

Modern China's Development Strategy and Path Selection

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Abstract. This article examines China's performance over the past several decades and considers how it will move forward in the coming years. Beginning in the 1990s, the Communist Party and the state implemented several major reforms, moving from planned economy to market economy system and from demand side to supply side reforms; these reforms generated the rapid economic growth that has made China an important international economic power and given it the opportunity to play a leading role in global affairs. The rise of Chinese economic power has undoubtedly changed the country's destiny, enabling it to build the political influence to become a true superpower.

Keywords: Strategic choice; Supply-side reform; Economic growth; Market economy system.

1. Introduction

The period of change in the Chinese economy was characterized by a remarkable burst of economic development. With new technologies and a growing labor force, its strong productive capacity fueled an expansion of its business and GDP. This era saw the construction of towering skyscrapers, the development of bustling ports, and the emergence of a booming middle class, which together represent the golden age of the Chinese economy as we know it. Rapid economic growth has made China a major international power, enabling it to play a leading role in international affairs. According to a 2010 Goldman Sachs estimate, China's economy could surpass that of the United States in the 2030s (Newman 2023). China's rise indisputably changed the country's destiny, establishing the groundwork for it to develop the political influence it has today. China's rise as a global economic power has been intricately linked to the interaction between its evolving economic policies, its management of domestic industries, and its engagement with international actors, particularly the United States. Beyond phenomenal growth, however, China will have to overcome new conditions in the coming decades to continue its rise. These conditions have been generated by its current economic policies (O'Hanlon 2023). Examining these conditions and considering how they can be managed, this paper is divided into three parts: the first section provides a historical overview of China's foreign economic policy, the second section discusses China's recent foreign economic policy, and the third section analyzes how China has handled the challenges that have arisen in recent years.

2. Implementation of the Socialist Market Economy System

2.1 The Causes and Performance of Reform

The 14th National Congress of the Communist Party of China took place in Beijing from October 12th to the 18th, 1992. The congress established the socialist market economy system as the new goal for China's economic restructuring. The contents of the system include socialist public ownership form as the mainstay, private ownership redistribution, and the coexistence of the various limited modes of distribution. Party chose to implement this system to combat resource allocation in efficiencies in China's highly centralized planned economy system, which had the following shortcomings: (1) unitary ownership of the means of production, restricting, excluding or even eliminating the non-public economy; (2) exclusion of commodity money relations, ignoring the law of value and the role of the market; (3) concentration of economic decision-making power and management power in the central government, obviating enterprise autonomy in production and operation; (4) no separation between government and enterprise, meaning management of the economy occurred via administrative channels; and (5) egalitarianism in distribution akin to a

communal approach. Conversely, the market economy is highly efficient due to its nature liberating productive forces and meeting national production demand and life needs. The benefits of implementing a Chinese characterized and focused socialist market economy were deemed to be as follows: first, economic activities would follow the requirements of the law of value and adapt to changes in the relationship between supply and demand, and resources would be allocated more efficiently through the function of value levers and competition mechanisms; second, overcome market failures (monopoly, externalities, public goods, etc.) would be overcome, and the invisible hand of the market would play its role. The implementation of the socialist market economy system in China began with reforms to state-owned enterprises that pressured and motivated these enterprises to embrace a survival of the fittest ethos, promote progress in technology and management, be more responsive to diverse economic signals, and enhance the prompt coordination between production and demand. Internationally, the system's implementation included accession to the International Trade Organization, trade liberalization, and investment facilitation. Finally, the reformed foreign economic policy was characterized by participation, integration, and leadership. The following section focuses on the development stages of state-owned enterprise reform and foreign economic policy.

2.2 State-Owned Enterprise Restructuring Stage

The reform of state-owned enterprises occurred in roughly four stages. (1) From 1978 to 1984, the reform effort's primary aim was to transfer power and profits away from the state. The aim was pursued by disassembling the highly centralized state-owned system, giving enterprises a certain degree of autonomy, and focusing on delegating power to profit. State-owned enterprises generally carried out these reforms by expanding their operational autonomy, which aroused their enthusiasm for production and operation. (2) From 1985 to 1992, the reform effort focused on gradually promoting the separation of government administration and enterprises and establishing the principle of separation of ownership and management rights, so that enterprises could become commodity producers and operators with independent operations and take responsibility for their own profits and losses. Under the premise of maintaining state ownership, the management rights of enterprises could be delegated to enterprises, and various forms of management responsibility could be explored. (3) From 1993 to 2002, the reforms focused establishing a modern enterprise system. The Company Law of the People's Republic of China, an important commercial code, was issued in 1994. Thereafter, the State Council selected 100 enterprises to pilot the establishment of a modern enterprise system, and together with those selected by local governments, central and local governments selected more than 2,500 enterprises to pilot the reform of the corporate system in accordance with the requirements of the modern enterprise system. (4) In the post-2003 stage, the state reformers sought to establish a joint-stock system to be the main mode of public ownership. In 2003, the State-owned Assets Supervision and Administration Commission of the State Council established a state-owned assets management system in which both central and local governments respectively performed the duties of investors on behalf of the state, seeing a combined force of business owners' rights, interests, obligations, and responsibilities, and combined asset management with personnel management. The state sought to develop and promote actively the joint-stock system and mixed-ownership economy, and accompanying these requirements, within the large and medium-sized state-owned enterprises system reforms occurred continuously, establishing standardized boards of directors, and improve corporate governance structures.

2.3 Foreign Economic Policy Phase

Foreign economic policy also underwent four stages of reform. (1) The first stage occurred in the 1980s, when China began to establish diplomatic and economic relations with the United States through bilateral trade agreements. Meanwhile, in 1980, after a period of observer status, China was admitted as a member of the International Monetary Fund (IMF) and the World Bank (WB), officially opening the door to its participation in the organization of global trade. In the late 1980s, additional

progress was made through the revival of several international agreements (Shatz 2019, p. 85–87). (2) The second phase (1992–1999) began with Deng's 1992 Southern Talks, which solidified China's commitment to the basic direction of market economic reform, adopting the general rules of the international market economy, and attempted integration into the existing international economic system. For example, China joined Asia-Pacific Economic Cooperation (APEC), which was established in 1989, and participated in the first APEC summit in Seattle. (3) The third stage, running through the early 21st century, focused on active participatory economic diplomacy, including participation in the Doha Round negotiations. In addition, it included the establishment of a strategic dialogue and cooperation mechanism that effectively eased foreign exchange pressure and promoted the development of foreign economic relations. (4) The final phase refers to the “creative” phase of economic diplomacy that lasted until 2012, coinciding with China's rise to the position of the world's second largest economy. China's global economic relations have thus evolved from consistent to proactive and influential. In addition to adherence to established conventions and ongoing efforts to influence emerging international economic and trade norms, China's efforts, including through the Shanghai Cooperation Organization (SCO), have extended to reforming the existing global financial framework and establishing complementary regional financial markets (Council on Foreign Relations 2023).

3. Carry Out Supply-Side Reform

First announced in 2015, the concept of “Supply Side Structural Reform (SSSR)” became a major component of the Chinese economy: “While moderately expanding total demand, efforts should be made to strengthen supply side structural reform, improve the quality and efficiency of the supply system, and enhance the driving force of sustained economic growth.” Subsequently, “supply side reform” became one China's main macroeconomic regulatory policies. The Fifth Plenary Session of the 19th Central Committee of the Communist Party of China proposed that China “organically combine the implementation of the strategy of expanding domestic demand with the deepening of supply side structural reform.” On December 11, 2020, the Political Bureau of the Central Committee of the Communist Party of China held a meeting and emphasized that “we must seize the structural reform on the supply side while paying attention to the demand side reform”; At the Central Economic Work Conference, held from December 16th to 18th of the same year, it was pointed out that “we must firmly grasp the main line of supply side structural reform and pay attention to demand side management.” On July 30, 2021, the Political Bureau of the Central Committee of the Communist Party of China held a meeting in which it emphasized “deepening supply side structural reform and accelerating the construction of a new development pattern.” Supply side reform refers to active interventions in the supply and production sides to promote economic development by lifting supply constraints. The process of building a new development pattern requires effective coordination between supply side structural reform and demand side management. In the past, government intervention in the economy has mainly occurred on the demand side, and demand side management can easily cause long-term hidden dangers such as soaring asset prices and prices, widening the wealth gap and creating structural imbalance in production capacities; thus such intervention cannot solve the structural problems encountered in economic development. Therefore, China has increasingly recognized the need for supply side reforms. The structural reforms of the Supply side aim to adjust the economic structure in order to achieve most favorable allocation of economic factors, to improve the quality and scale of economic growth, and to create new economic growth sectors. Significantly, supply side reforms aim to optimize the allocation of production factors. Structural problems are deep-seated problems beyond “cyclical problems.” For example, technological underdevelopment results in reliance on low-end manufacturing or industries that generate high levels of pollution and consume excessive energy. The so-called “driving economy” focuses on promoting market production and transactions, and the “supply” of producers is configured and regulated in the long run based on the consumer “demand,” relying on the “invisible hand” of the market, which means

that “supply” adapts to the “demand” situation, and “demand” cannot exist without an actual “supply.” For example, many people in the market will not use new energy vehicles until these vehicles reach an acceptable range (such as 200km), because cars with low range do not meet their actual needs. Therefore, current “demand” for new energy vehicles in the market is relatively weak; however, once the range of new energy vehicles expands to 400km, “demand” for new energy vehicles will immediately grow. Therefore, “supply” and “demand” are actually interdependent and mutually reinforcing. Supply side management originated from neoclassical economic theory, mainly represented by the “Say's Law,” which stipulates that supply itself creates demand; however, the “Great Depression” completely negated the “Say's Law.” The theoretical foundation of supply management is the production function in economic growth theory: $Y=F(A, K, L)$, the theoretical core of which is the promotion of economic growth by increasing total factor productivity A . The policy proposition of the supply economy school involves significant reductions in tax rates, government intervention in and restrictions on the market, and government spending as well as increased control over the money supply and price stabilization. However, China's supply side reforms have not been consistent with the policy propositions of “Reagan economics.” China's supply side reforms aim to adjust the economic structure and match supply with demand. Therefore, traditional “supply side” theory does not effectively explain China's supply side reforms. The focus of China's supply side reforms has been on reforming from the supply side (producers) and achieving market clearance. Since 2016, the government has emphasized “three reductions, one replenishment, and one reduction.” Specifically, it has aimed to “reduce production capacity, inventory, leverage, reduce costs, and address weaknesses,” while investing resources in inefficient industries. As the saying goes, the process of clearing the market releases funds, labor, technology, and land, which can be allocated to the industries that the market truly needs. Admittedly, clearing the market involves pain, but only in this way can the bottleneck of economic development be overcome. The benefits of the supply side include the promotion of industrial upgrades, freedom from the middle-income trap, and the creation of new economic growth points. In terms of implementation methods, China has vigorously implemented relevant measures to promote scientific and technological progress and development, and eliminate outdated production capacity; internationally, it has established the Belt and Road Initiative, sought to replace backward production capacities, and helped other countries build infrastructure to improve the level of international standards. China's efforts to reduce the cost of foreign infrastructure projects by curbing labor costs and energy factors will inevitably increase its abilities to export manufactured goods. However, the objectives of the Belt and Road Initiative have changed: moving from an initial focus on economic trade links to facilitate the export of excess capacities to an emphasis on strategic and security objectives (Garcia Herrero 2020); thus, to some extent, this initiative has become an economic burden for China and recipient countries.

4. The Current Challenges Facing China

China's rise has undoubtedly attracted the attention of Western countries, who view it as a challenge to the Western world order reflected by the International Monetary Fund and the World Bank. In particular, the United States believes that China is the “biggest single threat to the global status of the United States” (Fox News 2023). The economic relationship between China and the United States has always been poor. In this regard, one of the most noteworthy recent events is the trade war between the two countries. The US-China trade war is a war without a winner. The United States' “trade transfer and decoupling” strategy—expanding import and export restrictions on China, and establishing reliable supply chain partners—has resulted in tariffs that have levied heavy losses on both the US and the Chinese supply chains (Huang and Smith, 2020). From the content of the 14th Five Year Plan to new subsidies for domestic enterprises, the Communist Party has emphasized that the unprecedented changes wrought by the trade war mean that it can only cope under different development models (Li 2022). Its focus is now on bolstering manufacturing industry, strengthening

independent innovation, reducing external dependence, and utilizing the internal circulation of the domestic market to support economic development.

The end of the Trump administration did not put a halt to competition between China and the United States. As Biden continues to erect barriers for Chinese companies, the main focus of China's economic relations has shifted to the technology industry. Biden's regulation of Chinese companies has put pressure on American companies to revoke or change their relationships with Chinese companies. In addition, the United States has imposed much stiffer regulations on Chinese companies than on companies from most other countries. China's business in the United States is subject to special monitoring and configuration (for example, Chinese companies are forced to only purchase from American suppliers). This competition has impacted both China's economy and national security.

5. Conclusion and Recommendation

Over the past thirty years, China has achieved tremendous success as a rising power. From reform and opening up to the implementation of supply side economics, from timely economic policies to global cooperation, China has transformed its economic status and expanded its influence on the world stage. However, this rise has brought considerable challenges.

For the Chinese economy, the next few decades will be filled with uncertainties. On the policy front, it faces new challenges that will require careful management. The tense relationship with the Uyghurs, the ongoing situation in Ukraine, population decline, and environmental issues will all constitute significant challenges in the coming decades (Leonhardt 2023). The Party's proposed implementation of supply side reforms marks an effective and profound transformation. Regarding these supply side reforms, this article makes following suggestions: (1) Starting from consumption, effective coordination of supply side structural reform and demand side management is crucial. The development of China's economy and the continuous upgrading of the consumption structure have given rise to significant temporal differences, which necessitate new adaptability measures for the supply side. The timely and full realization of supply and demand adaptation requires timely and comprehensive unleashing of potential economic development. Responding effectively to the characteristics of recent consumption upgrades will require diversification of the consumer goods expenditure structure, increased focus on improving the quality of consumer goods, and maintenance of strong growth momentum in service consumption, as well as policy guidance from the demand side, which mainly enhances residents' willingness and abilities to upgrade consumption. Attempts must also be made to improve the product and industrial structure to generate effective supply. (2) Starting from investment, supply side structural reforms should be used to promote economic development by improving the adaptability of supply to domestic demand. A key step in this regard is the optimization of the investment structure. This will generate positive interaction between supply and demand under the guidance of consumption; it is also necessary to optimize supply through investment, promote consumption upgrades, and form a higher level dynamic balance of demand pulling supply and supply creating demand. (3) Start with innovation. China needs to seize the innovation chain, generate new supply, and stimulate new demand. Under the guidance of the information technology generation, related industries have made rapid progress. In particular, the network economy has taken a significant leap forward, as it has the advantage of promoting the development of new industries due to its extensive connection with production and daily life. Overall, the new format not only expands the scale of demand, but also compensates for the shortcomings of the old format. Especially during the prevention and control of the COVID-19, contactless network-based transactions and interactions provided great convenience by overcoming the space barrier.

Given these opportunities and challenges, China should consider drawing lessons from the history of its foreign economic policies, especially past principles of successful participation, integration, and leadership. As China continues to develop into a global economic powerhouse, it must seize opportunities, shape its own destiny, and make positive contributions on the world stage. Historical

lessons learned can provide insights for its future strategy and decision-making processes. Finding the right balance between politics and economics is crucial for sustaining the country's growth and stability. Despite China's recent foreign economic policies attempting to strengthen national control, expand state-owned enterprises, and improve domestic technological competitiveness, economic tensions with Western powers have become increasingly complex. As China seeks to overcome this dilemma, it will need to demonstrate adaptability, cooperative abilities, and a commitment to addressing the concerns of its global partners.

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