China's Economy: Historical Perspective and Future Outlook

When we think about China's economy today, and consider its potential future growth opportunities and possible stumbling blocks, historical context is as important as ever. China's history tells a compelling tale of how politics can shape economic upturns and downturns more profoundly than the 'surface level' events that lead to more short-term economic shocks.

In 1700, China and India were the world's biggest single-entity economies due to their massive populations. However, this status quo was not to last. Expanding revolutions in scientific thinking and industrial production would smash this ancient formula to pieces, forever. With it, both China and India would lose their economic status in a (relatively) short space of time.

From 1820-1950, China and India's GDP growth rates had remained essentially flat, while that of the US took off spectacularly. Between them, Europe and the US owned over 50% of global GDP share, while China and India accounted for less than 9%.

Gone is the ancient assertion that a large population is sufficient to ensure prominent economic presence. The Scientific Method approach, championed initially in Europe and later in North America, laid the foundations for a virtuous cycle of scientific breakthroughs and new industrial methodologies.

With the Scientific and Industrial Revolutions, Europe and the US dominated the world's economy for two hundred years. China and India did not follow the same path, and consequently their fortunes languished, as they were overtaken by smaller (population-wise) but more productive competitors.

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Efficiency vs. equity – The eternal economic tug-of-war

Political developments in a given nation matter deeply to its long-term economic outlook. At the heart of the matter is the eternal struggle between efficiency and equity.

Capitalism champions efficiency and the idea that, if you're strong, you win, but if you're weak, you lose. In its 'purest' form, the drive for efficiency overrides all other concerns.

About 100 years after Adam Smith wrote his great treatise on capitalism, the idea of creating economic growth and efficiency alongside greater equity – more even-handed, equitable treatment for all members of society – was gaining ground.

In every country, there is a tug-of-war between efficiency and equity. This is the very balancing act that has perplexed leaders since the Industrial Revolution, and it features heavily in Chinese political thinking today.

Surges and pitfalls – How policy has impacted China's economic fortunes

Thirty years after the founding of the People's Republic of China, the reform and opening-up policies of Deng Xiaoping introduced large amounts of market-economy elements to China, leading to a 10.2% average GDP growth between 1978 and 1988 – far outstripping the 3.9% growth of the first thirty years of the Republic that featured numerous political movements including the ten-year-long Cultural Revolution that ended in 1976.

China's economic growth experienced a major dip between 1989-1991, but the country climbed out of that pit and achieved an average growth rate of over 10% in the "take-off" period (1992-2000) and the "WTO dividend" period (2001-2007) leading up to the Global Financial Crisis (2008-2009).

The Chinese economic miracle would never have happened if not for the abandonment of the closed-economy and central-planning policies, coupled with China's abundant labour and a maturing industry base necessary to become the world's factory, and the good fortune that it had in the face of rampant globalisation and exploding demand for affordable manufacturing.

China's economy flourished as Deng Xiaoping forged an 'efficiency first' set of economic policies, but balancing prosperity and equity is the greatest test of national governments today, and nowhere is the scale and complexity of the task more apparent than in China.

In pursuit of efficiency and equity – Chinese-style modernisation

No economy, no matter how successful, can enjoy surging growth forever. There must be a levelling-off period at some point. For China, this reduction in growth has been viewed as the "new normal" – an almost inevitable symptom of its transition from a quantity-based economy to a quality-based one.

Crucially, the will is now present at the top of Chinese leadership to make this new stage of economic growth more equitable. Chinese-style modernisation, as proposed by President Xi Jinping last October, aims to create an economy that enjoys both maximum efficiency and maximum equity, with the most important goal being promoting shared prosperity. This has begun with the ongoing process of lifting hundreds of millions of Chinese citizens out of poverty. Beijing claims it will go beyond this goal with the active redistribution of wealth to close the inequality gap. How and when this will work out in practice remains to be seen.

The future outlook for the Chinese economy

The end of the zero-COVID policy and the subsequent opening-up may signal the end of this short-term shock that hit the Chinese economy hard between 2020-2022. How well the economy can climb out of this pitfall is yet to be seen.

What we can be sure of is that politics will continue to shape deeper economic trends in China, both positive and negative. The country's future economic success will depend on its political leadership providing greater certainty and a deeper commitment to an open market economy in which government maintains a reliable and good-faith actor role.

This is no small task, and Chinese-style modernisation won't be fully achieved overnight. It will be years, possibly decades, before we can see tangible signs that everyone in Chinese society is enjoying the fruits of greater efficiency more equally.