

CHINESE ECONOMICS

2003

Outline:

A) Introduction:

History and social esteems have shaped and outlined the economic evolution and the current business ambience in the People's Republic of China (PRC). China as such has a profound link to its culture, economy and society.

B) General Discussion:

1. Ancient chinese economic status
2. Tradition and values carried over from bygone chinese civilization
3. Link between these studies and the current chinese economy

C) Conclusion

Foreword:

The Chinese economic transition was made viable by sensible establishments even though it had numerous shortcomings. The concrete lessons that were imbibed during this transformation through the ages include: incentives, severe budget constraints, open competition, and scientific reforms.

Thesis Statement:

This research paper is aimed to describe the crucial links between chinese history and culture, which has influenced and moulded its current economy.

The discussions and recordings of this paper will be limited to the scope of the literature surveyed.

The Chinese economy has been conceptualized as an import of centuries of history and growth, which reflect the philosophy of China and its current economic status. For over 2000 years the Chinese economy operated under a type of feudal system. It was an agricultural moderated culture, manned by the peasants. Land was predominantly held by relatively small group of landlords whose income was derived from rents paid by their tenants. In essence, it was an economy possessed by a unitary public Agricultural taxes levied by the imperial government and crop yields subject to drought and floods kept agriculture relatively underdeveloped and organized in small-scale units with the use of primitive methods for basic existence (World History 1999, 125-134). Also, cheap manpower and strict decrees prohibited the scope for time saving concepts being put to use and deterred innovation. Inherently weak this economy fell a prey to political influence.

It was during the conclusion of the Opium War of 1840 that formally pioneered a period of western penetration of China from the coastal treaty ports. This resulted in railroads and highways being built, and some industrial development commenced. Such activity had little impact on the overall chinese economy since most of the industries were around the coastal regions.

China was carved up into a number of vying colonial spheres of influence. Japan, which attempted to annex China to its East Asia prosperity sphere, was able to make only isolated nodes of a modern economy. The Chinese Communist Party (CPP) emerged in the 1920s, when China was witnessing a rising economic crisis induced by foreign intervention and altered landlord influence in the countryside. For more than two decades, it amplified its control over large rural areas by ushering in an agrarian model based on the control of rent and usury, and by giving power to peasant affiliations. On October 1, 1949, the CPP successfully constituted a unified national government and economy on the mainland for the first time since the conclusion of the imperial period in 1912. From 1949 to 1952 the stress was on stemming inflation and closing food shortages and unemployment. The new government pioneered a land reform program that redistributed land to 300 million poor peasants into

cooperative farms. In 1958 the rural people's communes were affected, and these dominated agriculture in China until the early 1980s. The commune comprised on the collective ownership of all land and major tools by its members. These were the people who produced mainly to meet state planning targets and were rewarded according to the work they performed. However, basic necessities were guaranteed to all members. In the urban-industrial sector, state ownership of property and of industrial and commercial enterprises was gradually diversified.

Industry developed steadily from large investment under the first five-year plan, and the state-owned sector achieved an overwhelming importance. The second five-year plan was presented in 1958, attempting to get China forward into industrialization. This program was characterized by huge investments in heavy industry and the establishment of small-scale versions of such industries as steel refining. The program, however, caused immense disruptions in economic management and in rational economic growth, and in 1960 the program had to be abandoned. The Chinese economy then embarked on a period of readjustment, but by 1965 production in many fields again approached the level of the late 1950s. The third five-year plan commenced in 1966, but both agricultural and industrial production were severely restricted by the effects of the cultural revolution. A fourth five-year plan was introduced in 1971 as the economy began its recovery course. After eliminating the shadows of the cultural revolution in 1976, Chinese leaders decided to move at a faster pace on all economic fronts to make up for the loss suffered in the preceding ten years. By 1976, another five-year plan was set into motion. Reforms were presented in agriculture and industry (Bloom, Craig, et al 2001,30). This plan was interrupted in 1978, when the Four-Modernization program was launched. It included the modernization of agriculture, industry, national defense, and science and technology. A ten-year plan for 1976-85 stressed improvement in economic management and a bigger role for private and collectively owned (as opposed to state-owned) enterprises. This program was superseded by a more modest ten-year plan for 1981-90, but efforts to attract western technology and investment continued, as did a program of incentives to increase agricultural production. Policies ushered in October 1984

called for further decentralization of economic planning and for increased reliance on market forces to determine the prices of consumer goods. It was during the 7th five-year plan that the economy began to mature. Prices, taxation, credit and wages were regulated. Also, coastal regions and towns were given economic privileges, including better working conditions. These led to a larger increase in the gross national product. It also led to higher levels of inflation and aided to decrease the budget deficit. The 8th five-year plan was a continuation of bettering raw material production. By 1992, state controlled industry declined, giving precedence to the private industries. Since reformation, many foreign companies have been interested in China. However, most of the interest has been relegated to the coastal areas. Those on the interior of China have had the least growth. This is one of the major problems faced with economic growth in China. Another is the loss incurred by the state run industries. In turn, many workers were leaving the inland industries and heading to the coastal provinces for better work (Bloom et al 33). The ninth five-year plan put together new objectives. One of which was to continue with the plan for all pervading modernization and also to raise people's standard of living. Basically, it seeks to establish the basis of a socialist market economy (Garnaut & Huang 1996, 436). By 2010, China desires to double the gross national product of the year 2000, to bring people to an even more comfortable standard of living. China has maintained favorable trade relations with other countries since the 1990's.

Now we will explore the Chinese political climate and social customs that has moulded its economy to the current status discussed above. Chinese culture and society can be divided into two major periods, Imperial China and Communist China. The modern Chinese society can be defined as an amalgamation of centuries steeped in values and communist propaganda (Ebrey 2001, 296). The imperial China had a strong class system where 90% of the people were mediocre and possessed limited resources to develop culturally, socially and personally. The welfare of the family and the state are the main objectives for any action in society. If these actions do not add to the family or the society as a whole it has to be discarded eliminating almost any form of individualistic thinking. The chinese

family is the main economic building block of society. The evolution of the chinese economy is based on the its family. The chinese family is the economic unit in which members acquire and consume in common. The social security of the chinese family relies on the effective functioning and interaction between religion and family. These concepts contradict with western individualism collection of wealth for personal gain. A transparent example of this is the overseas chinese control family-run business empires that already dominate a whole of Asia. They invest billions in China, aiding their ancestral homeland turn into the world's fastest-growing economy. Together, China and its approximately 56 million offshore chinese are the most critical commercial and political forces for China. This again reflects the family based economic strategy that they adopt. In addition to the traditional imperial chinese society, the communist values determine and blend into modern chinese philosophy. One of the early enactments of the CPP after it gained control in 1949 was to officially obviate organized religion. Antecedently the dominant religions in China had been Confucianism, Taoism, and Buddhism. Most temples and schools of these four religions were commuted to secular purposes. Only with the constitution of 1978 was official backing again given for the allowance of formal religion in China. The constitution also expressed that the chinese population had the right to hold religious beliefs. Moreover, China has a long and rich cultural custom in which education has played a major role. Throughout the imperial period (221 BC-AD 1912), only the educated have occupied positions of social and political leadership. In 124 BC the first university was established for coaching prospective bureaucrats in Confucian learning and the chinese classics. Historically, however, few chinese have been able to take the time to comprehend the complex language and it's associated literature. It is roughly estimated that as late as 1949 only 20% of China's population was literate. To the chinese communists, this illiteracy was a stumbling block for the advancement of their political programs. Therefore, the communists mixed political propaganda with educational development. Chinese education has been greatly affected by the communism in China. Education was for the rich and favored during imperial age of China. One of the most ambitious plans of the communist party has

been the administration of universal public education for their large population. In the first two years of the new government (1949-51) more than 60 million peasants enrolled in "winter schools," or sessions, founded to take advantage of the lean season for agricultural workers. Mao announced that a dominant goal of education was to reduce the sense of class distinction. This was to be attained by abridging the social gaps between manual and mental labor and as well as narrow down the perceptual difference among the city and countryside residents along with the worker in the factory and the peasant on the land. After prolonged periods of breaks and alterations in policies colleges reopened in 1970-72. Admission was allotted to many candidates because of their political leanings, party activities, and peer-group support. This method of selection ended in 1977, as the Chinese set in motion their new campaign for the Four Modernizations. The government's stated goals for rapid modernization in agriculture, industry, defense, science and technology warranted elevated levels of training. Such educational programs by requisite had to be based on theoretical and formal skills more than on political attitudes and the spirit of revolution. This harbingered a sea change in China. The stability of social values and structure culminated as the highest achievement for the Chinese philosophy. These values were already entrenched in the Chinese culture and were strengthened with communism and used into the development of China. The Chinese society had become a compounding of strong family and moral values and a country thriving for modernization and industrialization. This concept of stability as the highest achievement hindered the development of China in the past, and still produces problems today. The sole concept of risks disturbs the grounds of Chinese culture in contrast to Western society where risk is the main impetus for development and investment. The radical shift from imperialism and strong class divergences to the equality philosophy implemented by Mao Tse Tung created the modern China. Its evolution from feudalism to communism raised a conservative China, with very few attempts to move towards capitalism. It was through the imperial years that commerce and trade occurred. China has perpetually possessed the elements for development and could have witnessed an industrial revolution before England. China owned many key ingredients that transformed

Europe into a modernized industrial economy (compass, printing, gunpowder, etc). Still, there is much more to China than just industrial and economical growth. Thus, when considering formulating a business in China one should always consider the cultural factors that make the Chinese society so vibrant and distinguishing from western societies. The fact that China wants to mature does not infer that it will do it with the western models and philosophy; rather it will be with models configured from their own culture. This is the point that can be attributed to cause most of the problems between Chinese and Western cultures, and the point to be accepted in order to be successful in developing a successful business strategy in China. Negotiating in China can be very frustrating experience. Conflicts in decision making styles and negotiating tactics tend to cause misunderstanding and tension. Chinese culture is based on the grandness of rituals and ceremonies and so is chinese business. Business meetings are as authoritative as the dealings during receptions.

To conclude recent chinese economic policies have projected the country into the world economy at full acceleration. As testimony of this, China's gross domestic product has climbed to seventh in the world, and its economy is growing at over nine percent per year.

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