

## China Economic Reform and Its Implications

Somsak Tambunlertchai<sup>1</sup>, and Kanittha Tambunlertchai<sup>2</sup>

<sup>1</sup>Faculty member (retired), Faculty of Economics, Thammasat University, Thailand

<sup>2</sup>Faculty of Economics, Chulalongkorn University, Thailand

<sup>1</sup>Email: somsak.tambunlertchai@gmail.com

<sup>2</sup>Email: kanittha@gmail.com

Submitted 11 March 2015; accepted in final form 17 April 2015

---

### Abstract

Since its market-oriented reform began in 1978, the Chinese economy has undergone significant change. Over the past three and a half decades, high and sustained economic growth has transformed a poverty-ridden country into one of the world's leading economic powers. Changes in the Chinese economy since the late 1970s include a transformation toward a market-oriented, open economy that has moved from agriculture to manufacturing and services with significant product diversification. The change in the Chinese economy has been made possible by the change in policy geared towards more market orientation. Major factors conducive to China's economic growth in the reform period are changes in its economic management system, expansion of trade and investment, and freer movement of labor and resources that has allowed more efficient utilization. After more than three decades of high growth, the Chinese economy has slowed in recent years. A number of economic and social problems have also become more serious. Among the problems are widening income disparity, environmental degradation, rising wages and cost of living, corruption and other social problems that have led to increasing public discontent.

Over the years, China has exerted substantial influence on the world economy and contributed to economic growth, trade and investment expansion, and global poverty reduction. ASEAN countries including Thailand have benefited much from China's growth and development. Significant complementarities exist between China and ASEAN members due to differences in economic structures between the two parties. China's recent economic slowdown has raised much concern around the world, particularly among countries relying on China to absorb their exports, such as Thailand and other ASEAN nations.

Despite the anxieties over China's lower growth, there are reasons to believe China will remain important to ASEAN's long-term economic development. Further developments in China need to be carefully monitored.

**Keywords:** *China, reform, transformation, growth, ASEAN*

---

### 1. Introduction

Since market-oriented reforms began in 1978, the Chinese economy has undergone significant changes. Over the past three and a half decades, high and sustained economic growth in China has successfully transformed an impoverished country into one of the world's leading economic power. The Chinese economy was able to grow at around 10 percent a year during 1980 – 2010. In recent years, growth has slowed, but a rise in GDP of 7-8 percent per annum between 2012 and 2014 is still high compared with many other countries.

Over the years, China has exerted substantial influence on the world economy. Today it is the world's second-largest economy, next only to the United States, and is expected to become the world's largest economy before 2030. With tremendous international trade and investment growth after 1980, China has become the world's largest trading nation, absorbed substantial amounts of foreign direct investment (FDI), and has emerged as a leading country in outward FDI in recent years.

China's rapid growth and structural change offer great opportunities to countries across the globe. ASEAN<sup>1</sup> economies, including Thailand's, are among those that can reap substantial benefits from China's economic development. This paper investigates the experiences of economic reform in China, identifies the

---

<sup>1</sup> ASEAN stands for the Association of Southeast Asian Nations, an association comprised of 10 member-states.

major factors leading to its success, and describes China's influences on ASEAN and the world. Section 2 summarizes China's reform experiences, and points out the major factors leading to its successful development. Some current problems facing the Chinese economy are also listed. Section 3 discusses the impact of China's rapid growth and development on the Thai, ASEAN and world economies. Section 4 contains concluding remarks.

## **2. Experiences in Economic Reform in China**

### **2.1 Changes in the Chinese Economy since the Late 1970s**

Substantial economic reform in China officially started in 1978, after the Third Plenary Session of the Eleventh National Assembly of the Communist Party. Before that, China had a closed economy characterized by low growth and slow progress. According to the World Bank, in 1980 China's per capita income (at current prices) was 193 USD, while that of Thailand was 683 USD. In 2013, its per capita income was 6,959 USD, compared with Thailand at 5,676 USD. If calculated in terms of purchasing-power parity, China's per capita GDP today is already the world's highest, accounting for 16.5 percent of the world total (World Bank, 2015).

Since the late 1970s, the Chinese economy has undergone rapid and radical transformation. The major changes in the Chinese economy can be summarized as follows:

#### ***a) From a planned to a market economy***

Before economic reform, China's economic policy was closely controlled by the central government. Investment and production were planned; consumption by citizens, particularly in basic necessities, was tightly controlled and rationed; and prices of commodities, wages, interest rates and exchange rates were fixed by the government. The government purchased all agricultural products at low prices; industrial enterprises were mostly state-owned; foreign trade and investment were controlled; natural resources as well as labor were not free to move across regions; and capital and foreign exchange was allocated by the government. In short, a highly centralized mechanism of resource allocation maintained the planned economy.

During the reform period, price controls were gradually removed; farmers were allowed to sell produce in free markets after submitting a specified portion of production to the government; production factors including labor, capital and natural resources were allowed to move among regions; private ownership was permitted; state-owned enterprises (SOEs) were given more autonomy; and controls on foreign trade and investment were successively relaxed. As a result, private enterprises have proliferated; foreign trade and investment have increased dramatically; and SOEs have operated more efficiently.

At present, prices of products and services, as well as compensation for production factors, are determined by market forces. However, the government has retained control of prices of some essential products like petroleum, rice and wheat, as well as interest and exchange rates.

#### ***b) From a closed to an open economy***

Until 1980, China was a relatively closed economy. The degree of openness measured by the percentage of exports and imports to GDP in 1980 was 9.7 percent (Lin, 2013); the ratio was 50 percent in 2010 and fell to 45 percent in 2013, when export growth slowed. Since opening its economy, China has been able to attract substantial FDI inflows due to its very large and rapidly growing domestic market, plentiful labor and other resources, as well as a welcoming attitude toward foreign investors. Before 2000, outward FDI from China was miniscule. Since the beginning of the 21st century, however, China began promoting outward FDI. Its accumulation of large sums of foreign-exchange reserves, coupled with a rising need for natural resources and materials to feed its growing industries, have made China a leading country for outward FDI. Investments in resource-based sectors have helped China to more easily secure natural resources while putting its accumulated foreign reserves to productive use.

***c) From an agriculture-dominant to a manufacturing and service economy***

Since the start of economic reform, the Chinese economy has undergone drastic change from an agricultural to an industrialized one. In 1979, over 80 percent of its population lived in rural areas, and 31.3 percent of GDP came from the agricultural sector; in 2011, the rural population was 48.7 percent, and GDP from agriculture was 10.1 percent. In 1980, 50.3 percent of China's exports were agricultural products. At present, manufactured products comprise around 95 percent of exports (Lin, 2013).

Reform has led to rapid change in China's economic structure. Leading this structural change is the manufacturing sector, which until recently grew at very high rates. In 2000, the industrial sector's share of GDP was 46 percent, and that of services was 39 percent. In recent years, growth in manufacturing has slowed, while that of the service sector has remained fast; and the services sector has become China's most important sector. At present, the services sector represents around 46 percent of the country's GDP.

China's degree of urbanization has been growing. Before the reform period, urban development was hindered by a policy that prohibited migration from rural to urban areas. Although the restrictive migration regulations have been relaxed gradually, and increasing numbers of people have moved from villages to towns and cities, and to provinces far from their hometowns, the degree of urbanization in China up until now is still low compared with many other countries. Promotion of urbanization has been an important policy in China for some time, and it was emphasized in the 12<sup>th</sup> Five-Year Plan (2011-2015). Over the past two decades, the pace of urbanization has accelerated. In 2014, over half (53.7 percent) of the population was living in urban areas, up from 26 percent in 1990. It is expected that urbanization in China will reach 60 percent by 2020 (Xinhua, 2014).

***d) Diversification of products and services***

Accompanying the structural changes in the Chinese economy is the emergence of new products and services. Diversification has occurred in all economic sectors. In agriculture, there has been crop diversification, switching from grains to higher value-added cash crops like fruits and vegetables, and to horticultural goods, livestock and aquaculture. The manufacturing sector has seen significant shifts from heavy to light industries, and a wide variety of consumer products has emerged. Prior to reform, a strategy gave priority to heavy industry in industrial development, the proportion of heavy industries in the sector was high, and light consumer products to satisfy basic living needs were lacking. During the reform period, numerous private enterprises were established to produce consumer products to supply the growing domestic and export markets. This change in industrial structure has benefited much from the development of the non-state economy, the influx of FDI and, to an extent, the reform of SOEs whose production has gradually shifted to consumer goods. In the service sector, a vast variety of activities has appeared in all sub-sectors. In banking, although large commercial banks remain state-owned, there are many smaller, private commercial banks. Other institutions such as insurance companies and stock brokers have emerged. Trading activities including online trading have been booming. In addition, there are logistics, education, healthcare, transport, tourism, information, accounting, counseling and market research services. The number of service enterprises engaging in cross-border operations is also increasing rapidly.

***e) Improvement in people's income and living standards***

Economic progress in China since the start of reform has led to substantial increases in income and improvement in living standards for the Chinese people. Sustained economic growth has lifted more than 600 million people above the poverty line (Lin, 2013)<sup>2</sup>. The well-being of people, including those living in remote provinces, has improved much; wage rates in all sectors have greatly risen. However, income disparities among regions and provinces, and between rural and urban areas, have grown. Nevertheless, the conditions of abject poverty and starvation that many people once suffered are gone.

---

<sup>2</sup> The poverty line is measured by an average income of 1.25 USD per day.

## **2.2 Factors Conducive to China's Successful Development**

What made China so successful in its economic reform has been a subject of many studies since the 1990s (Coase & Wang, 2012; Hu & Khan, 1997; Kuijss, 2009; Lin, 2012; OECD, 2010). Among the various explanations are high volumes of domestic and foreign investments, high productivity growth and export expansion. A large domestic market and freer movement of labor and resources have also helped. However, most studies agree that high investment, exports and productivity growth were made possible by the change in economic policy to one geared towards a market economy. Various factors important in propelling the Chinese economy since the late 1970s are as follows:

### ***a) Transformation to a market economy***

Economic policies geared toward a market economy provide economic incentives for people to work harder and allow the production structure to be determined by market mechanisms. Production in different sectors is thus consistent with the principle of comparative advantage with efficient use of resources. Agricultural production grew rapidly after the abolition of compulsory purchase of all products produced by farmers; permission to allow private enterprises led to rapid growth of non-SOEs producing a variety of products to satisfy growing domestic and foreign demands. The change toward market orientation not only led to the proliferation of economic activities in different sectors, but also to qualitative improvements across industries to meet the challenge of competition in a market economy. The reform of SOEs to give managers more autonomy also helped to raise efficiency of their operations.

Higher consumer income after the change in economic policy led to increased demand for consumer products and higher savings and investment. So the transformation from a planned to a market economy that influenced the incentive system is probably the most important factor that brought about higher consumption, investment and productivity, and contributed to growth.

### ***b) Free movement in factors of production***

Before reform, substantial underemployment existed in rural areas, but rural residents were not allowed to move or engage in non-farm activities. When reform began, rural residents were still not allowed to move to cities, but they could carry out non-farm activities. As a result, many village and township enterprises (TVEs) were established to carry out a variety of manufacturing and services businesses to satisfy the growing consumption of rural residents. Later when the migration policy became less restrictive, greater numbers of rural residents moved to cities to work in the manufacturing and service enterprises.

In an economy allowing free movement of resources through market channels, industrial structure is determined by market forces. The reform period saw rapid change in this structure from heavy to light industries. With cheap labor costs, China was able to produce a variety of labor-intensive products and export them throughout the world.

Before reform, wage levels were the same throughout the country regardless of labor shortage or surplus in different regions. Production resources including capital and raw materials were allocated by government authorities. During the reform period, labor, capital and other factors of production were gradually allowed to migrate by following market signals; wage rates could differ across areas depending on labor supply and demand. As a result, labor and other production factors could be employed more efficiently. Free movement and effective utilization of resources has allowed China to produce goods consistent with its comparative advantage in factor endowments, which contributed much to economic growth.

### ***c) Expansion of foreign trade***

A significant component of China's economic reform has been the opening to foreign trade and investment. China was able to export labor-intensive products to earn foreign exchange, allowing it to invest and produce more, and also import consumer and investment goods to satisfy the growing needs of its people and industries. Exports and imports have increased greatly, and foreign trade expansion has contributed significantly to high economic growth.

***d) Increase in investment***

Capital accumulation is an important determinant for economic growth. Investment in China has increased dramatically. Besides investment by Chinese citizens, increasing amounts of FDI have flowed into China during the past three decades. FDI comes in different forms: Chinese-foreign joint ventures with varying degrees of Chinese ownership and wholly foreign-owned enterprises. FDI inflows have helped economic growth and development in many ways: augmentation of investment capital, introduction of products previously unavailable in China, creation of more employment and income, manufacturing products for exports and, more importantly, utilization of management and production technologies possessed by foreign investors to produce those goods and services that China could not produce earlier. By inviting foreign companies to invest, China enjoyed “late-comer’s advantages” in technology and product development, i.e., no need to spend large amounts on research and development for products that required advanced technology because foreign investors brought technology with them.

In the early 1980s, China established four special economic zones in Guangdong and Fujian provinces to promote FDI. By 1984, 14 coastal cities were open to foreign trade and investment, and the policy has later been extended to other regions. Today all provinces are free to carry out foreign trade and investment.

***e) Large domestic market***

China’s domestic market has expanded enormously since 1980. Rapid increases in the income of more than 1 billion people has generated immense demand for products and services. As a result of sustained high economic growth, the domestic market for products and services has expanded steadily. Agricultural sector reform since the late 1970s had led to a rapid growth in rural industrial and service enterprises, providing household products to rural residents. Later, as more business enterprises in towns and cities were established, and the number of high and middle-income groups increased rapidly, more high-end products entered the domestic market. Due to the large market, products and services produced in China enjoy economies of scale in production and distribution. Over the past decade, advanced transportation and communication technologies have helped accelerate the public’s shopping spree, and online shopping has become common. This vast market has been an important contributor to rapid economic growth.

**2.3 Emerging Problems**

After more than 30 years of high growth, the Chinese economy has slowed significantly in recent years. A number of economic and social problems have also emerged over time. Among the serious problems are widening income disparity, environmental degradation, rising wage levels which erode China’s competitiveness in labor-intensive industries, high living costs in urban areas, an aging population and widespread corruption.

High economic growth through the end of the 20<sup>th</sup> century had benefited from abundant, low-cost labor that allowed China to produce cheap, labor-intensive products for domestic consumption and export. With rapid industrialization, wage levels have risen significantly, particularly in the coastal provinces. Since the start of the current century, industrial enterprises including foreign companies have started to move to the country’s inner regions, where wage rates are much lower. With much improved transportation and progress in information technology, it has become more convenient to transport goods and raw materials and to communicate across regions. As such, factories in inner provinces have few difficulties in shipping products to consumers, and some even benefit from being near the source of raw materials. However, China’s average wage levels have become much higher than in many developing countries and China no longer enjoys competitiveness in cheap labor-intensive products, it is necessary for China to move into more sophisticated industries.

Some major problems encountered by the Chinese economy are as follows:

***a) Slowdown in economic growth***

During 1980-1990, China's GDP growth averaged 9 percent a year; during 1991-2011, average growth rate accelerated to over 10 percent per annum. In 2012 and 2013, annual growth was 7.7 percent. In 2014, GDP grew by 7.4 percent, the lowest rate since 1990. It is now certain that the days of double-digit growth are over and the economy will likely slow further.

The slowdown is due to several factors. After several decades of rapid growth, the economy is much larger than before. With its very large base, maintaining growth at double-digit rates would be difficult. In recent years, export expansion has been affected by the slow growth of the world economy; major markets such as the European Union, United States and Japan have all suffered from economic problems. Furthermore, rising wages and other costs, and appreciation of the Chinese renminbi have played a part in reducing growth in exports and the economy. Some policies, such as an anti-corruption campaign, greater scrutiny of local government expenditures, a curb on shadow banking and speculative activities in the stock markets, and more restrictive regulations on housing ownership have also worked to reduce spending and affect economic growth, at least in the short run.

***b) Income inequality***

The reform policy that contributed to economic growth has led to widening income inequality. Income disparity in China has different aspects: inequality among different regions and provinces, between urban and rural areas, and among households. During the 1980s and 1990s, Eastern China's coastal region grew rapidly, while the Western region and other inland provinces lagged considerably. In 2000, the Western China Development Plan was launched to accelerate economic growth and development in those provinces. Other regional development plans were also successively implemented. While these policy measures boosted economic activities, income levels in inner provinces still lag those of the prosperous Eastern region. Rural residents also have much lower income compared with urban dwellers, although the income gap has narrowed somewhat in recent years (Song, 2013).

As a result of booming business activities over a sustained period, China has more billionaires. The middle-income group has also swelled, and the ranks of those who live in abject poverty have virtually disappeared. Even so, most people remain in the low-income group, and the income disparity index as measured by the Gini coefficient increased from 0.31 in 1981 to 0.47 in 2008 (Lin, 2013), which is a sharp increase compared with many countries.

***c) Environmental degradation***

With its large population, China's economic growth faces serious constraints on its natural resources. The resource-intensive economic growth has led to a rapid depletion of resources and constrained sustainable development, with increasing pressure on water and land resources, deteriorating forest and grassland resources, and a declining potential supply of mineral resources (Cai, Lin & Cao, 2009). In the first two decades of reform, local authorities were eager to have more industrial activities in their districts and paid little attention to environmental damage. In cities, a rapid influx of residents from rural areas and increased numbers of industrial factories accelerated household and industrial waste; and an increasing use of motor vehicles has worsened air pollution. Rapid industrialization that relies on growing energy consumption has also contributed to pollution. China's environmental problems have attracted worldwide attention in recent years, but effective solutions have not yet been found.

***d) Corruption***

China has suffered from widespread corruption for some time, and the level of corruption has not declined with greater economic progress. Economic reform toward a market economy is far from complete. Central and local officials still wield much power in the use of financial and natural resources, and there have been misuses of budget in government investments and procurements. During the reform process, government authorities and businessmen developed strong links and have been involved in a wide range of

corrupt practices such as bribery, kickbacks, approvals to use financial and natural resources, and the granting of monopoly powers to favored businesses.

Since coming to power in 2012, the current central government has employed a variety of anti-corruption measures, including severe punishment of corrupt officials. However, corruption remains endemic.

#### *e) Aging population*

Due to a population control policy coupled with better nutrition and healthcare services, China's birthrate is low and its population is aging rapidly. The absolute number of working age people began to decline in 2012 (Yang, 2014). A higher proportion of aged people means a smaller workforce, less tax revenue, and higher welfare payments. An aging population can dampen economic growth if labor productivity cannot be improved.

Besides income disparity, environmental degradation and corruption, which are major concerns of the government and public, social dissatisfaction is rising over economic and social problems, for example: higher living costs in cities, inadequate welfare coverage for workers who have migrated from rural to urban areas, crime and ethnic tensions, media censorship, and human rights violations. There is also increasing demand for more freedom and democracy.

Social problems in China may not worsen over time, but with better economic status, people are more concerned with universal issues such as freedom, democracy and human rights. Better access to information has led to wider awareness of problems that affect people's lives.

### **3. Implications for the Rise of China**

Over the past several decades, the global economy has become more integrated, and the world is in an age of globalization. International trade and investment, as well as the flow of information and people across countries, have become more convenient, and the volume of international trade and investment has expanded rapidly. Under reform, China's economic development has benefited much from globalization. China was able to sell its labor-intensive products and earn foreign exchange to fuel its development. It was also able to attract huge amounts of foreign capital and use technology developed elsewhere to produce many goods effectively with its low labor costs.

In an earlier period of reform, China's FDI inflows relied heavily on investment from Hong Kong, Macao, Taiwan and overseas Chinese investors. As its economy became more prosperous, FDI inflows increased steadily. After China became a member of the World Trade Organization (WTO), trade and investment volumes accelerated as countries across the globe believed it would adhere to international trade and investment regulations.

#### **3.1 China's Influence on the World Economy**

While China's development has benefited from reform and greater openness, its reform also has profound influence on the world economy. Despite still being an emerging country, China has the world's second-largest economy, soon to be the largest. Many countries have thus been paying increasing attention to China.

Since the 1980s, there has been much talk of Asia's rise in the world economy. In 1993, the World Bank published a book titled "East Asian Miracle" (World Bank, 1993) that describes the successful development records of eight Asian economies (Japan, Korea, Taiwan, Hong Kong, Indonesia, Malaysia, Singapore and Thailand) through their adoption of sound economic policies toward growth and stability. China was absent from this miracle list. However, by the end of the 1990s, some of these miracle economies, including those of Indonesia, Korea and Thailand, suffered from economic crisis and needed substantial assistance from the International Monetary Fund (IMF).

At the start of the 21<sup>st</sup> century, the discussion on the rise of Asia, or Easternization, reappeared. This time, it referred to the fast-growing economies of China, India and other Asian countries compared with slow growth in America and Europe. The gravity of the world economy has shifted East. China's miraculous growth since 1980 has apparently been an important factor in this Easternization scenario. In fact, China could be considered as an important engine of growth that has helped spread prosperity through industrialization made possible by increasing trade and investment in East Asia. This compares with Japan, which was a leading industrialized country that transferred its industries to other Asian economies in the 1980s in the "flying geese model" (Kojima, 1973; Yamazawa, 1990).

As it has moved into the 21<sup>st</sup> century, the world economy has encountered many serious problems. The United States has not fully recovered from the 2008 financial crisis despite large sums of money injected into its economy through quantitative easing measures. Several European countries are suffering from high debt levels, low growth and high unemployment. Japan, Asia's former economic powerhouse, has suffered from low growth since 1990 despite successive stimulation measures. While developed economies of the United States, Japan and those in Europe were struggling, China grew robustly until recent years and has aided world trade and economic growth over the past two decades.

In 2011, the IMF published a spillover report of several major economies such as those of the United States, Europe, Japan, United Kingdom and China. The report on China (IMF, 2011) indicates that China's capacity to influence the world economy is rising and that few other countries in the world have so obviously gained from integrating with the world trading system as China. According to the report, the main channel of Chinese spillover effect is trade. It is the world's most "central" trader with the most sizeable connections, and has become a dominant importer of a range of commodities. Its ascent has yielded important growth effects to the world and with more spillover effects to developing economies. At present, China is the largest trading partner for many countries in regions across the globe.

Until 2000, China's outward FDI was modest. Since implementing its "going out" policy, China has become a leading investor in the world. In the past decade, its FDI to various countries in Asia, Africa and Latin America has increased rapidly. Outward FDI to various resource-rich countries in the developing world have concentrated on energy, metal and other resource industries to facilitate the procurement of natural resources and other raw materials. In addition, there are increasing investment projects in infrastructure and manufacturing activities.

In addition to outward FDI, China has purchased a large amount of bonds in the United States and other countries. As such, China has, in a way, supported spending in these countries with its accumulated foreign exchange reserves. China has been able to exert substantial influence on global financial markets. It has entered into currency swap agreements with many countries whereby a country's local currency can be exchanged for renminbi to pay for Chinese imports. The government has also been interested in promoting the renminbi as a key currency in global transactions. The campaign for renminbi internationalization has met with some success; it is more widely used in international trade and investment around the world. Some countries have also included RMB in their international reserves.

Another area of influence is seen in tourism. As Chinese people become more affluent, increasing numbers are travelling overseas and contributing to the growth of tourism in many countries.

With increasing demand for energy, mineral resources and agricultural materials, China has become an important commodities importer with growing influence on world prices. Its economic slowdown over the past few years might have created adverse effects in commodity markets, which have seen lower energy, metal and grain prices. Because its high growth performance over the past three and a half decades has contributed to world economic growth, its slowdown will affect many countries. This is particularly true for those countries that rely on the Chinese market for export expansion.



### 3.2 Impact on ASEAN and Thailand

The 10 member-states of ASEAN lie near China. ASEAN is diverse, with significant differences in development levels and areas of specialization, as can be said for regions of China. Closer ties between the two parties can ensure a fuller use of their comparative advantages. Both ASEAN and China can benefit from economic cooperation.

The general belief is that China can be a growth engine for the ASEAN region, but there are also fears. China's much larger economic and political power could risk hurting the trade and development prospects of ASEAN nations. Several years ago, for example, concerns were raised that China would compete with ASEAN in export markets such as the European Union, Japan, and the United States. There were also worries that China would divert FDI from ASEAN economies. One other concern centered on the flood of cheaper Chinese products into ASEAN economies, competing with local industries.

These concerns have subsided in recent years. With the signing of the China-ASEAN Free Trade Agreement (CAFTA) in 2010, investment and trade between China and ASEAN countries grew significantly. At present, China is ASEAN's largest trading partner and ASEAN, in turn, has become China's third-largest trading partner after the European Union and the United States. With slow growth in major trading partners such as the European Union, Japan and the United States, they have declined in importance as export destinations for ASEAN, while China's share of ASEAN exports has grown significantly. China's exports to ASEAN have also grown much over the years, and the country enjoys a trade surplus with most ASEAN countries.

Significant complementarities exist between China and ASEAN due to their differences in resource endowments and industrial structures. Most ASEAN countries are rich in natural resources and can provide raw materials to satisfy China's increasing demand. Materials such as rubber, tapioca, wood, palm oil and petroleum products from ASEAN match China's needs and form a large part of its imports from ASEAN countries. China has also increasingly imported rice from Thailand and Vietnam in recent years, and has expanded its imports of other food items such as fruit and fishery products from ASEAN countries.

In bilateral trade, a higher proportion of manufactured products from China are exported into ASEAN, while a higher proportion of agricultural and mineral products from ASEAN are exported to China. While this has led to criticism that the difference in value added of these exports has led to trade deficits for ASEAN, a detailed look at statistics reveal that ASEAN also exports many manufactured products to China, such as processed foods, textile products, electronics and electrical appliances. Intra-industry trade is also high in bilateral trade (Chen & Liao, 2005). Given the finer division of labor in industries, and as both parties progress on their paths of industrial development, it is likely that intra-industry trade for China and ASEAN will increase.

Increased investment flows between China and ASEAN are partly driven by differences in resource endowments. ASEAN is rich in resources and has an abundant supply of cheaper labor compared with China. At the same time, ASEAN investors can open factories in China to produce products in high demand but not yet manufactured in China. Such mutual investments could lead to creation of international production networks to benefit producers in both countries.

As China changes and income increases across the country, demand has increased for various products in different regions. The Chinese government's promotion of industrialization and the creation of infrastructure in areas that have lagged in economic development have generated substantial demand for raw materials, consumer products, and intermediate and investment goods. In addition, wage levels have risen higher compared with some ASEAN countries such as Cambodia, Laos and Myanmar. Thus, lower-income ASEAN countries could benefit from furthering economic linkages with China. Such countries could provide China with low-cost consumer products, especially to China's inner regions where income is relatively low and there is demand for inexpensive products. Such countries could also attract China's investment in labor-intensive industries. For higher-income ASEAN countries, economic relations with

China could see those countries supplying higher quality products to the Chinese market. There could also be investment in products China lacks or produces in inadequate quantities.

Over the past two decades, policies from both China and ASEAN countries have helped promote closer economic relations. In particular, China has been active in crafting and effecting measures that foster bilateral economic relations in the region. Furthermore, measures designed to promote regional development in China have also contributed to China-ASEAN economic relations. These measures include the Western China Development (Xibu Dakaifa), the Pearl River Delta Economic Zone (PRDEZ) and the Beibu Gulf Economic Zone (BGEZ) programs. Other measures include designating Guangxi as a gateway to ASEAN, the promotion of cross-border trade in Guangxi and Yunnan, plans to develop the Kunming-Singapore and Nanning-Singapore Economic Corridors, and the signing of China-ASEAN Free Trade Area (CAFTA). From the ASEAN side, policy measures such as establishment of the ASEAN Economic Community (AEC), the launch of a Master Plan on ASEAN Connectivity, and the many programs designed by ASEAN or by member countries have contributed to greater economic relations between China and ASEAN.

China's economic slowdown has come with significant reductions in the expansion of trade. This slowdown comes as major economies of the world have not fully recovered from their downturns. In the past, China was able to import greater amounts of products from ASEAN. More recently, however, export expansion of ASEAN countries to China has slowed sharply. Thus, the slowdown in China's growth has caused concern among ASEAN economies that China might no longer be a growth engine, and that the Chinese market could have problems absorbing exports to fuel continued economic expansion in ASEAN.

Despite anxieties over China's slowdown, there are reasons to believe that its reduction in growth prospects will not seriously affect ASEAN's long-term economic development. The Chinese economy is in a period of transition, or restructuring and rebalancing. It is moving toward deeper economic reforms that focus on growth quality rather than growth figures alone. As long as China's economy does not crash, ASEAN countries can rely on China's growth to further economic development. For China's part, growth will likely continue, although at a slower pace.

For Thailand, China is an important export market and, in recent years, has become an important source of tourism revenue. China has also become a leading foreign investor in recent years, and economic relations between the two countries have grown closer. Not long ago the European Union, Japan, and the United States were very important trading partners, absorbing over half of the country's exports. Recessions in these economies, however, have meant that their import volume from Thailand has slowed greatly. In contrast, trade volume between China and Thailand has risen significantly. Since 2010, China has been the largest importer of Thai goods, and Thai imports from China have also grown rapidly. In the past decade, China's FDI in ASEAN has also increased rapidly and Thailand has attracted increasing FDI from China. In addition to thriving trade and investment relations, other economic relations have grown. China is the top source of tourists in Thailand. The May 2014 military coup led to a sudden drop in the number of tourists, but those numbers have revived and the figures for China have risen the most. As a result, the Thai tourism industry in the second half of 2014 grew.

Although Thailand does not share borders with China, access by land transport is convenient. As Thailand is at the center of the Indochina peninsular, it can benefit from increased connectivity between China and ASEAN by using transport links to reach China through neighboring countries. Due to convenient land transport from Thailand's Northeast provinces to China via Lao PDR and Vietnam, an increasing amount of products are using this route. This is especially true for fruit, which requires quick transport to maintain freshness. Land transport links between China and Thailand will be further enhanced with plans to build high-speed railways connecting China with many ASEAN countries. Thailand recently agreed with China to cooperate on building high-speed rail lines, and to link China through other rail routes with Thailand's neighbors. With improved rail links between the countries, products from both will benefit from convenient land transportation channels.

The economies of China and Thailand have significant complementarities. Thailand is rich in natural resources and can supply raw materials to feed China's growing demand from the expansion of industrial activities. For example, Thailand could supply rubber, tapioca and wood. Although a large producer of rice that has been largely self-sufficient in terms of food, China has increasingly imported rice from Thailand in recent years.

#### 4. Concluding Remarks

China's development experiences since its economic reform began in the late 1970s can offer valuable lessons to emerging countries, despite having a government system that differs greatly from that of other countries. Lessons worth studying, for example, include the process of changing from a centrally planned to a market economy, the change in emphasis from promoting heavy industries to light industries, and moving from relying heavily on SOEs to letting private enterprises play a greater role in industrial development. Also of interest are the effects of opening the economy to more foreign trade and investment, policies on agricultural reform, rural development, and regional and urban development.

Realizing that very high economic growth is no longer possible, the leadership recently said that China has entered a stage of "new normal" situations, with lower growth rates, but it will maintain a medium-to-high annual growth rate of around 7 percent. More importantly, its economic structure will be improved and upgraded, with more structural reforms geared toward rebalancing the economy. Examples of reforms include relying less on exports and more on expanding the domestic market, reducing disparity in income distribution, and rationalizing utility prices and interest rates. Industrial development will increasingly be driven by technology and innovation instead of increasing input and investment.

Although further and deeper reform measures need to be planned and implemented, the next stage of economic reform will be more difficult, as China has passed beyond the stage of easy development made possible by abundant labor and natural resources, and it is more difficult to use the late-comer's advantage in technological development to advance its industries. How China will move further in its economic development should be watched carefully.

In recent years, China has launched several initiatives. Among the bold measures of the current government are the establishment of the Shanghai Free Trade Zone and the "one belt, one road" strategy, which aims to revive the ancient Silk Road that connects Europe and Asia by land, and the establishment of the 21<sup>st</sup> century maritime Silk Road to connect China with other countries in Southeast Asia, Africa and Europe. China has also been active in using its accumulated foreign exchange reserves to strengthen its relationship with countries throughout the world. For example, China has been a founding country in BRIC's Development Bank and the Asian Infrastructure Investment Bank (AIIB). The implications of these initiatives for Thailand and for ASEAN need to be examined further.

The rapid expansion of the Chinese economy over the past few decades has meant that its importance to ASEAN, including Thailand, is growing. Thailand's proximity to China, the good relations between the countries, and the opportunities for mutually beneficial economic relations mean that substantial gains can be made from closer economic ties. Nonetheless, China's uniqueness and the rapidity with which its economy and society are changing mean that it should be closely studied if any country is to obtain the full benefits from closer economic relations. As an important neighboring country that can influence Thailand's and ASEAN's economic growth and development, in-depth studies of China should be promoted.

#### 5. References

- Cai, F., Lin, J. Y., & Cao, Y. (2009). *The Chinese Economy: Reform and Development*. McGraw Hill.
- Chen, W. & Liao, S. (2005). *China-ASEAN Economic Relations: A Discussion on Complementarity and Competition*. Singapore: Institute of Southeast Asian Studies.
- Coase, R. & Wang, N. (2012). *How China Became Capitalist*: Palgrave Macmillan.
- Hu, Z. & Khan, M. S. (1997). Why is China Growing So Fast? *IMF Staff Paper*, 44(1).

- IMF. (2011). People's Republic of China, Spillover Report for the 2011, Article IV, Consultation and Selected Issues. *IMF Country Report No. 11/192*: July 2011, International Monetary Fund.
- Kojima, K. (1973). Reorganisation of North-South Trade: A Japanese Model of Multinational Business Operations. *Hitosubashi Journal of Economics*, 13(2).
- Kuijjs, L. (2009). China Through 2020 - A Macroeconomic Scenario. *World Bank China Research*, 9.
- Lin, J. Y. (2012). *Demystifying the Chinese Economy*: Cambridge University Press.
- Lin, J. Y. (2013). China's Road to Prosperity : Experiences, Challenges, and Prospects. In Gao Shang Quan (Ed.), *Reform is China's Greatest Profit*: People's Publishing House.
- Lin, Y. (2013). China's Road to Prosperity : Experiences, Challenges, and Prospects. In G. S. Quan (Ed.), *Reform is China's Greatest Profit*: People's Publishing House.
- OECD. (2010). OECD Economic Survey of China: OECD Economic Department.
- Song, X. W. (2013). Deepening Income Distribution System Reform : March to Co-Prosperity. In Gao Shang Quan (Ed.), *Reform is China's Greatest Profit*: People's Publishing House.
- Tambunlertchai, S., & Kanittha, T. (2013). *International Cooperation in Asia-Pacific Region and China-ASEAN Economic Relations*. Paper prepared for the China-ASEAN Think Tank Strategic Dialogue, Nanning, China, August 30-31, 2013.
- Tambunlertchai, S. (2013). China's Economic Reform Experiences and Lessons. *Thammasat Economic Journal*, 31(4).
- World Bank (1993). *East Asian Miracle; Economic Growth and Public Policy*, Washington,D.C.:World Bank , September, 1993.
- World Bank. (2015). World Bank Databank. Retrieved February 25, 2015, from <http://data.worldbank.org/country/china>
- Xinhua. (2014). China's Urbanization Level to Reach 60 Percent in 2020, *Xinhua News Agency*. March 16, 2014.
- Yamazawa, I. (1990). Trade and Industrial Adjustments. In Japanese National Committee for Asia and Pacific Economic Co-operation (Ed.), *Review on Pacific Co-operation Activities*. Tokyo, Japan: Institute of International Affairs.
- Yang, Y. (2014). A New Normal, But With Robust Growth Prospects in the Next 10 Years. *Journal of Global Asia*, 9(4).