

## Section 4

# The Economy of China

### As you read, look for



- ▶ where China falls on the economic continuum between command and market;
- ▶ the economic changes that were made after China became communist;
- ▶ the purpose of the Four Modernizations;
- ▶ the purpose of the Special Economic Zones;
- ▶ how investment in the factors of economic growth impact China's economy;
- ▶ **terms: command economy, market economy, yuan, Four Modernizations, Special Economic Zones.**

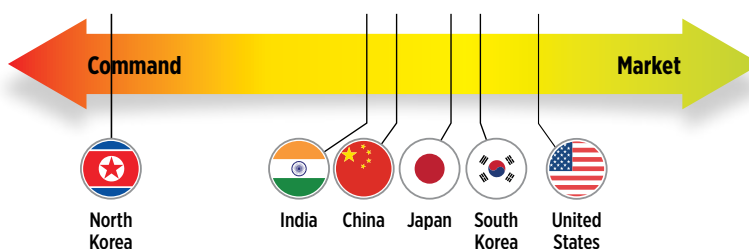
## Type of Economy

The economy of the People's Republic of China has been a **command economy**. The government had control over nearly all the major parts of the economy, including large industries and banks. The government also made the decisions about what was to be produced, what goods would cost, and what workers were to be paid.

When the Chinese Communists came to power in 1949, nearly all of China was agricultural. The leader of the Communist Party decided how many people would remain in farming and how many would switch to industrial production. Traditional farms were reorganized into collective farms, where people worked together and shared whatever they produced. The government tried to reorganize the economy in the late 1950s, during the period known as the Great Leap Forward. Conditions did not improve fast enough, and another program, the Cultural Revolution, came about in the 1960s. This program tried to eliminate all previous programs, and reorganized farms, businesses, and most of society. The people in charge of the Cultural Revolution wanted China to do away with everything old—to have a new approach to all aspects of their life. This program was also a failure.



**Above:** A Chinese container ship filled with cargo containers transports goods to US markets.



**Figure 13.2**

Economic Systems in Southern and Eastern Asia

The command economy of China is beginning to change very slowly. Many Chinese people today are entrepreneurs and have small businesses of their own, even though the Chinese government still has final authority in most matters. There are many more examples of a **market economy** at work in China than in the years since the revolution. Although China does not have an unlimited supply of farmland, the country still manages to feed itself even though there are over 1.3 billion people to feed. At least half of China's workers remain in agriculture. Today, China's economy continues to be growing and strong, and many Chinese enjoy a higher standard of living than ever before. Cities along the southeastern part of China are experiencing tremendous growth, especially places like Shanghai and Hong Kong.

### Trade in China

Trade is very important to China's economy. China is the largest exporter of goods in the world. China exports over \$2 trillion of goods each year. China exports goods to countries around the world, but its top export markets include the United States, Japan, and South Korea. The United States, for instance, imported about \$462 billion in goods from China in 2016. Some of the top exports are machinery, clothes, furniture, and textiles.

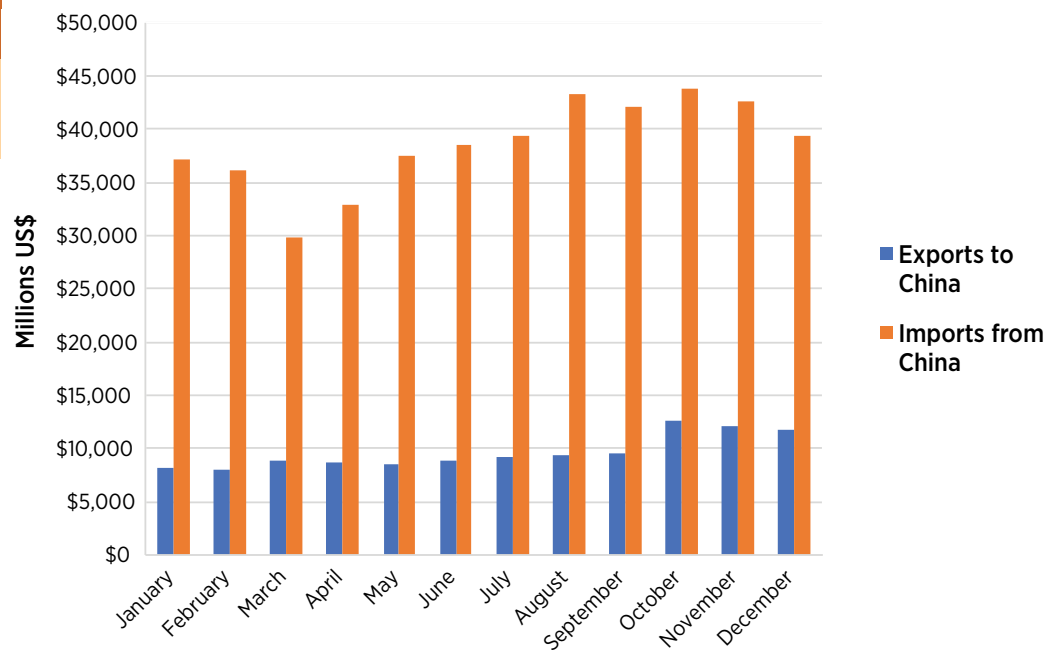
China is also one of the top importing countries in the world. The top countries that import goods to China include South Korea, the United States, Japan, Germany, and Australia. China imported about \$115 billion in goods from the United States in 2016. Some of the top imports include machinery, oil, nuclear reactor pieces, and soybeans.

In order to trade with other countries, Chinese businesses must exchange their currency, the **yuan**, for other countries' currencies. Other countries trading in China may need to exchange their currencies for yuan. One US dollar can be exchanged for about 6.8 yuan.

**Above:** Hong Kong is a major economic center in China. Because of its history, it has greater economic freedom than the rest of China.

**Figure 13.3**

United States Trade with China (2016)



China is an important trading partner for the state of Georgia. Georgia Governor Nathan Deal traveled to China in 2011 and 2013 to encourage trade between Georgia and China. Atlanta Mayor Kasim Reed led a trade mission to China in 2012, as well. In 2015, Georgia's exports to China totaled \$2.6 billion, ranking 12th among Georgia's top exporter nations. Top exports from Georgia to China include civilian aircraft and parts, chemical wood pulp, kraft paper, and poultry.

## Natural Resources in China

China's mineral deposits include iron ore, tin, tungsten, aluminum, lead, zinc, and other minerals. Some of China's resources, like uranium, are rare in the world, which means they can be sold at high prices when there is also high demand. China is also fortunate enough to have a diverse and large amount of energy sources including, coal, petroleum, natural gas, and hydroelectric power. Finally, arable land is a very important natural resource to the people of China because large parts of the population are still involved in agriculture. Being able to grow enough food to feed over 1.3 billion people is quite a challenge.

## Human Capital in China

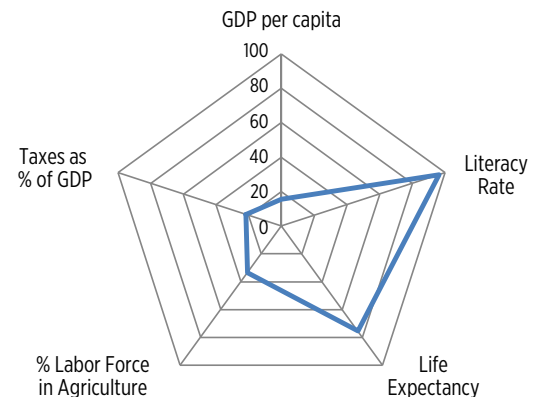
Investment in human capital is very important to the Chinese to maintain their country's strong economy. Because most of the major economic decisions in China are made by the central government, they are able to make investments in both training and technology that might be more difficult for privately owned businesses. Even though more private decisions are being made in Chinese business, China still has many characteristics of a command economy.

In the 1970s, the Chinese government announced that the country would begin a program called the **Four Modernizations**, an effort to improve all aspects of Chinese production including farming, military defense, heavy and light industry, and scientific and technical research and production. Money was made available for newer and better farming equipment and seed, and new quotas were set for higher production. In addition, farmers were allowed to sell crops produced above the quota for their own profit. Industrial production was shifted to making more consumer goods that would sell on the world market. Though the government planners retained most of the control, factory managers and workers were encouraged to make suggestions about how their companies could be reorganized to be more efficient. New methods of production required new training, all of which meant investment in the human capital of China.



**Figure 13.4**

**China Spider Graph**



**Above:** Chinese coal miners. **Left:** Members of the Chinese military honor guard.

Four **Special Economic Zones** were established in provinces along the eastern coast of China to act as trade centers for global trade in these new consumer goods. These changes in the Chinese economy have had both positive and negative results. The gross domestic product of China continues to go up about 8 percent every year, and China has become a leader in exporting consumer goods to the world market. The United States imports about 20 percent of the goods produced in China for foreign sale. Many Chinese people have benefited from earning more money and having better training and education.

On the other hand, while the areas in and around the eastern Special Economic Zones have prospered, many parts of the rural interior of the country have not done as well. Millions of workers have left farms and moved to cities, hoping to find better work there, but often jobs have been scarce because these workers do not have the necessary skills for the jobs that are available. The Chinese government is looking for ways to bring industrial development to other parts of the country, to help those areas where the economy is not as strong. As the Chinese economy moves more toward industrial and service industries, the investment in human capital is going to become even more important to keep the GDP growing at a rate that will keep up with China's rapidly growing population.

### Capital Goods in China

Because China's government has control over spending and planning in both agriculture and industry, China has been able to establish programs and make changes more quickly than a country where power is more widely shared among regions, communities, and individuals. China's Four Modernizations program is a clear example of government decisions to increase the country's investment in capital goods. More modern equipment and technology was brought into nearly every area of Chinese production, including agriculture, industry, and the military. One big change has been that new technology and planning have allowed China to increase the production of smaller consumer goods that have sold well in the world market. The Special Economic Zones created places in China that were convenient for foreign trade so the goods produced by the newly improved industries could find foreign buyers.



**Background:** Chinese industries are known for paying workers a low wage. This practice makes products cheaper to sell on world markets.

## Entrepreneurship in China

Entrepreneurship in China is relatively new. The Chinese government has only allowed individual business projects since the late 1970s. Even so, many have taken advantage of the new openness, and China now may have as many as 100 people who are billionaires. The Chinese government realizes that the country has to be more competitive in the world market, and they have decided to let their own entrepreneurs help lead the way. The Chinese government is still working out what its relationship will be to these new companies. China can never go back to the old strict command economy it once had if it is to be competitive in the modern global marketplace.

### Reviewing the Section

1. Based on what you just read, where would China fall on the economic continuum? Why?
2. What economic changes were made after China became communist?
3. What was the purpose of the Four Modernizations? Were they successful?
4. What is the purpose of the Special Economic Zones?
5. How has investment in the factors of economic growth impacted China's economy?



**Bottom:** Chinese businesspeople, such as these meeting in London, trade goods and services with markets around the world.