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THE CHINESE ECONOMY EMERGING ON THE GLOBAL HORIZON

ZHU MIN

CHINESE WISDOM AND SOLUTIONS
UNDERSTANDING CHINA



China International
Publishing Group
中国出版集团



FOREIGN LANGUAGES PRESS

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Where have we come from, and where are we going? In this day and age for China, I am always reminding myself to maintain this sense of history.

– Xi Jinping

From Xi's speech when meeting with foreign attendees of the Second Understanding China Conference in Beijing, *People's Daily*, January 5, 2016

UNDERSTANDING CHINA

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PREFACE TO THE “UNDERSTANDING CHINA” SERIES

Zheng Bijian

This series of books covers the topic: Understanding China.

But why is “Understanding China” an important question?

At present, the world around us is going through unprecedented changes and nowhere more so is that the case than in China.

Since the founding of the People’s Republic of China in the mid-20th century, and particularly over the past 40 years, a poor and backward country in East Asia with a population of over 1.3 billion has achieved incredible growth to become the world’s second largest economy.

It is therefore natural that people should ask: What exactly is going on in China, and what is the secret behind such rapid development?

It is also entirely natural for people to wonder: How can a rising China get along with the rest of the world?

As a result, misgivings about the country abound. All kinds of theories such as the “China threat”, the “Collapsing of China”, the “Thucydides’s Trap” and the “middle income trap” have been directed toward China.

There is no doubt that China should unflinchingly follow its own path and deal with its own matters well. That in itself means that in order to respond to people’s concerns, questions and misgivings, one thing must be done – Understand China.

It was precisely for this reason that the China Institute for Innovation & Development Strategy (CIIDS), which I co-founded, joined together with the Chinese People's Institute of Foreign Affairs (CPIFA) and the world-renowned 21st Century Council think tank to hold two Understanding China conferences in 2013 and 2015.

These two important international meetings received the close attention and support of the General Secretary of the CPC and President of China, Xi Jinping, who personally attended and held informal discussions with distinguished overseas participants; and Premier of the State Council Li Keqiang and Vice Premier Zhang Gaoli, who gave the opening speeches at the first and second conferences respectively. Top leaders of departments in the Central Committee of the CPC and State Council also participated alongside senior political figures, experts and scholars from all over the world to undertake face-to-face meetings and answer questions.

The main lesson from the conferences was that confronting questions head-on, being sincere, seeking the truth from facts, and telling the stories of China, the CPC and China's relations with the world, in lively and detailed ways, greatly helps those who care about China to gain new knowledge, and gradually allays the misgivings of those who are uncertain about China.

To achieve this goal we are moving the "Understanding China" international conference to books, videos and online, in order to respond to people's concerns, questions and misgivings on a bigger scale and in more lively forms.

This series has not only received the enthusiastic support of relevant government departments, China International Publishing Group and the Foreign Languages Press, but also the full backing of experienced practitioners, experts and scholars, as well as government leaders.

This is the first set of books in the series. Whilst these are concerned

mainly with the works of Chinese writers, future books will also feature writers from other countries.

This is also not simply a collection of books – it will be accompanied by television specials and online videos for people to enjoy.

In our opinion, “Understanding China”, including “Understanding the CPC” and “Understanding China’s Relations with the World” are all grand undertakings.

Let us passionately follow and participate in these undertakings together.

March 2018

Preface

On the night of November 24, 1978, a group of 18 destitute farmers in the small village of Xiaogang in Fengyang County, Anhui Province, China, signed a “life-and-death agreement” under the dim glow of a kerosene lamp. The agreement divided their communal land into family plots and stipulated that each family would fulfill their obligated quotas for the state and keep any surplus for themselves. Earlier that year, Anhui was hit by a severe drought, wreaking havoc on the summer rice crop, and widespread famine ensued. After the communal land was divided up, a miracle occurred. With their personal interests at stake, the farmers became more devoted to their work than ever before, and in the year that followed, they had a bumper harvest which allowed them to not only fulfill their obligated quotas to the state but also to retain enough rice to feed themselves. When pressing their thumbprints onto the paper detailing their “life-and-death agreement”, the 18 farmers could never have imagined their bold move would eventually transform China’s rural production system and usher in the nation’s rural reform and sweeping economic reform.

That year, China, though the world’s most populous nation, had literally nothing to boast about its economy and was struggling to feed its 960 million people. In 1978 China’s GDP stood at a mere RMB367.87 billion, with a per capita GDP of USD156, far below the global average

of over USD2,000. The nation's financial sector remained rudimentary. There were no commercial banks, capital markets, stocks, listed companies, treasury bonds or mutual funds. In the same year, China's per capita possession of grain, meat and dairy products was, respectively, 72%, 27% and 1% of the global average, and 800 million people in the country lived below the poverty line.

In 1978, under the leadership of Deng Xiaoping, China embarked on economic reform and opening up. Rural economic reforms were followed by reforms of the urban economy, state-owned enterprises, trade, finance, education, and healthcare. Meanwhile, as the nation opened to the outside world, special economic zones were built, foreign capital flowed in, and WTO membership was attained. Since then China's economy has undergone earth-shaking changes. Over the past four decades or so, China has transformed from a centrally-planned to a market-driven economy, from a low-income to a medium-income nation, and its citizens have moved from poverty to material comfort. In 2016, China's GDP totaled USD11.2 trillion, a 52-fold increase from 1978 and representing 14.5% of the world's total, becoming the world's second-largest economy. Its per capita GDP topped USD8,000, a 50-fold increase from 1978, placing the nation among the ranks of medium-income nations.

Numerous books have explored the history, achievements and experience of China's reform and opening-up initiative, but the majority of such publications focus on comparing China back then with China today. This book sets itself apart by putting China in the context of the global economy. Besides exploring the reform and development of China's economy and finance in the past 40 years, it also examines the changes in China's international standing during that period from a global perspective. It elaborates on five aspects of China's economic miracle: economic reform and opening up, financial reform and opening up, Chinese life and social transformation, the nation's participation in international af-

fairs, and its global influence.

From a global point of view, with the exception of milk, China's per capita possession of agricultural and livestock products today exceeds the global average, having come a long way from its low basis in 1978. The self-sufficiency rates of rice, wheat and corn in China have been maintained at above 98%. The nation's grain production also makes a vital contribution to global food security. With less than a tenth of the world's arable land, China produces a quarter of the world's grains and feeds nearly a fifth of the world's population. The nation is the largest producer of meat, eggs, vegetables, fruits, and aquatic products. To place this in perspective, China produces two out of every three fish and one out of every two apples in the world.

China's industrial and urban economic reforms are equally remarkable. In 1994, China accounted for a mere 3.64% of the world's total MAV (manufacturing added value), but in 2010 China recorded a MAV of USD1.95 trillion, or 19.8% of the world's total, overtaking the United States as the world's largest manufacturing powerhouse. In 2015 China's MVA leaped to USD2.84 trillion (based on constant 2010 USD), about that of the US and Japan combined. Not only is China the world's manufacturing hub, it is also the world's only nation that covers the full spectrum of industry in the UN International Standard Industrial Classification of All Economic Activities (ISIC). Moreover, China is the largest producer of over 220 of the listed 500-plus major industrial products. In 1980, China ranked 21st in manufactured exports, accounting for 0.8% of the world total; in 2013, this percentage leaped to 17.53%, making China the world's largest exporter of manufactured goods.

China's success in creating a massive, efficient financial system from scratch is nothing short of a miracle. In the 1990s, the nation's banking industry, for example, was teetering on the brink of "technical bankruptcy". In 1996, the Industrial & Commercial Bank of China (ICBC)

was the only Chinese bank that made the list of the world's top 20 banks in terms of assets, sitting in 10th place; while by 2016, ICBC, China Construction Bank, Agricultural Bank of China and Bank of China all appeared on the list, with ICBC claiming the crown with total assets of USD3.42 trillion. These "Big Four Banks" of China also ranked among the world's top five banks in terms of capital holdings. In 1996, the Bank of China was the only Chinese bank among the world's top 20 banks in terms of profits, coming in at 17th and accounting for a mere 3.2% of the top 20's combined total profits. In 2016, China had 9 of the world's 20 most profitable banks.

One of the direct outcomes of China's economic development has been the dramatic improvement in the standard of living in the country. "Food is the paramount necessity of life," so goes an old Chinese saying. However, before 1978, people in China struggled to feed themselves. In that year, the average Chinese consumed 316 kilograms of grain, or 72% of the global average; 8.9 kilograms of pork, beef and mutton, or only 27% of the global average and below the level of African people; and 0.9 kilograms of milk, less than 1% of the global average. Consumer goods suffered severe shortages and were available only with ration tickets issued by the authorities. In the process of reform and opening up, China's average annual meat consumption exceeded the African level by 1982 and surpassed the global average in 1997, before reaching 61 kilograms in 2013, 42% higher than the global average. Fruit, too, turned from a "luxury" into part of the staple diet. Prior to the 1980s, the average annual consumption of fruits in China stayed below 10 kilograms, a tenth of the level in Africa. Starting in the 1980s, fruit consumption in China grew rapidly, exceeding the African and global average in 2007 and 2009, respectively. In 2013, the average annual consumption of fruits rose to 93 kilograms, on a par with the European level (94 kg).

Over two thousand years ago, the ancient Chinese sage Confucius

said, “In teaching people, there should be no discrimination.” Yet, even in the 1970s to 1980s, more than half of the Chinese school-age population were not receiving secondary education which they should have. In 2015, the gross enrollment rates (GER) of elementary and middle schools reached 100%, on par with the rates of developed nations such as the US and Germany. At the same time, China increased spending on elementary education, leading to an improvement in the quality of education. In 1971, the ratio of students to teachers stood at 29:1, on a par with that of the Philippines and higher than the global average (28:1). By 2014, the ratio dropped to 16.2:1, far lower than that of the Philippines (31:1) and considerably lower than the global average (24:1), approaching the level of the UK (15.9:1) and other high-income nations (14.1:1). Transformation in higher education has been staggering as well. In 1990, the gross enrollment rate in higher education stood at a meager 3%, a little higher than the level of Cameroon (2.8%) in Africa, half of the level in India (6.0%), less than a fourth of the global average (13.7%), or approximately a fifth of the level in Mexico (15.1%), and far below the level in the US (70.75%). By 2015, this GER in China had surged to 43%, far above the levels in Mexico (29.9%) and sub-Saharan African countries (8.6%), slightly higher than the global average (34.5%), and on a par with the average level of medium- and high-income nations (43.9%).

China’s extraordinary transformation has indeed shaken the world. Economic reforms and the opening-up initiative have changed China beyond recognition, and the nation today is a dynamic and vibrantly developing economy. In the report of its 19th National Congress, the Communist Party of China (CPC) proclaimed, “socialism with Chinese characteristics has entered a new era.” Napoleon Bonaparte famously said: “China is a sleeping giant. Let her sleep, for when she wakes, she will shake the world.” The sleeping giant awoke in 1949 with the establishment of the PRC, and embarked on an epic journey of reform and

opening up in 1978, ushering in an era of unprecedented vigor and vitality. Since 1978, China has transformed from an impoverished developing country into the world's second-largest economy, the largest trading nation and largest manufacturer. China is rising on the world horizon, with boundless prospects.

CONTENTS

Preface

Chapter 1 China's Economy: Soaring Dragon and Leaping Tiger / 1

Section I Reform and Development of the Rural Economy: A Great Experiment of 800 Million Farmers / 5

Section II Reform and Development of the Industrial Economy: From a Centrally Planned to a Market-Driven System / 28

Section III Reform and Development of Foreign Trade: From Isolation to World No. 1 / 60

Chapter 2 China's Financial System: A Miracle Starting from Scratch / 85

Section I Creating a Financial System from Scratch / 89

Section II A Flourishing Financial Market / 97

Section III Explosive Growth of "Digital Finance" in China / 126

Section IV China's Financial Sector "Goes Global" / 136