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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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AN ANALYSIS OF GROWTH PATTERN OF CHINA

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ABSTRACT

China passed through the uneven way during its long journey of more than 60 years. Since the starting of its economic reforms in 1978, it has been touching the sky. In the present paper, an attempt has been made to understand the growth pattern and strategy of China in last four decades using the time series data on macro-economic variables like GDP, Capital Formation, House Hold Consumption Expenditure, Exports and Imports since 1970 to 2012. It has been found that from 1970 to 1989, China's growth was consumption and investment led. From 1990 to 2012, growth was mainly investment driven although, role of export also increased during this period. It can be said in nutshell that China is in a position now to expand its GDP by increasing any of its components.

KEYWORDS

China, growth, pattern, strategy.

INTRODUCTION

China's economic success of last three decades has become the centre of attention for the analysts in the world. The people's republic of china was founded in 1949. Its 65 years journey of economic development can be divided into two periods: first, before the economic reforms and second, after the economic reforms initiated in 1978. Before 1978, Chinese economy was centrally planned and controlled economy and its economic performance in that period of time was not as attractive as now. In 1978, china initiated for the economic reforms which were implemented in various phases. Deng Xiaoping was the main architect of these reforms who introduced the concept of market socialism with the name "Socialism with Chinese characteristics". In 2001, China became the member of the World Trade organization (WTO) which proved the milestone in its success and paved the path of new growth and development. In last thirty five years, Chinese economy grew up with a very high growth rate about 10 % per annum which lifted more than 500 million people out of poverty. China emerged as an eye catchy economy in last three decades due to its growth performance. After entering the WTO, it started surpassing most of the developed countries in many areas. China became the world's second largest economy with $ 8.227 trillion in terms of PPP (purchasing power parity) in 2012. It is world's largest trading economy and making a flash it has overtook not merely developing economies but developed and trade oriented economies like Germany, France, United Kingdom (UK), the United States of America (USA), Canada and Japan in merchandise export and became the largest exporter of the world and second largest importer after the USA. It seems that china has been becoming the final destination for the investors from whole over the world. China emerged as a largest foreign exchange holder with $ 3820 billion which is approximately 26 times more than the USA.

REVIEW OF LITERATURE

A number of studies have been done for understanding the growth phenomenon of China. Some selective studies have been reviewed here. According to Lugauer and Mark (2013) saving rate in China is very high which played a major role in capital accumulation which is the main driver of China's economic growth. Guo and Diaye (2009) tried to examine that whether trade oriented growth of Chinese economy will be sustainable in medium and long run. Montalvo and Ravallion (2009) examined that whether pattern of China's growth does matter in the poverty reduction of China. They found that China achieved great success in poverty reduction through economic growth, but this happened despite the unevenness in its sectoral pattern of growth. Although primary sector, mainly agriculture played a great role in 1980s. Tuan, Ng and Zhao (2009) emphasized on the role of foreign direct investment (FDI), research and development (R&D) and human capital on economic growth of China in the post-reform era, especially focusing on Pearl River Delta (PRD) and Yangtze River Delta (YRD) region of China. Yongding (2008) tried to evaluate the impact of global economic slowdown of 2008 on the economic performance and policy responses of China.

OBJECTIVE

The present paper is an attempt to understand the growth strategy of China using share of components of GDP and their growth rates.

RESEARCH METHODOLOGY

Annual time series data on macroeconomic aggregates like Gross Domestic Product (GDP), House Hold Consumption Expenditure (HHCE denoted by C), Government General Final Consumption Expenditure (GGFCE denoted by G), Gross Capital Formation (GCF denoted by I), Exports of Goods and Services (denoted by X) and Imports of goods and services (denoted by M) have been sourced from United Nations Statistics Division (UNSD) for the period of forty three years from 1970 to 2012 at constant prices with base year 2005.

Since C, I, G, X and M are not the cause variables but are constituents of the GDP therefore, it is not possible to use the Granger Causality method to identify the leading variable of GDP. Hence, in the present study, first we have taken the time residuals of the macroeconomic aggregates GDP, C, G, I, X and M using following equation:

$$\ln Y_t = \alpha_0 + \alpha_1 T + U_t \ldots \ldots \ldots \ldots \ldots \ldots (i)$$

Where U_t is the residual of $\ln Y_t$, further the residual (GDP$_r$) of GDP has been regressed upon the residuals (C$_r$, G$_r$, I$_r$, X$_r$, and M$_r$) of C, G, I, X and M. The implicit assumption is that the all constituents of GDP and GDP itself are functions of time as well. Therefore, if we isolate the effect of time from the original variables, it is possible to determine which variable is leading growth in GDP. The following function has been used for analysis:

$$GDP_r = \beta_1 C_r + \beta_2 G_r + \beta_3 I_r + \beta_4 M_r + \beta_5 X_r \ldots \ldots \ldots \ldots \ldots (ii)$$

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RESULTS AND ANALYSIS

The Table 1 shows the regression results of logarithmic values of GDP, C, I, X, and M with T (time) which are highly significant as indicated by F, t-ratio and R^2, AdjR^2 values.

TABLE 1: REGRESSION RESULTS OF MACROECONOMIC AGGREGATES WITH TIME (1970-2012)

Dependent Variable	Explanatory Variables	α Coefficients	t-raitos	F[df]	R^2	Adj R^2
ln GDP	α_0	-153.17*	-77.96			
	α_1 (time)	0.0905*	91.80	8428.35[1,41]	0.995	0.995
ln C	α_0	-132.81*	-57.05			
	α_1 (time)	0.0799*	68.40	4679.75[1,41]	0.991	0.991
ln I	α_0	-156.796*	-48.21			
	α_1 (time)	0.09195*	56.289	3168.478[1,41]	.987	.987
ln G	α_0	-163.108*	-74.14			
	α_1 (time)	0.09459*	85.599	7327.105[1,41]	.994	.994
ln X	α_0	-263.373*	-73.79			
	α_1 (time)	0.145*	80.863	6538.881[1,41]	.994	.994
ln M	α_0	-255.517*	-74.07			
	α_1 (time)	0.141*	81.372	6621.332[1,41]	.994	.994

Source: estimated by the authors

*indicates 1 % level of significance. Figures in parentheses are degree of freedom**.**

The residuals of GDP, C, I, G, X and M have been computed using the α_i coefficients given in Table 1. Although, the coefficients estimated in this way may be biased due to presence of auto-correlation but these can still fulfill our purpose as we want to have significantly large residuals.

The Table 2 shows the regression results of the Equation (ii) for period 1971 to 1989. It is clear that maximum increase in GDP$_r$. has been contributed by the consumption sector (β_1 is 0.511). The second biggest contributor to GDP has been investment represented by GCF (β_3=0.487). The exports had also played a significant but small role (β_5=0.155) during this period (1971-89). It can be concluded that government expenditure has not been a significant cause for increase in GDP during this period.

TABLE 2: REGRESSION OF RESIDUAL OF GDP ON ITS COMPONENTS (1971-1989)

Explanatory Variables	β_s	t-ratio	F [df]	R^2	Adj R^2	DW	Std Err.
Model			79.521[5,16]	0.961	0.949	1.474	
C_r	0.511*	6.688					0.076
G_r	-0.0262	-0.282					.093
I_r	0.487*	10.589					0.046
M_r	-0.154*	-2.965					0.052
X_r	0.155**	2.766					0.056

Source: estimated by the authors

*indicates 1 % level of significance. **indicates 5 % level of significance.

During this period, the average share of HHCE was 49.82 percent (see Table 5) growing at a rate of 7.65 percent per annum (see Table 6). Although, the government expenditure was increasing at a higher growth rate of 9.82 percent than the consumption but due to its small base (12.44 percent share of GDP) its incremental contribution to GDP has been insignificant. Whereas, the share of investment in GDP at 37.72 percent with obviously a bigger base and a higher growth rate of 7.76 percent had a significant impact on incremental GDP. During this period, the growth rate of imports (17.34 percent) was higher than the growth rate of exports (16.4 percent).

This analysis leads us to the conclusion that from 1971 to 1989 China has followed an investment-led growth strategy. Chinese economic reforms have been made in many phases. Deng started economic reforms from decollectivization of agriculture for making China self-reliant in food supply and preventing the reiteration of 1959 disaster. After that, reforms were paced ahead in industrial sector and private businesses were allowed to run their own units and prices flexibility was increased. In 1980, many special economic zones were established which started attracting the foreign investment. Small scale privatization of unviable state enterprises came in existence after decentralization of power. China felt the importance of outside world to be integrated and applied for the membership of GATT in 1986. Under the policy of opening up to the outside world, exports, imports, and foreign capital began playing an important role in promoting economic development. Foreign currency earned by exports was used to fund domestic development projects and to purchase advanced foreign technology and management expertise. Imports of capital goods and industrial supplies and foreign loans and investment were used to improve the infrastructure of immense priority areas like energy, transportation and telecommunications and to develop and modernize the machine-building and electronics industries. To earn more foreign currency and to conserve foreign exchange reserves, foreign capital was also used to expand production of export commodities, such as textiles, and of import substitutes, such as consumer goods. China continuously is increasing its foreign exchange reserve and earned number one position in the world in 2013 with largest stock of forex. It is visible in Figure 1, after becoming the member of WTO, a great surge has been observed in its forex.

The Table 3 shows the results of Equation (ii) for period 1990 to 2012. All the β coefficients were found highly significant. The marginal contribution of exports to the GDP has significantly increased. In the earlier phase 1 percent increase in exports was causing 0.155 percent increase in GDP but in the later phase every 1 percent increase in export is leading to 0.25 percent in GDP. China has enjoyed very high export growth rates 18 percent and 13.36 percent during 1989-90 to 1998-99 and 2000-01 to 2011-12.

TABLE 3: REGRESSION OF RESIDUAL OF GDP ON ITS COMPONENTS (1990-2012)

Independent Variables	β_s	t-ratio	F [df]	R^2	Adj R^2	DW	Std Err.
Model			233.876[5,17]	0.986	0.981	1.055	
C_r	0.339*	6.215					0.055
G_r	0.259*	6.073					0.043
I_r	0.421*	26.872					0.016
M_r	-0.197*	-8.617					0.023
X_r	0.250*	11.594					0.022

Source: estimated by the authors

*indicates 1 % level of significance.

Constituently having a favorable balance of trade except, the years 1979, 1985, 1986, 1989, 1993 and 1996 by 2012 China has been accumulating foreign exchange reserves and a great surge has been noticed after 2001 as shown in figure 1 and it attained no. one position in the world surpassing all the countries in the world with $ 3.820 trillion in 2013.

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FIGURE 1: CHINA'S FOREIGN EXCHANGE RESERVES SINCE 1980 TO 2012 IN CURRENT USD (MILLIONS)
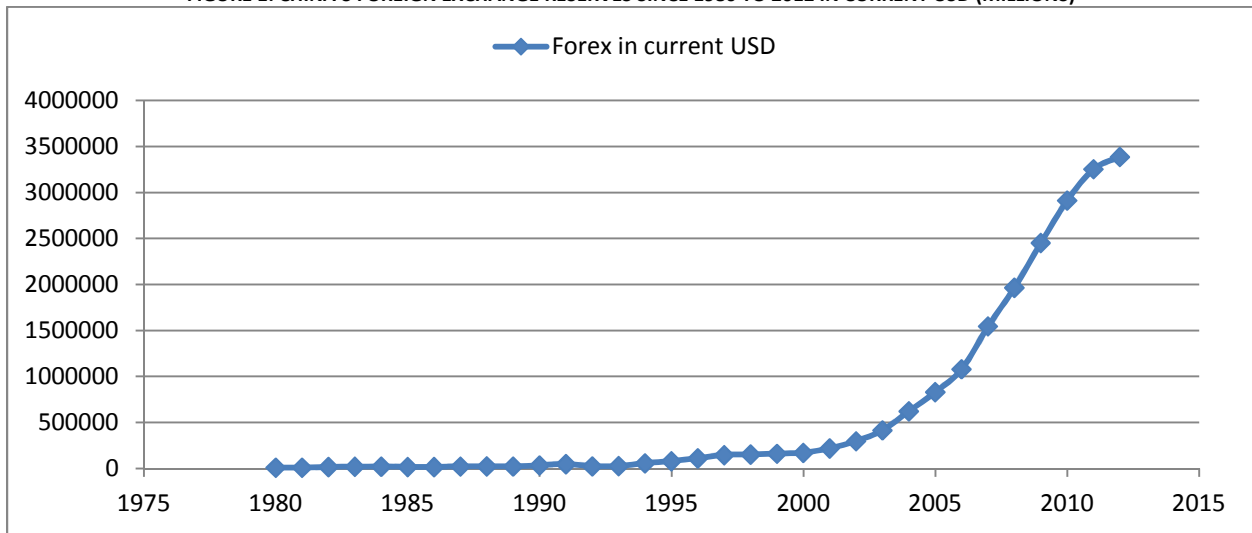
Source: World Bank (World Bank website: www.data.worldbank.org)

Despite of this China took many non-economic strong steps like population control, toward economic development. Mao's belief that more population empowers the country gave birth to a problem of population explosion in later stage due to improvement in health facilities in China. Many policies were implemented for family planning by the government like *wan-xi-shao* (later marriage, longer spacing between children and fewer children in total), Two-child but wait policy and finally One-child policy in 1980 (Naughton 2007) which helped china in improving living standard due to increase in per capita GDP. China's per-capita income which was US $193 in 1980 has been increasing continuously and reached US $ 6091in 2012 (World Bank). With high per capita income and number 1 position in foreign exchange reserves in the world, China has opened its economy for imports also. Average growth rate of imports has been higher than that of the exports (13.36 percent). China is continuously investing heavily and is focusing on GCF as evident from high investment elasticity of income (0.42 percent, see Table 3) and 42.18 percent share of investment in GDP with 12 percent of growth rate (see Table 6). It seems that China has been becoming ultimate choice for the investors from all over the world. It can be observed from figure 2 that inflow of FDI toward China has been increasing continuously specially a great surge after 1990.

FIGURE 2: INWARD FOREIGN DIRECT INVESTMENT OF CHINA SINCE 1980 TO 2012 IN CURRENT USD (Millions)
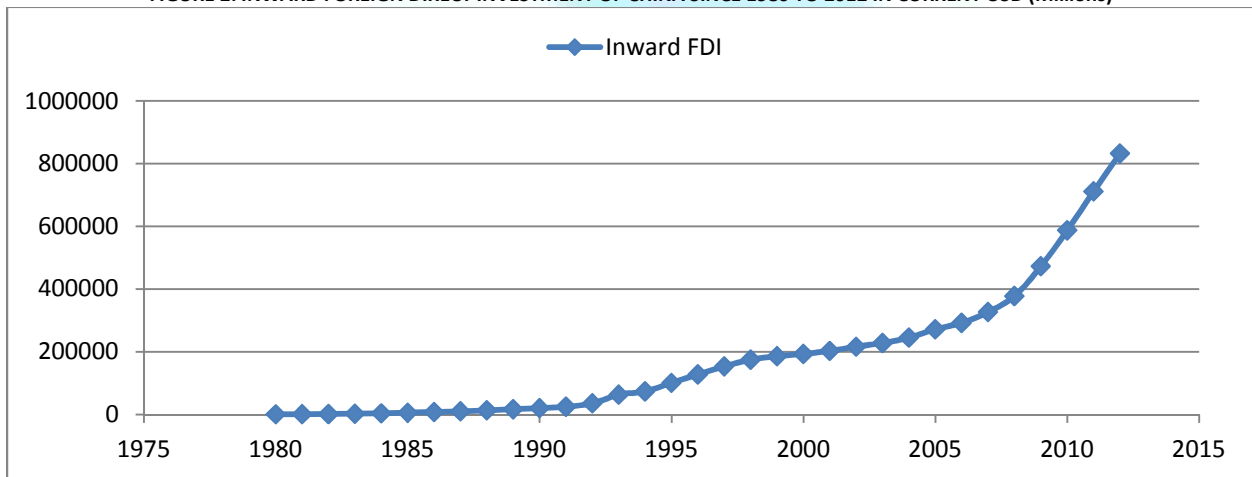
Source: UNCTAD (UNCTAD website:www.http://unctadstat.unctad.org)

Once in 2002, China has become world's number one foreign capital recipient surpassing the USA also (Wu 2004). In 2013 it was again competing neck to neck to surpass the USA. With inflows to China at an estimated US$127 billion – including both financial and non-financial sectors – the country again ranked second in the world, closing the gap with the United States to some US$32 billion (UNCTAD).

TABLE 4: REGRESSION OF RESIDUAL OF GDP ON ITS COMPONENTS (1970-2012)

Independent Variables	β_s	T(sig.)	F [df]	R^2	Adj R^2	DW	Standard Error
			152 [5,38]	0.952	0.946	1.257	
C res.	0.468*	8.912					0.053
G res.	0.0848	1.402					0.060
I res.	0.427*	17.262					0.025
M res.	-0.188*	-5.583					0.034
X res.	0.221*	6.940					0.032

Source: estimated by the authors

*indicates 1 % level of significance. **indicates 5 % level of significance.

Another arm in arsenal of China's growth strategy which has emerged is government expenditure. A one percent increase in government expenditure leads to 0.259 percent increase in GDP. This coefficient was insignificant in earlier phase (see Table 2). It can be seen from Table 4 which is showing the results of all observations (from 1970 to 2012), that China has developed the flexibility to use any component C, G, I, X and M to expand its GDP.

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TABLE 5: AVERAGE SHARES OF MAJOR COMPONENTS OF GDP OF CHINA

Period	C	G	I
1970-71 to 1988-89	0.4982	0.1244	0.3772
1989-90 to 1998-99	0.4620	0.1443	0.3772
1999-2000 to 2011-12	0.3894	0.1415	0.4218

Source: Calculations based on United Nations Statistics Division (UNSD) statistics.

TABLE 6: AVERAGE GROWTH RATES OF COMPONENTS OF GDP OF CHINA

Period	C	G	I	X	M	GDP
1970-71 to 1988-89	0.0765	0.0982	0.0776	0.1640	0.1734	0.0763
1989-90 to 1998-99	0.0876	0.1112	0.1053	0.1800	0.1551	0.1016
1999-2000 to 2011-12	0.0832	0.0971	0.1212	0.1336	0.1428	0.1001

Source: Calculations based on United Nations Statistics Division (UNSD) statistics.

DISCUSSION

China has demonstrated that growth can be harnessed by controlling the behavior of macroeconomic aggregates. It has kept suppressed the consumption of its people for a long time through low wages. This has helped the China to accumulate huge surplus in the form of accumulated capital and a strong infrastructural base. The simultaneous investment in health and education to improve the social infrastructure has made it possible to shift large population from primary to secondary sector. Good infrastructure, low wages, availability of skilled labor and cheap capital made China a competitive manufacturing export hub. A relatively stable and fixed exchange rate has been the main cause of increasing export earnings and accumulating foreign exchange earnings. The export earnings increase the foreign exchange reserves which improves the credit rating among foreign investors that results into higher foreign direct investment. Now China is in a position to expand its GDP by increasing any of its components. It can be concluded that growth strategy of China has been mainly investment led. Now Chinese economy in transition phase, transforming itself from a factor driven to innovation driven, one.

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