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# A Concise Review of Economic Flourishment of China

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**[Abstract]** This article provides a preliminary and concise review of the economic flourishment of china and explores its growth and stability by probing in several economic components of the 21-century boom of China. These components include discussions on several topics, such as Diplomacy and Trade Agreements, Rise of the Economy in the 21st Century, the Shanghai Stock Exchange, Chinese Energy and Financial Industries, the Fall of the Chinese Stock Market, the Effect of Information Systems and Technology in Chinese Economics, and where China is now.

**[Keywords]** Economic flourishment; Shanghai stock exchange; diplomacy and trade agreement

## Introduction

China is known for its rich cultural history and traditions. The Chinese people live a different lifestyle, which can feel very foreign to westerners. From its traditional roots, China began to come together under the leadership of Mao Zedong (December 26, 1893 to September 9, 1976). The influence of neighboring Russia led idealists in China to pursue different socioeconomic values. Mao Zedong ruled China under a communist regime, as leader of the Chinese Communist Party from 1935 until his death in 1976, and as chairman of the People's Republic of China from 1949 to 1959. (biography.com) China remains a communist regime today. Mao Zedong changed the economic structure of the country. Zedong promoted a more industrial society with emphasis on production and military growth. His name still receives profound respect. At the time, due to the prominence of communism in China, many of the western countries refused to have any connection with China.

The United States of America was threatened by any country which allied itself with communism. Because of this, China's economy remained stagnant. Having gone through such a transformation while left with a sense of stagnation led the country into a rebellion. As many of the prominent leaders who had overseen these changes began to grow old, they lost power over their people. Many youths felt that they were being oppressed. China became a hotbed for many political rallies and demonstrations. People wanted to demonstrate their concerns with their country and how the masses were being treated. This is what brought on the historic event in Tiananmen Square. In 1989, everyone across the world watched as Chinese students rallied to protest the current regime and were massacred by the Chinese army. The global perception of China changed, and their treatment of and value given to human life were questioned.

Even after the revolt that happened after the Tiananmen Square uprising, China continued its steadfast course as a communist state. China yet again began to change. The effect of globalization and trade has changed China drastically over the past 50 years. China began to become a globally interactive country in part because of its massive labor capital. From the birth of the "People's republic of China" the country began to conform involuntarily. This began China's ascent into the global market and is what makes China a powerhouse economy today. A rapidly productive economy requires a self-sustaining source of energy and a strong financial industry. This need for power is what led to the Chinese owned gas company, known as the Chinese National Petroleum Corporation. As China began to expand, they began to explore its own natural resources along with fiscally acquired countries such as Angolia and Namibia (Spegele, n.d.). It is now viewed as a neo-colonialist country which has found a way to profit from others.

## Diplomacy and Trade Agreements

It was under the presidency of Richard Nixon that relations between the United States of America and China began to grow. In 1972, Nixon visited the country for the first time and began the first thawing of relations between the two nations since the beginning of the Cold War. As the Chinese-American relationship grew stronger, the two countries' economies became more intertwined. This intertwining of the relationship is not only between the United States and China, but between China and the rest of the western world.

The Chinese government was still in a state of infancy since its founding as a republic under Mao Zedong. Many of the western nations did acknowledge the power of China for two reasons: the sheer manpower of the country and the unity of its people. Since then, there were many trade agreements passed between the Chinese and other countries. The European Union first completed a major agreement called the Transatlantic Trade and Investment Partnership or T-TIP (Matthews, 2016). This was the first major contract which was drawn between countries of the western world with a country which openly acted under a communist regime. This was partly due to the proximity most of the countries in the European Union have to Russia, a major superpower in the world that had previously swayed China into its ideology.

Recently, however, the United States of America has also tentatively entered a similar agreement with China known as the Trans-Pacific Partnership (TPP). It is an agreement in which there will be a free trade agreement between both countries (Phillips, 2015). This seems to be very beneficial to the United States of America. Most of our products that we buy everyday are made and produced in China; although, there are many complex theories as to why the Chinese would be so willing to enter a deal which they do not believe that it is worth it to pay less for products coming into their country from the United States. It must be noted that TPP is not currently on the agenda of the current administration.

The Chinese were already selling US products at an extremely cheap price compared to what it would cost if they were produced domestically. The TPP agreement was supposed to be a two-way agreement between the two countries so that both could better not only trade relations but diplomatic relations as well. Americans began to consume more products from China because they were at a reduced rate, although the Chinese placed self-imposed tariffs upon all the imports which entered the country. This was a loophole in the agreement. In this way, the Chinese were gouging the market. The United States citizens perceived that they were getting great deals on products from China, whilst in China their citizens were not given the same opportunities. This made them rely more on the products of their own countries so the agreement only profited the Chinese economy.

## Rise of the Economy in the 21st Century

The Chinese began their ascent into the world economy in the 21st Century. Many believed that China was tantamount to the '49 gold rush. The cheap labor and laissez-faire mentality of the government reeled in many American product companies to open factories in China. The Chinese had finally reached a point in which their large, stable industries needed more capital than they could produce, and this lead to the creation of a stock exchange, the Shanghai Stock Exchange.

The labor regulations were more lax. They had joined many boards and were promoted into the G-20 summit (Bradsher, 2016). This is when the Chinese saw an opportunity to propel themselves into a global power. They began production by exponential amounts. They informed the rest of the industrialized nations that they had too many goods. The wealthier countries and companies bought into this trap and succumbed to the profitable possibilities in China.

Their pseudo-subservient society provided a substrate for many American companies to invest in the country and profit from their cheap labor and material options. There is an obvious tradeoff between the cheap labor force and materials to the expectations of the customers in the market, especially today. Companies only expect profit—although, in the 21st Century, Americans prefer spending more for better quality.

Regardless, the United States cannot produce the amount of commercial goods which would satisfy the needs of the American people. The Chinese have taken over the market. They have made it impossible for most production industries to be able to thrive in the United States because they are not able to compete with the cheap prices from the production companies of China.

## The Shanghai Stock Exchange

In modern day society, every nation that has a stable and large gross domestic product has composed a form of stock exchange for its domestic companies. They sell a stake in their company, or a stock, to increase capital. This accumulated capital is then used to further build the company making it more profitable along with its investors. The Shanghai Stock Exchange is no different. On November 26, 1990, the Shanghai Stock Exchange (SSE) began selling stocks for various companies based in China.

Although most of the world follows the SSE, its leading factor is the CSI or the Chinese Securities Index. The CSI is to the SSE and Shenzhen Stock Exchange as the DOW and NASDAQ are to the New York Stock Exchange. While the SSE is more prevalent on the world market, it has been known to be more prone to fluctuation among its traded stocks (Boskin, 2015). Many rely on the date that comes from the CSI to gauge the success of the economy of China.

There were two spikes in SSE and CSI around 2008 and later in 2015. Both SSE and CSI spikes are closely correlated. The first spike is from the stock bubble that every economy experienced across the world. The global community believes that they had money to spend, and in turn their investors responded to that aggressively by buying many stocks across various industries (Matthews, 2016). This all worked until the stock bubble occurred, in which all the world's stock markets plummeted drastically. Although this had happened in every country, it is interesting to notice that one of the greatest fluctuations was in the Chinese Stock Market or SSE.

The second peak has to do with more of a manipulation in which the yuan has changed to mimic the American dollar. China is already perceived to be a profitable country, so if the weight of their currency can stay congruent with that of the dollar, many of the other countries around the world would place more trust into the Chinese yuan and begin to trade in their stock market. It is a very deceptive move, but one that can be pulled off by a communist country.

## Chinese Primary Energy and Financial Industries

China has a different view of the energy sector than many countries. They do not care about the environment, as evidenced by the copious amounts of $CO_2$ emissions and smog that are all over China and contaminate the air. If it benefits the large corporations' wallets, they will sign off on any project or deal. Also, they do not care how the job gets done, only that the job gets completed by any means necessary. Whether it is completely unethical or can potentially harm millions of citizens, they do not care. They do care about the law, however. They will not participate in something that is illegal and can cost the financial sector later in the future for profits now. The benefit to this is that many companies will not willingly participate in illegal activity; however, they will do just about anything that is legal, including polluting the air and poisoning the water, among other things.

It is imperative to mention in this point that Information Systems plays a significant role in the energy and financial industries slices of the economy in China as well as the financial industry, because all the databases and data warehouses must be secure. Security is one of the biggest challenges every country faces. Otherwise, thousands and even millions of pieces of data can be lost, corrupt, or stolen. That would be disastrous not only for China but the rest of the world as well.

Other economies such as USA and India also rely on energy to assist them in research, profits, and environmental protection. Like China, India also does not have very many ethical methods when it comes to energy and making money or advancements in emerging technologies. Whatever it takes to make money and become a leader in the world, they will do, unless it is illegal. On the other hand, the United States is extremely ethical when it comes to the environment and energy consumption. They will follow the law and do what is right, even if it hurts short and long-term profits.

Security is also one of, if not the biggest threat and area of concern of both these countries, along with many other countries around the world. In the United States, there are many different blockades to protect financial information that could fall into the wrong hands, or be released into the public that the government does not want them to see. The same goes in India. This is a huge problem that numerous people work long hours every day to try to avoid all around the world. Also, new forms of energy and the financial industry can be very important for countries to have and control. That is why many different countries such as India and America have many different databases with huge backup storage and many different backup locations in case of a disaster that could potentially happen. Energy and especially information systems are very key and play a significant role in what governments and companies are allowed to do and what they actually partake in.

## Effect of Information Systems and Technology in Chinese Economic

China's entry into the global economy has triggered numerous changes within their social structure and job environment. As in all pre-industrial countries, most of Chinese were farmers. Because of the large work force along with few labor laws, first world countries moved to China to take advantage of these low rates of labor. This entry of western industries changed the small industries of China in a large way. Information systems were a new concept to the Chinese and transformed the internal working of the Chinese business place. These systems influence economies the entire world in five ways: they directly create new jobs, contribute to GDP growth, promote the emergence of new services and industries, transform the workforce, and encourage business innovation. (Kvochko, 2013).

Information systems have played a key role in the economic development and sustainability of China. There are many factors that are involved when bringing technology and information into a once communist controlled country; however, with the movement toward democracy and capitalism, these technologies are starting to pay huge dividends for the economy. The government is adopting is a more centralized government website just like in the USA and Europe. This website allows the Chinese government, investors, and other countries to see revenue, profits, debt, and much more that the Chinese economy produces in a given time period. With this website comes more jobs. The copious amount of data and storage that is required takes many skilled individuals every day just to manage and organize. In addition, the security network that must be continuously protected and monitored is an enormous task to accomplish. Just by adding this one website, many jobs are created as well as data for investors, debt holders, economists, and many others. (Ding, Wang & Ye, 2008)

Once the online government site is created, they must outsource much of the maintenance to prevent financial burden and stress when the government should be focusing on other, more valuable information such as the debt, the economy, society, and many other issues. China needs focus on the organization and upkeep of the website in an orderly fashion so that third parties can decipher whether to take on the responsibility of operating and managing such a large project of the main, national website of the Chinese economy. This will allow more and more jobs and create growth in the economy without really having to devote a lot of time and energy in finding employment for citizens (Yuanfu, Jiazhen, Peng & Tan, 2009).

Many Chinese software developers have noticed that to become a major player in the world economy, they need to turn their focus on global software development (GSD). All the money spent on infrastructure in recent history now has a very important use. It allows copious amounts of space to create and develop software. Also, they have realized the importance of building a good image. With a good image, they can sustain more business practices in those companies that normally would not do business with China. This not only helps in the short term, but also it creates a long-term partnership that could last for generations and help the economies of both parties. Another thing that helps GSD is just simply the arduous work that the Chinese people have instilled in them. From the years of 2001 to 2006, the software industry grew 35% each year on average. Not just hard work contributes to this success though: the companies and government also do their best to put the right people in the right place. They only consider the very best qualified people for each job that is to be performed. This allows the maximum efficiency for companies every day (Ju, 2006).

China is also developing something very creative and amusing: a Lifelong Learning Lab. From preschool, all the way to college and beyond, the government is creating and finding ways to allow hands on and collaborative learning exercises and experiences for students. They are moving further from the exam results and regurgitation of information to a creative thinking and problem-solving education system. Many of the students in Chinese schools go to school, do homework, and go to sleep. They do not have time for extracurricular activities such as sports, friends, or creative experimentation. Now, with the Lifelong Learning Lab, many kids in China can find time for other things than just school and school work. Now from an early age people can learn different skills that will help the economy grow and prosper for years to come. Education is very important, and allowing kids to pursue their dreams and think for themselves will allow for more qualified individuals in every sector of the economy (Grey, Li, Shi, Doney, Chen & Shen, 2015).

## Fall of the Chinese Stock Market

China had a booming economy during the 2000's. Artificially increasing investment and at the same time decreasing consumption will cause the stock indexes to soar into the green; there are major problems with that, however (The Causes and Consequences of China's Market Chrash, 2015). One includes the huge income gap that exists in China today. Many of the leaders of the private sector got richer and richer with all the government aid in investments, while the working class got poorer and poorer due to the tightening consumption policy forcing them to spend and spend just because of a decrease in supply and inflation. The effects of this catastrophe are an uptick in unemployment rates in addition to a massive household debt problem (Matthews, 2016). Without positive corrections, China could be on the verge of another Great Recession, or even have its own Great Depression.

Another issue with this artificial boost is that it relied on other countries wanting and needing the raw materials and finished goods that China was producing and selling (Matthews, 2016). Without the demand, there is no supply, no trade, and certainly no profit to be made, and this is exactly what happened starting in 2014 and 2015. Countries stopped buying items from China like they had in the past due to a global slowdown, especially in Europe and the United States. This created a huge surplus in manufacturing companies such as steel and cement (Phillips, 2015). Couple that with bad debts on the books, and they no longer had the revenue stay in business. This also contributed to the income inequality associated with China. China has an extremely low household savings rate, and it could be worse if it were not for the rich who are storing away all of their cash. Millions of homeless individuals lie, cheat, and steal to provide for their family and survive. This causes more income lost for corporations and laying more workers off. Now a vicious cycle is in the making, and the only way to stop it is to increase household Gross Domestic Product (GDP) and allow citizens to save and invest their money into the stock market. All of this can be tied to the housing market as well. The real estate sector accounts for 25%-30% of China's GDP every year (Pei, 2015). With so many people losing their jobs and a decreasing savings rate, more and more people cannot afford to buy a house or apartment. In 2014 alone, the real estate sector dropped 4.5% (Pei, 2015).

Reports represent the average home prices from 2010 to 2014 in the 70 largest cities in China have fallen. Prices continue to fall every year, with no end in sight (End of the Golden Era, 2015). In addition, there are 60 million apartments that are empty because there is no money and too much debt to go around for people to purchase their own (Pei, 2015). Not only that, there are even whole cities that were built to encourage urban development and growth, and no one occupies them. With this cycle of income inequality and slowing economic growth, the sector will burst just like in the United States in 2008 and 2009. The 25 to 30 percent that was in the economy will rapidly dwindle down into something that will be uncorrectable, causing even more unemployment and increase the household debt problem that is already a disaster. These problems show within the Shanghai Index. It is extremely volatile and has stopped trading on numerous occasions because it was down more than 10 percent in just one day. These problems need to be corrected in order to save the Chinese economy and the global economy as well.

China devalued its currency in 2015, causing trillions of dollars to be lost in the financial markets. As a result, the very next day, the Shanghai Index plummeted 8.5 percent (The Causes and Consequences of China's Market Crash, 2015). This devaluation of currency should in theory give civilians more purchasing power on goods within their own country and less outside their borders; however, with the suppressed consumption policy put into place to create trade surpluses, the supply was very limited. While the demand was strong and relevant and supply low, prices started to rise, causing inflation, less purchasing power, more debt, and numerous sectors to slow growth. This in turn causes even more turmoil within the financial markets, creating a vicious cycle unless the government can step in and soften the blow (Matthews, 2016). Another problem with the devaluation was that whenever the currency weakened against the US dollar, Chinese officials would print more yuan and buy more dollars (Phillips, 2015). Simple supply and demand states that the supply of yuan will increase and the supply of dollars will decrease. The problem with this is that every time that happened, the economy would become weaker due to an inflation of Chinese yuan. Eventually, this is going to catch up with an economy, and it has started to in China now. Also, as of now, government officials have started to sell off United States dollars to try to increase the value of the yuan.

The problem is that the yuan is not strengthening at the same rate as selling dollars, suggesting that investors are not confident in the economy and are not willing to inject large sums of money into the Chinese stock markets (Phillips, 2015). This can cause a monumental problem within the economy of China. Because many people and even countries are not willing to invest copious amounts of money into the stock market, many stocks are falling in price, and rapidly at that. This, in turn, causes the entire market to fall when almost all the stocks are decreasing, creating another terrible cycle that no country or market wants to be in. Also, it is hard to break this trend unless investors are convinced that the economy will strengthen, and they can make money from keeping money in the Shanghai Index.

The devaluation of the currency has caused many problems for the economic well-being of China, but it could also lead to another recession in countries such as the United States and all over Europe. These countries are dependent on the Chinese economy and yuan, having a lot of debt owed to China. If the economy were to fall under or the yuan was to become so devalued, China could start to recall the loans they have out, causing chaos among many different nations all around the world. This never should happen as long as the currency can stay at a reasonable rate and not continue to be devalued at an astronomical rate. As long as China can keep the rate consistent and hopefully hike up the currency in the near future, everything will be okay for the economy of China and the world.

## Where is China Now?

China will use government deficit spending and will preserve their currency as ways to stabilize the economy and even create growth. They plan to convert the Chinese economy from a manufacturing and export policy to a services and consumption plan (The Causes and Consequences of China's Market Crash, 2015). This will cycle money within the borders of China instead of having the manufacturers receive all the profits. It will be a long and very bumpy process, but it will allow the economy to level out and create slow growth that is sustainable. By stabilizing the currency with the dollar, euro, and yen, more purchasing power will be brought to the Chinese people, allowing them to decrease debt and increase household GDP. They are also trying to decrease interest rates, giving more people access to loans and financial independence than before (Boskin, 2015).

They do this by injecting cash into the economy and by giving more to the banks. When the banks get more money, they now have more to loan out. This is an easy yet very effective way to increase both the amount of people and the amount of each loan every bank can give out, causing a decrease in interest rates. Another thing they are planning on doing is decreasing the savings rates which are largely inflated due to government run companies. By doing this, more and more money will be spent outside the home of the citizen and now help increase consumption (Bradsher, 2016).

Another thing China is doing is attempting to rebuild the Silk Road. The cost of the project is going to cost almost $1 trillion, but it will create so much opportunity. This trade route will spider web across 60 countries and include nearly 4.4 billion people, over half the world's population (China is spending nearly $1 trillion to rebuild the Silk Road, n.d.). There is both a land and sea component, allowing dozens of countries to be able to trade with each other, allowing better relationships and better trade agreements. Also, this will allow all the surpluses in the manufacturing sector to decrease by starting work again. Hopefully, this will increase trade demand from many countries and create growth not only for China but also for the rest of the world as well. A key factor of the future economic growth is China's government cannot revert to a monopolistic control on the economy (Bradsher, 2016). They will have to introduce capitalistic ideals and let the market fix itself after all these injects and boosts. Otherwise, only negative results can come from that. Whether it is decrease in markets and another decline in the economy, or worse, uproar and rioting by the people. On the Micro side of things, China is working on the citizens themselves. They are getting a better education, better healthcare, and much better training. This will help more and more people be qualified for numerous jobs, and hopefully allow the consumption chunk of the economy to grow (Boskin, 2015).

The government is also creating and introducing emerging technologies to improve way of life, among many other things. These advancements can allow for so many previous unqualified people to now can receive the same treatment that more wealthy families have for years. These great ideas will help stabilize the economy of China and allow the Shanghai Index return to a more normal growth trajectory instead of the volatility associated with it at this moment. It will take many years and maybe even decades but it will be worth it and allow many different countries to expand and grow economically alongside China.

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