

# Analysis of the Domestic Economic Development

**Mengya Cao**

*School of Finance, Shanghai University of Finance and Economics, China*

**ABSTRACT.** *Being at a crossroad, China's economy is determined by many factors which influence its development direction and situation. When analyzed the development of the China' economy, the current economic situation should be firstly clarified, and then the factors that can influence the economic development of our country should be also analyzed in detail. Only by this way can the prediction and outlook about the economic development be simply made.*

**KEYWORDS:** *China's Economic; Development Situation; The Belt and Road Initiative; Sino-US Economic Friction*

## 1. Analysis of China's Current Economic Situation

Nowadays the China's economy is developing at a stable speed but with some underlying crises, it still needs to be carefully handled.

(1)From the perspective of percent economic growth which is in a stable state in recent two years, it is possible to perform the economic growth target in a year. But in this process, preventive measures against major economic risks should be made in advance. And then efforts must be made to alleviate the poverty and to give policy support and help from the society to some people who are still in poverty in China. Last but not least, attention should be continuously drawn on the polluted governance to protect our survival environment. With the upgraded Sino-US trade frictions which to some extent influences the whole world's economic development, China's economy has shown great resilience in the fight against aggression, which support the world's economy and gives us full confidence in China's economic development. However, the management pressure of some enterprises in China is still very great. With a generally slow development speed, many enterprises providently tend to earn less profits which is greatly harmful to the management and development of corporates.

(2)Domestic prices are relatively stable on the whole, so is the current total consumption price of domestic consumers which indicates the steady operation of China's monetary policy and the relatively stable price of goods. Although the cost of materials and environmental protection has increased in the manufacturing process, it has not resulted in a sharp increase in the price of goods. At present, with the falling

producer price index, China's current price will not show a significant fluctuation in a short time which is quite favorable to the development of the domestic economy.

(3)It is relatively optimistic about the domestic employment. To stabilize the economic situation for the economic development, China has created jobs for years to solve domestic population employment problem. College students, migrant workers, laid-off workers and veterans and other social groups even attracted more attention in this problem. Having a large population, China has been annoyed by the employment problem for a long time and could not make its economy develop steadfastly. Considering that, steady employment is put in the first place in national economic development plan to make more people employed. After that, steady economic growth will be achieved.

## **2. The impact and countermeasures of Sino-U.S. trade frictions on domestic economic development**

(1)The issue of economic friction between China and the United States is undergoing constant changes, which will have various impacts on China's economic situation.China is in the stage of rapid economic development, and the various economic restrictive policies of the United States are undoubtedly obstacles to China's economic development. In order to fight against the power system of the United States, China must showcase a strong diplomatic attitude and strike back in economic policies.In this process, China's economic development has been hindered by the United States, and the United States' economic development situation will not be as optimistic as expected. Therefore, no one gains in this economic war.If China wants to develop its economy in this situation, we must timely adjust the domestic economic structure, so that China's economy can improve its resilience in the short term.Over a long period of time , China has been adopting export-oriented foreign trade policy, but in the current economic situation, our country must change the single trade growth pattern of economic development , but rather to utilizing the means such as investment, introduction of cutting edge science and technology for optimization of the domestic economic situation. China's economic structure can be fundamentally improved through this way, and make it happen of China's economic growth momentum .

(2)Sino-U.S. trade friction has a direct impact on China's balance of international payments.

In the past year, China's balance of payments has been running a trade deficit, and the trade surplus has dropped significantly year-on-year. It is expected to continue to narrow.If the current situation continues to develop, China's balance of payments position will come under greater pressure, as a result, the countermeasures should be taken as soon as possible.

(3)The exchange rates of RMB has show the falling tendency with the deterioration of Sino-U.S. relationship. When a country appears trade surplus, the demand for money will accordingly increase, and as a result, foreign exchange reserves will flow into the country making the exchange rate of the currency rising in

a natural manner, and vice versa. At the same time, the capital project will also exert effect on the currency exchange rate of domestic products. If there is a surplus in the domestic capital projects, the currency exchange rates will rise; if there is a deficit, the currency exchange rates will fall. The Chinese currency is already showing signs of depreciation, so the domestic financial system will be under great pressure.

(4) As the imposition of tariffs by the United States to China, a large number of import and export trades in our country suffer certain influence of different levels. Many foreign trade companies, due to the small scale and relative weaker capability in counter risks, have to suspend their businesses when it come to the situation of increase of tariffs, which are the direct causes of bankruptcy of many domestic companies with many innocent citizens losing their jobs. More companies will encounter bankruptcy and employment pressure will increase in the short term providing that the economic war continues.

(5) The economic war between China and the United States may also impose an impact on China's finance and exchange rates. Therefore, China must strengthen its foreign exchange reserves and its capacity to withstand international financial risks. The trade war between China and the United States has not yet encumbered China's real estate and debt problems, but we have to take precautions in advance so as we are ready for a financial crisis that could have a devastating impact on China's economic development.

### **3. The belt and road initiative's Economic Development Strategy Brings New Opportunities for Domestic Economic Development**

(1) The significance of the OBOR. Since the reform and opening up, China has undergone great changes in economy. The policy of attracting investment enables China to utilize foreign capital to promote the rapid development of the economy in a short period of time. At the same time, the products made in China are exported in large quantities, which not only helps China gain a lot of foreign exchange, but also improves the international popularity of our products. After nearly four decades of national efforts, China has become the world's largest trading player, and its economic status in the world is steadily improving. However, this only demonstrates that in the past period of time, foreign trade is temporarily suitable for the development of China's economy, and well targeted and specific economic development policies of more strategic significance are required for future development of China's economy. At present, China's economic system has been in difficult transformation period, so we must develop more targeted economic development strategies pursuant to the current economic situation, as a result, the OBOR came into being accordingly.

(2) The Belt and Road Policy will bring substantial influence to the development of China's economy. First of all, OBOR serves as a logistics channel connecting China and the world at the whole. During the construction of the channel, we not only pay attention to the construction of infrastructure, such as communication equipment, but also keep close eyes to the economic and cultural exchanges with countries along the routes, thus realizing good political and economic cooperation relations between

countries alongside. Secondly, the OBOR provides opportunities for Chinese SMEs entering global platform. At present, China has established many economic and trade cooperation zones, port districts, bonded logistics parks along areas of OBOR. The construction of these zones and districts will vigorously promote the economic exchanges between neighboring regions and China and realize the mutually beneficial financial cooperation.

Thirdly, the OBOR provides new opportunities and paths for China to realize the transformation of economic system. As China's economic development is hindered to some extent, the original economic policies can no longer meet the needs of modern economic development, so China needs to discover new development opportunities. Appropriate transformations are needed for some domestic economic enterprises and projects according to the changes of market conditions, and the construction of OBOR economic routes has brought great changes to China's world trade system, which enable China make more partners. Countries along the OBOR have different demands for products and many countries have their own specialties. China can fully take advantage of these resources to reintegrate its economic market and find a new direction for the development of domestic enterprises. In addition, the OBOR policy will promote the steady growth of China's import and export trade.

Currently, China's per capita consumption is at very high level, which has gradually reached the average level of developed countries in the world. Therefore, China can provide domestic residents with more high-quality and inexpensive goods through the transportation hub along the OBOR, and at the same time, sell some of China's products to overseas markets, directly driving the rapid development of China's domestic economy. Finally, there is the problem of excessive production capacity in many Chinese enterprises, that is, the production capacity of many products such as steel, glass and other industries in China has far exceeded the domestic demand. If the excessive products cannot be disposed of in a timely manner, many enterprises will encounter the problems in capital turnover, the solutions are either reduce the production capacity or downsize the scale of enterprises causing the loss of the interests of enterprises, and the development of the national economy will be affected. And the establishment of the OBOR policy fundamentally solve the problems of excessive production capacity, the companies with strong production capacity can sell the commodities in direct manners to countries along OBOR areas, or achieve labor output and take advantage of the resources of other countries to start our preferential businesses. China's economy will be endowed with more development opportunities as we export cutting edge technology and talents to other countries.

#### **4. The future direction of the development of China's economy**

In recent years, many new problems have emerged in China's economic development. Firstly, many low-end manufacturing industries start to make out-migration because of the increase costs of enterprise operating and the backwardness of technology innovation. Secondly, the total investment in China has been declining, although it rebounds recently, but it is still at a relatively low

level. Finally, the consumption level grows slowly in China. Only real estate consumption is relatively stable, other industries, such as automobile consumption market, have shown a significant downturn, while many emerging industries don't have any obvious upward trend. Generally, the situation of domestic economic development is not optimistic. But in early 2019, China has taken a series of measures according to the specific situation of domestic economic development, these measures make the Chinese people build up their confidence for Chinese economic development.

#### ***4.1 The innovation of Financial Policy***

The China's economy should adapt to the current international and domestic situation. In order to get development in a crisis, we need the support of fiscal policy. Only by continuously improving the efficiency of fiscal policy can make China's economy develop rapidly. Firstly, we can reduce fees and taxes, reduce or adjust various tax policies to reduce the burden of enterprises. The reduction of tax could promote the stable development of China's foreign trade, of course when we facing the malicious market competition, we should clear our attitude and adhere to principles. Secondly, we should adhere to the legislation first, fully authorize and distributed implement the economic principle. Finally, the government should take effective measure, strength investment, exert government functions and guide the circulation of capital in the society in the normal order.

#### ***4.2 Stable the order of money market***

We held a financial conference in 2017, At this conference, we made clear the working arrangements for further deleveraging. But in 2018, China has made a simple adjustment, shifting the focus to stabilizing leverage. The purpose is to effectively control the resultant leverage within a good pace and intensity. While after one year of this policy implemented, the difficulty of currency of money situation has not fundamentally changed. This is mainly because the order of the money market is chaotic, and a lot of cheap money in the money market is idle and not fully utilized, while because of the limits of various approval system, many small and medium-sized enterprises or private enterprises could not get the loan qualification, so the survival and development of these enterprises were threatened because of the lacking of financial support. So we can see that the polarization is not caused by the lack of funds, but the optimization of the monetary use structure. If we want to fundamentally solve this problem, we must improve the transmission mechanism of monetary policy. A prudent monetary policy requires a moderate degree of tightness. Excessive looseness or tightness will lead to fluctuations in the financial market, and in serious cases, it will also cause the resonance phenomenon of financial market. Therefore, they keep the money market with good liquidity and sufficient funds. At present, we can try to reduce the legal deposit reserve ratio within financial institutions, increase the amount of low-cost, long-term loan funds within Banks, and use this part of funds to support the development of the domestic real economy

industry, This is the way to solve the financing cost problem from the source.

#### ***4.2 Establish the new system for economic development***

At present, China will put the creativity and enthusiasm of micro-subjects in a prominent position in economic work, mainly for the purpose of enabling many entrepreneurs to play their own roles, and at the same time fully mobilizing the working enthusiasm of the working people and promoting the spirit of model workers and craftsmen in our country. In this process, the importance of fair competition should be emphasized, the economic market needs strong competition, and only competition can make development. The government should play a decisive role from two aspects in the allocation of resources. On one hand, it is necessary to create a fair and just competitive environment for state-owned enterprises and private enterprises so that they could enjoy the same policy treatment. On the other hand, private capital could play a leading role in many fields, so that the state-owned enterprises will follow to improve their own use efficiency. At present, we need to transform the management goal from the enterprise itself to the enterprise capital, so as to ensure the preservation and appreciation of state-owned assets. In the process of establishing the incentive mechanism, we must effectively mobilize the enthusiasm of entrepreneurs, while the way to stimulate entrepreneurs is tax reform, only by continuously improving the tax system can make domestic enterprises actively develop.

#### **5. Conclusion**

Generally, the economic situation in China is influenced by many international and domestic factors. At present, the domestic economic development situation is very complicated, there are many unfavorable factors and also many opportunities. The enterprises in China should understand the present market situation deeply in the process of development, and cannot blindly be optimistic or pessimistic. It is impossible to have smooth sailing at any time if we see them in the historical perspective of China and the world economic development, the coexistence of opportunities and challenges is the most real aspect of the economic market. Enterprises can develop rapidly only if they can adapt to the current situation. But generally, China's economic development is bound to develop in a good way, because China's economic development is important to Chinese government and the government gives a lot of support in economy and policies. No matter what kind of economic crisis, the Chinese government will protect the interests of Chinese enterprises and make the domestic economy develop smoothly as far as possible.

#### **References**

- [1] Y. Xiao(2018). On China's Economic Development Situation. *Prose Hundred*, no.5, pp.105-106
- [2] L. Zhao(2019). The Relationship between Economic Globalization and Domestic Economic Development. *Money China*, no.1, pp.56-57

- [3] X.Y. Liu(2019).Current Economic Situation and Prospect. Chinese Cotton & Linen Industry Economic Research Journal, no.4, pp.123-124.
- [4] C. M. Wu, W.Y. Hu, M. Li(2019).Macroeconomic Situation and Policy Prospect. Government Finance, no.4, pp.202-203.
- [5] Y. Hao, M.Y. Zhao, S. Gao(2019).Forecast and Prospect of China's Energy Economy under New Trade Situation. Journal of Beijing Institute of Technology(Social Sciences Edition), no.3, pp.123-124
- [6] Y.W. Han(2019).The Current Situation Faced by China's Economic Development. China Bond, no.2, pp.156-157
- [7] J.Lu(2019).Research on the Opportunity of Local Economic Development under the Situation of “internet plus”. Technology and Economic Guide, no.2, pp.100-101
- [8] G. J. Xu, Q.Q. Lu(2019).Actively Coping with Internal and External Pressure Risks and Continuously Pushing Forward Supply-side Structural Reform -- Economic Situation Analysis in 2018 and Prospect in 2019.Macroeconomic Management, no.2, pp15-16.
- [9] S.L. Zhang, X.X. Hu(2019).China's Macroeconomic Situation and Policy Prospect. China Policy Review, no.1, pp.63-64.
- [10] C. Liang(2019).On the macroeconomic situation and the promotion of high-quality development--report at the “2019 high-level report on China's macroeconomic situation” of China economic and trade guide magazine. China Economic & Trade Herald, no.1, pp.34-35.