Economy of China

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Since China began to open up and reform its economy in 1978, GDP growth has averaged almost 10 percent a year, and more than 850 million people have been lifted out of poverty.

Today, China is an upper-middle-income country and the world's second largest economy. However, its per capita income is still only about a quarter of that of high-income countries, and about 373 million Chinese are living below the upper-middle-income poverty line of US$5.50 a day. China also lags in labor productivity and human capital. Income inequality has improved over the last decade but remains relatively high.

China's high growth based on resource-intensive manufacturing, exports, and low-paid labor has largely reached its limits and has led to economic, social, and environmental imbalances. Reducing these imbalances requires shifts in the structure of the economy from low-end manufacturing to higher-end manufacturing and services and from investment to consumption.

Over the past few years, growth has moderated in the face of structural constraints, including declining labor force growth, diminishing returns to investment, and slowing productivity. The challenge going forward is to find new drivers of growth while addressing the social and environmental legacies of China's previous development path.

China's rapid economic growth exceeded the pace of institutional development, and there are important institutional and reform gaps that China needs to address to ensure a high quality and sustainable growth path. The role of the state needs to evolve and focus on providing stable market expectations and a clear and fair business environment, as well as strengthening the regulatory system and the rule of law to further support the market system.

Given its size, China is central to important regional and global development issues. China is the largest emitter of greenhouse gases, and its air and water pollution affects other countries. Global environmental problems cannot be solved without China's engagement. Moreover, maintaining economic growth at reasonable levels has important spillovers for the growth of the rest of the world economy.

Many of the complex development challenges that China faces are relevant to other countries, including transitioning to a new growth model, rapid aging, building a cost-effective health system, and promoting a lower carbon energy path. China is a growing influence on other developing economies through trade, investment, and ideas.

China's economy produced $25.3 trillion in 2018, according to the International Monetary Fund. That is based on purchasing power parity , which takes into account the effect of exchange rates. That makes it the best method for comparing gross domestic product by country.

It also makes China the world's largest economy. The European Union is second, at $22 trillion. The United States is third, producing $20.5 trillion.

China has 1.38 billion people, more than any other country in the world. China is still a relatively poor country in terms of its standard of living. Its economy only produces $18,120 per person. In comparison, the U.S. gross domestic product per capita is $62,518.

China's low standard of living allows companies located there to pay their workers less than American workers. That makes products cheaper, which lures overseas manufacturers to outsource jobs to China. They then ship the finished goods to the United States, China's largest trading partner.

Components of China's Economy

China built its economic growth on low-cost exports of machinery and equipment. Massive government spending went into state-owned companies to fuel those exports. These state-owned companies are less profitable than private firms. They return only 4.9% on assets compared to 13.2% for private companies.

These companies dominate their industries. They include the big three energy companies: Petro China, Sinopec, and China National Offshore Oil Corporation.

China developed cities around these factories to attract workers. As a result, one-fourth of China's economy is in real estate. The government also funded construction of railways and other infrastructure to support growth. As a result, it imported massive amounts of commodities, like aluminum and copper.

By 2013, the 10% annual growth threatened to become a bubble. That is when China looked toward economic reform.

China spends 9% of GDP on infrastructure. In 2013, it launched the One Belt, One Road Initiative, the largest global infrastructure project in history. China will spend $150 billion a year to link 68 countries along the old Silk Road with Europe. It will build ports, railways, and pipelines. It plans to make a China-dominated Eurasia an economic rival to the American-dominated transatlantic trading area.

China's president, Xi Jinping, hopes the project will accomplish four objectives:

Provide investments for China's foreign exchange reserves. Most of them are tied up in low-return U.S. Treasuries.

Provide new markets for China's high-speed rail firms, and for cement, steel, and metal exports.

Stabilize countries on China's western border.

Increase China's claims in the South China Sea.

China's ExportS

China regained its position as the world's largest exporter in 2017, when it exported $2.2 trillion of its production. The EU briefly took the No. 1 spot in 2016. It now is second, exporting $1.9 trillion. The United States is third, exporting $1.6 trillion.

In 2018, China shipped 18% of its exports to the United States. That contributed to a $419 billion trade deficit. China's trade with Hong Kong, at 14%, was almost as much. Its trade with Japan, which was at 6%, and South Korea, at 4.5%, was much less.

China encouraged trade with African nations, investing in their infrastructure in return for oil. It increased trade agreements with Southeast Asian nations and many Latin American countries. That is why President Obama launched the Trans-Pacific Partnership trade agreement. It does not include China. One of its goals was to balance China's growing power in the region. In January 2017, President Trump withdrew from the TPP. But the other countries have continued with it on their own.

China does a lot of manufacturing for foreign businesses, including U.S. companies. They ship raw materials to China. Factory workers build the final products and ship them back to the United States. In this way, a lot of China's so-called "exports" are technically American products.

China primarily exports electrical equipment and other types of machinery. This includes computers and data processing equipment as well as optical and medical equipment. It also exports apparel, fabric, and textiles. It is the world's largest exporter of steel.

China's ImportS

China is the world's second largest importer. In 2017, it imported $1.7 trillion. The United States, the world's largest, imported $2.3 trillion. China imports raw commodities from Latin America and Africa. These include oil and Other fuels, metal ores, plastics, and organic chemicals. It is the world's largest importer of aluminum and copper.

China's commodity consumption has fueled a worldwide boom in mining and agriculture. Unfortunately, suppliers over-produced, creating too much supply. As a result, prices cratered in 2015. As China's growth slows, prices for commodities used in manufacturing, such as metals, will drop.

Taxation in China

Taxes provide the most important revenue source for the Government of the People's Republic of China. Tax is a key component of macro-economic policy, and greatly affects China's economic and social development. With the changes made since the 1994 tax reform, China has sought to set up a streamlined tax system geared to a socialist market economy.

China's tax revenue came to 11.05 trillion yuan (1.8 trillion U.S. dollars) in 2013, up 9.8 percent over 2012. The 2017 World Bank "Doing Business" rankings estimated that China's total tax rate for corporations was 68% as a percentage of profits through direct and indirect tax. As a percentage of GDP, according to the State Administration of Taxation, overall tax revenues were 30% in China.

The government agency in charge of tax policy is the Ministry of Finance. For tax collection, it is the State Administration of Taxation.

As part of a US$586 billion economic stimulus package in November 2008, the government planned to reform VAT, stating that the plan could cut corporate taxes by 120 billion yuan

Tax legislation

State organs that have the authority to formulate tax laws or tax policy include the National People's Congress and its Standing Committee, the State Council, the Ministry of Finance, the State Administration of Taxation, the Tariff and Classification Committee of the State Council, and the General Administration of Customs.

Tax laws are enacted by the National People's Congress, e.g., the Individual Income Tax Law of the People's Republic of China; or enacted by the Standing Committee of the National People's Congress, e.g., the Tax Collection and Administration Law of the People's Republic of China.

The administrative regulations and rules concerning taxation are formulated by the State Council, e.g., the Detailed Rules for the Implementation of the Tax Collection and Administration Law of the People's Republic of China, the Detailed Regulations for the Implementation of the Individual Income Tax Law of the People's Republic of China, the Provisional Regulations of the People's Republic of China on Value Added Tax.

The departmental rules concerning taxation are formulated by the Ministry of Finance, the State Administration of Taxation, the Tariff and Classification Committee of the State Council, and the General Administration of Customs, e.g., the Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value Added Tax, the Provisional Measures for Voluntary Reporting of the Individual Income Tax.

The formulation of tax laws follow four steps: drafting, examination, voting and promulgation. The four steps for the formulation of tax administrative regulations and rules are planning, drafting, verification and promulgation. The four steps mentioned above take place in accordance with laws, regulations and rules.

Besides, the laws of China stipulates that within the framework of the national tax laws and regulations, some local tax regulations and rules may be formulated by the People's Congress at the provincial level and its Standing Committee, the People's Congress of minority nationality autonomous prefectures and the People's Government at provincial level.

The following table summarizes up the current tax laws, regulations, rules, and relevant legislation in China.

Foreign investment taxation

There are 14 kinds of taxes currently applicable to the enterprises with foreign investment, foreign enterprises and/or foreigners, namely: Value Added Tax, Consumption Tax, Business Tax, Income Tax on Enterprises with Foreign Investment and Foreign Enterprises, Individual Income Tax, Resource Tax, Land Appreciation Tax, Urban Real Estate Tax, Vehicle and Vessel Usage License Plate Tax, Stamp Tax, Deed Tax, Slaughter Tax, Agriculture Tax, and Customs Duties.

Hong Kong, Macau and Taiwan and overseas Chinese and the enterprises with their investment are taxed in reference to the taxation on foreigners, enterprises with foreign investment and/or foreign enterprises. In an effort to encourage inward flow of funds, technology and information, China provides numerous preferential treatments in foreign taxation, and has successively concluded tax treaties with 60 countries (by July 1999): Japan, the US, France, UK, Belgium, Germany, Malaysia, Norway, Denmark, Singapore, Finland, Canada, Sweden, New Zealand, Thailand, Italy, the Netherlands, Poland, Australia, Bulgaria, Pakistan, Kuwait, Switzerland, Cyprus, Spain, Romania, Austria, Brazil, Mongolia, Hungary, Malta, the UAE, Luxembourg, South Korea, Russia, Papua New Guinea, India, Mauritius, Croatia, Belarus, Slovenia, Israel, Vietnam, Turkey, Ukraine, Armenia, Jamaica, Iceland, Lithuania, Latvia, Uzbekistan, Bangladesh, Yugoslavia, Sudan, Macedonia, Egypt, Portugal, Estonia, and Laos, 51 of which have been in force.

China GDP

The Gross Domestic Product (GDP) in China was worth 13608.15 billion US dollars in 2018. The GDP value of China represents 21.95 percent of the world economy. GDP in China averaged 2161.74 USD Billion from 1960 until 2018, reaching an all time high of 13608.15 USD Billion in 2018 and a record low of 47.21 USD Billion in 1962.

CHINA GDP	LAST	PREVIOUS	HIGHEST	LOWEST	UNIT
GDP Growth Rate	1.50	1.60	2.40	1.40	Percent
GDP Annual Growth Rate	6.00	6.20	15.40	3.80	Percent
GDP	13608.15	12143.49	13608.15	47.21	USD Billion
Gross National Product	896915.60	820099.50	896915.60	679.10	CNY HML
Gross Fixed Capital Formation	380771.80	349368.80	380771.80	80.70	CNY HML
GDP Per Capita	7755.00	7308.10	7755.00	132.30	USD
GDP Per Capita PPP	16186.80	15254.00	16186.80	1522.00	USD
GDP Constant Prices	697798.00	450933.20	900309.50	5262.80	CNY HML
GDP From Agriculture	43005.00	23207.00	64734.00	649.30	CNY HML
GDP From Construction	45134.00	27465.60	61808.00	181.90	CNY HML
GDP From Manufacturing	233457.00	152993.70	305160.00	2207.80	CNY HML
GDP From Services	376925.00	247742.60	469574.60	2212.70	CNY HML
GDP From Transport	31894.00	20494.80	40550.00	393.20	CNY HML

Sources: https://www.worldbank.org

https://www.thebalance.com / https://tradingeconomics.com