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Considerations about the Economic Growth of the Chinese Economy Since the 1990s

Cláudio Tessari[1], Fernando Ferrari-Filho[2]

[1]Tessari & Pohlmann Advogados Associados, Porto Alegre, Brazil
[2]Department of Economics and International Relations, Federal University of Rio Grande do Sul, Porto Alegre, Brazil
Email: tessari.tpadv@gmail.com, ferrari@ufrgs.br

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Abstract

The article shows how fiscal policy (public spending, subsidies, and fiscal incentives), monetary policy (credit expansion and low interest rate), exchange rate policy in which the Chinese strategy is to maintain an overvalued exchange rate, trade policy, especially after December 2001 when China became a member of the World Trade Organization (WTO), and institutional reforms, such as administrative and, mainly, tax reform, were important to stimulate the economic growth in China and also help the country to catch-up the richer countries in terms of GDP value, access to technology, capital stock accumulation, and so on, over the period 1990-2024.

Keywords

Chinese Economy, Economic Growth, Macroeconomic Policies, Institutional Reforms

1. Introduction

From the 1990s to 2024, the annual average growth rate of Chinese Gross Domestic Product (GDP) was around 8.8%, and since the 2020s, China has been the world's largest exporter, impacting the global supply chains, and has been a major driver of global trade that involves cooperation with other countries (Trading Economics, 2025).

This high growth rate and the Chinese expansion in global trade are largely due to the growth of the export sector and are fueled by investment, public and private, mainly foreign ones. In 2024, according to the World Bank (2025), China's exports of goods and services were almost 20.0% of its GDP, while China's investment was around 41.0% of the Chinese GDP.[1] As will be seen later, macroeconomic policies and institutional reforms were important in stimulating the economic growth and development of China in the last decades.

Given that, the idea of this article is to describe and analyze how fiscal policy (public spending, subsidies, and fiscal incentives), monetary policy (credit expansion and low interest rate), exchange rate policy in which the Chinese strategy is to maintain an overvalued exchange rate, trade policy, especially after December 2001 when China became a member of the World Trade Organization (WTO), and institutional reforms, such as administrative and, mainly, tax reform, stimulated the economic growth in China and also helped the country to catch-up the richer countries in terms of GDP value, access to technology, capital stock accumulation, and so on.

Our main hypothesis is that these macroeconomic policies and institutional reforms over the period 1980-2020 were, in most cases, countercyclical and pro-capitalist, not only to stimulate international investments but also as a way of responding to the several external shocks that occurred throughout this period, such as the currency crises in emerging countries in the 1990s, the international financial crisis (IFC) in 2007-2008 and, as a result, the "great recession" (GR), in 2009-2010, the European fiscal crisis (EFC), in 2011, and the COVID-19 pandemic crisis in 2020-2021.

Going into this direction, the article describes and analyzes the macroeconomic policies (fiscal, monetary, exchange rate, and trade) implemented by the Chinese Economic Authorities (CEA), as well as shows and argues that the institutional reforms implemented by the CEA, mainly the tax reform, have been contributed to the huge Chinese economic growth and development.

Besides this brief introduction, the article is divided into more four sections. Section two, briefly, describes the institutional reforms related to the open-door policy of China, that is, the main aspects of the adoption of a new economic development strategy to China, called state capitalist system or socialist market economy, that begun in the 1980s and finished in the 1990s. Section three shows and analyzes the main macreconomic policies implemented by the CEA over the period 1990-2024. Section four shows how the tax reform, that changed, progressively, the tax system of Chinese economy, contributed to the robust and sustainable economic growth in China. Finally, section five concludes.

2. The Chinese Institutional Reforms Over the Period 1980s-1990s Related to the Open-Door Policy of China[2]

In 1978, during the 11th meeting of the Central Committee of the Chinese Communist Party, under the leadership of Deng Xiaoping, the Chinese government

[1]The World Bank (2025) data information also shows that, in 2024, the share of public—state-owned entreprises and public-private partnership—and private investments were, approximately, 16.4% and 24.6% of the Chinese GDP.

[2]The main arguments and ideas presented in this section were based on Kobayashi, Baobo, & Sano (1999) and Zakirov (2025).

decided to adopt a new economic development strategy called open-door policy, in which the driving of economic activity would be foreign capital and technology.

Thus, to aim at attracting foreign direct investment (FDI), the government implemented some institutional reforms and created a number of Special Economic Zones (SEZ) for foreign investment. Moreover, entrepreneurial activity—private and state-owned companies—within China was encouraged.

The open-door policy forced the government to establish reforms in the financial system that, until then, was based on state-owned banks. Thus, financial policies and credit facilities, by the public financial system to lend money to the main enterprises were introduced in the financial system.

As a result, in the 1980s, a massive inflow of FDI and an entrepreneurial boom contributed to rapid economic growth.

In the 1990s, to become a modern and global economy, China needed to implement additional reforms, such as the reform of state-owned enterprises, the reform of the financial system, and the administrative reform.

In terms of state-owned enterprises, some public companies were corporatized and privatized, and structural reform policies were adopted, that is, the introduction of a joint-stock system and the reform of industrial structures, including the restructuring of loss-making enterprises. As a consequence, private enterprises, joint ventures, and foreign-owned companies expanded and increased substantially their market share.

It is important to mention that, despite the diversification of ownership structures in the 1980s and 1990s, state-owned enterprises remain a relevant part of the Chinese economy in terms of their contribution to state revenues and their role in maintaining economic and social stability.

Concerning the financial system reform, the reform was focused on the creation of a financial system suitable for the development of the market economy. The aim was to expand banking services, improve the financial system, and introduce the principle of competition. In other words, the idea was to become the financial system, in operational terms, more flexible and efficient.

Moreover, under China's central bank, Popular Bank of China (PBC), the financial system was addressed to have state-owned, commercial banks, private sector banks, and some non-bank financial institutions. In 1994, the State Development Bank, the Export and Import Bank of China, and the Agricultural Development Bank of China were established as institutions to finance economic activity.

Despite the shift in the financial system, it continued to keep foreign exchange under control, and the capital account was not liberalized. By the way, these measures were fundamental to avoid the contagion of the Asian financial crisis in China.

Finally, in terms of administrative reform, the government implemented measures to reduce the bureaucratic rules and the excessive centralization of authority. With them, the objective was, on the one hand, to reduce the absolute power of the Communist Party on the economy and society that, since the Cultural Revolution and the proclamation of the People's Republic of China in 1949, had the power to keep the Chinese economy and people under control. On the other hand, the government aimed to implement the institutional conditions/organizations to create a market economy.

Thus, the government introduced specific measures related to the social management and public service sectors to aim at restructuring and downsizing those sectors responsible for the control of production and business activities and transferring authority for these areas to the enterprises themselves.

To conclude this section, in the XXI century, due to the institutional reforms implemented in the 1980s and 1990s, China was on an inexorable march toward economic liberalization. Under the Chinese leader Deng Xiaoping, who opened up China to foreign investment, and President Jiang Zemin and Premier Zhu Rongji, who implemented economic reforms, the Chinese economy restructured state-owned enterprises, created more space for private sector activity, allowed businesses to adjust prices in response to market conditions, and ushered in China's entry to the WTO.

In sum, economic reforms in the 1980s and 1990s have brought a transition from a production structure dominated by a single public ownership structure in the form of state-owned enterprises and collective enterprises and an agricultural and rural economy to one consisting of enterprises under various ownership structures and predominantly industrial and urban. As a result, with these reforms, the government created conditions for leading enterprises to be more competitive in the international market, and the Chinese economy not only grew and developed dynamically but also became one of the world's leading economies, contributing 19.2% to global GDP (Xu, 2011; Liu, Sun, & Zhang, 2020).

3. The Chinese Macroeconomic Policies Over 1990-2024[3]

As is well known, in October 2003, the concept of BRICs (Brazil, Russia, India and China)[4] was created by a Goldman and Sachs' report (Wilson & Purushothaman, 2003). In this report, the authors argued that in 2050 these emerging economies would soon displace traditional European economies, Japan, and the United States, in terms of market size.

An interesting point of divergence among the original members of BRICs is in the area of economic growth and reforms: Brazil and China that implemented liberal reforms and flexible macroeconomic policies grew far slower than China and India that also implemented market-oriented economic reforms, but adopted macroeconomic policies managed and regulated by CEA.[5]

[3]This section is based on Ferrari Filho & Spanakos (2009), whose arguments and information were changed and updated.

[4]To aim at political-diplomatic articulation of countries of the Global South, the following countries joined the BRICs: South Africa, in 2011, and Saudi Arabia, Egypt, Ethiopia, Indonesi, Iran and United Arab Emirates, in 2024.

[5]From the 1990s until the year of COVID-19 pandemic crisis, the annual average GDP growth of Brazil, India and Russia were, 28%, 2.7% and 6.5%, respectively (IMF, 2025).

Compared with the other BRIC countries, the annual average rate of GDP for China between 1990 and 2024 was a blistering 8.8%. This high growth rate is due to the growth of the export sector[6] and the increase of FDI. The expansion of FDI in China is obviously a result of the 1) open-door policy initiated in the 1980s, 2) State participation in bank credit and low interest rates, 3) fiscal stimulus, 4) competitive exchange rate, and 5) institutional reforms.

Economic openness in the Chinese economy was gradual, and there were three phases in attracting capital flows (Shengman, 1999). From 1980 to 1986, there was a period of "mutual learning" where CEA, population, and foreign investors learned from each other. FDI ventures in China started in the 1980s when the Special Economic Zones were created and, at the same time, discretionary economic policies were implemented.[7] The second phase (1987-1991) was one of "getting ready", during which laws, regulations, and measures were adopted to attract foreign investment to different economic sectors and geographic locations. Finally, since 1992, there has been the "rapid increase" phase, characterized by the rapid transformation in the Chinese economy (from a planned economy to a market economy). In this period, China benefited from a shift in global allocation of private ínvestment towards emergíng markets. According to Paula (2007: p. 27), "major changes in the functioning of the economy were introduced in the 1990s, such as encouragement of foreign investment, reduction of effective tariffs on imported inputs, the modernization of public corporations, the absorption of multiple exchange rates, and the introduction of convertibility for current account transactions".

China has been the principal recipient of foreign capital flows among emerging markets. As a result, capital inflows can cause several macroeconomic effects, such as expanding the domestic money supply and putting pressure on domestic prices and the exchange rate. For instance, China suffered from a short period of high inflation in the mid-1990s (more specifically in 1995, when the inflation rate was 24.3% per year) and exchange rate volatility from 1990 to 2000 (**Table 1**). However, since 2000, China has experienced periods of deflation (1998, 1999, 2001, and 2002) and low inflation rates, and the exchange rate has been stable (**Table 1**). In other words, inflation rates have been under control and moderate despite the tremendous capital inflows that the Chinese economy has had to accommodate over the past decade and a half, and the *Renminbi*, the official currency of China, has remained stable despite the volatility of the foreign exchange market in the last decades.

It is important to mention that this has been possible because monetary policy is largely discretionary. That is, the PBC has managed the domestic money supply in order to absorb the capital inflows and soften their effect on macroeconomic indicators. If, during the 1990s, the PBC applied credit restrictions to financial

[6]According to the International Monetary Fund data (IMF, 2025), in the 1980s, the China's share in the world trade was around 0.8% while in the 2020s it was almost 10.0%.

[7]In the beginning, FDI was highiy regulated, but in the 1990s were introduced some changes to encourage FDI, such as effective tariffs on importa were reduced, the public corporations were modernizad and the exchange rate regime change.

institutions, monetary policy was more flexible in the 2000s and 2010s. As Table 1 shows, the annual average interest rate set by PBC had the following performance: in the 1990s, it was around 6.0%. In the 2000s, it dropped to 2.1%. In the 2010s, it was approximately 4.0%, and in the 2020s, the annual average interest rate was 2.0%. Moreover, China has shielded the domestic financial system from these capital inflows because there are 1) limitations on the entry of foreign banks into the financial market and 2) convertibility restrictions on the foreign currency transactions of domestic financial institutions.

Table 1. Selected macroeconomic indicators of China for some years.

Indicator	1990	1995	2000	2005	2010	2015	2020	2023	2024
Inflation, %	3.3	24.3	0.3	1.8	3.3	1.4	2.5	−0.5	0.2
GDP, %	4.3	10.0	8.5	11.4	9.6	7.0	2.2	5.2	4.8
Exchange Rate[1], %	7.4	8.3	8.3	8.1	6.6	6.5	6.5	7.1	7.4
Interest Rate[2], %	8.6	11.0	2.6	2.8	5.8	3.3	2.2	1.8	1.6
Trade Balance, USD Billion	8.7	16.8	24.2	101.7	183.0	594.0	524.0	823.0	992.2
Current Account, USD Billion	n.a.[3]	37.0	204.0	132.4	237.8	293.0	248.8	253.0	263.7
Foreign Reserves	USD 20.6 Billion	USD 73.4 Billion	USD 168.3 Billion	USD 821.5 Billion	USD 2.9 trillion	USD 3.4 trillion	USD 3.3 trillion	UDS 3.2 trillion	USD 3.5 trillion
Fiscal Result/GDP, %	−2.0	−2.2	−2.7	−1.2	−1.6	−3.4	−6.2	−4.6	−4.0

Source: ADB (2025), IMF (2025), World Bank (2025) and Trading Economics (2025). Note: [1]*Renminbi*/USD; [2]BPC policy rate; [3]n.a. means not available.

In general, fiscal policy is the most important macroeconomic policy in stimulating effective demand and, therefore, expanding the level of employment.[8] In China, over the past decades, fiscal policy was not different.[9]

On the one hand, the CEA used macroeconomic, fiscal policies (the main instruments of fiscal policy include increasing government spending, issuing bonds, and providing subsidies) to support economic growth and to promote the longer-term objectives of industrialization and urbanization. Thus, fiscal policy helped to stimulate investment in infrastructure, manufacturing, and social housing construction, among others, contributing to economic growth.

On the other hand, Chinese fiscal policy has complemented monetary policy with a careful eye to maintain policymaking autonomy and limit external vulnerabilities. In other words, the interaction between fiscal and monetary policies has been crucial to macroeconomic stability and has helped China insulate its economy from exogenous crises.[10]

[8]See, for instance, Carlin & Soskice (2006).

[9]Bai, Hsieh, & Song (2016) emphasize the fiscal stimulus in the Chinese economy.

[10]For instance, according to Luan, Man, & Zhou (2021), China's fiscal policy was proactive in responding to the economic Asian financial crisis and the COVID-19 pandemic.

More specifically, when public companies shifted towards mixed and private concerns, the government acquired considerable State and quasi-state debt. It did this by increasing shaving the government deficit with a tendency towards balance. As a result of "conservative" fiscal policy and growing State revenues, the fiscal deficit has been relatively stable[11], and the domestic debt has been under control. All of this helps to explain the limited vulnerability of the Chinese economy to the fits and starts more typical among emerging markets. They also have contributed to an environment in which robust, sustainable growth was possible.

Moreover, to manage aggregate demand growth, monetary and fiscal policy, together with controls on the property market, have been used in a coordinated manner to respond to external shocks and domestic developments. The coordinated nature of macroeconomic management was most evident in the combined monetary and fiscal stimulus in response to the collapse in external demand associated with the global financial crisis.

Looking at the exchange rate, during the Chinese transition from a closed to an open economy, the exchange rate regime has changed several times and has been the main instrument of economic policy. After a long period of centralized and fixed exchange rate regimes, in the 1990s, the exchange rate was devalued, and a managed floating exchange rate regime was adopted. The *Renminbi* has been de facto "fixed" to the US dollar since the end of the 2000s (**Table 1**) to ensure exchange rate competitiveness. Since then, PBC's intervention to maintain a stable exchange rate has been significant, largely due to capital control mechanisms for both inflows and outflows.[12] Moreover, the CEA introduced a system in which the exchange rate is determined by a basket of currencies. In other words, the PBC has acted as a market maker in the foreign exchange market.

As mentioned above, the management of the exchange rate has been possible due to the existence of capital controls on both inflows and outflows. According to Zhao (2006), capital controls in China have the following objectives: 1) it helps direct external savings to desired uses; 2) it keeps monetary policy independent of the influence of international economic crises under a context of a managed exchange rate regime; 3) it prevents firms and financial institutions from taking excessive external risks; 4) it maintains balance of payments equilibrium and keeps exchange rate stability: and 5) it insulates the economy from foreign financial crises.

With a stable exchange rate, increasing trade surplus[13], and inflows of FDI,[14]

[11]According to the Asian Development Bank (2025) data, the annual average relationship between fiscal deficit and GDP had the following performance over the period 1995-2020: it was 1.6% in the period 1995-2000; from 2001 to 2005 it increased to 2.1%; in the period 2006-2010 it was approximately 1.8%; and in the period 2011-2023 it increased to almost 5.0%, mainly due to the contracycle fiscal policy as a response to the IFC, EFC and COVID-19 crisis.

[12]Capital controls in China has been used to keep monetary policy independent, to prevent firms and financial institutions from taking external risks, to maintain balance of payments equilibrium and keep exchange rate and to avoid the economy from foreign financial and exchange rate crises.

[13]As **Table 1** shows, the trade balance surplus increased from USD 8.7 billion in 1990 to USD 823.0 in 2023.

[14]It is important to add that FDI has been attracted by the long-term growth perspective of Chinese economy.

China has accumulated an impressive amount of international reserves (from USD 186.3 billion in 2000 to USD 3.5 trillion in 2023, as **Table 1** shows). As a consequence of the continuous trade surplus, the expressive accumulation of international reserves, the capital control mechanisms, and a low level of external debt, the external vulnerability is low. This was evident by the insulation of the Chinese economy during the numerous emerging market crises in the 1990s, mainly during the Asian Crisis.

From this perspective, Prasad (2025) argues that China's current account surplus can be explained by the government's policy of capital controls and foreign reserve accumulation during a period of rapid productivity growth.

However, despite the robustness of the Chinese economy and the health of its financial system, during the IFC, GR, and the EFC,[15] the Chinese economy was negatively affected mainly because, at that time, the Chinese economy was more integrated with the global economy.

As is well known, during the IFC, advanced and emerging economies implemented countercyclical economic policies to overcome the effects of the "great recession". Going in the same direction, China responded to the IFC with a huge fiscal stimulus. The PBC eased the monetary policy, that is, expanded the money supply[16] and loans and reduced the interest rate and other measures, such as labor policies, to stimulate domestic demand.

However, the slowdown of economic growth in the main economies reduced Chinese exports, contributing to the slowdown in the Chinese economy.

Given this new context, the focus of the Chinese economy shifted to growing domestic demand, mainly final consumption, not only to reduce economic dependence on external demand but also to mitigate income inequalities between rural and urban areas. Thus, the government implemented and stimulated investment, both public and private, in innovation, economic restructuring, high-tech sectors, such as robotic and artificial intelligence, and environmental protection, and the monetary continued to be flexible.

The aim of replacing the Chinese economic model focused on the external sector for one domestic market was, first, to prevent the Chinese economy from slowing down too much and, second, to ensure an annual average growth rate of 8.0% over the coming years.

Even with the implementation of countercyclical economic policies and the shift in the strategy of the Chinese economy, in the 2010s, the economic growth slowed down: in the period 2010-2015, the annual average GDP grew around 7.0%, while from 2016 to 2019 it increased almost 6.0%.

According to Zreik (2023), at least three reasons explain the "poor" growth rate of China in the second half of the 2010s: the trade war with the United States, mainly during the Donald Trump administration, 2017-2020; the real estate turndown; and the loss of demographic bonus, that affects the Chinese exports, mainly

[15]By the way, these crises were much bigger than the emerging market crises in the 1990s.

[16]At that time, it was possible to implement a flexible monetary policy because prior the IFC the monetary was operated to maintain inflation under control.

that on that are labor-intensive.

In 2020, the COVID-19 pandemic crisis dramatically affected the Chinese economy: in the first quarter of 2020, GDP fell by 9.0% due to the fact that government authorities shut down parts of the economy to contain the spread of COVID-19.

The CEA's economic policies in response to the pandemic crisis were rapid and efficient for two reasons: first, because the government pursued a zero-COVID strategy to prevent the domestic spread;[17] and second, because, due to the lockdown, the government had to avoid an increase in the unemployment rate and, consequently, a social crisis. For that, the government implemented the following measures: the tax policy for small and medium-sized enterprises was cut; the PBC managed a flexible monetary policy, that is, the interest rate set by the PBC decreased; public investments in infrastructure projects increased; and the government intervened in the industry's supply chain's, food and energy security to keep the stability of these sectors and also to ensure the level of employment.

With these measures, whose consequences were the increase of the fiscal deficit over GDP to 6.2% and the decrease of the interest rate set by PBC to 2.2% per year, the Chinese economy has recovered: at the end of 2020, GDP grew 2.2%[18].

However, before concluding this section, since the pandemic crisis, the trade war between China and the USA, and, more recently, the problems caused by climate changes, uncertainties in the global economy have increased and, as a result, affected the perspectives of high and sustainable economic growth in the world, mainly in China.

Summing up, China's economic policies implemented in the last three decades, in the context of economic reforms, seem to have been fundamental for China to grow dynamically and become a global economy.

4. The Contribution of China's Fiscal and Tax Policies to the Robust and Sustainable Economic Growth

As is well known, fiscal policy is the set of measures that a country's government applies regarding taxation, revenues, and public spending to aim at influencing the economy and achieving objectives, such as boosting economic growth, reducing inflation, increasing jobs, and mitigating income distribution. In general, fiscal policy should focus on expanding expenditures in both social programs and public investments to frame good conventions and boost economic activity.

In the 1980s, as section two showed, China implemented an economic model called open-door policy based on the absorption of foreign capital and technology. The Chinese strategy was to create conditions for the export sector to become the dynamic sector of the economy. Theoretically, China adopted an *export-led growth* strategy, which is one in which a country seeks economic development by opening

[17]To achieve this goal, the Chinese government adopted the follwoing measures: built hospitals, adjusted the diagnosis and treatment systems, isolated and treated infected patients as much as possible, and controlled the epidemic step-by-step, among others.

[18]In 2021, 2022, 2023 and 2024, the Chinese GDP increased, respectively, 8.1%, 3.0%, 5,2% and 4.8% (IMF, 2025).

itself up to international trade.[19]

It is important to mention that one of the reasons for implementing an economic model focused on exports was due to the fact that China, at that time, was unable to rely on domestic consumption, which was deliberately kept low to avoid inflation and excessive wage increases (Cabrita, 2016: p. 263).

In order of priority, China's core national interests were: 1) increasing China's share of commercial and non-commercial exports in the international market, including the increase of imports, mainly due to the shortage of natural resources and products, incorporating foreign capital, and introducing internationally advanced technologies; 2) maintaining and safeguarding relatively stable peripheral circumstances and promoting economic prosperity and peace in Asia and the Pacific; and 3) actively participating in international affairs and safeguarding the international order in its various dimensions (Daw, 2006: p. 216).

Thus, to achieve this objective, that is, to boost the export sector, in addition to institutional reforms, the SEZ was created with economic policies and regulations designed to attract foreign capital. The SEZ included Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, Shanghai, and Tianjin Binhai.

In the same direction, foreign companies that had their headquarters in Economic and Technical Development Zones (ETDZs) were allowed to request the benefit of the application of the 15.0% income tax rate. The ETDZs were created in the following locations: Beihai, Beijing, Changchun, Chongqing, Dalian, Dayawan, Dongshandao, Fuqing-Rongqiao, Fuzhou, Guangzhou, Hangzhou, Harbin, Kunshan, Lianyungang, Nansha, Nantong, Ningbo, Qingdao, Qinhuangdao, Shanghai, Shenyang, Tianjun, Urumgi, Weihai, Wenzhou, Wuhan, Wuhu, Xiaoshan, Yantai, Yingkou and Zhanjiang (Furlan & Felsberg, 2005).

Unlike several Asian countries, such as Korea, Indonesia, and Malaysia, that devalued their currencies with the aim of preserving exports,[20] China, instead of depreciating its currency, improved its entire export system, starting with investments to promote production and, later, structuring sales in the foreign market to increase profitability throughout production/sales. Thus, it helped exporting companies to maintain or adjust the prices of their products in the international market (Oliveira, 2012).

Given that, the Chinese government began to stimulate FDI in the export sector through broad tax exemptions, allowing the remittance of profits/dividends abroad in the first year of investment, while funds for financing production were increased and rates reduced to the lowest international level (from the Eximbank of the USA and Japan), and the participation of foreign companies in the insurance and exchange sectors was also authorized, but under the close supervision of the PBC (Oliveira, 2012).

[19]For additional details about the *export-led growth* model, see, for instance, Giles & Williams (2001). Jinjiun, in 1995, applied the export-led growth model to China.

[20]It is important to mention that exchange rate devaluation creates a pass-through effect on the domestic economy, that is, a situation in which the effect of changes in the exchange rate is transmitted to the domestic prices. For additional details, see Choudhri & Hakura (2001).

Going in this direction, that is, to aim at encouraging the absorption of foreign investment, specific tax laws were approved and applicable to foreign companies, which have a lower income tax rate and broader tax incentives compared to other Chinese companies (Furlan & Felsberg, 2005).

The taxes levied on activities carried out by foreign companies were the following: 1) corporate income tax (25%); 2) withholding tax; 3) transaction tax (turnover tax); 4) property tax; 5) Value Added Tax (VAT); 6) import/export tax; and (g) customs duties.

Moreover, the income of foreign companies with establishment or branch in China was subject mainly to the following taxations: 1) profit, 2) interest, 3) rent, and 4) royalties (Furlan & Felsberg, 2005).

On the other hand, some income obtained by foreign companies that do not have an establishment or branch in China were subject to taxation, as follows: 1) profits/dividends from companies in China; 2) interest on deposits or bank loans originating in China; 3) income from renting property to tenants located in China; 4) royalties from trademarks, copyrights, patents used in China; 5) gains obtained from the sale of real estate located in China; and 6) other income originating in China and specified by the Ministry of Finance. On the other hand, foreign companies that reinvest part of the profits (reinvestment of profits) obtained in China, in the country, were authorized to request a refund of 40.0% of the income tax paid on the reinvested part, provided that such profits would be reinvested for at least five years and that such refund would not be applied to the local income tax rate, which was 3.0% (Furlan & Felsberg, 2005).

For technologically advanced companies and also for companies whose corporate purpose was mainly to export, the benefit of a reduction to 15.0% of the income tax rate was granted for an additional period of three years, added to the regular period of three years, that is, the total benefit would be six years.

As a result of these measures, provisions, and rules, exports began to react, resuming and even surpassing the record levels from before the beginning of the 1980s. For instance, in 1980, China's exports were valued at USD 39.0 billion, and China's share of global exports was 0.8%, while in 2024, China's exports reached USD 3.6 trillion, and its share of global exports was almost 15.0% (IMF, 2025).

It is necessary to mention that an important reason for China's growth in global trade was the fact that "after 15 years of extensive negotiations, on December 11, 2001, at the Doha Ministerial Conference, the members of the WTO formally decided that China would become the 143rd member country of that Organization" (Tessari, 2016: p. 34). Probably no other member agreed to make as many concessions as China in order to become part of this select group of countries that, together, form the WTO through an Accession Protocol,[21] and in addition to not having been able to negotiate the rules to which it is still bound today, it suffered great pressure for broad concessions during the aforementioned process, and has

[21]Full documentation on the outcome of the Chinese accession process (including schedules for goods and services) can be found in WTO (2001).

since been considered a market economy.

To conclude this section, China's fiscal policy promoted exports through tax rebates and subsidies. These policies, along with institutional reforms and a competitive exchange rate policy, helped China's export sector grow rapidly and become a global player.

5. Conclusion

The article showed that the Chinese strategy of adopting an economic model focused on the open-door policy, or led-growth model, was fundamental for China to have robust and sustainable economic growth from the 1980s to 2000s and achieve China to catch-up the richer countries in terms of GDP value and economic development.

For that, it was shown how institutional reforms, specifically state-owned enterprises reform, the financial system reform, and administrative reform, in addition to the management of countercyclical macroeconomics policies, such as fiscal, monetary, exchange rate, and trade policies, were important so that the objectives expected by the CEA could be achieved.

In terms of institutional reform, special attention was given to the role of tax reform in stimulating the Chinese export sector. According to the authors, the legislative changes brought by the Chinese government regarding its fiscal and tax policy proved to be an effective mechanism for increasing China's export share, fostering the development of one of its main objectives, that is, to increase the share of commercial and non-commercial exports.

Thus, Chinese fiscal and tax policy seems to have been one of the reasons for China's sustainable and robust economic growth, enabling its economic recovery, as it encouraged the absorption of FDI with the approval of specific tax rules applicable only to foreign companies.

Finally, one question: what will be the difficulties/challenges for the Chinese economy in the coming years or decades? In general, it is possible to speculate that the Chinese economy will face the following difficulties/challenges: on the one hand, in the short run, 1) the tensions between China and the USA, mainly during the second term of Donald Trump, 2) the real estate crisis, and 3) the public debt, especially in the regional states, is worsening; and, on the other hand, in the long run, 1) the environmental degradation, 2) the loss of demographic bonus, as it was mentioned above, once it limits the labor supply; and 3) to include billions of consumers in the Chinese economy and, as a result, to mitigate the regional and income inequalities.

Finding a solution for these difficulties/challenges is fundamental for the success of the state capitalist system or socialist market economy in the coming years or decades.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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