Modern Problems of the Chinese Economy

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Abstract: This article is about the main problems of the Chinese economy which include a wide range of socio-economic problems, growth differentiation among both Chinese provinces (in the level of economic development) and population (in the standard of living). One of the most challenging and complex problems of China arises. This problem is connected with growing regional differentiation of economic development. The thing is that the current trend of China's territorial differentiation will lead to the rise of economic development differentiation in China.

Key words: Exports • Imports • GDP per capita R & D spending on education • Mining • Manufacturing • investment • Rate of development • The decile coefficient of differentiation • The magnitude coefficient in PRC

INTRODUCTION

Due to world experience economic development had mainly a great effect in China because of national features, unemployment, combined planned and market economic orders and a gradual transition to a new economic order. On the other hand, although the growth of the Chinese economy is significant, it is accompanied with a great variety of socio-economical problems, increasing differentiation among the country’s areas in terms of the economic and social development what, in its turn, is a noticeable threat of the future development of the CPR.

Among the economists who make researches on the Chinese economy, we paid a special attention to Y.M. Berger (2009) [1, 2], V. Gelbras (2000, 2009) [3, 4], N.N. Kotlyarov (2009) [5], V.V. Miheeov (2009) [6], I.N. Naymov (2001) [7], A.V. Ostrovskiy (2009) [8], V.Y. Portyakov (2009, 2010) [9, 10]. These researchers’ works are primarily concerned with China's development strategy, the establishment and development of China's reform and economic achievements of the country as a whole, the analysis of the five-year plans, the important problems of the Chinese economy as well as the provision of resources, the environment and the general state of development of the various sectors of the economy and etc. The above-mentioned researchers presented rich analytical, factual and statistical material in their articles and monographs.


A lot attention was paid to works (in the whole range of the Chinese scientist’s works), which contain the analyze of global tendencies of the country’s economic development, the effectiveness of its government’s reforms and development strategy of China and its place and role in the world economy. There are works of Pei (2006) [12] and Huang (2006) [13] among them. The scientists argue that the Chinese economy is not stable today and China will hardly step on a new stage of its development.

Expositions of the research and their groundings. Substandard, combined economic system has caused an impetuous push for today’s Chinese economic and scientific and technical development. Infusion of the market into the command economy started with a creation of four Special Economic Zones (SEZ) in coastal provinces of Guangdong and Fujian. In total, there were...
created fifteen duty-free zones, thirty-two zones of techno-economic development and fifty-three zones of high-tech development, which had a state value. These zones furthered to the increase of the Chinese GDP and external trade volume. One of the major purposes of the zones, an increase of exports, was successfully reached.

During the creation of the SEZs, China’s gold-exchange reserves begun their fast, but unstable, growth – Picture 1. It was SEZs to stimulate the growth of Chinese external trade, which, in its turn, has brought CPR into the world economy and turned out to be one of the reasons China has become one of the leading players in the world market.

During the whole period the GDP growth provoked an increase in energy consumption per capita, indicating the rise in the production capacity of China's economy.

However, accompanied by the GDP and energy consumption per capita growth, there had been a noticeable growth of energy sources imports. This indicates a shortage of the mentioned resources in China.

The Picture 2 shows the share of the high-technology exports in total amount of the Chinese exports had increased, but, as the world economic and financial recession began, the indicators decreased sharply and in 2009 they started to increase again.

One of the basic reasons of discussed indicators growth is an increase of the country's spending on research and development (R&D). It is important to notice, that the recession did not involve a decrease of the R&D spending. The investments in the R&D are planned to increase to 2.5 percent of GDP to 2020.

Today, China produces 20 percent of the world’s high-technological exports. However, not everything is so good about this. About 90 percent of the Chinese high-technological exports is produced by branches of trance-national corporations. Along with this, China’s national corporations’ production of the high-tech goods in the total amount of goods is only 2-3 percent. A lion share of the R&D spending belongs to international companies, which have branches in China. For instance, “Nokia” has accumulated 40 percent of its entire cell-phones R&D in its scientific and technological centre in Beijing. Today, the scientific and technological development of China depends greatly on the trance-national corporations, their investments and interest in the Chinese market. A program of creating a
"knowledge economy", which is aimed to reduce China’s dependence on foreign technologies from 80 to 30 percent in fifteen years, confirms that.

The described strong dependence is a threat for China’s scientific and technological development. It can slow down sharply in case if the trance-national corporations, which produce the major part of China’s high-tech exports and have the greatest R&D spending in the country, will not be interested in China’s market any longer.

Taking into consideration the said above, one can see that China’s scientific and technical development is not stable, as it is not quite national. In case of increasing cost of China’s labor force and further raise of issues with the energy sources, raise of the shortage of the highly qualified labor force and other negative conditions of the Chinese economy, the trance-national corporations, which further China’s scientific and technical development, will have to leave the country’s market.

For the Chinese further scientific and technical development and keeping the trance-national corporations and other foreign investors interested, the country has to have a highly qualified labor force.

However, even here problems exist: a slow growth of China’s people HDI, for instance (Picture 3). In 2011, China was 101 [20] in a list of human development index. Along with a growing demand on the qualified labor force, a demand on a labor force with a low-educated and low-qualified labor force decreases rapidly. It is also one of the reasons why an unemployment rate is growing (3.1 and 4.1 percent in 2001 and 2010, respectively [21]. Today, this tendency does not respond to China’s most significant economic development indicators. In 2011 China was 71 in a list of a literacy level, what does not respond to the given indicators either [18].

However, during the latest decade (from 2001 to 2010) the spending on education has increased significantly and, according to the statistics of 2010, China is the world sixth in education expenditures.

Today, among the Chinese population above sixteen years old 61.7 percent has a secondary and higher education and 6.6 percent has a higher education. Among the employed at manufacturing 61.5 percent has a primary education, 35 percent has a secondary education and 3.5 percent has a higher education [22]. So, the number of Chinese with a higher education is insignificant. This shows that higher education is hardly available for China’s citizens. Along with this, today’s shortage of the highly qualified labor force has led to the “brain gain” in China.

Along with the rapid development of the Chinese economy during the latest decades, the level of life in China has also grown. Picture 4 demonstrates interrelated indicators, which characterize the Chinese level of life.

According to the statistics, for the last ten years in China there has been an abrupt growth of an average compensation. It is also important to notice, that with the recession the temps of this indicator growth did not slow down. Also, an average growth of labor productivity had been 6.7 percent from 1995 to 2005 and 9.6 percent from 2005 to 2009 [19].

The growth of the labor productivity was one of the reasons why the average monthly compensation has grown. A growth of the cost of living affected the growth of the average compensation. During the discussed period, the given indicator had been increasing. The cost of living growth was significant: it equaled 21 percent. Therefore, we believe, that it was the increase of the cost of living to cause the growth of the average monthly compensation cost. As a result, the increase of the compensation has neglected the increase of the costs staples and has not contributed to the level of life improvement.
The end of the decade has shown that the relation of the money supply and the GDP has increased, as well as the inflation level growth in 2010 in comparison with 2001 (Picture 5).

Today, inflation is one of the most serious issues of the Chinese economy. Inflation control and of the social stability procuring are the major problems of the actual Five-Year Plan for China. In terms of an increasing differentiation of the Chinese people’s life levels the discussed issue becomes even more palpitating. In 2005, China’s Gini index was 41.5 and in 2010 the indicator grew up to 46.9 [20].

Abrupt changes of the inflation ratios and their growth may provoke a growth of interest rates, what, in its term, will cause a great damage to the Chinese economy and can lead to a series of bankruptcies. In addition, the growth of the indicator restrain consumer spending making the internal market less active.

Among the Chinese provinces the differentiation is also high. For instance, unemployment levels among the provinces varied from 3.1 to 4 percent in 2010. The minimal unemployment level, 2.5-3 percent, is fixed on the territories of a small amount of provinces: Beijing, Shanxi, Jiangsu, Guangdong and Hainan.

China’s South-Eastern provinces are the most developed and their citizens’ levels of life are one of the highest in comparison with those ones in the North-Western province of China. It is also important to notice that the gross incomes per capita in these provinces vary gratefully – from 10000 to 30000 Yuan a year.

Basing on the identified differentiation of the orientations of the provinces’ economies by sectors, we counted an integral index (development coefficient), which combines data on shares of extracting and manufacturing industries and services sphere in GDP adjusted for the degree of economic efficiency for each of the listed sector of economy. In other worlds, with the consideration of the fact, that a more developed economy is characterized by an excess and a greater value of manufacturing industry in GRP, than that of an economy, that is characterized by extracting industry and even more developed economies are characterized by an excess of the services sector in GRP.

Formulae for of the development coefficient:

\[ CED = \sum_{i=1}^{n} a_1 SPI + a_2 SSI + a_3 STI \]  

(1)
Table 1: Statistics of the economy structure by sectors and counted development coefficient for the Chinese provinces

<table>
<thead>
<tr>
<th>CPR’s province</th>
<th>Share of extractive industries in GRP (SPI) (%)</th>
<th>Share of manufacturing industries in GRP (SSI) (%)</th>
<th>Share of services sector in GRP (STI) (%)</th>
<th>Development coefficients (CED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Henan</td>
<td>14.1</td>
<td>57.3</td>
<td>28.6</td>
<td>0.3576</td>
</tr>
<tr>
<td>Xinjiang Uygur</td>
<td>19.8</td>
<td>47.7</td>
<td>32.5</td>
<td>0.3579</td>
</tr>
<tr>
<td>Jiangxi</td>
<td>12.8</td>
<td>54.2</td>
<td>33</td>
<td>0.3734</td>
</tr>
<tr>
<td>Anhui</td>
<td>14</td>
<td>52.1</td>
<td>33.9</td>
<td>0.3737</td>
</tr>
<tr>
<td>Guangxi Zhuang</td>
<td>17.5</td>
<td>47.1</td>
<td>35.4</td>
<td>0.3712</td>
</tr>
<tr>
<td>Sichuan</td>
<td>14.4</td>
<td>50.5</td>
<td>35.1</td>
<td>0.3765</td>
</tr>
<tr>
<td>Hebei</td>
<td>12.8</td>
<td>52</td>
<td>35.2</td>
<td>0.3800</td>
</tr>
<tr>
<td>Qinghai</td>
<td>10</td>
<td>55.1</td>
<td>34.9</td>
<td>0.3847</td>
</tr>
<tr>
<td>Jilin</td>
<td>12.1</td>
<td>52</td>
<td>35.9</td>
<td>0.3835</td>
</tr>
<tr>
<td>Gansu</td>
<td>14.5</td>
<td>48.2</td>
<td>37.3</td>
<td>0.3829</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>9.4</td>
<td>54.5</td>
<td>36.1</td>
<td>0.3895</td>
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<tr>
<td>Heilongjiang</td>
<td>12.6</td>
<td>50.2</td>
<td>37.2</td>
<td>0.3864</td>
</tr>
<tr>
<td>Shensi</td>
<td>9.8</td>
<td>53.8</td>
<td>36.4</td>
<td>0.3896</td>
</tr>
<tr>
<td>Hubei</td>
<td>13.4</td>
<td>48.7</td>
<td>37.9</td>
<td>0.3968</td>
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<tr>
<td>Chongqing</td>
<td>8.6</td>
<td>55</td>
<td>36.4</td>
<td>0.3920</td>
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<tr>
<td>Shandong</td>
<td>9.2</td>
<td>54.2</td>
<td>36.6</td>
<td>0.3914</td>
</tr>
<tr>
<td>Yunnan</td>
<td>15.3</td>
<td>44.6</td>
<td>40</td>
<td>0.3891</td>
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<tr>
<td>Hunan</td>
<td>14.5</td>
<td>45.8</td>
<td>39.7</td>
<td>0.3901</td>
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<tr>
<td>Shanxi</td>
<td>6</td>
<td>56.9</td>
<td>37.1</td>
<td>0.3993</td>
</tr>
<tr>
<td>Liaoning</td>
<td>9.3</td>
<td>52</td>
<td>38.7</td>
<td>0.3975</td>
</tr>
<tr>
<td>Fujian</td>
<td>9.3</td>
<td>51</td>
<td>39.7</td>
<td>0.4005</td>
</tr>
<tr>
<td>Hainan</td>
<td>26.2</td>
<td>27.7</td>
<td>46.2</td>
<td>0.3865</td>
</tr>
<tr>
<td>Ningxia Hui</td>
<td>9.4</td>
<td>49</td>
<td>41.6</td>
<td>0.4060</td>
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<tr>
<td>Jiangsu</td>
<td>6.1</td>
<td>52.5</td>
<td>41.4</td>
<td>0.4120</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>4.9</td>
<td>51.6</td>
<td>43.5</td>
<td>0.4207</td>
</tr>
<tr>
<td>Guizhou</td>
<td>13.6</td>
<td>39.1</td>
<td>47.3</td>
<td>0.4147</td>
</tr>
<tr>
<td>Guangdong</td>
<td>5</td>
<td>50</td>
<td>45</td>
<td>0.425</td>
</tr>
<tr>
<td>Tianjin</td>
<td>1.6</td>
<td>52.4</td>
<td>46</td>
<td>0.4348</td>
</tr>
<tr>
<td>Tibetan</td>
<td>13.5</td>
<td>32.3</td>
<td>54.2</td>
<td>0.4356</td>
</tr>
<tr>
<td>Shanghai</td>
<td>0.7</td>
<td>42.1</td>
<td>57.3</td>
<td>0.4708</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1.6</td>
<td>31.1</td>
<td>67.2</td>
<td>0.4981</td>
</tr>
<tr>
<td>Beijing</td>
<td>0.9</td>
<td>24</td>
<td>75.1</td>
<td>0.5235</td>
</tr>
</tbody>
</table>

Source: [according to: 27]

where: \(CED\) – coefficient of economic development

\(SPI\) – Share of extractive industries in GRP

\(SSI\) – Share of manufacturing industries in GRP

\(STI\) – Share of services sector in GRP

\(ai\) – Weight of i-factor; \(a_1 – 0.1; a_2 – 0.3; a_3 – 0.6\)

\(n\) – Total amount of affecting factors.

We have the following results.

Thus, the major part of China’s provinces is characterized with a minor level of economic development with a coefficient of development equal to 0.35-0.40. Eight provinces are characterized with a higher level of economic development, but with a comparatively low coefficient of development, from 0.401 to 0.45. It is also noticeable, that the majority of the Chinese provinces of the group are situated on sea-sides or close to the South board of the country. Only one state of China has a range of development from 0.451 to 0.49 – Shanghai. This territorial entity is situated on a sea-side and, as we said above, is characterized with a large share of services sector in GDP. This affected the coefficient of economic development significantly.

In the last diapason of the most developed country’s provinces, which are characterized with a development coefficient of 0.491-0.54, only two China’s territorial subjects have entered – Beijing and Taiwan. The given territories, analogically to the other provinces with comparatively developed economies, are situated on sea-sides and characterized with a highly developed services sector.

**CONCLUSION**

From the foregoing, it is clear that the coastal and border territorial entities are characterized with higher
levels of economic development than that of the rest ones. It is important to notice, that a share of provinces with comparatively developed economies is significantly small.

So, China’s coastal Eastern provinces are characterized with a higher level of GRP and share of services sector and shares of extracting and manufacturing sectors are comparatively smaller than that of the other’s provinces. For the Western territories the situation is the opposite: the GRP volumes and share of the service sector are smaller than that of the provinces, discussed above and a share of the extracting sectors is larger.

Unfortunately, the growing differentiation is a result of the restructuring of the country’s economy. However, one of the basic reasons why the differentiation is growing is not only the rapid development of the coastal territories, but also the deriving from it uneven investments and budgetary funds distribution among the provinces.

For the 16 years (from year 1994, when changes in China’s budgetary policy occurred and all the provinces have become budgetary recipients) the new fiscal policy has not brought the country to desired results and has not eliminated the differentiation among the provinces’ economies.

The rapid growth of China has led to a number of issues to rise. Among them are: lack of power sources, acute inflation fluctuations, lack of highly qualified labor force because of the low level of human development and literacy index, increase of the country’s dependence on the world’s markets, etc. A major perspective of the growing integration with China is a genesis and rise of a hidden threat for the stability and wealthy of the world economy in the face of China. The growing differentiation of China’s technical development is one of the most acute and complex CPR’s problems.

REFERENCES


