



## CHINA DREAM, LIKONOMICS, AND THEIR GLOBAL IMPACTS

WU D.<sup>1</sup>, WU Z.<sup>2\*</sup>, XU C.<sup>3</sup> AND HOSHINO M.<sup>4</sup>

<sup>1</sup>Fitzwilliam College, University of Cambridge, UK.

<sup>2</sup>Nottingham Business School, Nottingham Trent University, UK.

<sup>3</sup>Department of Law and Economics, Technology University of Darmstadt, Germany.

<sup>4</sup>Faculty of Political Science and Economics, Waseda University, Japan.

\*Corresponding Author: Email- [zhongmin.wu@ntu.ac.uk](mailto:zhongmin.wu@ntu.ac.uk)

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### Short Communication

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The rise of China over the past 30 years has been truly astonishing. It is now the 2<sup>nd</sup> largest economy in the world and is predicted to overtake the USA in the next two decades [1]. Twenty years ago, or even ten years ago, it would have been unimaginable to think that Europe would have to seek a financial rescue from China. The reality today is that China not only has the capacity to rescue one Europe, but several Europe [2,3]. As countries look to China for inspiration, we need to ask: where is China heading?

If we look at China's recent economic history, the reasons behind its growth becomes clearer. The booming began with the transition from planned economy to a free market economy [4]. This gave people incentives to work hard and improve. We cannot emphasize enough how important and fundamental incentives are to economic development. This is something that most of us take for granted today. Private enterprises began to spring up in the early 80s and this made many people in China rich as well as generating employment opportunities.

A second reason behind the booming, which is related to the first, is that hundreds of millions of farmers moved from low productivity farming to much higher productive manufacturing and construction [5]. Urbanisation has yielded a large and sustained dividend for the Chinese economy over the last 3 decades.

The third major reason for China's booming is the high share of savings and investment as a proportion of GDP. Much of this has been invested by the state in infrastructure.

In March 2013, Dr Xi Jinping became the President of the People's Republic of China, the first Chinese President with a PhD. His number one slogan is very catchy: the China Dream. However, it is a slogan, rather than a theory or strategy. Recently he emphasised that China cannot afford fundamental mistakes. Meanwhile the new Premier, Dr Li Keqiang, is also the first Chinese Premier with a PhD. Likonomics is the term coined by three Barclays Capital econ-

omists to describe the economic policies espoused by Dr Li Keqiang. The three parts of Likonomics are: no stimulus, deleveraging and structural reform. Similarly to Reaganomics or Abenomics, Likonomics is not a new paradigm in Economics; but a term to describe the Chinese premier Li Keqiang's favoured economic policies in the first phase of his premiership.

Another term associated with the new premier is the 'Li Keqiang index' which was used by Dr Li Keqiang while as party chief of Liaoning province as an alternative gauge of economic activity. The Li Keqiang index consisted of power consumption, rail freight and lending which offer a more accurate and objective measure of economic activity compared to official GDP figures as they are less easily manipulated.

This new generation of highly educated Chinese leaders has attracted unprecedented levels of attention after the highly publicised Bo Xilai affair and an emerging consensus that China is in need of serious economic and political reforms in order to continue its rapid development and to maintain social stability. The purpose of this special issue is to analyse China's current economic reforms, and discuss future economic development strategy of China and its global impacts.

The paper by Chengzhi Xu, "Inequality, Tertiariation and Institutional Arrangements during China's Growth Miracle since 1990s", studies the effects on aggravation of income distribution in China since 1990s due to the slowdown of tertiary industry development. In order to check Kuznets "inverted U" curve hypothesis, Chengzhi Xu explains growth-distribution nexus in China in the tertiariation process. The regression results show that industrial growth rates difference can explain the change of Gini coefficients in China from 1990 to 2010. Development of tertiary industry plays a significant role on income inequality in China. The tertiariation is slow in China, because three main institutional arrangements which are politi-

cal institution, double-track economic system, and rural-urban dual economy, reduce growth speed of tertiary industry in China. The results provide that institutional reforms should be good for sustainable development and reducing income inequality.

Masashi Hoshino's paper shows that China has been bi-polarized during economic growth, that is, the per capita income of the provinces in China has been gradually forming two convergence clubs after 1952. This is consistent with the observation that China's regional development is very unequal, especially between the inland areas and the coastal areas. Masashi Hoshino also shows that the inequality has been narrowed since 2006 which is the result of China's regional development strategy. In addition, Masashi Hoshino's research covers other Asian economies such as Japan, South Korea, Brazil, Russia and India. Thus the paper is also a comparative study among these economies which finds that only Brazil in the BRIC economies has  $\sigma$ -convergence and hasn't bi-polarized whereas Russia, China and India have bi-polarized. The paper also presents some arguments to explain the phenomenon and points out that the economic liberalization and rapid growth can affect bi-polarization.

Dongxu Wu, Zhongmin Wu, Jinmin Wang and Zhong Zhao address China's current problems in inequality and compensation of employees, and their impact on human capital accumulation and innovation, which is one of the key factors influencing the sustainable economic growth of China in the following decades. In a very short period of time, China has gone from almost perfect equality to a level of inequality that far exceeds some of the traditional capitalist countries such as the USA and UK. Extreme inequality is likely to lead to class struggle. This will again create fertile environment for a communist revolution and the ensued economic chaos. The authors have analysed the economic reforms in China in the past three decades and discussed the future economic development strategy of China from the perspective of human capital accumulation and innovation.

Last but not least, Ping Hua uses the panel data on 49 African countries over the period from 2003 to 2011 and estimates the determinants of China's outward direct investments in Africa by employing the Hausman-Taylor method which controls the endogeneity of some variables. The author finds that Chinese investments in Africa are not so different from investors of developed countries: they are attracted by marking-seeking and resource-seeking motives, tend to invest in the African countries having good macroeconomic performance and strong economic interaction with China. There is no evidence that China tends to invest in the countries having bad governance. Transaction cost is not an obstacle for Chinese investors.

**Conflicts of Interest:** None Declared.

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