

## 40 YEARS OF REFORM AND OPENING UP OF THE CHINESE ECONOMY

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Economic reforms in China began in 1978. The main goal of the reform was to build a market economic system taking into account the characteristics of China. Achieving this goal at the end of the 20th century allowed China to grow to the level of economic development at which it is now in the 21st century. The essence of the reform concept is the implementation of the “three steps” strategy. The beginning of the economic development assessment adopted China's gross domestic product of 1980. The "first step" of the reforms meant a doubling of GDP during the 80s. (Table 1). The “second step” implied a new doubling of GDP by the end of the twentieth century. The “third step” was to provide a fourfold increase in GDP with a relative value per capita of \$ 4,000. The achievement of such high indicators should have been the result of the openness of the economy, the attraction of foreign investment in it, the activation of the population and its initiative.

The main changes in the Chinese economy can be seen on the basis of an analysis of the dynamics of the main macroeconomic indicators (Fig. 1).

Table 1

China's economic aggregate statistics

Year	1978	1985	1990	1995	2000	2005	2010	2012	2017	2018	1978
GDP, billion	53	1319	2742	8890	14357	27148	59859	78314	118618	130480	53
Growth rate, %	12	13,40	3,90	11	8,50	11,40	10	7,90	5,90	6,50	12

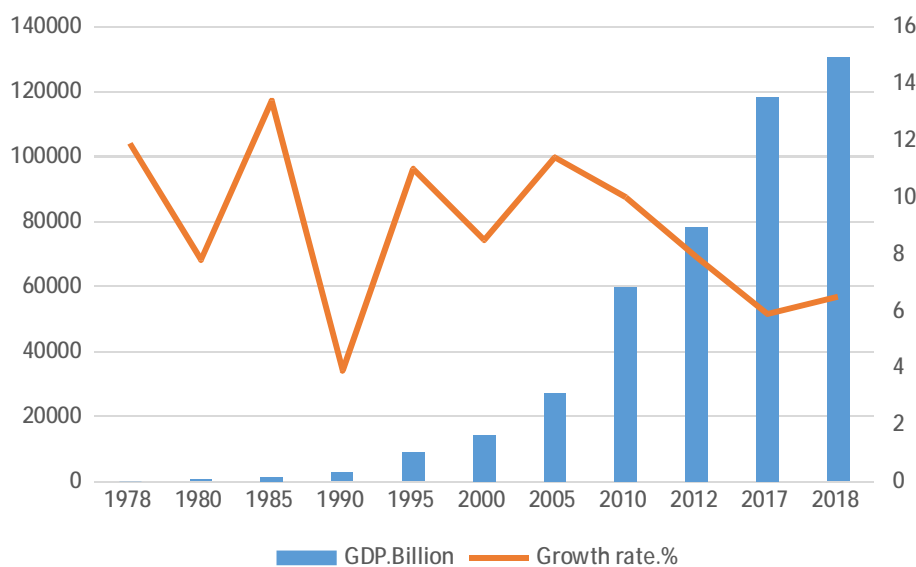


Fig. 1. China's economic aggregate statistics

In the past 40 years, China's economic aggregate has reached a new level. Gross domestic product (GDP deflator) jumped rapidly from 53 Billion dollars in 1978 to 13479 Billion dollars in 2018, and the economy expanded by 225 times. GDP deflator grows at an average annual rate of about 9%.

China's population data is huge. In the year before the reform in 1977, China's per capita GDP deflator was converted at US\$198 at the current exchange rate and US\$8,386 in 2017. If measured by the constant price of RMB, per capita GDP deflator has increased by 25 times. It is 15 times more measured by the constant dollar price. The official exchange rate of the RMB against the US dollar in 1977 was 1.7:1, when the RMB was overvalued, actually more than 15 times. In general, the Chinese economy has undergone earth-shaking changes during the reform period.

In 2005, the urban population was 560.3 million, and the urbanization rate was 43% (Fig. 2). After 2005, the urban population increased year by year. In 2017, the urban population was 819.70 million, the urbanization rate was 59%, and the rural residents fell to less than half.

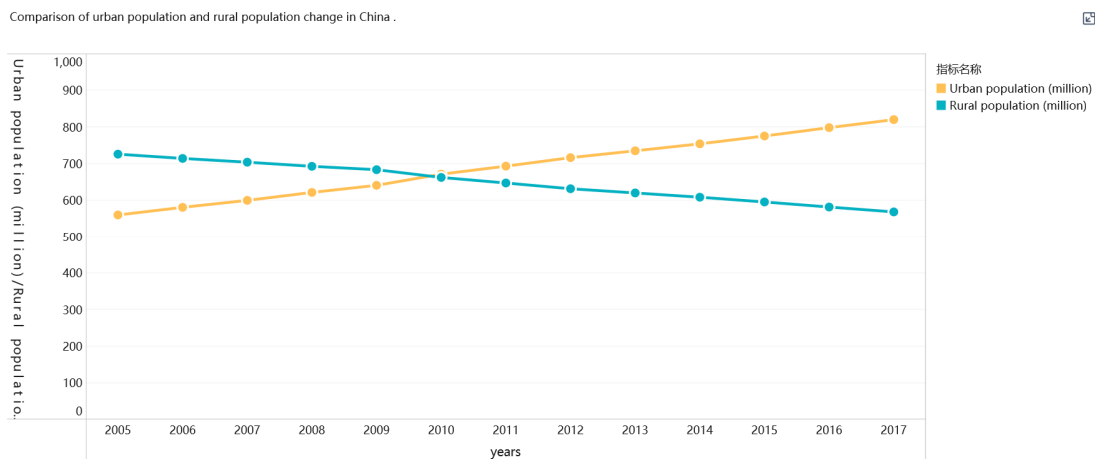


Fig. 2. Comparison of urban population and rural population from 2005 to 2017

Regarding economic growth and income growth of residents, the average annual growth rate of GDP deflator in the 25-year period from 1953 to 1977 was 5.9%, and the per capita income growth rate of residents was only 1.7%. These two numbers may still have a certain degree of overestimation. After the reform, the average annual economic growth rate for the 40 years from 1978 to 2017 was 9.6%, and the annual growth rate of per capita income of residents was 7.4%, which was significantly higher than before the reform.

According to the 2010 poverty line standard (constant price per capita 2300 yuan), the rural poor population accounted for 97.5% in 1978, when the rural population was almost all poor. In 2016, this proportion fell to 7.3%, and more than 90% of the rural population was out of poverty.

Regarding the total economic volume, in 1977 China's GDP deflator was converted into a developed country with a dollar that was much lower than many small and medium-sized populations. After the reform, economic growth accelerated, surpassing Russia, Canada, Italy, France, Britain, Germany, and Japan, and now ranks second in the world. Although the per capita GDP deflator is several times different than the United States.

In general, the main progress in development over 40 years of reforming the Chinese economy can be seen in the following.

First, from an inefficient planned economy to a more efficient market economy, China can be said to be a market economy country in general.

Second, from closed to open. Before the reform, China's foreign trade was few. No foreign investment. It is almost out of touch with the world economy. People have little to do with the rest of the world. It has now become an open economy. It has grown to a USA trade surplus of \$2 billion.

Third, from the transformation of the past state-owned economy into a mixed economy, the private economy has actually accounted for more than half. Before the reform and opening up, agriculture was basically a state-owned economy. In industrial output, state-owned enterprises accounted for 77% in 1977, and the rest were collectively owned enterprises. Now this ratio is reversed. In 2017, the non-state-owned economy accounted for 78% of the main business income of industrial enterprises, and state-owned enterprises only accounted for 22%.

Fourth, a social security system has been established. Before the reform, the employees of state-owned enterprises and institutions and the staff of the party and government organs were guaranteed. They were basically employed for life, and they were reimbursed for medical treatment. They could receive pensions after retirement. However, these guarantees cannot be enjoyed by other urban and rural workers and residents. Not to mention the peasants, it is entirely their own business to be old and sick. Nowadays, whether it is a town or a village, there is basically a comprehensive social security system. There are subsistence allowances, old-age insurance, and new rural cooperative medical insurance (cooperative medical care) in rural areas, which are low in protection, but they are basically enjoyable. The main gap now is rural migrant workers.

The achievement of the above achievements can be vividly summarized as "crossing the river by feeling the stones", that is, the gradual reform that takes a step by step. This type of reform is very different from other transition countries in the world, such as the former Soviet Union and the then Eastern European socialist countries. In the 1990s, Russia introduced the "shock therapy"-style reform, abolishing the original state-owned economy overnight, all plans were abolished, price control was completely abandoned, and all enterprises were privatized. Subsequently, Russia's GDP deflator fell by nearly half, and the ruble depreciated sharply. In 1998, the official exchange rate of the ruble was 0.5 rouble for one dollar, and the black market price was 5 roubles for one dollar. After the implementation of shock therapy, he went to 5000 roubles for a dollar, experienced hyperinflation, and the economy almost collapsed. Although China's gradual reforms are not thorough at every step, they have basically passed smoothly, and the "shock therapy" reform has brought about a serious crisis.

Of course, China's reform path is not perfect, and there have been many problems in the reform. For example, to avoid a sharp, cliff-like slowdown in economic growth; how to avoid a systemic financial crisis; how to alleviate the worsening gap between the rich and the poor, Sino-US trade frictions, Sino-US trade wars, we have had five times in the past 40 years of reform and opening up the consumption wave, the first time is to solve the problem of food and clothing, the second new three big pieces, the third interest consumption, the fourth time is the car, the fifth real estate. But now that the five wave of consumption has been seen, everyone is basically at the end. The consumption of cars is falling sharply, and the consumption of real estate is also falling sharply, so we are facing a huge problem now.

As the world's second largest economy, China's future economic development is inseparable from the trend of economic globalization. The Chinese government advocates the Belt and Road, which communicates with Europe and Asia, covering 65% of the

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world's population and one-third of the world's global economy, a quarter of goods and services are in circulation. China's exports are not only daily necessities, but also high-speed railway, stable high-quality power grids, 5G network communication technology, along with the deepening of economic cooperation between the countries and the regions. Could China reshape global trade in the future? We will wait and see China's economic development.