

China's Economic Growth, Its Causes, Pros, Cons, and Future

[China's economy](#) has enjoyed 30 years of explosive growth, making it the [world's largest](#). Its success was based on a [mixed economy](#) that incorporated limited [capitalism](#) within a [command economy](#). The Chinese government's spending has been a significant driver of its growth.

China's economy is measured by its [gross domestic product](#). In 2017, growth was [\\$23.12 trillion](#), the largest in the world. That's 6.8 percent more than in 2016. China's GDP grew at [6.5 percent](#) year-over-year in the third quarter of 2018.

China's growth rate has slowed since the double-digit rates before 2013. Its economy [grew](#) 7.8 percent in 2013, 7.3 percent in 2014, 6.9 percent in 2015, and 6.7 percent in 2016.

Causes

China fueled its former spectacular growth with massive government spending. The government owns strategically important companies that dominate their industries. It controls the big three energy companies: PetroChina, Sinopec, and CNOOC. They are less profitable than private firms and return only 4.9 percent on assets compared to 13.2 percent for private companies. But government ownership allowed China to direct the companies to high-priority projects.

China requires several things of foreign companies who want to sell to the Chinese population. They must open factories to employ Chinese workers. They must share their technology. Chinese companies use this knowledge to make the products themselves.

The People's Bank of China, the nation's [central bank](#), tightly controls the [yuan to dollar value](#). It does this to manage the prices of exports to the United States. It wants them to be a little cheaper than those produced in America. It can achieve this because China's [cost of living](#) is lower than the developed world. By managing its exchange rate, China can take advantage of this disparity.

Advantages

China's growth has reduced poverty. Only [3.3 percent](#) of the population lives below the poverty line, set at 2,300 yuan. China contains about [20 percent](#) of the world's population. As its people get richer, they will consume more. Companies will try to sell to this market, the largest in the world, and tailor their products to Chinese tastes.

Growth is making China a world economic leader. China is now the world's [biggest producer](#) of aluminum and steel.

Chinese tech companies quickly became market leaders. [Huawei](#) is the world's top cellular-equipment maker. It is quickly becoming a world leader in developing 5G technology. Lenovo is a world-class maker of personal computers. Xiami is one of China's top smartphone brands.

Disadvantages

Government spending created a total [debt-to-GDP ratio](#) of [260 percent](#). This includes debt held by the government, corporations, and consumers. Since the state owns many corporations, it must be included. The consumer debt may have also created an [asset bubble](#). Urban housing prices have skyrocketed as low-interest [rates](#) fueled speculation. High growth levels have come at the cost of consumer safety. The public has protested [pollution](#), food safety, and [inflation](#).

It also created a class of ultra-rich professionals who want more individual liberties. They live in urban areas, since that's where most of the jobs are. [In 2017](#), almost 60 percent of the population lived in urban areas. In the 1980s, it was just 20 percent.

[Local governments are charged with](#) providing social services but aren't allowed to tax to fund them. As a result, families are forced to save. China doesn't offer benefits to people who've moved from the farms to the cities to work. Interest rates have been low, so families don't receive much return on their savings. As a result, they don't spend much. That keeps domestic [demand](#) low and slows growth.

Future Growth

Chinese leaders have taken steps to boost domestic demand from its [1.38 billion](#) people. A strong consumer market allows China to rely less on exports and it is diversifying into a more market-based economy. This means relying less on state-owned and more on privately owned companies to reap the rewards of a competitive environment.

To boost growth, [China needs more innovative companies](#). These only come from entrepreneurship. State-owned companies make up 25 percent of total industrial output, down from 75 percent in 1970. But China must do even better.

[China's leaders realize they must reform the economy](#). To that end, President Xi Jinping authorized the “[Made in China 2025](#)” plan. It recommends advances in technology, specifically big data, aircraft engines, and clean cars. China has become a world leader in solar technology. It is cutting back on exports, including steel and coal production.

The worst risk is the [ticking time bomb](#) within the nation's financial system. Banks are state-funded and owned. This means the government sets interest rates and approves loans. They pay low-interest rates on deposits so they can lend cheaply to state-owned businesses. As a result, banks have channeled government funds into an unknown number of projects that may not be profitable.

Bank loans are nearly [30 percent of the economy](#). One-third of these may be the "off-balance sheet" loans that aren't regulated. They are above the lending limits set by the central government. If [interest rates](#) rise, if growth slows too fast, if the government cuts back on stimulus, these loans will probably default. In September 2018, loans started defaulting at higher-than-average rates. But that could be because [Chinese leaders have started cracking down](#) on companies that took on too much debt.

China's leaders now walk a fine line. They must reform to remove asset bubbles. On the other hand, as growth slows, the [standard of living](#) may fall. This could cause another revolution. People have only been willing to turn over personal power to the state in return for rapid increases in personal wealth.

One way to boost wealth is by encouraging investment in [China's stock market](#). That allows companies to rely less on debt, and more on selling stocks, to fund growth. It also helps the tech companies that are listed on the Shenzhen exchanges. China recently installed the Connect program between the mainland exchanges and the Hong Kong stock market.