

Chinese Economic Reform and the Romanian-Chinese Economic Relations

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Abstract

In its first part, the paper deals with the most relevant aspects of economic and administrative reform initiated in 1978 in the People's Republic of China, its main coordinates and major effects, and conclusions which can be drawn, a good share of these conclusions being able to be considered as reference landmarks for the major decision makers in Romania. The second part of the paper is dedicated to the evolution of Romanian-Chinese economic relations in the last five decades, their current state and prospects of their development.

Key words: *economic reform, economic relations, international trade*

JEL Classification: *F43, F14*

Introduction

A scientific documentary visit made in the summer of 2002 in an academic exchange program between the Romanian Academy and the Chinese Academy of Social Sciences, has entailed direct contact with the economic realities of a country in a spectacular development, firmly committed to the path of modernization and rapid accelerated growth.

An item of information launched in October 2006 by Reuters international press agency quickly made round the world: according to the latest World Bank report, the economy of People's Republic of China (PR of China) managed to achieve in 2005 a gross domestic product, expressed in U.S. dollars, adding net flows from abroad, brought by Chinese investors, that placed the country on the fourth place in the world, outrunning that of Great Britain and entering direct competition with the top three economies in the world, namely U.S., Japan and Germany.

Spectacular Development of the Chinese Economy, its Coordinates and Prospects

GDP increased in 2007 compared to 1978 by 6.9 times, and GDP per capita - from \$ 190 to \$ 2,360 in the same reference years. In the 30 years of Chinese reform, PR of China has made the biggest growth rate in modern history - the average annual 9.8%, compared to 6% average of

the years 1953-1978 and 3% growth rate worldwide, and over 9.2% rate of GDP growth during the takeoff of the Japanese miracle and 8.5% of South Korea during the economic relaunching. The size of GDP in 2007 ranked PR of China, as previously mentioned, the fourth in the world after U.S., Japan and Germany.

It should not be overlooked the fact that, if except for the U.S., the other competitors were states defeated during the Second World War, that suffered huge losses and were more or less, under the occupation of winner nations, being substantially supported in their post-war reconstruction and development by the latter, PR of China has developed, in its own, after a devastating civil war and separation of Taiwan island, according to a strategy which, after 1978, led to the “Chinese economic miracle” as with decades ago was said about the Japanese or German ones. The reform was gradually implemented starting with agriculture, industry and continuing with other activities. The main coordinates of the reform summarized below, offers many themes for reflection and successful economic case-studies for strategists and politicians of many countries, including Romania, faced with the dilemmas of development¹.

1. *Ensuring the economic coexistence of two totally different systems, socialist and capitalist*, by ingenious policies and functional mechanisms that simultaneously provide both large opening to the world economy and rapid alignment to the standards of global markets competitiveness and strict control over the implementation of those policies in terms of granting wide functioning-autonomy to economic units;
2. *Establishing contractual relationships and family responsibilities in agriculture* as regards the cultivation of certain areas of arable land under certain conditions, the transition from joint work in the village to family work which increases responsibility and initiative in cultivating land, harvesting the products and their processing. In 2007 cereal production increased by 64.6% as compared to 1978, that of cotton by 2.52 times, that of oil by 3.92 times, that of sugar by 12 times, that of fruit by 26.6%, that of meat by 5.5 times; as a result, the poor population in rural areas decreased from 250 million to approximately 14 million people;
3. *Making major reform in property* by transforming companies with state capital in joint stock companies, establishing non-public enterprises, private, joint enterprises with local capital and foreign business community, all contributing to increased production and taxes in the revenue of public budget;
4. *Establishing four Special Economic Areas in 1979 on the East coast* in the provinces of Fujian and Guandong: Shenzhen, Zhuhai, Shantou and Xiamen, which enjoying favorable policies and flexible measures in foreign economic activity, gained consistent experience in contacts with foreign firms and countries. These areas were the starting point of the Chinese policy of open doors to the world, representing vectors for foreign companies’ experience penetration of enterprises’ and joint ventures’ management, and of proper valuation of foreign direct investment. Special economic zones were created under the New Strategy of Open Doors that Dengxioping developed, who had said in 1978 that “*if we isolate and close the doors again, we will be unable to reach the same level as the developed countries in the next fifty years*”. In these areas the level of taxes was reduced by half and import duties removed;
5. *Extending in 1982 the status of special economic zone to other 14 coastal cities*, and a year later a number of other regions, including the Pearl River delta (Zhujiang), were transformed into “open economic regions”, currently amounting to over 100 such zones;

¹ See Dumitrescu, F., 30 years of reform R.P. China - a giant leap on the road to modernization, Russu, C. Chinese Economic Reform – “A Success Story” to be known as, *OECONOMICA* No. 2/2003, Romanian Society of Economics (SOREC) - Romanian Institute for Free Enterprise (IRLI), Bucharest, p. 223-262.

6. *Initiating the economic reform in the state-owned enterprises in 1986*, with preparatory measures having been taken long before – the strengthening of leadership at People’s Bank (the central bank), the anti-lock of financially blockage, the substantial increase of labor productivity and high quality products so as to be competitive on the international market, the increase of enterprises’ autonomy alongside with increasing managers’ responsibilities for the proper administration and management of their heritage;
7. *The sustained attraction of foreign direct investment and portfolio*, in 2007 the first being of 74.8 billion U.S. dollars (from a contracted volume of 85.3 billion U.S. dollars), cumulative volume reaching 760.2 billion U.S. dollars. In recent years China has been the largest recipient of worldwide foreign direct investment, supremacy that many years was held by the United States. Foreign investment, with substantial internal funds allocated to development, have allowed massive imports of new technologies, accomplishing industrial structures with advanced technology in many areas - steel, aluminum, copper, lead, electricity production, including nuclear, the textiles, mechanical-electrical products, information, biology, aerospace industry, medicine and others;
8. *Enhancing foreign trade*, achievable thanks to remarkable progress made in productivity, product competitiveness, economic efficiency plan. If in 1978 the volume of foreign trade was 20.6 billion U.S. dollars, in 2007 it amounted to 2,173 billion dollars, with an annual increase of 17.4%, of which 18.1% for export and 16.7% for import; as a result, the share of PR of China in world trade increased in those years, from 0.8% to 7.7%. Significant changes occurred in the structure of foreign trade: a strong reduction in the share of primary products in exports (in 1978 was 53.5%) with industrial products of highly-advanced processing (high-tech products in total exports had 15% in 2000 and 25.2% in 2007); an increase of primary products share in the value of imports, alongside with that of imported products of high technology; a strong intensification, after joining in 2001 of PR of China to the WTO after 15 years of negotiations, of trade in services, which registered an annual rate of 13.8% and whose structure has improved significantly and targeting towards telecommunications, insurance, financial services, information services, consultancy, advertising and other fields;
9. *The spectacular increase of foreign reserves of the country* as a result of strong economic development and trade, mainly with exports over imports, a growing surplus of trade balance and balance of payments. If foreign exchange reserves in 1978 were only 167 million U.S. dollars, they reached 1,528 billion U.S. dollars in 2007, placing the country first in the world, in this regard;
10. *The intensification of population urbanization process*, the degree of urbanization increasing from 18% in 1978, to 45% in 2007, many rural residents moving into the urban areas and contributing to the coordinated development of urban and rural economies by increasing employment in industry, services and other areas;
11. *The significant progress made in the above mentioned areas resulted into considerable increase of average income of the population* during 1978-2007 in urban areas, from 343 yuan to 13,786 yuan, while in rural areas from 134 yuan to 4,140 yuan; under these conditions, per capita consumption has increased annually by 6% on an average (particularly with regard to durable goods), with significant increased population savings in the banking system;
12. *The main difficulties faced in the reform process in PR of China* of which political and economic leadership of the country is aware, are the natural resources - some poor and other non-sufficiently valued, the precarious state of the environment, and the significant imbalance in developing regions, areas, towns and villages. The governmental programs for advanced reform and further sustained economic growth constantly emphasize the role of the state in economic construction, improving the socialist market economy, structuring

socialist harmonious society, developing of the public property and the non-public one competing on an equal level, improving the regulation of macroeconomics, growing of innovation potential, resolving contradictions that arise in the reform process in achieving the objective of building a society full of decent welfare by increasing 4 times the gross domestic product per capita between 2000 and 2020. PR of China's strategic goal is to become a country in which industrialization is carried out in its fundamental lines and people's welfare is generalized by 2020.

In the context of these profound and spectacular mutations, with broad implications not only nationally but also regionally and globally, it is natural that more and more specialists should speak of "the rise of a new global super-power". *"The world power of the nineteenth century was the United Kingdom. In the twentieth century, this role was played by the U.S. At the beginning of the twenty-first century, with a population of over one billion people and the second largest economy in the world, China is about to become the new super-power"*². Economic performances of PR of China are really impressive and up-to-now development extrapolate indices foresee that in 2020 the country would become the greatest world power³.

Main Conclusions to Be Drawn from the Design, Conduct and Status of the Economic Reform of PR of China

These *conclusions*, which can be themes of deep reflection and useful lessons for decision makers in Romania, can be summarized as follows:

- Reform started in 1978 had as major objectives → consistently pursued - increasing productivity constantly, improving the standard of living of the population, and strengthening the economic strength of the country under the conditions of globalization and intensified competition worldwide;
- The path taken by the reform was gradual, involving a comprehensive, systematic and coordinated action initiated "from outside the system" and conducted "from inside the system", based on thorough experiments of change of direction, for their step by step accomplishment on trajectory with stable development and reconsideration of the guidelines when the initial experiments have shown a lack of viable prospects thereof;
- Addressing changes alleged by extensive reform was performed from the "edges" of the old economic system and starting with rural reform and continuing with constant and rapid development of a "non-public economy" (non-state owned economy), which was based on the gradual and incremental reform, the stabilization of society, the gradual enlargement and deepening of the changes and development of the economy. The cardinal principle governing the orientation of reform is building socialist market economy under the economic conditions specific to China, while the Chinese Communist Party and central government authority are maintained, priority being given to the economic reform, infused with the political reform which supported it properly;
- Political Reform, which supports economic reform, resulted in the administrative decentralization and simplification, management businesses autonomy, economic democracy expansion, transformation of government functions, transparency of decision-making processes;
- Rapid economic development has occurred against the backdrop of political and social stability of the country, and focuses on maintaining stability as a prerequisite to the reform process being driven by the awareness of three key success factors of product changes:

² J. Farndon, *Secrets of China*, Publishing House "Litera International", Bucharest, 2007.

³ P. Hirst, G. Thompson, *Globalization in question*, Publishing House "Trei", Bucharest, 2002, pp. 213.

economic development - essential objective, the reform - the driving force necessary to achieve this objective, and stability - essential to promote a consistent reform;

- Establishing and strengthening the socialist market economy have been necessary to enhance the macroeconomic adjustment function of the central government. Strengthening the role of central government in guiding the socialist market economy has become increasingly necessary particularly in the context of disruption appeared after administrative decentralization and broadening decision-making powers of local governments, when they showed tendencies of local protectionism, local authoritarianism, regionalism, and non-judiciously investment guidance;
- The most remarkable successes in the Chinese economic reform are those relating to opening the economy to the outside, materialized in a spectacular intensification of foreign trade with virtually all countries, and in attracting strong foreign investment; the beneficial effects of openness were the consistent transfer of technological know how, managerial and commercial, large-scale modernization of enterprises, facilitating access to foreign markets, strengthening the non-public enterprises that have proved far superior by their performance compared to the state-owned enterprises;
- Reform measures have had an iterative development, meaning that they assumed reconsidering that was re-imposed by strong administrative decentralization which took place at the beginning of the reform process, generating the above mentioned negative trends. As a result, the central government's position was further strengthened, its prerogative in the central budget management and the shift towards regional development funds increasing significantly.

Evolution of the Romanian-Chinese Economic Relations

Romanian-Chinese relations, including economic ones, have a consolidated tradition and have proved fruitful for both sides. Romania was one of the first countries that recognized the PR of China soon after its establishment. After the two countries having established diplomatic relations 60 years ago, bilateral relations have strengthened despite some major changes produced in the international situation and specific conditions in each country.

The two countries have always mutually supported each other in international affairs and domestic development. "Neutrality" of Romania in the Chinese-Russian disputes in the '60, inclined in fact, to the PR of China, which had the force to oppose the Soviet leadership. Economic exchanges, trade and specialists between the two countries have reached considerable heights, favored by the identity of ideological and political visions, feelings of mutual respect and appreciation. Thus, Popular China found in Romania perhaps the only European friend-partner in that period of unrest. In 1978, trade reached 3.6 billion hard-currency, Romania exporting goods worth 1.7 billion hard-currency (energy machinery, electro-technical goods, oil, cars, trucks, boats, rolled pipes, fertilizers and other products), and importing goods worth 1.8 billion hard-currency (metallurgical coke, iron alloys, natural rubber, cotton, cotton and wool fabrics, knitwear, footwear and other products).

Economic reform started in PR of China in 1978, after three decades of huge political, economic, and social disorders - on the basis of their development strategies, based theoretically and oriented pragmatically by Deng Xiaoping, former schoolmate but rival of Mao Zse Tung - entered the country on a path of accelerated and uninterrupted growth, propelling in the group of the most dynamic state of the world and *within countries with large industrial orientation*. Unfortunately, Romania did not properly exploit the opportunities offered by the spectacular development of PR of China, the economic relations between the two countries witnessing a drastic collapse after 1990 and then a re-launching yet shy. Trade mainstreams of Romania were, preponderant, for Western European countries and North America, with a reduced

emphasis on traditional partners - the former CAER States, Arab, African, Asian countries and, particularly, PR of China. If three decades ago trade was balanced, now the trade balance is heavily unbalanced against Romania.

Current State of Relations

PR of China is Romania's most important commercial partner in Asia, ranking first as regards imports, and second as regards exports. The figures presented in the following table show growth in the volume of trade between the two countries in which the Romanian export fluctuated slightly but entered a general downward trend, while imports of Chinese products increased at a very quick rate, which made the import/export volume value to continuously worsen.

Table 1. Bilateral trade volume Romania - PR of China between 2002-2008

- million USD -

Year	Total	Export	Import	Ratio Import/Export
2002	608	216	392	1.81 / 1
2003	831	248	583	2.35 / 1
2004	1,012	158	854	5.40 / 1
2005	1,484	165	1319	7.99 / 1
2006	1,916.4	173.69	1,742.71	10.03 / 1
2007	1,826.3	156.7	1,669.6	10.65 / 1
2008	3,800	270.17	3,529.83	13.06 / 1

Source: National Institute of Statistics, Bucharest www.insse.ro/cms/rw/pages/eu.do, World Trade Point Federation: www.tradepoint.org/index.php?id=537&L=

On the 31st of December, 2008, in Romania there were 9,432 Chinese companies and Romanian-Chinese joint-ventures companies, and the total Chinese investment in the Romanian economy was 330 million U.S. dollars (ranked 17 in the hierarchy of countries which have invested in Romania).

The figures outline two realities whose approach should become a priority for the two parties in their efforts to intensify economic, trade and technical-scientific relations: the level of current trade and economic relationships is far from the potential development that they have and that was higher valued in the past; the profound asymmetry of trade between the two countries, that intensified continuously and is net unfavorable to Romania, needs to increase mutual efforts for identifying business opportunities on multiple plans, such as direct investments in new businesses or modernization of existing capacity, technical-scientific cooperation in production and marketing, transfer of know-how etc.

Lately, the efforts of the two countries to relaunch their trade exchanges have increased visibly. The frequency of mutual visits of officials of high and supreme rank has significantly increased. Chinese President Hu Jintao visited Romania in 2004 when it was decided that the two countries' relations should raise their level to a comprehensive partnership of friendship and cooperation. After the visit of the Romanian President in PR of China, in 2008, mutual visits of delegations of businessmen, with the purpose of identifying opportunities for profitable investment for both parties were initiated. Romanian-Chinese Business Forum, which took place in Bucharest, brought together businessmen from 87 Chinese companies and over 150 Romanian companies, on this occasion being expressed the salutary intention of Chinese businessmen to produce significant structural changes in economic and trade exchanges with a view to getting oriented mainly to industrial and real estate investments and reducing the share of trade in textiles, garments and other consumer products.

Materialization of this intent consisted in three major investments in Bucharest - China Business Center, Chinatown Commercial Complex and China Towers Residential Complex. Chinatown Commercial Complex is designed with a logistics base for the transit of Chinese products to the European Union, which will require a monthly flow of about 6,000 containers. Other investment projects of Chinese businessmen concern: participation in upgrading the airport in Bacau, the development of two projects for a bridge over the Danube river from Braila to Macin, and the highway ring seat of the capital, and participation in the program for construction of national highways (it should be noted that in China there are carried out annually about 6,500 kilometers of highway).

In line with the intensification of Romanian-Chinese relationships, in April 2009 a delegation of Ministry for Small and Medium Enterprises, Commerce and Environmental Affairs, which also included officials from the Ministry of Economy, Romanian Government and an economic mission comprising 48 Romanian companies, made an official visit to PR of China having thus the opportunity of presenting a list of 24 projects, of which 14 of local government and 10 of private investors, in order to identify ways of collaboration with Chinese investors. Given the lack of liquidity and the demand on the Romanian market, working with two major Chinese banks - China Eximbank (credit for export production and completion of projects abroad by Chinese companies) and Sinosure (China Export & Credit Insurance Corporation, which provides loans and risks related to handling export credits granted to Chinese firms) is considered by the Romanian as a considerable opportunity to attract Chinese investment on the Romanian market, to support the Romanian companies for projects in cooperation and balancing trade.

Conclusions. What Should Be Done to Develop Current Relations?

Despite the continuing development of Romanian-Chinese economic and trade relations, their full potential is far from being adequately exploited. As a result, joint efforts of both parties are required to extend their relationships and to significantly improve the content and their effects. We consider in this regard that the focus should be on the following main *directions*:

- reducing asymmetric trade by identifying opportunities for increased export of Romanian industrial products;
- changing imports structure of Chinese products, that is to reduce the share of low-processed products, with small value-added, and to increase the share of highly-processed products, particularly capital goods;
- practicing a more intense promotional policy so that Romania should attract Chinese investment in a wide range of sectors - building construction, road construction and upgrading of roads, upgrading railroad infrastructure, tourism infrastructure etc.;
- strengthening collaboration between the Romanian banks and Chinese banks to attract investments in the Romanian economy and to achieve cooperation in large projects in the Romanian economy.

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Reforma economică chineză și relațiile economice româno-chineze

Rezumat

Articolul tratează, în prima sa parte, cele mai relevante aspecte ale reformei economice și administrative inițiate în anul 1978 în Republica Populară Chineză, principalele coordonate ale acesteia, efectele sale majore, concluziile ce pot fi trase, o bună parte a acestor concluzii putând constitui repere de referință pentru factorii majori de decizie din România. A doua parte a articolului este consacrată evoluției relațiilor economice româno-chineze în ultimele cinci decenii, stării actuale a acestora și perspectivelor dezvoltării lor.