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改革开放40年来，中国经济发展成为全球经济发展一道亮丽的风景线。40年沧桑巨变的动力与活力，源自中国从计划经济向社会主义市场经济的转变，从封闭经济向开放经济的转变，也源自各类生产要素的优化配置以及经济增长与结构升级的相互促进。中国经济40年的发展借鉴并印证了发展经济学的一般原理，更重要的是紧密联系了中国的实际，推动理论创新、制度创新，探索形成了中国特色社会主义道路。进入新时代，中国将在创新、协调、绿色、开放、共享的新发展理念引领下，建设现代化经济体系，推动实现高质量发展。

关键词：改革开放 社会主义市场经济 新发展理念 发展经济学

China has experienced rapid economic growth since its reform and opening up 40 years ago. The prime mover and key driver of these amazing achievements originated in China's transformation from a planned economy to a socialist market economy, and from a closed economy to an open economy. The optimal allocation of the various factors of production and the interaction of economic growth and structural upgrading also played a significant part. China's economic growth over the 40 years has applied, and proven effective, the general principles of development economics, and more importantly, based on the realities of China, it has contributed to theoretical innovation and institutional innovation, leading China along the road of socialism with Chinese characteristics. Entering the new era, China is committed to building a modern economic system and promoting high-quality development under the guidance of the new development concepts of innovation, coordination, green development, opening up and sharing.

Keywords: reform and opening up, socialist market economy, a new vision of development, development economics

2018 marks the 40th anniversary of China's reform and opening up. Over the past 40 years, China has experienced rapid economic growth. How are we to understand this phenomenon and what are the drivers behind it? Some experts hold that China's economic achievements stem from the application of development economics. In fact, China, while acquiring the fruits of modern civilization as it exists today, has created an economic miracle through the

diligence and ingenuity of the Chinese people.

In the three decades after the initiation of the reform and opening up, China built up a fairly comprehensive industrial system, literally from scratch, on the ruins of the old China; this laid the foundation for subsequent development. But on the whole, China's economic system exhibited such features as a unitary ownership structure, high concentration of economic decision-making, planned resource allocation, a strong bias toward egalitarian income distribution, being closed to the outside world, and economic organization that was heavily dependent on mobilization. As a consequence, back then, China was characterized by a low level of industrialization and urbanization, autarky in the rural areas with the dual economy gathering momentum, insufficient horizontal and vertical mobility, low levels of productivity, a low standard of living and a vast population living in poverty.

The past 40 years of reform and opening up witnessed China's rapid economic growth; from 1979 to 2016 in particular, China's economy achieved an annual growth rate of 9.6 percent.¹ China has created a miracle unseen in the history of the world, as evidenced by the concurrent processes of industrialization, agricultural modernization and urbanization; transportation, telecommunications, power and water infrastructure upgrading; the steady rise of China's comprehensive national power; great changes in urban and rural life; and the marked improvement of people's standard of living. The driving forces behind the 40 years of hard-earned transformation are given below.

I. The Transition from a Planned Economy to a Socialist Market Economy

Comprehensive reform whose fundamental purpose was liberating and developing the productive forces and which focused on reform of the economic system made it possible to align the productive forces with the relations of production. China rolled out its economic reform at both the macro- and the micro-level. From the rural areas to the cities, from the public sector to the non-public sector, from increments to stocks, from a two-track to a single track system, from the easy to the hard and from focal points to systems, the reform process unfolded step by step.

Firstly, at the micro-level, China deepened the reform of ownership. With the changes in the unitary structure of public ownership, a basic economic system gradually took shape in which public ownership was the main body and was complemented by other types of ownership. While the the state-owned economy's share of the national economy was greatly reduced, its overall strength was clearly enhanced. Foreign investment and the non-state economy grew rapidly, accounting for an ever increasing share of the national economy. The coordinated development of large, medium and small enterprises produced a modern enterprise system. The micro-economy boomed and the market flourished as the initiative and ingenuity of micro-economic actors were brought into full play. Secondly, China established

1 See National Bureau of Statistics of China (NBS) ed., *China Statistical Yearbook 2017*, pp. 4-5.

and improved a market system, including product markets, labor markets, capital markets, foreign exchange markets and technology markets. In accordance with the laws of economic development, China did its utmost to ensure that the market played a primary, and eventually, a decisive role, in resource allocation, thus improving the effectiveness and efficiency of resource allocation.

At the macro-level, China prioritized the correct handling of the relationship between the government and the market, undertaking extensive decentralization and altering the government's direct control of the economy and direct allocation of resources. Thence, directives gave way to guiding plans and direct control to indirect regulation; reforms in tax, finance and foreign trade made headway, with policy instruments such as prices, interest rates, tax rates and foreign exchange rates playing an increasingly important role; and a social security system and income distribution system were established and improved. These reforms ensured China's fundamental transformation from a planned to a socialist market economy.

II. The Transition from a Closed to an Open Economy

Reform and opening up holds the key to the future of China; openness entails reform. China's opening to the outside world began in the early 1970s, when Sino-US relations gradually changed from antagonism and hostility to contacts and exchanges. On January 1, 1979, the People's Republic of China and the United States established diplomatic relations, creating a favorable external environment for China's opening up.

In August 1979, China embarked on the road of opening up with the establishment of Shenzhen Special Economic Zone. From the creation of four special economic zones to the opening of fourteen coastal port cities and then of cities along the major rivers and border areas, up to the establishment of Pudong New Area, China's openness to the outside world continued to increase. From the early years of the country's opening up, efforts were made to attract foreign investment, encouraging foreign investors to start businesses in the form of joint ventures, wholly foreign-owned enterprises and cooperative enterprises. As well as capital, technology and management experience, foreign enterprises brought to China the idea of a market economy, accompanied by the upgrading of China's industry structure and technology and setting the stage for Chinese enterprises to tap into international markets.

Accession to the World Trade Organization in 2001 was a milestone for China's opening up, ushering in deeper and more comprehensive reform in a number of fields. Membership fueled China's rapid economic development and significantly improved the competitiveness of Chinese enterprises, paving the way for the Chinese economy to be integrated into the global economy and making China an active participant in and promoter of globalization.

Since the 18th CPC National Congress, China has opened its economy "even wider" to the outside world. In 2013, President Xi Jinping put forward the Belt and Road Initiative, heralding China's opening up to closer and deeper economic ties; this saw an

increase in export and import trade volumes as well as in outbound investment with countries everywhere. From 1979 to 2017, the cumulative figure for China's actual use of foreign investment was US\$ 2103.16 billion,² and by the end of 2017, China's stock of direct external investment amounted to US\$1809.04 billion.³ Reform and opening up set the stage for China's integration into the world economy, effectively improved the international competitiveness of Chinese enterprises, and markedly boosted China's economic growth, making China an important engine of world economic growth.

III. Optimal Allocation of Factors of Production

The rapid growth of China's economy depended not only on the substantial increase in inputs but also on the improvement of allocative efficiency, mainly through the free flow of labor, human capital accumulation and financial market development.

The free flow of labor is a prerequisite for the cross-sectoral movement of labor and hence for the improvement of allocative efficiency. In the early years of reform, with the in-depth implementation of the household responsibility system, there was a large-scale labor surplus in rural China. In areas at the forefront of the reform, such as the Yangtze River Delta, the Pearl River Delta and some large and medium-sized cities, a large proportion of the surplus rural labor force landed jobs in foreign-funded enterprises, privately owned enterprises and township and village enterprises. In some less developed areas, surplus labor began to move across regions, entering non-public enterprises with fewer employment restrictions. At the same time, the pace of cross-sectoral and cross-regional mobility of new urban labor and public sector workers accelerated, thus facilitating the optimal allocation of human resources. With fewer restrictions placed on household registration in small and medium-sized cities and eventually with the lifting of all restrictions, the large-scale movement of labor became commonplace. Overall, urban-rural and cross-regional segregation that had hindered the free flow of labor was eliminated, with restrictions present in only a small number of sectors or industries. A labor market gradually took shape, with consequent improvements in the efficiency of the allocation of labor resources.

The accumulation of human capital is a major way of improving productivity and promoting technological advances. Policies such as the universalization of nine-year compulsory education, permitting the establishment of private primary and secondary schools, vigorously developing vocational education, increasing college and university places, and requiring that the state spend not less than four percent of GDP on education,⁴

2 Calculation based on relevant data. Data for 1979-2016 are from NBS ed., *China Statistical Yearbook 2017*, p. 365.

3 Source of 2017 data, "Statistics on the Actual Use of Foreign Investment, January-December 2017," <http://www.fdi.gov.cn/CorpSvc/Temp/T3/Product.aspx?idInfo=10000499&idCorp=1800000121&iproject=33&record=10079>.

4 See "Opinions of the General Office of the State Council on Further Structural Adjustment and Optimization to Strengthen the Efficacy of Financial Investment in Education."

should significantly improve China's human capital. At the end of 2015, China made a timely adjustment to its family planning policy by relaxing birth-control restrictions—moving from a “selective two-child policy” to a “comprehensive two-child policy.” At the same time, the reform of the medical and health system aimed at improving the quality of human capital; social welfare was beginning to bear fruit, and health insurance coverage increased significantly.

In terms of capital accumulation, China has traditionally valued saving and has thus maintained a high savings rate, but the use of capital is not efficient. Mature financial markets are pivotal in balancing the demand and supply of financial capital and in improving the efficiency of capital allocation. Since reform and opening up, China's financial market has developed steadily: starting from scratch, China has established an increasingly market-oriented modern financial system. Since joining the World Trade Organization, China's financial system has adopted more international standards and has accelerated opening up, becoming fully market-oriented and ever more integrated into the global financial system. The development of financial markets has effectively improved the efficiency of resource allocation and boosted the transformation and development of China's economy.

IV. The Interaction and Reinforcement of Economic Growth and Structural Upgrading

The transformation and development of agriculture laid an important foundation for China's economic development and structural upgrading. Rural reforms significantly increased agricultural productivity, ensuring China's food self-sufficiency: with less than 7 percent of the world's arable land, China feeds 20 percent of the world's population. At the same time, primary industry's share of GDP fell from 27.7 percent in 1978 to 8.6 percent in 2016.⁵ Rural reform became the driver of rural development and progress.

Rural reform and agricultural transformation played a fundamental role, and were therefore of special significance, in China's economic development. China's reform began in rural areas. The long-term policy represented by the household responsibility system and the “Three Rights Separation” reform (i.e. the separation of the collective ownership of rural land, the household's right to the land, and the actual production and management of the land) paved way for rural land transfer and intensive land use, galvanized peasants' enthusiasm and improved agricultural productivity. The reform of agricultural science and technology saw progress in these fields and increased agricultural output. Price played an important role in agricultural production and agricultural resource allocation, helping boost agricultural production and upgrade the structure of agricultural products. All this freed rural labor in large numbers and thus provided a steady stream of low-cost labor for industrialization. It also helped break down the traditional urban-rural barriers, promoted adjustment of the social

5 See NBS ed., *China Statistical Yearbook 2017*, p. 12.

structure, and accelerated the process of agricultural modernization.

Agricultural modernization and industrialization reinforce each other, with the former accelerating the process of the latter and also of urbanization. Industrialization has always been the backbone of economic development and wages growth. In the early period of reform and opening up, industrialization focused on solving the shortage of consumer goods, with priority given to the development of the textile industry and the processing of agricultural products. Along with the expansion of opening up and the development of an export-oriented economy, the promotion of export-oriented labor-intensive exports along with some capital- and technology-intensive exports gained momentum. To keep pace with the rapid development of industrialization and urbanization, and in response to the Asian financial crisis and the international financial crisis, China aggressively pursued a policy of developing heavy industry and chemical industry. From 2002 to 2016, the steel production capacity of industrial enterprises with a designated amount of annual revenue from their main business operations increased from 180 million tons (pig iron) to 1.07 billion tons (crude steel); cement production capacity increased from 730 million tons (2001) to 3.44 billion tons; and the installed capacity of power generation increased from 360 million kw to 1.65 billion kw. At the same time, motorway mileage increased from 25,100 km to 131,000 km, and rail mileage increased from 71,900 km to 124,000 km (within which high-speed rail mileage increased from 672 km in 2008 to 22,980 km in 2016).⁶ With rising incomes, modern service industries such as telecommunications, real estate, education, science and technology, medical and health care and cultural tourism have developed rapidly. In 2017, the services industry accounted for 51.6 percent of GDP, making it a major driver of economic growth and an important job creator.⁷

V. From Economic Growth to All-round Economic Development

Economic growth is not tantamount to economic development. The series of institutional changes and policy adjustments made in the early period of reform and opening up were mainly aimed at arousing enthusiasm for production and improving efficiency and economic growth. Such guiding principles as “letting some people get rich first” and “giving priority to efficiency with due consideration to equity,” while bringing about fast economic growth, saw a rising gap in incomes that coincided with the trend indicated by Kuznets curve. In addition, fragmentation, the regulation and monopoly of capital markets, the unfair distribution of resource production factors, the household registration system and the resultant welfare differences all contributed to the widening income gap.

⁶ See NBS ed., *China Statistical Yearbook 2014*, p. 566; *China Statistical Yearbook 2017*, pp. 287, 451, 520, 534. Over these years, the NBS made some adjustments as to the amount of the annual revenue from an enterprise's main business operations.

⁷ See NBS, Services Industry Department, *The Services Industry Has Become a Major Driver of Economic Growth*.

In view of the series of development problems in economic growth, income distribution included, the central government put forward at the 16th Party National Congress the “Scientific Outlook on Development,” which featured putting people first and aiming at comprehensive, coordinated and sustainable development, with emphasis placed on both growth and fairness. Since the 18th Party National Congress, the central government put forth the five development concepts of innovation, coordination, green development, opening up and sharing, and made further narrowing the income gap an important indicator of economic growth.

To narrow the regional wealth gap, the state rolled out the strategies of “Western Development,” “Revitalize the Old Northeast Industrial Bases” and “Central China Rising.” To cope with the income gap between people from different social groups, the Individual Income Tax was introduced in 1988, with the standard deduction raised in 2011 and the highest progressive tax rate reaching 45 percent.⁸ At the same time, China established in 1997 a social security system with Chinese characteristics, including a pension scheme for civil servants and other employees that requires public sector employees to pay into the state pension system; a pension scheme for urban and rural residents; medical insurance for urban employees; a medical insurance system for urban and rural residents; a minimum wage system; and the minimum subsistence allowance (*dibao*) for urban and rural residents. All these schemes promote equitable income distribution.

In addition, an important aim of economic development is to eradicate poverty, especially among the rural poor. China’s achievements in this respect have stunned the world. Poverty alleviation in China went through four broad phases. The first phase was from 1978 to 1985, when institutional reforms promoted economic growth and economic growth led to poverty reduction. The second phase was from 1986 to 1993, when the Chinese government carried out a planned, organized and large-scale development-oriented poverty reduction program across China. The third phase, from 1994 to 2013, was a critical phase of poverty alleviation, when China implemented a number of anti-poverty programs or poverty alleviation and development programs. The fourth phase was initiated after the 18th Party National Congress when the central government thrashed out the strategy of “precision poverty alleviation,” setting the target of eradicating poverty nationwide by 2020, when China will have finished the building of a moderately prosperous society in all respects. Using as a benchmark “to guarantee the basic needs of food and clothing for those living in poverty and to ensure that they get proper access to compulsory education, medical care and housing,” the central government put in place a comprehensive anti-poverty package of measures in the sectors of government finance, banking and finance, industry, education, health care and relocation. This led to a marked acceleration in the pace of poverty reduction. More than 700 million Chinese have shaken off poverty since the initiation of reform and opening up forty years ago, and this

8 See Individual Income Tax Law of the PRC.

process will continue.

Since the 18th CPC National Congress, the CPC Central Committee with Comrade Xi Jinping at the core has made relentless efforts to build good conduct and political integrity and fight corruption. Thanks to the CPC's determination to fight this scourge, a sweeping victory in the fight against corruption has been secured and China's anti-corruption campaign has achieved noticeable results, winning universal acclaim. This campaign, in a sense, is also conducive to improving income distribution.

VI. Challenges and Coping Strategies: A New Vision of Development Usher in a New Era of Development

Undoubtedly, China's economy, despite having experienced many years of rapid development, still faces a series of challenges. Because of the inflection point in terms of the population growth rate and rising labor costs, China's labor-intensive industry is losing its low-cost manufacturing advantage. As the Chinese economy enters the 'new normal' stage, most of its industries are still at the middle or low end of the world industrial chain. China's high-tech industries are not developing very fast and cannot boast respectable global players. There is overcapacity in some low-end industries and it may take quite a while to reduce this. The development of the virtual economy has outpaced the development of the real economy and more capital is being diverted from the latter to the former. Problems abound in the real estate sector. Promoting ecological progress and environmental protection is a tough job and incurs high costs. There is still a large income gap between urban and rural areas and between different groups in the same region. The task of ecological construction and environmental protection is burdensome and the cost is high. The income gap between urban and rural areas and residents of different regions is still large, and poverty reduction will be a long-term and arduous task for a big country like China, with its population of more than 1.3 billion.

In the face of such challenges, General Secretary Xi Jinping has made a timely scientific judgment that the Chinese economy has entered the 'new normal' stage since the 18th CPC National Congress. The Party Central Committee has actively promoted supply-side structural reform and implemented a policy of cutting overcapacity, destocking, deleveraging, reducing corporate costs and shoring up weak spots.

In 2016, General Secretary Xi Jinping put forward the new development concepts of innovation, coordination, green development, opening up and sharing. "Innovation" points to the drivers of development, "coordination" deals with the problem of uneven development, "green development" leads to harmony between man and nature, "opening up" links China to the outside world and "sharing" addresses social equity and justice. In 2018, General Secretary Xi Jinping highlighted the goal of high-quality development, with the focus shifting from the narrow quantitative concept of economic growth to qualitative growth. China is to strive to build a modern economic system that ensures sustainable development. The 19th Party

National Congress has pointed out that by 2035 China will have basically realized socialist modernization and by 2050 it will have become a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious and beautiful. In that we have confidence.

VII. The Relationship between China's Experience in Economic Development and Development Economics

General Secretary Xi Jinping pointed out in the report delivered at the 19th CPC National Congress, "With decades of hard work, socialism with Chinese characteristics has crossed the threshold into a new era. This is a new historic juncture in China's development. This is what socialism with Chinese characteristics entering a new era means: The Chinese nation, which since modern times began had endured so much for so long, has achieved a tremendous transformation: it has stood up, grown rich, and is becoming strong; it has come to embrace the brilliant prospects of rejuvenation. It means that scientific socialism is full of vitality in 21st century China, and that the banner of socialism with Chinese characteristics is now flying high and proud for all to see. It means that the path, the theory, the system, and the culture of socialism with Chinese characteristics have kept developing, blazing a new trail for other developing countries to achieve modernization. It offers a new option for other countries and nations who want to speed up their development while preserving their independence; and it offers Chinese wisdom and a Chinese approach to solving the problems facing mankind."

China's 40 years of reform and opening up has been a period when the country experienced rapid economic development and caught up with the age, when people's living standards greatly improved and people's sense of happiness, security and national pride were significantly strengthened, and when China embarked on the socialist road and mode of development with Chinese characteristics. China's 40 years of experience can be summed up as follows: 1. Adherence to the Party's basic line in the primary stage of socialism, constantly improving the socialist market economic system, liberating and developing the productive forces and ensuring that the relations of production align with productivity. 2. Upholding the Party's ideological line, emancipating the mind, seeking truth from facts and keeping pace with the times. Working in tandem with Chinese realities and always starting from reality, China adheres to the laws of economic and social development. 3. Embracing the people-centered development philosophy—development of the people, by the people and for the people. 4. Sticking to the path of peaceful development, striving to create an enabling environment for peaceful development, and jointly build a community of shared future for all humankind.

China's economic growth over the 40 years has applied, and proven effective, the general principles of development economics, but more importantly, based on Chinese realities, it has contributed to theoretical and institutional innovation, leading China on to the road of

socialism with Chinese characteristics.

First, China's development is based on the basic economic system with public ownership as the main body and the participation of diverse forms of ownership in the common development of the economy. The coexistence and development of the public ownership economy and the non-public ownership economy constitute the micro-foundation of China's economy.

Second, China's socialist market system is built upon 30 years of a highly centralized planned economic system, during which China took incremental steps towards tentative reforms. A socialist market economy was gradually established, allowing the market to play a decisive role in allocation of resources and at the same time enabling the government to redress market shortcomings.

Third, China has achieved its economic miracle despite having the world's largest population, one larger than that of all the developed countries combined, and despite the marked differences and great divide between urban and rural areas. More importantly, China has ensured political and social stability in the course of economic development.

Fourth, despite the significant differences between its eastern and western regions, China's economic achievement has stunned the world. China implements a strategy of coordinated regional development, giving full play to the characteristics of each region in different periods, tapping the potential of each region, and making full use of the advantages of a large economy.

Obviously, none of the above-mentioned points can be explained by traditional development economics. It is incumbent on economic theorists to conduct in-depth research so as to provide a better theoretical analysis for the healthy development of China's economy in the new era.

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Xie Fuzhan is a Research Fellow and Doctoral Supervisor, and currently serves as the President of the Chinese Academy of Social Sciences. His main research interests are macroeconomic policy, public policy, and regional development policy. His works include "'Eighth-Five' Economic Development: Policy, Approach and Policy" ("八五" 经济发展: 方针、途径与政策, *Economic Research Journal* [经济研究], 1990, no. 7); "Strategy-Making in Adjusting Industrial Structures" (产业结构调整的战略选择, *Management World* [管理世界], 1990, no. 4); "Present Situation and Policy Analysis of Income Distribution in China" (中国收入分配的现状与政策分析, *Management World*, 1994, no. 2); "China's Economic Development: The Present Situation, Driving Forces and Prospects" (中国经济发展的现状、动力和前景, *Management World*, 2007, no. 6); *Financial Supervision and Financial Reform* (金融监管与金融改革, Beijing: China Development Press, 2002); *The Trajectory of Development—Collected Economic Works of Xie Fuzhan 2001-2012* (发展的轨迹——谢伏瞻经济文集 2001-2012, Beijing: China Statistics Press, 2013). E-mail: xiefz@cass.org.cn.

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