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[Economics](#), [Trade](#)



ANALYSIS OF CHINA'S ECONOMY

ABSTRACT

China still being a developing nation has witnessed quite difficulties in managing the economy. Due to the constantly rising challenges including high level of inequality, rapid urbanization along with demographic pressure related to aging of population and migration of labor, China has lost its competitiveness in the international market.

Even though, China has become the world's largest exporter of goods and services, it still faces difficulties in managing the troublesome economy of the nation. The high level of trade deficit along with high credit requirements of both public and private sector has reduced the economy of the state to significant level. China is trembling to manage and accomplish its desired objectives through proactive fiscal policy and prudent monetary policy which are aimed to resolve the problems of the nation.

INTRODUCTION

This study, in particular, would focus on the economy of China. In addition, the elements associated with the economy would also be taken into consideration. Gross Domestic Product (GDP) is one the elements that helps an investor to gauge the health of the country's economy. The concept of GDP provides information regarding the opportunities that could be utilized to enhance the profit margin to great extent. GDP tends to represent the monetary value of all the goods and services produced within a country in a year. Next, the concept of unemployment and inflation would be taken into consideration. Unemployment and inflation plays negative role in the

success of the country. The concepts associated with recession and expansion in China's economy would also be taken into study. This would help to identify the factors that are constantly creating difficulties to enhance the success of the country in the international market. The monetary and fiscal policy of China would also be evaluated and assessed along with the economic growth. Lastly, the international trade (i. e. balance of payment) would be evaluated to gain insight regarding the trade surplus or deficit of the country along with the factors that are constantly reducing or enhancing the trade of the country in the international market.

In the end, recommendations would be provided that would seek to provide the country with relevant and useful information regarding how the country could enhance its economy significantly in the local and international markets.

In earlier years, China was considered as a closed and a centrally planned system but the changes in the global environment led the country to become a market-oriented country. In 2010, China became the world's largest exporter. To further enhance the economy of the country, reforms were taken into consideration that led to greater support for the state-owned enterprises in China. The particular aim of such support was to foster the enterprises as competitive national champions that would eventually promote economic security to the state (CIA).

China surpassed Japan in terms of economy in the year 2001 and is regarded as the second-largest economy in the world after United States. Although, the industrial and agricultural output of China exceeds the output of US in terms of dollar value but the value of services produced within China is far

behind United States due to which, China is second to the U. S.

The beginning of the year 2013 i. e. January and February indicates significant level of financial revenue as compared to earlier months. During both the months, the financial revenue of China accounted for 2, 243 billion Yuan. But due to slow growth trend, China recorded financial revenues worth 1, 270 billion Yuan in May 2013. This indicates 6. 2 percent growth year on year i. e. 2012-2013 (China Daily).

(China Daily)

Some of the most prominent factors that are essential for the analysis of China's economy are explained in detail and are as follows;

GDP (Gross Domestic Product)

Gross Domestic Product is the broadest quantitative measure that provides insight regarding the total economic activity of a nation. To be more specific, GDP is the representation of the monetary value of all the goods and services produced within a nation in a specific time period.

For a country to evaluate or calculate its GDP, following equation is used;

$$\text{GDP} = \text{Consumption} + \text{Government Expenditures} + \text{Investment} + \text{Exports} - \text{Imports}$$

In China's case, the GDP expanded 1. 6 percent in the first quarter of 2013 as compared to earlier quarter. Similarly, the average GDP growth rate of China was recorded to be 2. 01 percent where the highest percent was 2. 50 in June 2011 and lowest i. e. 1. 50 percent in March 2012 (Trading Economics).

(Trading Economics a)

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On the other hand, the growth in GDP declined significantly in the fourth quarter of 2012 to 7.7 percent from 7.9 percent (China Daily). Such a decline in the GDP growth was quite below the forecasted 8 percent from Wall Street Journal of Economists (The Wall Street Journal). Moreover, the annualized quarter-on-quarter growth rate reduced significantly from 8.2 percent to 6.6 percent.

The reason behind such a fall in the GDP of China is the inefficient subsidized state-owned enterprises are constantly enhancing the credit ratio while the private firms starve for credit. The most frightening situation for the economy of China is the rising debt that reached 198 percent in 2012 which shows a startling increase from 125 percent in 2008. The local government debt increased significantly to \$2 trillion which is estimated to be 25 percent of the GDP (Schuman).

Unemployment and Inflation

Unemployment and inflation are two of the factors that go hand in hand. This means that a country tends to seek ways to maintain low unemployment rate. Unemployment and inflation are believed to be inversely proportional.

The inflation rate in China was recorded to be 2.10 percent in May 2013 (Trading Economics b). Similarly, the producer prices fell significantly by 2.9 percent which is the lowest since September (Chiang, and Standing). In China, the information related to inflation rate and unemployment rate is reported by the National Bureau of Statistics of China. In China, the most prominent factors that are taken into consideration in the CPI basket are as follows;

- Food that has a total weight of 38.1 percent,

- Residence accounts for 17. 2 percent,
- Recreation, Education and Culture Articles only accounted for 13. 8 percent,
- Transportation and Communication accounted for 10 percent,
- Health Care and Personal Articles for 9. 6 percent, and
- Clothing for 8. 5 percent,

In China, the CPI basket is reviewed after every five years. The last revision that took place in the CPI basket was in the year 2011. The data that was gained by in terms of China's inflation rate is shown in the chart (Trading Economics b).

(Trading Economics b)

According to China's Chief Economist at Mizuho Securities Asia in Hong Kong, the slow economic growth is basically due to the inflation rate in China. In addition, the PPI data in China reveals slow and very weak demand which is constantly becoming a barrier for China's success in terms of economy (Chiang, and Standing).

On the other hand, the unemployment rate indicates the number or percentage of people without job in a nation. In China's case, the unemployment rate in the year 2012 was recorded to be 4. 1 percent which remained unchanged as compared to earlier year. In the year 2012, 767. 04 million people were recorded to be employed in the urban areas of China. Such a data indicates that 2. 84 million people were provided with jobs as compared to earlier year (People's Daily Online). The data that provided the unemployment rate to be 4. 1 percent was considered to be deeply unreliable due to its inability to capture groups such as fresh graduates. The

month of April 2013 was quite favorable for graduating students as 28 percent were hired in Beijing whereas the 29 percent were provided with jobs in Shanghai as well as 47 percent in Southern Guangdong Province (Anderlini).

Recession and Expansion

The disappointing start of China in the year 2013 signals unpredicted recession and troublesome future for the country. The overcapacity in China is the major reason for such recession. In addition, the slowdown of investment in the country has reduced the competitiveness of China in the international market. Moreover, the inability of the businesses to promote and enhance the organization's productivity and performance due to lack of cash flow denotes cut in capital spending which will eventually result in slower growth of the country. On the other hand, the public and private sectors in China are constantly relying on credit which could be regarded as Achilles heel for the Chinese economy. Within the last five years, the credit of the country grew to 40 percent from 35 percent of the GDP without any changes in the price (Reboco).

The reduction in the competitiveness level of the country is also troublesome as most of the organizations are now considering Mexico and Vietnam for their factories. Although, cheap labor is quite prominent factor in China but low cost of labor along with even lower wages is constantly encouraging organizations to take countries such as Mexico and Vietnam into consideration (McIntyre).

Monetary and Fiscal Policy

Monetary and fiscal policies are considered to be the most prominent tools that can directly influence country's economy. Monetary policy could be regarded as a process through which supply of money is handled. With the monetary policy at work, the authority often targets the rate of interest that could help the country to accomplish the desired set of objectives that could enhance the growth opportunity and stability of the country. On the other hand, fiscal policy allows the country's authority to use the collected taxes and revenues to positively influence the economy of country.

The GDP of China in 2013 is quite below the expectation due to which, China would focus on maintaining proactive fiscal policy. In addition, China would focus highly on maintaining the monetary policy to great extent. With both the tools at work in China, the government aims to expand the economy of the nation by 7.5 percent as compared to earlier years (Yao, and Wee). The proactive policy taken under consideration by the government of China can significantly help the country to ensure steady growth. Moreover, with such proactive fiscal policy the economic structure of the country would be adjusted that would help advance reforms. This will eventually help the country to provide high level of benefits the people. The fiscal policy would also help in maintaining a balance between the constantly boosting economic growths along with stable prices within the country (Siwu, and Zhi).

On the other hand, with such fiscal policy at work in China denotes moderate expansionary monetary policy. The moderately expansionary policy aims to create demand along with increase in the economy of the country by

promoting and expanding the domestic demand of goods and services. The ultimate goal of such monetary policy would be to maintain the price stability within the country. With such prudent monetary policy, China aims to revamp its economy that has become sluggish to some extent.

Economic Growth

China is often considered as the hub of global business. Organizations that do not have any link to China can even face serious difficulties in business as most of the organizations in the world often rely on products exported by China. The economic outlook for the country is quite favorable in the forthcoming years due to the fact that China is the second largest economy in the world after United States (Conerly).

China's economy was one of the leading economies in the world. In the year 2012, the GDP growth rate of China increased by 7.8 percent year on year. But the 7.8 percent economic growth was considered to be the weakest and lowest since 1999. In addition, the foreign direct investment in China reached \$17.484 billion which eventually denotes drop of 1.35 percent as compared to earlier year. In the month of February, the foreign direct investment reached \$8.214 billion. Such high level of FDI denotes 6.32 percent increase (China About).

On the other hand, the Chinese economy is moving further in its second quarter with sluggish growth. The government of China is constantly being pressurized to enhance the economic growth of the country due to constantly falling trade growth along with reduction in imports, slow inflation, weakening of investments as well as low level of bank lending in China (Anderlini). Moreover, the tax free shopping from Chinese customers has

significantly increased by 58 percent in comparison of 2011. The tax free shopping from the Chinese consumers reached 3 billion Euros (i. e. approximately 24. 4 billion Yuan) in 2012 (China About).

International Trade

In 2012, China became the largest and biggest trading nation in the international market. In the year 2012, US reported import and export of goods and services worth \$3. 82 trillion whereas; China's custom administration reported imports and exports worth \$3. 87 billion (Town Hall). Moreover, the country reported a trade surplus of \$204. 25 USD Hundred Million in May, 2013. In the last few years, China reported biggest trade surpluses with United States, Netherlands, United Kingdom, Vietnam and Singapore. On the other hand, China witnessed biggest trade deficits with Taiwan, South Korea, Australia, Germany, South Africa, Japan and Brazil (Trading Economics c). China's balance of trade could be evaluated from the following statistics.

(Trading Economics c).

RECOMMENDATIONS

China is a constantly growing nation which requires some reforms to once again set its foot in the right direction. Some of the recommendations for China to enhance its economy are as follows;

- The older models followed by the country to improve its economy are quite beneficial in terms of growth but are constantly reducing the country's sustainability. For the country to create stronger and reliable foundation for the future, the country should promote reforms that include reduction in

investment spending.

- United States and Europe are the most beneficial and largest export partners of China that are consistently pushing China backwards due to Europe's financial crisis and US approach to cost cutting. For China to emerge as the leading nation in the world, the country should seek more beneficial nations to create export partnership.

CONCLUSION

China has the second largest economy after United States but the constantly rising challenges have reduced the nation's ability to enhance its economic growth. The unemployment and inflation rates are the two most prominent factors that have negatively impacted the economy of China. To deal with such challenges, the country has aimed to promote proactive fiscal policy along with prudent monetary policy. With such policies at work, China aims to enhance its economic growth along with maintaining balance between the economic growth and price stability. Year 2012 was quite favorable for China. In the year 2012, China took the lead in terms of export and import of goods and services in the international market from United States.

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