

EXPERIENCE OF REFORM AND OPENENESS IN CHINA

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Abstract. *The article examines the features of economic reforms in China at the end of the 20th and beginning of the 21st centuries, as well as some results of the modernization process in the PRC. Currently, China is one of the developed powers, one of the top three in terms of GDP. Stability, the country's emergence from a state of external isolation, a balanced production structure, as well as the integration of the region in the context of world globalization are factors that ensure the effectiveness of China's modernization.*

Keywords: *economic reforms, Republic of China, modernization, free economic zones.*

After 1978, the People's Republic of China underwent a major political change towards cautious, pragmatic reformism, which fundamentally changed the economic system and led to a more stable development path and significantly accelerated economic growth. The economic structure of the country was transformed. If in 1952 the share of industry in GDP was one seventh of the share of agriculture, then by 1978 it was almost equal to the share of agriculture. From 1952 to 1978, GDP tripled, real product per capita grew by 82%, and labor productivity by 58%.

The implementation of economic reforms in China led to the country's rapid economic growth and led to the strengthening of China's position on the world stage.

During the years of transformation during the first twenty years (from 1978 to 1998), the volume of GDP increased 5.7 times, i.e. increased by an average of 9.6% per year. GDP per capita production increased by 4.4 times; labor productivity increased by 3.6 times. In 1999, the GDP amounted to more than 1 trillion US dollars.

According to Western experts, over the past 20 years, the growth of the Chinese economy has provided almost half of the total economic growth of all developing countries. According to the World Bank, at the initial stage of industrialization, it took Great Britain 58 years (1780-1838), the USA - 47 years (1839-1883), Japan - 34 years (1885-1919), Brazil - 18 years (1961-1979), Republic of Korea - 11 years (1966-1977). China doubled this figure in 10 years (1977-1987), which is evidence of higher growth rates of the Chinese economy compared to the above-mentioned countries.

The pace of change continued during the second 20 years of the reform period. The PRC economy in 2017 was 5.3 times larger than in 1998, and international trade was 12.6 times larger.

In the third quarter of 2023, according to the State Statistics Administration (NSA) of the People's Republic of China, the Chinese economy grew by 4.9% in annual terms.

China achieved all this despite its political and economic isolation, hostile relations with both the United States and the Soviet Union, and wars with Korea and India. During the years of reform, international tensions decreased significantly, and China strengthened its geopolitical position, becoming the second largest economy in the world. China has become an important foreign trade partner for many countries in Asia, Africa and Latin America and has embarked on a program of aid and investment to strengthen their economies and guarantee its access to energy and raw materials for its own development. Hong Kong (1997) and Macau (1999) returned

peacefully to China. Using the same "two systems" policy, the country's leaders hope to bring Taiwan back into the fold.

Looking back at the years that have passed since the beginning of the reforms, and despite the failures and paucity of statistical data of those years, experts have identified several areas in the country's economy: initially, the state gave priority to meeting the needs of the people in nutrition, health care and education. At that time, the needs of the Chinese were minimal, clothing was simple, housing services were rather modest, and since 1972, strong official pressure had been put on the family to limit its size; At the same time, the concentration of investments in industrial development began, especially in heavy industry.

a significant increase in government revenue to finance an expanded administrative apparatus and maintain a high level of military readiness;

the creation of central planning mechanisms, which emphasized "self-sufficiency" at all levels, as well as regulatory mechanisms for the allocation of investment funds and material resources, control of the movement of labor, setting prices and wages;

state monopoly of foreign trade, the goal of which was self-sufficiency. Limitation of foreign borrowing, mainly on interstate transactions with the Soviet Union and other countries of the socialist camp, dictated by trade bans, diplomatic isolation and the unlikelihood of receiving loans from capitalist countries.

The country's economic policy has changed radically since 1978. The country's economy has become open to foreign trade and investment. Opportunities for personal enrichment through entrepreneurship have emerged.

In terms of employment, while there were 6 million production crews in agriculture in 1978, there are now approximately 250 million family farms. In the industrial sector, in 1978 there were 384,000 industrial enterprises with an average employment of 175 people. By 1996, there were already 8 million enterprises. In the sphere of trade and public catering in 1978 there were 1.6 million retail outlets, in 1996 there were 18.6 million.

The state policy to limit the birth rate had a great influence on the change in the age structure of people of working age in agriculture. As a result, the working-age population in agriculture has decreased, but thanks to the involvement of women, the size of the rural labor force has even increased.

If in the 1930s. Since women performed only 20% of agricultural work, by 1995 they made up almost half of the rural labor force.

In the pre-reform period, the rural and urban sectors of the labor market in China were ineffectively separated. During the reform years, labor distribution improved, especially in rural areas, and a surge in employment in small-scale industry and services attracted surplus labor to agriculture.

At this rate of GDP per capita growth, China has experienced faster growth than any other developing country. In the 25 years from 1978 to 2003, China's GDP grew almost sevenfold, labor productivity increased fourfold, population growth slowed sharply as a result of birth control policies, and real per capita income increased almost fivefold.

Among the reasons for accelerated growth, we note increased labor efficiency. In agriculture, individual peasant farms began to develop everywhere. Small industrial enterprises and the service sector were freed from state control, industrial production in cities was significantly expanded due to private financing and a large influx of foreign capital. Foreign trade has expanded

significantly and export volumes have increased. All this strengthened market forces, stimulated the development and adoption of new technologies and offered consumers a wide range of new products.

All these achievements would not have been possible without education reform. The PRC's path to the formation of human capital was very long and difficult. In 1949, only about one third of children could attend primary school and about one fifth of adults were literate. The government turned its attention to basic primary and secondary education. Currently, about four-fifths of the adult population is literate, but enrollment in primary education has not yet been completed, and the disparity between urban and rural areas is significant.

After the founding of the People's Republic of China in 1949, education was under strict government control. The overriding principle of educational policy in China under Mao was political in nature and consequences. Political and ideological indoctrination figured prominently in school curricula. The main priorities of education policy were the development of primary education and the reduction of illiteracy. Particular attention was paid to primary education for children from working-class families (that is, both urban workers and peasants). As a result, more and more farmers' children were able to obtain a basic level of education.

Education policies have undergone significant changes in China since the introduction of economic reforms and the Open-Door Policy in the late 1970s. These market-oriented reforms and the pursuit of rapid economic growth in a globalized economy have had a significant impact on China's educational policy and development. In line with the development of the market economy and its increasing integration with the world market, a more pragmatic perception of education gradually emerged in the post-Mao era.

In the 1960s, when China was going through the tragic periods of the "Great Leap Forward" and the "Cultural Revolution," indicators in higher education were catastrophic. The number of students fell from 962,000 in 1960 to 48,000 in 1970. During the Cultural Revolution, almost all higher education institutions were closed, and professors and teachers were subjected to humiliating and public "flogging." Students, who formed the main backbone of the Red Guards, were incited to participate in pogroms and vandalism. After the Cultural Revolution, a period of "correcting mistakes" began.

After the reopening of educational institutions, the recovery in student numbers was slow. Initially, success in the entrance examinations did not guarantee admission, as preference was given to the "right" social background and the "correct" political views.

But, already, starting from 1978, the number of people entering higher education institutions began to grow and in 2005 their number from 1 million had already reached almost 16 million people. During this period, the general level of education increased, which was also caused by the demands of the time. China needed to develop manufacturing capabilities, which were strengthened by improving the quality of its workforce. The country understood that it was impossible to move forward without educated people, so a lot of effort was aimed at educating young people. Young people began to be actively sent abroad to leading universities in developed countries so that, upon returning home after studying, they would become specialists who would advance the development of the country to the world level. The number of Chinese studying abroad grew from virtually zero during the Maoist period to 118,500 in 2005. Even at the beginning of economic reforms, Deng Xiaoping understood that without quality education it was impossible to achieve any significant results in his grandiose plans for modernizing the country. He determined

that educational and economic development are inseparable and that education must change to meet the needs of China's modernizing economy and future development.

Economic modernization became a major policy goal of the government, and policy makers were fully aware of the contribution of education to both economic development and social progress.

Subsequent Chinese leaders also maintained the understanding that education was a critical tool for economic modernization. Against this background, a new principle of educational policy was approved - "education serves the economy."

Economic development and improvement in the standard of living of ordinary Chinese led to an inevitable increase in life expectancy, which almost doubled from 38 years in 1950 to 72 in 2003, and a decrease in infant mortality. The main factors for this were improved living conditions, better sanitation, better diet, and the widespread availability of modern (Western) medicine, which gradually replaced dependence on traditional Chinese doctors and ancient medicines.

The state, taking into account the uneven economic development and a long period of being closed, gradually developed tactics and a course of external openness, which was not only important for the modernization of the country, but also served as an example for other developing countries.

An important and integral part of the course towards carrying out deep economic reforms was the development of a strategy for the comprehensive development of foreign economic relations and the gradual inclusion of the national economy of the PRC into the world economy. The essence of this policy was to make maximum use of the opportunities of economic, scientific and technical ties with foreign countries for structural restructuring of the economy, intensification of production, introduction of effective forms of management and organization, and improvement of social relations in China.

45 years of experience in reform and opening up have shown that China has developed a special strategy and structure of opening up: SEZ - open coastal cities - coastal open economic regions - open cities, such as provincial capitals located in the inland continent - inland areas.

Of course, in the process of implementing the policy of openness, there were also miscalculations. For example, initial hopes for a massive influx of advanced technology into the free economic zones were practically not realized, which was hampered by restrictions of Western countries on the supply of modern technical products to China. At the same time, the Chinese still receive equipment of the world average, an order of magnitude higher than domestic equipment, most often with the help of foreign huaqiao companies through Hong Kong. At the same time, contrary to expectations that the zones will become a link between national industry and foreign technology, their industrial development is still based mainly on the import of production components, from equipment to raw materials.

Among the factors favoring the development of SEZs, one should highlight the already mentioned orientation towards large free capital of huaqiao, concentrated in Hong Kong, Macau, Taiwan, in a number of Southeast Asian countries, as well as factors so-called "advantages of backwardness", characteristic of most developing countries: cheapness and abundance of labor, lack of legislation that prevents a high degree of exploitation, etc.

An important factor in the liberalization of the investment climate was the increase in the territory of preferential investment areas. We have already noted that in 1984 the area of the SEZ was expanded, 14 coastal cities with large economic, scientific and technical potential were

“opened”, and in 1985 the State Council of the People's Republic of China decided to open coastal areas in river deltas to foreign capital Yangtze, Zhujiang and southern Fujian province, extending to them a number of investment and tax incentives operating in open cities.

As a result of decentralization of management and control over the activities of foreign investors, the rights of local authorities when approving investment projects were not only significantly expanded, but also transferred to a lower management level. The consequence of this was the expansion of the geography of joint ventures. In 1985, objects of cooperation with foreign capital already existed in all (with the exception of Tibet) provinces, autonomous regions and cities under central control of the PRC.

At the end of 1985, a period of selective restrictions and encouragement of foreign capital began. In 1986, the State Council of the People's Republic of China officially suspended the increase in autonomy in the establishment of investment cooperation objects for 10 of the 14 “open” coastal cities. In the PRC, the investment autonomy of the SEZ and Hainan Island, to which certain elements of the legal regime of the special zone had previously been extended, was also reduced. Within the framework of the system of “selective encouragement and restriction of foreign investment,” the highest priority types of objects with the participation of foreign capital were identified and specially stimulated, including technology-intensive and export-oriented enterprises.

Thus, a turn was made from a predominantly quantitative approach to attracting foreign investment towards a more complex system of encouraging them, based on taking into account the qualitative characteristics of resources coming from abroad. The response of foreign capital investors to the strengthening of government regulation in the field of foreign investment and the increasing demands of the PRC on the technical and economic parameters of cooperation objects was immediately reflected in a decrease in the number of planned contracts.

During this period, China's external borrowings increased sharply; the growth rate of external loans outstripped the real possibilities for repaying previously taken ones. 1988 marked the beginning of a new period in the development of the PRC's course towards attracting foreign capital. The territory of preferential areas for foreign investment in China has been expanded.

As a result, during these years a combined economy of command and market subsystems developed in China. Since all this time only the stimulating part of the market mechanism was being implemented, and its limiters were not involved, the acceleration of investment activity did not encounter obstacles on the way and led to “overheating” of the economy. The “overheating” had to be extinguished through administrative levers, which resulted in inhibition and even partial rollback, a curtailment of investment activity and a decrease in growth rates. In these conditions, the authoritarian political mechanism played the role of a stabilizer, allowing reforms to be carried out with a significant gap in time, industries and territories, providing benefits to selected industries, regions and structures, quickly transferring resources to zones of economic breakthroughs, pumping funds into unprofitable areas, including social. He also supported basic industries, transport and other areas of the economy that required huge investments, were characterized by low profitability and were unattractive to local authorities, non-state sectors and foreign capital.

In general, the use of foreign capital contributed to the significant development of the national economy of the PRC. The actual use of foreign capital in China in the first eight months

of 2022 reached 892.74 billion yuan (7.62 trillion rubles), up 16.4% from the corresponding period last year, the Ministry of Commerce reported.

According to the State Administration of Foreign Exchange of China, the volume of Chinese foreign direct investment (FDI) reached \$101.3 billion in the first quarter of 2022.

The gross national product increased from 362.41 billion yuan in 1978 to 2161.78 billion yuan in 1991. The average annual growth rate of GDP during this time was 9.3%, for 1992-1993. - 13%.

China's gross domestic product (GDP) as of the first quarter of 2023 was 28.499 trillion yuan, or \$4.14 trillion. 4.5%.²³ China has taken leading positions in the world in terms of annual production of coal, televisions, refrigerators, oil and steel production. Foreign trade turnover began to increase rapidly, and the structure of exports and imports changed noticeably. The general trend of changes in the commodity structure of exports was characterized by a stable reduction in the share of raw materials and semi-finished products, and an expansion in the share of finished industrial products.

In 1992, Deng Xiaoping put forward three tasks that economic reform should be aimed at: 1) a general increase in productive forces, 2) building up the comprehensive economic and political power of the state, and 3) raising the living standards of the people. The goal of turning China into a powerful and prosperous power has become a genuine national mobilizing idea. As a result, China has become a world leader in economic growth rates: the average annual GDP growth rate in 1980-1997. was more than 9%.

Currently, SEZs are not only a way to solve purely economic problems, but also, to a certain extent, a possible goal - a model, an experimental laboratory for testing future innovations in the economy of the entire country.

In conclusion, we note that the successes demonstrated by China to the world today testify to the effectiveness of its chosen development model, which includes reform of the economic system and an open economic policy.

The development of the world economy in recent years shows that foreign economic activity from an additional and stimulating factor is increasingly turning into one of the main factors of economic development.

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