

## China's Economic Policy of Trumping Trump

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### Abstract

The ongoing trade disputes with the United States worsened on 17 September because of the decision of the U.S. President, Donald Trump, which was announced on 17<sup>th</sup> September to impose a 10% tariff on USD 200 billion of Chinese imports. This became effective on 24 September with the rider that it would be increased to 25% with effect from January 2019. President Trump also warned that the US administration would impose further tariffs to the tune of USD 267 billion of additional imports. This was a cautionary step lest China takes any retaliatory action. The Chinese meanwhile are poised to retaliate through various measures. The worst shape of this strategy could emerge as additional trade barriers being setup against the United States. This would be strategically implemented by imposing several export restrictions.

### Methodology

Secondary data in the form of written and electronic News reports, analytical debates and opinion of economic experts were collected, collated and studied in depth to arrive at the finds presented in the paper.

### Scope and Findings

There are several lessons to be learnt while watching the ups and few downs faced by the economic planning and implementation generation executive bodies of China. The steady growth has had the world amazed. Some pointers could be gleaned from china's experience.

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### China Economic Growth

Thus, despite all odds the Chinese economy is comfortably placed to meet the current economic growth target of 6.5%. China has taken on a full-blown trade war challenging the United States of America. It is successfully facing the sudden slowdown in its real estate market as well as corporate defaults. The panelists at Focus Economics witnessed the economy 6.6% growth in 2018. The forecast of 2019 is that the economy will be expanding by 6.3%.

The world acclaims the fact that China has weathered the economic crisis faced by the nations across the globe better than several other countries. The State Council of the Republic of China had unveiled a (USD 585 billion 'stimulus package' to shield the People's Republic of China from the financial crisis. This huge stimulus program provided the necessary impetus to the economic growth through large scale investment projects. This stimulus package was used as an ameliorative support measure that put China's public finances back on a firm footing. This was a major supportive factor because of which, despite the global crises and its resultant demand generation slowdown, severely impacted upon the external sector as well as the current account surplus which is being constantly diminished because of the growing financial crisis.

### China's Economic History

After the passing away of the dynamic Chinese leader Mao Zedong in 1976, Deng Xiaoping—became China's political head. He pushed forward with the reforms and that reshaped the country's economy.

In December 1978, Deng had announced the launch of the renewed thrust on reforms with the 'Four Modernizations' in the areas of:

- (i) Agriculture
- (ii) Defense
- (iii) Industry

- (iv) Science and technology

This reform in Deng's era diminished government control over the country's economy. He introduced measures like:

- (i) Breaking down of the erstwhile system of collective farms
- (ii) Opening up to foreign investment
- (iii) Encouraging business entrepreneurship
- (iv) Establishing Special Economic Zones
- (v) Introducing market incentives in state-owned companies

The People's Republic of China entered the International Monetary Fund (IMF) as well as the World Bank in 1980.

A decade later Jiang Zemin – the Chinese leadership's Generation III either mandated that most of the state – owned organizations barring large companies, were either to be privatized or liquidated. This expanded the private sector's role in the economy leaving millions unemployed. This period saw President Jiang alongwith Premier Zhu Rongji reducing various impediments to economic growth. Their inputs included work on:

- i. Trade barriers
- ii. Ending state planning
- iii. Introducing competition
- iv. Mandating deregulation
- v. Imposing new taxes
- vi. Reforming and strategically bailing the system of banking prevalent in the country
- vii. Driving the military out from the economy

It was under their guidance the China joined the World Trade Organization (WTO) in December 2001 to strengthen the country's trade.

In 2002 the fourth Generation IV of leadership, of President Hu Jinto and Premier Wen Jiabao began. The partnership of this leadership mandated the following:

- i. Increased subsidies in certain areas
- ii. Scrapped all agricultural taxes
- iii. Slowed down the privatization process of the state assets
- iv. Promoted focused rural social welfare schemes

By the mid-2000s the Chinese economy soared due to the following reasons:

- i. Booming exports
- ii. Resilient consumption
- iii. Escalating manufacturing output
- iv. Large scale investment

In 2008 the global financial crisis provoked the launching of an aggressive stimulus package. This was what compelled China to adopt a distinctively monetary policy.

In 2012 President Xi Jinping and Premier Li Keqiang became the fifth generation of economics. They had an ambitious agenda of reforms. In 2015, the Chinese economy slipped from its growth target by 0.1 percentage point. There was a marked slowdown in the investment and manufacturing as well. The nation gradually shifted from an investment driven to a consumer demand growth model. The following Table 1 gives a picture of the economic scenario of China over the past half a decade:

**Table no. 1: Economy Data of five Years for China**

Sr. No.	Particular	2013	2014	2015	2016	2017
1	Population in million	1361	1368	1375	1383	1390
2	GDP per capita in USD	7124	7662	7948	8103	8806
3	GDP in billion USD	9694	10480	10925	11204	12241
4	Economic Growth with annual variation of GDP in percent	7.8	7.3	6.9	6.7	6.9
5	Consumption with annual variation in percent	6.8	7.9	7.2	7.8	-
6	Investment showing the annual variation in percentage	9.8	7.3	6.9	6.6	-
7	Industrial Production with annual variation in percent	9.7	8.3	6.1	6.0	6.6
8	Retail Sales showing an annual variation in	13.1	12.0	10.7	10.4	10.3

	percent					
9	Rate of Unemployment	4.1	4.1	4.1	4.0	3.9
10	Fiscal Balance in percentage against GDP	-1.9	-1.8	-3.4	-3.8	-3.7
11	Public Debt percentage of GDP	14.6	14.9	15.5	16.2	16.3
12	Money annual variation in percentage	13.6	12.2	13.3	11.3	8.1
13	Inflation rate CPI, annual variation in percentage eop	2.5	1.5	1.6	2.1	1.8
14	Inflation Rate CPI, annual variation in percentage	2.6	2.0	1.4	2.0	1.6
15	Inflation PPI, annual variation in percentage	-1.9	-1.9	-5.2	-1.3	6.3
16	Policy Interest Rate in percentage	6.00	5.60	4.35	4.35	4.35

Source: Economic performance of past 5 years from 2013 to 2017. Data compiled by researcher

China's current account has steadily recorded an increasing surplus. It has increased on every year from 1994 onwards recording only two deficits over a period of 20 years. Thus, it is a fact that the foreign exchange reserves of China have shot up to the tune of USD 4 trillion in 2014. In 2007 this same current account surplus had represented 10.1% of the GDP.

China has become the second largest recipient of all foreign investments. The countries investing substantially in the Peoples' Republic of China are as follows:

- (i) Hong kong
- (ii) Singapore
- (iii) Japan
- (iv) Taiwan

The estimations of economic experts and analysts have predicted that the PRC is poised to be the net exporter of capital in subsequent coming years as against the United States.

### **Trade Structure Growth in China: Exports & Imports**

Ever since it joined the World Trade Organization in 2001, its economy has been integrated greatly into the trade systems at global level. The world-wide economic meltdown of 2008-2009 made the country reduce its manufacturing outputs while steadily dragging down to some extent China's trading sector. In 2003 the PRC had signed the Closer Economic Partnership Arrangement (CEPA) with Hong Kong and Macau. Also the Free Trade Agreement (FTA) of China with ASEAN nations was carried out in January 2010. This made China the world's third

largest nominal GDP free trade area. Taking this trend further China established FTA with countries like the following

- (i) Gulf Cooperation Council
- (ii) Sri Lanka
- (iii) Japan
- (iv) Singapore
- (v) Pakistan
- (vi) Korea
- (vii) New Zealand
- (viii) Peru
- (ix) Chile
- (x) Costa Rica
- (xi) Norway
- (xii) Australia

### **Exports and Exchange Rate Policy**

Since December 2001 China experienced astronomical growth in the range of 26.9% every year in the field of exports of goods and services during the six year period of 2002-2008.

To offset this manufacturing growth showed by the rapid paced development of China. The imports were largely dominated by a wide range of commodities, like iron ore, copper oil and cereals besides intermediate goods. This large demand for raw material promoted the rise of global commodity prices all the way to 2015. These exports decreased dramatically by the end of 2015 .jeopardizing the boom being earlier experienced by several developing nations.

China's successful growth model of economy has uplifted of millions from poverty. It also fueled the astonishingly fast paced economic and social development of the country. However, this was not possible without over-coming many challenges some of which can be enumerated as:

- (i) Severe economic imbalances
- (ii) Escalating environment issues

- (iii) Raised economic inequality
- (iv) A largely aging population

**Table no. 2: Economic Data of Five Years for China**

Sr. No.	Particular	2013	2014	2015	2016	2017
1	Stock Market yearly variation in percentages	-6.7	52.9	9.4	-12.3	6.6
2	Exchange Rate versus the US dollar	6.05	6.21	6.49	6.95	6.51
3	Exchange Rate versus USD	6.15	6.16	6.28	6.64	6.76
4	Current Account as a percentage of GDP	1.5	2.3	2.8	1.8	1.3
5	Current Account Balance in billion of USD	148	236	304	202	165
6	Trade Balance in US dollars	259	383	594	510	419
7	Exports USD billion	2209	2342	2273	2098	2263
8	Imports USD billion	1950	1959	1680	1588	1844
9	Exports annual variation in percentage	7.8	6.0	-2.9	-7.7	7.9
10	Imports annual variation in percentage	7.2	0.5	-14.3	-5.5	16.1
11	International Reserves in US dollars	3880	3899	3406	3098	3236
12	External Debt as a percentage of the GDP	8.9	17.0	12.7	12.7	14.0

Source: Economic performance of past 5 years from 2013 to 2017. Data compiled by researcher

### **Dynamic Changes in Fiscal Policy of China**

Prior to 1978 China believed in a centralized fiscal system as it represented the country's planned economic system. Gradually the Chinese administration initiated the decentralization of the fiscal system.

About a decade and half later bold fiscal reforms were launched in 1994. The flagship reform was a renewed taxation system. The result was a gradually steady increase in revenue that jumped from 10.8% of GDP in 1994 to more than doubling to 22.7% of GDP in 2013. During the same period, the fiscal deficit was checked at 1.4 percent of the GDP.

### **Conclusions**

Currently China's top authorities are working on an agenda that included bold reforms that impacted directly on interest rates and management of monetary policy were bent used on adopting a focused market-driven approach.

China has kept its currency versus the USD averaging a fixed 8.28 CNY per USD from 1995 to 2005. In the wake of the global melt down in the world finance China had to peg down the currency to 6.82 CNY per one US dollar during the period June 2008 to June 2010.

The Chinese yuan is no doubt, freely convertible at current account but it continues to remain regulated strictly at capital account. The Chinese authorities have expressed overall willingness for allowing the Chinese yuan to become fully convertible in coming years.

The People Republic of China are poised gradually at enhancing the popularly accepted use of their currency in various other parts of the globe. The objective was to promote the yuan as a global reserve currency. Although the process is still in the process of being completed, China has managed to establish a number of trade settlements with selected countries. It has also launched a series of agreements to swap currency with over 20 central banks. China is rapidly expanding the yuan's value in the offshore market. The opening up of the capital market of the People's Republic of China will be a crucial step in the journey of the yuan to become a major reserve currency.

Thus, there is a lesson to be learnt by nations of the developing world how planned advancements can impact upon a steady growth gradient. The global reactions apart pertaining to China's flooding of partner nations with all variety of goods it is indeed admirable that the huge nation has steadily attained its goals and set speculators tumbling over each other.

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