

The fluctuations of China's economic growth since the reform and opening up and the rational countermeasures

Fluctuations
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Received 1 October 2019
Revised 15 October 2019
Accepted 15 October 2019

Abstract

Purpose – The purpose of this paper is to review the four large and two small fluctuations in China's economic growth since the reform and opening up, which can be further divided into five periods of economic upturn and six periods of economic downturn.

Design/methodology/approach – This paper also analyzes the performance, causes and practical countermeasures of these fluctuations and summarizes the experience and lessons from the eight aspects of dealing with economic downturn and stabilizing growth since the reform and opening up.

Findings – At last, the paper puts forward some measures to cope with economic downturn and stabilize growth under the new normal in the new era.

Originality/value – Any country's economic growth is a tortuous process with many fluctuations. The rate of economic growth cannot rise or go down straight for a long time, and China's economic growth is no exception. The drastic fluctuations of economic growth can lead to serious overproduction, waste of resources, increased unemployment, decreased income or supply shortages, rising prices and decline of living standards.

Keywords Economic growth, Fluctuations, China's economic growth

Paper type Research paper

1. Introduction

Any country's economic growth is a tortuous process with many fluctuations. The rate of economic growth cannot rise or go down straight for a long time, and China's economic growth is no exception. The drastic fluctuations of economic growth can lead to serious overproduction, waste of resources, increased unemployment, decreased income or supply shortages, rising prices, decline of living standards. Therefore, a reasonable and effective economic growth should be sustained, stable, harmonious and efficient with small fluctuations (Dong, 1999). In this view, this paper reviewed the actual course of China's economic growth since reform and opening up, analyzed its causes and responses, and summarized the lessons from the experience of coping with economic downturn and realizing fast economic growth. This provides important theoretical significance and practical value for the China's responses to the current trend of economic downturn, the change from rapid growth to high-quality development in the new era, and the effective promotion of sustainable economic growth.

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The present paper is one of the mid-term research results of the major project of the National Social Science fund "The Marxist Political Economy Research on China's Economic Trend" (Project No. 17ZDA036).



2. The trend of China's economic growth since the reform and opening up

Since the reform and opening up, China's GDP has increased by 33.5 times, with the average annual growth rate of 9.5 percent. The economic growth has shown a wave of rapid increases without any negative growth, even the lowest growth rate (in 1990) reached 3.9 percent, as shown in Figure 1.

Figure 1 reveals that during the 40 years from 1978 to 2018, without counting the rise and fall of less than one percentage point, China's economic growth rate has experienced four large and two small fluctuations. These fluctuations can be further divided into five periods of economic upturn and six periods of economic downturn.

The five periods of economic upturn were: from 5.1 percent in 1981 to 15.2 percent in 1984, from 8.9 percent in 1986 to 11.7 percent in 1987, from 3.9 percent in 1990 to 14.2 percent in 1992, from 7.7 percent in 1999 to 14.2 percent in 2007, and from 9.4 percent in 2009 to 10.6 percent in 2010.

The six periods of economic downturn were: from 11.7 percent in 1978 to 5.1 percent in 1981, from 15.2 percent in 1984 to 8.9 percent in 1986, from 11.7 percent in 1987 to 3.9 percent in 1990, from 14.2 percent in 1992 to 7.7 percent in 1999, from 14.2 percent in 2007 to 9.4 percent in 2009, and from 10.6 percent in 2010 to 6.6 percent in 2018. Now China is at the sixth period of economic downturn.

In the past 40 years since reform and opening up, the largest fluctuation of China's economic growth is from 15.2 percent in 1984 (the highest rate of economic growth since the reform and opening up) to 3.9 percent in 1990 (the lowest economic growth rate since the reform and opening up), with a total decline of 12.3 percentage points in six years. The longest period of economic growth was from 7.7 percent in 1999 to 14.2 percent in 2007, with eight years' consistent economical increase. The longest period of decline in economic growth was from 10.6 percent in 2010 to 6.6 percent in 2018, also eight years.

China's economy is now in a downward trend, with its growth rate dropping from 10.6 percent in 2010 to 6.6 percent in 2018. During this period, China experienced economic downturn for six consecutive years from 2010 to 2016. Although the decline stopped in 2017,

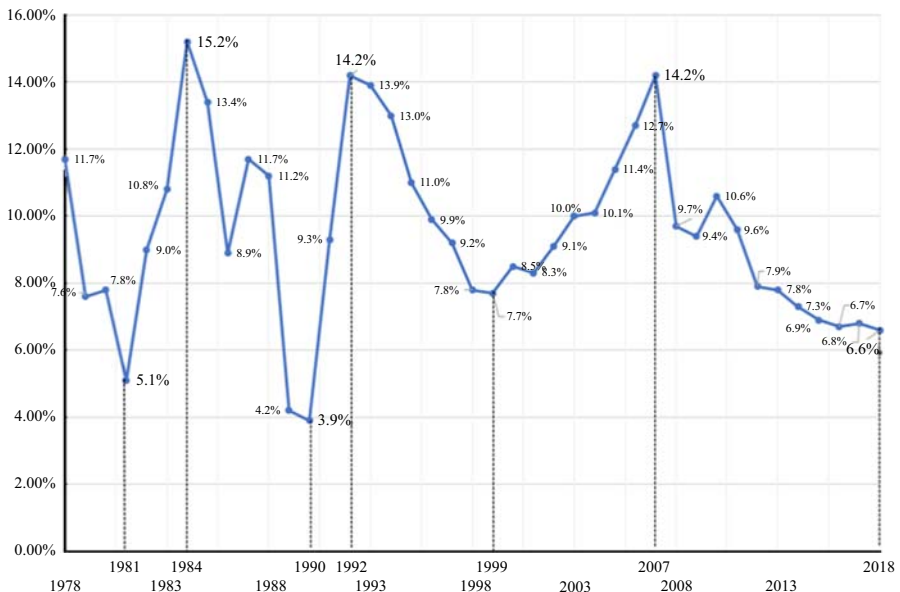


Figure 1.
The annual GDP
growth rate of China
(1978–2018)

it only increased by 0.1 percentage point, rising from 6.7 percent in 2016 to 6.8 percent in 2017. In 2018, the rate of economic growth in China further decreased to 6.6 percent. How we should correctly understand and respond to this downward trend in China's economic growth is a major and long-term issue that China is now facing, and it is also the focus of general concern and discussion both at home and abroad. In order to solve this major problem, the present paper mainly reviews and summarizes the experience and lessons of coping with economic downturn and realizing high-speed growth since the reform and opening up.

3. The performances, reasons and countermeasures of fluctuations of China's economic growth

Since the reform and opening up, the performances, reasons and countermeasures of fluctuations of China's economic growth in different periods are not exactly the same (Liu, 1996). Here, we briefly analyze the specific performances, reasons and countermeasures in different periods of fluctuations in term of the two major aspects of economic downturn and upturn.

3.1 The performances and reasons of the economic downturn

Since reform and opening up, China's economic growth has witnessed four major lowpeaks (Wen *et al.*, 2013). To analyze the reasons of these four low peaks is conducive to the understanding of how to take effective measures to deal with the economic downturn, make a turnaround of economy, and re-promoting economic growth.

The first low peak appeared in 1981 with an economic growth rate of 5.1 percent, which was mainly caused by serious mistakes in economic development strategies. The "Cultural Revolution" seriously damaged and hindered China's economic development. In 1976, the economic growth was even 1.6 percent lower than that of 1975, leaving hundreds of millions of people without enough food and clothing. After the crushing of the "Gang of Four" and the end of the "Cultural Revolution" in October 1976, because of the urge of the people for economic development and the improvement of their living standards, there occurred an upsurge of "going all out for socialism." Nevertheless, the guiding ideology of unrealistic pursuit of quick results, blindly aggressive development of economy and one-sided pursuit of high speed, the strategy of prioritizing heavy industry and the rigidity of the planned economy system have not changed. The government hoped to initiate another "Great Leap" (which is called the "Leap of Learning from the Foreign Countries") through the expansion of basic construction and introduction of foreign advanced technologies and equipment. The main measures to realize the "Great Leap" include the dramatic increase of investment, the large-scale construction of large and medium-sized projects and the introduction of large number of foreign advanced technology and equipment. However, these measures caused the front of the basic construction to be excessively long and the investment scale excessively large so that they were beyond the national strength. What is more, these measures also exacerbated the unbalance of national economy, which had been quite serious already, making the abnormal industrial structure of "the heavy industry being too heavy, light industry too light, and agriculture backward" more prominent. The accumulation rate of heavy industry reached more than 30 percent for several consecutive years, with 36.5 percent in 1978, which squeezed consumption and led to the coexistence of the running of enterprises under production capacity and the serious shortage of energy and transportation, as well as an economic downturn for three years from 11.7 percent in 1978 to 5.1 percent in 1981.

The second low peak appeared in 1990 with the economic growth rate of 3.9 percent. The main reasons for this low peak were multifaceted, including the continuation of

traditional pattern of high-speed development, the sluggish development of new economic system, the overheating of the economy, the drastic changes in Eastern Europe, the “June 4th Upheaval,” and the stagnation of reform and opening up. After a period of comprehensive implementation of reform and rapid growth of economy, because the traditional development strategy of pursuing quantity catch-up has not been fundamentally changed, the tendency of pursuing immediate success and the greed for speed and quantity in development still exist. The reform was still on the way – the old system has not been fundamentally changed; the new system has not been established. And lots of contradictions, frictions and loopholes occurred in the “double-track system” with the coexistence of old and new institutes. In this stage, there happened serious surge of investment inflation, consumption and credit, which resulted in the expansion of currency, rising prices, economic overheating, over-distribution of national income, degradation of economic environment and economic disorder. In 1988, the general price index increased by 18.5 percent over that of 1987, reaching the highest level since the founding of the People’s Republic of China. The nationwide panic purchase caused by the sharp rise in prices, coupled with the huge price difference caused by the “double-track system” resulted in the prevalence of power-for-money deal, rampancy of official and private profiteering and spreading of corruption. The reform of decentralization of power and transfer of profits was difficult to be deepened, the defects of the enterprise contracting system were increasingly exposed, the short-term economic behavior was serious, the phenomenon of indiscriminate issuing of bonuses and material objects continued despite repeated prohibition, and there was a new unfair social distribution of income disparity. Rising prices, serious corruption and unfair distribution had become the three most serious social problems that had drawn wide public attention and aroused strong dissatisfaction among the people. Some of the people even attributed the problems to the policy of reform and opening up. In the face of such serious situation, Chinese government started to focus its economic work on the regulation and governance of economy, and it mainly took administrative measures to improve economic environment and rectify the economic disorders. Except for the progress made in price reform, most reforms in other areas have stagnated or even gone backwards. The tightening of credit and currency, reduced investment and consumption have resulted in a sharp decline in economic growth. Moreover, the impact of the drastic changes in Eastern Europe in the late 1980s and early 1990s, and the “June 4th Upheaval” in 1989 also aggravated the stagnation of reform and economic downturn. The rate of economic growth dropped from 15.2 percent in 1984 to 3.9 percent in 1990, which was a typical “hard landing.”

The third low peak appeared in 1999 with economic growth rate of 7.7 percent, which was largely due to the reoccurrence of economic overheating and the impacts of the Asian financial crisis. In 1992, Deng Xiaoping’s speech during his inspection of southern China brought about another upsurge of reform and development in China. Given that the socialist market economy system has not been established and the traditional mode of development has not been fundamentally changed, China’s economic growth mainly relied on investment and export. As a result, the economy once again overheated and had to be cooled down. On July 2, 1997, the Asian financial crisis broke out in Thailand and then swept across southeast and east Asian countries. China fulfilled its international obligations and responsibilities and insisted on keeping the China Yuan (CNY) from depreciating even though the currencies of the surrounding countries have all depreciated significantly, which resulted in a decrease in foreign investment, a sharp decline in exports and a downturn of economy. It is worth noting that the measures Chinese government took to cope with this economic downturn has been the most successful during the reform and opening up, since it realized a moderate low peak of 7.7 percent and a “soft landing.” This was due to the fact that the level of macro-control by Chinese government has been improved. After the

overheating of economy, Chinese government promptly adopted moderately tight monetary and fiscal policies, which released the “bubbles” in China’s economy before the outbreak of the Asian financial crisis.

The fourth low peak appeared in 2018 with the economic growth rate of 6.6 percent. In general, the main causes of this low peak included the unreasonable economic structure, excessive ineffective supply, the lack of effective supply, insufficient investment and consumption and the weakening of three key driving forces of China’s economic growth including investment, export and consumption. However, the underlying reasons of this low peak were that the conditions for economic growth had changed significantly, defects still existed in economic system, the pattern of economic development had not been fundamentally changed or had become unsustainable. To be more specific, first, the global financial and economic crisis triggered by American subprime mortgage crisis in 2008 led to the decline of international trade and intensification of international market competition, seriously affecting the economic development in China. For example, exports dropped dramatically, lots of export processing enterprises in the southeast coastal areas closed down, tens of millions of migrant workers went back home and the rate of economic growth dropped quickly from 14.2 percent in 2007 (the third peak since China’s reform and opening up) to 9.7 percent in 2008 (with a fall of 4.5 percent one year) and 9.4 percent in 2009. To cope with the crisis, expand domestic demand and maintain steady growth, China has launched the “four trillion yuan investment plan.” This plan has achieved remarkable results so that China’s economic growth immediately returned to 10.6 percent in 2010, making it the fastest and earliest economy in the world to recover from the crisis. However, against the international background of new trade protectionism, unilateralism, hegemonism and difficulty in increasing export, and against the domestic backdrop of environmental pollution, more reliance on imports of important resources, increase of labor costs and environmental resource costs, the drawbacks of depending mainly on investment and exports to stimulate economic growth have been exposed quickly. The huge investment did not optimize the industry structure and increase the effective supply capacity but instead, resulted in the expansion of redundant construction, exacerbation of overcapacity and overstocked products so that investment could not and should not grow further. Therefore, the driving forces of exports and investment to promote economic growth became weak, and the economic growth rate of around 10 percent which has lasted for more than 30 years became unsustainable. And, more importantly, because of the defects of enterprise system, market malfunction, insufficiency of system and mechanism of investment and innovation, high quantity and low quality of labor force, serious shortage of capital and deviation of economic policy, etc., the way of development has remained unscientific, economic structure has not been optimized, the agricultural modernization has remained backward, and our enterprises have remained at the low end of the world industry value chain, resulting in excessive ineffective supply and lack of effective supply. Again the rapid drop of proportion of public sector of economy to around 30 percent, unsound distribution system of property and income, the enlarged gap between the rich and the poor possibly triggered by the market competition, the excessive power of governments with too many resources at their disposal, the lack of democratic supervision, corruption, etc., contributed to the widening of income gap, low income of labor force, insufficient demand for purchasing power, weakening of driving forces of consumption to promote economic growth, and finally leading to economic downturn[1] (Jian, 2018).

After six years’ economic downturn, China has achieved initial success in rebounding economic growth from 6.7 percent in 2016 to 6.8 percent in 2017 by deepening supply-side structural reform, transforming the pattern of economic development, and optimizing the economic structure as well as suitably increasing the demands. However, in 2018, the Trump administration of America launched a trade war against China, worsening the

international environment of China's economic growth and exacerbating the pressure of economic downturn, as manifested by the dropping of China's economic growth rate to 6.6 percent in 2018, and further declining to 6.4 percent in the first quarter of 2019.

3.2 Countermeasures for the economic downturn and reasons for achieving high-speed growth

From 1978 to 2010, under the leadership of the Chinese Communist Party, Chinese government gave play to the superiority of the socialist system, caught the opportunity of economic globalization, relied on reform and opening up, made use of the market competition, developed incentive mechanism for multiple forms of ownerships and income distribution, released sufficient and cheap labor force, took the comparative and late-mover advantages of cheap expropriation of farm land, introduced foreign capitals, advanced technology and management, increased investment and resource consumption, developed labor-intensive industries and export processing manufacturing industry, thus achieving an average annual growth rate of 10 percent for 33 consecutive years, which is rarely seen in the world. These achievements can be understood in analyzing the reasons of the three high peaks of economic growth since China's reform and opening up.

The first high peak appeared in 1984 with the economic growth rate of 15.2 percent, which was mainly caused by the reform and opening up and the transformation of economic system, economic structure and development strategy. The first economic downturn caused by the "Leap of Learning from Foreign Countries" since the reform and opening up made the Chinese people realize once again that China's economic development cannot follow the "old road" of economic growth and must follow the "new road" of reform and opening up. From late 1978 to early 1979, the Third Plenary Session of the Eleventh Central Committee of the Communist Party of China realized the shift of the focus of work of the Party and the state from "taking class struggle as the platform" to "taking economic construction as the central task," which marked the beginning of China's reform and opening up. But in the first few years, the Communist Party of China has mainly focused on the work of public opinions and organization preparations. For example, it initiated the discussion of "practice being the criterion of truth," emancipated the mind and corrected the deviation of the "Two Whatevers" so as to prepare for the climax of the reform and development. In 1979, the central government began to implement the policy of "adjustment, reform, reorganization and improvement," adjust the imbalance of major economic proportional relations, speed up the development of light industry and agriculture, compress the scale of basic construction, raise the proportion of consumption and support the development of rural township enterprises. The reform was initially carried out in rural areas with the abolition of the people's commune system, the implementation of contracted managerial responsibility system, the rising of price of agricultural products and the mobilization of production enthusiasm of the broad masses of farmers, which created favorable conditions for the economic upturn after 1981. The Twelfth National Congress of the Communist Party of China held in 1982 put forward the new strategy of socialist modernization featuring two steps and quadrupling the GDP, realized the adjustment of economic development strategy, proposed to pay attention to the role of market regulation and accelerated the pace of reform. Especially, the Third Plenary Session of the 12th Central Committee of the Communist Party of China passed the "Resolution of the Central Committee of the CPC on Economic System Reform." This was the first programmatic document since the reform and opening up, marking the full implementation of reform and the shift of focus of work from rural areas to urban areas. The experience of successfully carrying out the contracted managerial responsibility system in rural areas was introduced in urban areas. The decentralization of power and transfer of profits created an incentive mechanism, which made rural township enterprises spring up quickly and non-public sector of the economy

increase rapidly during this period of time. Thenceforth, China's economic growth has entered its first high peak since the reform and opening up, rising from 5.1 percent in 1981 to 15.2 percent in 1984.

The second peak appeared in 1992 with the economic growth rate of 14.2 percent, which was mainly caused by Deng Xiaoping's speech during his inspection of south China, the acceleration of reform and opening up, and the full utilization of the opportunity of economic globalization. At the crucial moment of stagnation of China's reform and opening up, Deng Xiaoping gave an important speech during his visit to south China in early 1992, which pushed forward the reform and opening up again. Guided by the spirit of the speech, the 12th National Congress of the Communist Party of China held in 1992 for the first time made clear that the target of China's reform is to establish the socialist market economic system. In 1993, the second programmatic document of China's reform "Resolution of the Central Committee of CPC on Several Issues Concerning the Establishment of Socialist Market Economic System" put forward the basic framework of socialist market economic system. Since then, Chinese authorities have comprehensively deepened and accelerated the market-oriented reform and opening up, basically reformed and liberalized prices, fully established modern enterprise system as the core of enterprise reform, and realized double-track model in tax system and merging of exchange rates system. Thus, China realized a rapid economic growth.

The third high peak appeared in 2007 with the economic growth rate of 14.2 percent, which was mainly caused by China's active participation in the economic globalization process, seizing the historic opportunities of international industrial transfer and the "New Economy" of the USA. The longest economic upturn (for eight years) since China's reform and opening up from 1999 to 2007 was largely the result of successfully coping with various challenges, joining the WTO and making full use of opportunities of economic globalization. After 15 years of hard negotiations, on December 11, 2001, China has officially become a member of the WTO. Most people thought that the accession to the WTO would impose a huge challenge on and even destroy China's industry and market. For this reason, some people also described the "accession to the WTO" as "inviting a gang of wolves." There was actually not "a gang of wolves," but a better opportunity. Especially, in the 1990s, the "New Economy" of "three lows and one high" (low inflation, low unemployment, low deficit and high growth rate of economy) occurred in America motivated a large number of imports from China, leading to the rapid growth of China's import and export trade. In 2001, China's foreign trade entered the period of fastest and healthiest development in the history, with the total volume of import and export reaching 509.7bn US dollars, hitting the historical record of 1 trillion US dollars in 2004, 2 trillion US dollars in 2007, and reaching 2.5616 trillion US dollars in 2008, which was more than four times higher than that in 2001. The average annual growth rate of China's total volume of import and export from 2002 to 2008 was as high as 25.9 percent, which greatly promoted economic growth.

4. Experience and lessons in dealing with economic downturn and stabilizing growth

The reasons for and responses to the fluctuations of China's economic growth since the reform and opening up have provided valuable lessons for us to properly and effectively cope with the economic downturn under the new normal of China's economy in the new era:

- (1) Reform is the primary driving force and the principle institutional guarantee for economic growth. Since the reform and opening up, the implementation and deepening of reform have been the primary impetus or the most important motivation for the transfer from economic downturn to upturn. Moreover, we must strike a balance between reform, development and stability in the implementation of reform, that is, reform and stability

should serve development, and development in return helps to promote reform and stability. Reform is bound to bring about development and benefit the greatest number of people. China cannot reform for reform's sake and cause severe social unrest, nor should china stop reforming for fear of instability, but instead try to make reform, development and stability harmonious and unified so as to promote each other.

- (2) The practice of economic development since reform and opening up has proved that over-cooling of economy, excessively slow growth rate, underproduction are not good for development because these will lead to increased unemployment, decreased income, obstructed development in all aspects of the country, living difficulties for the general public and worsening of poverty. Nor are overheating of economy, unduly fast growth rate and overproduction good for development because these will lead to waste of resources, inflation, decline of real wages, aggravation of polarization between the rich and the poor and unsustainable growth. Only when supply and demand are basically coordinated and balanced, and the economic growth rate is moderate and reasonable, can we achieve coordinated, sustained and stable economic growth.
- (3) During the economic development in the early stage of low-income phase, due to the low level of domestic income, shortage of funds, backward technology and management, it is difficult to develop capital and technology intensive industries, let alone rely on technical innovation and scientific management to drive economic development. Therefore, we can only give play to the abundant and cheap labor force, comparative and late-mover advantages of cheap expropriation of farmland, and introduction of foreign capital, advanced technology and management, to develop the labor-intensive industries and export processing and manufacturing industries. Although China's development of 30 years' reform and opening up follows such a pathway, it was not sustainable. With the development of economy, the improvement of the income level and the entry into the middle-income stage, new situations, new conditions and new problems emerged, as exemplified by the increase of labor costs, the decline of number of labor force owing to the aging of population, the unsustainable expropriation of cheap farmland due to the scarcity of land, large occupation of farmland and food security, shortage of resources, environmental pollution and the urgent demands for independent innovation due to the difficulty of introducing advanced technology. Moreover, the change of serious shortage of capital into relative surplus weakened the original comparative and late-mover advantages. What is more, the original industrial structure is no longer suitable for new conditions and requirements, and the original mode of development is no longer sustainable, therefore, china must adjust the economic structure and transform the growth model, otherwise the sustained, stable, efficient and high-quality economic growth cannot be guaranteed.
- (4) The fluctuations of China's economic growth since the Asian financial crisis in 1997 revealed that as a country with the largest population, China's economic growth cannot be driven mainly by export, but should be fundamentally motivated by expanding domestic demand. Since China is a developing country, domestic demand in a certain period of time can be mainly or first regarded as investment demand, but in the long run and fundamentally speaking, it should be consumption demand. China's economic growth cannot be driven primarily by overseas market demand but by domestic demand, partially due to the fact that international trade is greatly affected by international economic situation and cannot be controlled by the country itself. However, because of the large number of Chinese labor force (around 900m) and the lasting and prominent problem of employment, the more the economy slows down, the more we need to open up and increase exports. In particular, we should shift excess capacity abroad and reduce overstock.

- (5) The performance of China's economic development since reform and opening up demonstrated that the characteristics of national economy operation in the period of economic transition will vary with the changes of economic institution, economic system, operational mechanism, economic structure and development mode, and there will be new characteristics. To accurately grasp the variation trend provides important guiding significance for us to correctly grasp the economic trend and respond to the fluctuation of economic growth rationally and effectively. At the beginning of reform and opening up, China basically implemented a planned economy system characterized by the public ownership, and the income and property distribution system with the inclination of egalitarianism and the highly centralized and unified management. It carried out the surpassing strategy of prioritizing heavy industry, leading to the abnormal industrial structure of "the heavy industry being too heavy, light industry too light, agriculture too backward and service industry too small," and to the urban and rural structure of urbanization severely lagging behind industrialization. Moreover, China adopted an economic development mode featuring extensive form, outward extension, domestic orientation, high accumulation, high input, high consumption and the pursuit of high speed. The corresponding characteristics of the economic operation included a serious shortage of supply, a supply of industrial and agricultural goods with vouchers, queuing up for purchasing and the "shortage economy" without solving the problem of food and clothing. With the advancement and deepening of reform and opening up, the adjustment of economic structure and the gradual transition of development mode, the public ownership gradually changed into multiple ownerships with the private ownership accounting for more than 60 percent of the economy, and the property and income distribution system also changed from egalitarian tendency to the policy of making some people and areas get rich first, which widened the gap between the rich and poor. Moreover, the planned economy mainly changed into market economy and the industrial structure underwent significant changes as indicated by the complete change of the phenomenon of "light industry being too light," and the service industry predominating the economy in 2013 after the re-industrialization from 1999 to 2012. Although the development mode has not changed fundamentally, it has also varied from a domestically oriented type to an export-oriented one. The corresponding economic operation is characterized by the rapid expansion of supply scale, the cancellation of vouchers for purchasing caused by shortage, and even the appearance of relative surplus.
- (6) Under the condition of economic globalization, the international economic environment has a great impact on the economic growth of all countries, especially the open economies. It can bring development opportunities as well as challenges; provide favorable factors as well as adverse effects. Since the reform and opening up, China has experienced three major economic downturns, all of which were partially impacted by the world economic and political factors. The economic downturn from 1984 to 1990 was affected by the drastic changes in Eastern Europe and was worsened by the "June 4th Upheaval"; the economic downturn from 1992 to 1999 was directly caused by the Asian financial crisis; the economic downturns from 2007 to 2009 and from 2010 to 2018 were first directly caused by the US financial crisis in 2008 and further by the US-China trade war launched and escalated by the Trump administration. Correspondingly, the economic upturn, of course, can be also influenced by international factors. In the 1980s, China took the opportunity of international transfer of textile industry and other labor-intensive and processing manufacturing industries from Japan and "The Four Asian Tigers" to other

countries and the surplus of international capital. By implementing reform and opening up, China strongly facilitated the introduction of foreign capital and advanced technology, developed the “three-plus-one” export processing business (custom manufacturing with materials, designs or samples supplied and compensation trade), and thus greatly promoted economic growth. The longest period of economic growth (for eight years) since China’s reform and opening up from 1999 to 2007 was the result of China’s accession to the WTO, taking full advantage of economic globalization and the opportunities brought by the “new economy” of the USA.

- (7) The practice of economic development since reform and opening up has also shown that the government has played an important role, both rationally and irrationally in economic development. It managed affairs that should be managed or not, and sometimes it did not manage those that should be managed (Li, 2009). For example, the government has played a facilitating role in economic upturn, but its tendency to rely on investment and pursue high speed has also led to the overheating and expansion of the economy. During each economic downturn, the government has taken effective measures to deal with the downward trend of economy, but also caused new problems, such as the four trillion yuan investment plan in 2008. To cope with the current economic downturn, China needs to further improve the rule of law, strengthen democratic supervision, transform the functions of the government, carry out macro-control in a rational way, manage the portions that should be managed and leave those that should not be managed to the market and society, and give play to the important role of government in a more rational and effective way.
- (8) In the face of overcapacity and overstocking, china must compress production capacity and cut stocks. Only in this way can the economy stop declining and continue to grow. The methods of compressing production capacity and cutting stocks include the withdrawal or change of the lines of production, shutdown of related enterprises, bankruptcy liquidation, annexation and reorganization of enterprises, appropriate increase of corresponding demands, price cutting, purposeful destruction, transfer of excess capacity to foreign countries and digestion of overstocked products, etc. Among them, the methods of bankruptcy liquidations and purposeful destruction should be used as little as possible to reduce losses and resistance. Moreover, the implementation of compressing production capacity and cutting stocks may cause significant economic losses and influence the interests of relevant enterprises, investors, managers and employees and may thus encounter greater resistance. As a consequence, we must be determined to overcome resistance and endure the inevitable pain of compressing production capacity on the premise of decreasing as much as possible the side effects of compressing production capacity. It is better to have short sharp pains than long dull pains, since the longer the overproduction lasts, the longer the economic downturn will continue. In short, the most important thing is to thoroughly analyze the causes of overproduction, especially its institutional roots so as to apply the remedy to the case and essentially eliminate or avoid overproduction.

5. Countermeasures for economic downturn and steady growth under the new normal in the new era

To correctly understand and successfully cope with the downward trend of China’s economy under the new normal in the new era, we must follow the basic principles and methods of Marxist political economy and form a new theory based on the basic characteristics of the operation of China’s socialist market economy at the primary stage of socialism. The authors’

preliminary views are: from the perspective of supply–demand relationship, the typical characteristic of the operation of the capitalist market economy is “surplus economy” (crisis of overproduction will appear periodically or overproduction is a “normal” state); the typical characteristic of the operation of the traditional socialist planned economy is “shortage economy” (underproduction or short supply). By reform and opening up, China now has basically transferred from the traditional planned economy to socialist market economy, from the situation that market basically does not work to that market plays a fundamental and even decisive role. The proportion of private ownership with an occupation of more than 60 percent of the economy is considerably larger than the public sector. The gap of wealth and income distribution is greatly expanded. The status of the “shortage economy” has been basically changed, and relative surplus appeared. Then, from the perspective of supply–demand relationship, what are or should be the basic characteristics of the operation of China’s socialist market economy? Obviously, it is not “shortage economy,” nor can it be “surplus economy” as capitalist market economy, because the basic economic system and principal contradiction in the primary stage of socialism of China are fundamentally different from those in capitalist societies. Due to the fact that socialist market economy is still in the process of development and not very mature and without basic shape, so it is difficult to accurately define the fundamental characteristics of the operation of China’s socialist market economy. However, according to the new development concepts of innovation, coordination, green, open, sharing and to the requirements of the political economy of socialism with Chinese characteristics which include the unified consideration of both equality and efficiency, the shortcomings of “shortage economy” should be eliminated and the defects of “surplus economy” avoided, therefore the fundamental characteristic of China’s socialist market economy should be “such an economy that supply and demand basically coordinating and balancing.”

From the brief analysis of the causes of China’s economic downturn from 2010 to 2018, the reasons for this economic downturn are not exactly the same as those for previous economic downturns. To cope with this economic downturn, we must apply the following remedy to the case: comprehensively deepen the supply-side and demand-side structural reform; improve the systems of ownership, distribution and socialist market economy; change the pattern of economic development; optimize the economic structure; and resolve to carry out tasks of cutting overcapacity, destocking, deleveraging, reducing cost, improving weak links, reducing ineffective supply and increasing effective supply. Especially, what cannot be ignored is that we should also appropriately narrow the gap in wealth and income distribution, increase the proportion of income from wages and salaries, increase the purchasing power of the people (especially those from low-income classes), expand domestic demand (especially domestic consumption demand), and achieve a basic balance between aggregate supply and demand so as to promote coordinated, stable, medium-high speed and high-quality economic development.

The cutting overcapacity, destocking, deleveraging, reducing cost, improving weak links are the five major tasks of restructuring and stabilizing the economic growth in China. It is no doubt that we can promote structural optimization and economic growth as long as we work hard to accomplish these five major tasks. However, we must clearly recognize that there is no guarantee of immediate recovery and rebound of economy, and even a continuation of economic downturn for some time. This is because.

First, cutting overcapacity and destocking only reduce already-surplus capacities and accumulated stocks. Especially, if we adopt the way of purposeful destruction (e.g. forcibly closing down enterprise, demolishing machines and equipment, selling with low price or destroying surplus products) as the capitalist countries deal with economic crisis of overproduction, we cannot increase production and bring new economic growth directly.

Second, if china does not take the way of purposeful destruction to cut overcapacity, reduce overstocks, there must be new demands or potential demands of purchasing power to make capacity not over and reduce stocking. So, it is more important to see if aggregate

demand can be effectively expanded. Only with the expansion of aggregate demand, aggregate supply can expand without being oversupplied, and economy can rebound as well.

Third, tasks of cutting overcapacity and destocking cannot be accomplished overnight or in a short period of time. It will take time to achieve cutting overcapacity through the transfer of production from sectors with overcapacities to sectors with under-capacities and emerging industries. In the short term, it will increase input costs and cause losses. Although transferring overcapacities and selling stocks abroad can boost economic growth, it also demands proper measures and efforts and can never be an easy and quick process.

Fourth, the accomplishment of the tasks of cutting overcapacity, destocking, deleveraging, reducing cost and improving weak links is an arduous endeavor with many difficulties and obstacles. Although deleveraging and cost reduction can reduce pressure on enterprises, lighten their burden and improve their production, it can only work on industries lacking in capacity and products. The major task of industries with overcapacity and overstocking is to cut capacity and stocks rather than increase them. Although improving weak links can achieve the development of bottleneck industries, increase effective supply and promote economic growth, it requires corresponding conditions of capital, technology, personnel and institution. Moreover, there are fewer weak links and more industries of overcapacity at present. For this reason, although we can improve weak links, there still exist problems of overcapacity.

More importantly, the causes of overcapacity and overstocks are multifaceted. In addition to spontaneity, blindness of market regulation and private investment, a large number of overcapacities are caused by the excessive investment of government sectors and state-owned enterprises in pursuit of short-term financial income and achievement performance, as well as by the participation of local governments to protect and encourage private investment, and even by the sharing of stocks and manipulating for profit. Moreover, cutting overcapacity and destocking may cause depreciation and scrapping of assets, loss of vested interest, shutdown of part of enterprises, bankruptcy liquidation, the transfer, lay-off and unemployment of workers, the promotion or demotion and leave or stay of senior managers of relevant enterprises. So, it is likely for local governments, enterprises in the sectors with overcapacity, investors, a handful of relevant officials with vested interest and some relevant staff to interfere with the process of cutting overcapacity and destocking. This is the reason why the achievement of cutting overcapacity and destocking is not significant for years, and why overcapacity is hard to compress, and it depends on the governments at all levels to cut overcapacity. Although private overcapacity can be optimally selected, compressed and even eliminated by the market mechanism through the decisive role of market, overcapacity caused by the investment of state-owned enterprises and government, private investment supported and protected by local governments and sharing of stocks and manipulating for profit of a handful of officials, must be reduced through the role of regulation played by the government, and the decisive, resolute and effective measures taken by the government. The government should have the courage to “cut the arm to save the whole body,” and at the same time make good arrangements for relevant staff.

To sum up, to cope with economic downturn, china must comprehensively coordinate the whole range of reforms and exert efforts on both ends of supply and demand. Only by a combination of multiple measures can we achieve success in rebounding economic downturn.

Note

1. For detailed discussion, see Jian Xinhua and Yu Jiang. “China economic downturn for six consecutive years, how to see, why happened, and what to do?” published in *A study on the Major Problems of Socialist Political Economy with Chinese Characteristics*, Anhui University Press, 2018, p. 237.

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