                            | 10.111                        |
| 2005        | 2,286                            | 11.396                        |
| 2006        | 2,752                            | 12.719                        |
| 2007        | 3,552                            | 14.231                        |
| 2008        | 4,598                            | 9.654                         |
| 2009        | 5,110                            | 9.4                           |
| 2010        | 6,101                            | 10.636                        |
| 2011        | 7,573                            | 9.536                         |
| 2012        | 8,561                            | 7.856                         |
| 2013        | 9,607                            | 7.758                         |
| 2014        | 10,482                           | 7.298                         |
| 2015        | 11,065                           | 6.9                           |
| 2016        | 11,191                           | 6.7                           |
| 2017        | 12,238                           | 6.9                           |

Source: (World Bank, 2019)

China's GDP increased continuously in the period 1978-1985. It followed a short decrease in the period 1986-1987. The period 1988-2017 witnessed a permanent expansion of China's GDP. Moreover, its value doubled in the period 2010-2017.

Also, the economic growth rate achieved high values during the same period of time. It is worth to mention that it had only positive values in those four decades. Furthermore, the average growth rate surpassed 11% in the periods 1982-1988, 1992-1997, and 2002-2007. However, it decreased lately, but exceeded 7% in recent years, namely in the period 2012-2017.

## 5. Conclusions

In a short period of time after the end of the Second World War China became a communist country. In spite of its efforts it remained an underdeveloped country in the next decades. The year 1978 was the turning point in its postwar history as the country underwent major economic reforms initiated by Deng Xiaoping.

The paper strived to present the economic rise of the Asian Dragon in the last four decades as it has constituted a topic of interest in the literature. A comprehensive review of the literature revealed that this phenomenon has been investigated from various point of views. Also, the paper briefly analyzed China's economic rise by taking into account the evolution of its GDP and economic growth rate. The results demonstrated the impressive economic performance obtained by the PRC even in the period of global crises. Further researches may expand this study by including the analysis of other economic indicators.

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