

History of the chinese economy

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History of the Chinese economy Although this is not a historical essay we simply cannot understand the Chinese evolution without first taking a brief look at their history. Beginning with the fall of the Qing dynasty which lasted from 1644 to 1912, the country soon became embroiled in a civil war headed by warlords that emanated from the Qing dynasty and blighted most of the newly established Republic of China. These civil wars officially lasted until 1928 but some minor warlords still operated trying to gain power of regions well into the 40's. This may explain why China has suffered in the past with democratically electing leaders. It may have been their culture of having civil wars in establishing dominance in the respective territories. There was also a hugely damaging war with Japan (1937-1945). This war ravaged the Chinese economy and reduced its industries operational capacities to about 25%. It also flooded the Chinese economy with cheap American goods and led to a hyperinflation in the economy. Although the scope of this essay does not allow it to delve into much further detail, it can be understood that these conflicts would have a detrimental effect on harmonising the 4 factors of production that drive any economy, land, labour, capital and enterprise, in the future of the Chinese economy . The Mao era (1945-1976) In what could arguably be called the darkest era of the modern Chinese economy, the Mao leadership led the Chinese economy to the brink of collapse. By introducing a soviet style governance of the land, Mao brought radical reforms such as collectivization. " The great leap forward" is well documented in the history books and will be what Mao is most remembered for. This entailed of agricultural and industrial reforms that brought all economic outputs under control of the state. The respective industries had to meet certain quotas

and were not monitored to meet a normal supply and demand that is accustomed to balanced economies. This also wiped out the incentives for peasants to work hard and thus productivity slackened and soon after a food and financial crisis ensued for the Chinese economy. Mao did however set out a part of the platform for which China has built its economy on today. This was the establishment of many industries (which were closely linked to military operations) and he also set in place good infrastructure including roads, rail and an education system. He did have a lot of supporters and some of his ideas though flawed held some substance for many of his followers. And thus brings us to our next stage. Post Mao era (Deng era 1976-1994) It was clear that the Chinese way of governance was hampering the economic progress of the country. Deng Xiaoping understood the fundamentals of how to run an economy, and more importantly the Chinese economy. Only by striking the right balance between reform, development and social stability could the economy prevail in its transition to a better functioning open economy. Deng started his reform by implementing a dual track transitional process. By learning from the mistakes of the Mao era and by understanding the political, social and economic landscape in which he operated, Deng gradually married a system whereby he developed a new system of implementation alongside the old “ great leap forward” system introduced by Mao. This incremental approach allowed Deng to test the waters in one of his first reforms. One year after coming into power in 1979, Deng went about reforming the agricultural sector. He piloted a household, contract, responsibility system and based farmer’s salaries on their actual output rather than giving them all equal wages. This system was gradually

accepted and by 1984 it had been implemented by 98% of farmers. This paved the way and Deng gained huge experience for the many reforms that followed.