Analysis of Chinese Economic Reforms Implemented After 1978 with Big Bang and Gradual Approaches

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Abstract: This paper assesses the reforms applied in the Chinese economy, which accelerated the development process after 1978, in a theoretical framework with Big Bang and Gradual approaches. Focusing on diplomacy and soft power strategy, China achieved to grow in regional and international markets. China made successful attempts to integrate into the liberal global economic system. Nonetheless, we understand that the final factors that led to the result of the developing Chinese economy in this process were the low valued exchange rate, foreign trade surpluses, protectionist import policies, and excessively subsidized export sectors. Moreover, the weight of the public sector continues in China. These outcomes, which emerged from Chinese economic policy, roll out deviations from the liberal global economic system. Therefore, both approaches fall short of accounting for the reforms applied in the Chinese economy.

Keywords: *Big Bang, Gradual Approach, Chinese Economic Reforms, The Economy Policy of China*

Sonrası Uygulamaya Konan Çin Ekonomik Reformlarının Big Bang ve Kademeci Yaklaşımlarla Analizi

Öz: Bu çalışma, 1978 yılından sonra gelişim sürecini hızlandıran Çin ekonomisinde uygulamaya konan reformları Big Bang ve Kademeci yaklaşımlarla teorik bir çerçevede ele almaktadır. Diplomasi ve yumuşak güç stratejisine ağırlık veren Çin bölgesel ve küresel pazarlarda büyümeyi başarmıştır. Çin liberal küresel ekonomik sisteme entegrasyon sağlamak için başarılı girişimlerde bulunmuştur. Ancak bu süreçte gelişen Çin ekonomisi sonucuna ulaştıran nihai faktörlerin düşük değerli döviz kuru, dış ticaret fazlaları, korumacı ithalat politikaları ve aşırı derecede teşvik edilen ihracat sektörlerinin olduğu anlaşılmıştır. Bunun yanında, Çin kamu sektörünün ekonomideki ağırlığı devam etmektedir. Çin ekonomi politikasının neticesinde ortaya çıkan bu sonuçlar liberal küresel ekonomik sistemden sapmaları temsil etmektedir. Sonuç olarak, her iki yaklaşım Çin ekonomisinde uygulamaya konan reformları

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açıklamada yetersiz kalmaktadır.

Anahtar Sözcükler: *Big Bang, Kademeci Yaklaşım, Çin Ekonomik Reformları, Çin Ekonomi Politikası*

Introduction

China, which had about one-third of the world GDP in the early 19th century, went through a great collapse by falling behind Europe and Japan. However, China succeeded in gaining its strength again by commencing reforms in 1978. China ranks second in GDP, yet the first in commodity exports and official reserves. Upon considering the dimensions revealed in the economic performance, it is crucial to examine the development of the Chinese economy in detail.

The literature has evaluated the economic reforms applied by the socialist countries after the collapse of the Soviet Union within the framework of the Big Bang and Gradualism approaches. Bhaumik and Estrin (2005) state that China has adopted a Gradual alteration path, first with the liberalization of the domestic market, later with privatization and capital market development. Likewise, Weber (2021) stresses that Gradual marketization has helped China's plan increase. On the other hand, Naughton (1995) describes Chinese reforms as going off-and he claims that reforms are not a grand design yet a series of experiments.

The reforms in China had objectives. Nevertheless, they did not reflect a coherent pattern in terms of timing. Zhang and Yi (1998) view the reform as a piecemeal movement that includes empirical processes rather than a Gradual approach. In summary, the Gradual approach outweighs the Big Bang approach in the literature, yet neither approach can fully account for the Chinese reforms. Whyte (2009), for instance, states that no single theoretical model can account for the 1978 Chinese reform movement.

This paper examines China's reforms and the strategic forces that strengthen the foundations of reforms from an economic policy perspective by utilizing the sources presented in the reference list. Thus, it aims to contribute to the literature by unfolding why China's reform movement cannot be fully explained by theoretical models such as the Big Bang and the Gradual approach. For this purpose, the remainder of the article proceeds as follows. After the introduction section, the Bing Bang and the Gradual approach are examined. After

that, the strategic forces that strengthen the foundations of reforms in China are highlighted. Finally, the economic reforms implemented after 1978 were associated with the Big Bang and Gradualist approaches, and the reasons for the decline in economic growth after 2010 were analyzed.

Theoretical Models: The Big Bang or Gradual Approach

The Big Bang or Shock Therapy approach implements various reforms such as monetary policy, privatization, trade and exchange rates, and others quickly on a single date. The Gradual approach, on the other hand, disseminates the reforms over a long period (Wei, 1997). The Big Bang approach involves undertaking all reforms towards a market-based economy as soon as possible (Kumba, 2010). Literature views the Big Bang approach as the situation where a country tries to employ maximum reforms in a single time (Aslund et al., 1996). The Gradualists favored a slower tenet for reforms due to the lack of adoption of new governments and fear of a return to central planning in socialist countries (Pomfret, 2000). Williamsen (1991) defines Gradualism as the sequential application of minimum explosions. We can note the pros and cons of both approaches as follows:

The Big Bang approach realizes the radical reforms faster (World Bank, 1991). It stimulates economic potential and provides greater efficiency by rapidly reducing the size of the state sector (Roland and Verdier, 1994). The Big Bang approach increments the credibility of reforms (Lipton and Sachs, 1990). On the other hand, Gradualism gives the opposition time to organize and leads to potent resistance (Krueger, 1993). In the context of price reforms, the Gradual approach can bring about intertemporal speculation (Wijnbergen, 1992). If the reform program requires consensus approval, sequential plans may not work correctly due to time inconsistency (Martinelli and Tommasi, 1995). Given the similar initial conditions, the economic outputs of the countries that followed the Big Bang reforms (radical reforms) produce better results (Aslund et al., 1996). Gradualism is not an appropriate approach in individual uncertainty about transition costs where government and workers have the same prior knowledge (Wei, 1997). Proponents of Big Bang reforms believe that as long as the planned processes in the overall mechanism continue, the main effects of the reforms made in the Gradual approach will weaken.

In a Gradual approach, the government budget can avoid high costs (Nielsen, 1993). The Gradual view puts lower pressure on the government budget (Dewatripont and Roland, 1992). It allows trial and error and adjustment when reforms are at a particular stage (World Bank, 1991) and ensures that the government obtains augmented credibility (Fang, 1992). Big Bang reforms are in danger of general failure if there is a problem in a specific area (Rodrik, 1989). Given the scope and timing of the reforms, it may not be practical to implement many reforms simultaneously (Fischer and Gelb, 1991). Gradualism believes that the shock therapies, which governments employ after a period, are never efficient (Marangos, 2003). Supporters of Gradualism contend that imperfect design may cause serious issues since the Big Bang rests on a single time.

Strategic Forces Strengthening the Foundations of the Development

At the beginning of the 19th century, China had one-third of the world's GDP. The world trade system operated in China's favor for a century and a half. However, China could not keep up with the Industrial Revolution, and it remained stagnant for a long time by falling behind European countries and Japan. The opium wars and the Taiping rebellion, which emerged after the first quarter of the 19th century, were among the crucial reasons that fueled instability in China. While China had almost one-third of the world GDP in 1820, Europe fortified after the Industrial Revolution and had around 40% of the world GDP in 1890 (see Table 1).

Table 1. Countries' Share in World GDP (%) (1700-1890)

Countries	1700	1820	1890
China	23,1	**32,4**	13,2
Japan	4,5	3	2,5
The EU	23,3	26,6	**40,3**
The USA	0	1,8	13,8
Russia	3,2	4,8	6,3
India	22,6	15,7	11

Source: OECD.

After the industrial revolution, the balance of power between Western powers and China switched significantly. Sustaining the mentality of Gentry, who demanded to proceed to cultivate the land

by ignoring advanced sectors after the Mercantilist era, was one of the fundamental reasons for the stagnation. Ideology before technology, culture before economy, and immutability before bureaucracy came to the fore. Even wars that lasted across borders could not switch this canvas. The factor that led the author of the Wealth of Nations to the stagnant China conclusion was the net result he observed (Huang, 2015).

After the Industrial Revolution, the dependence of the Chinese treasury on Western countries increased substantially. China experienced severe financial crises in this period. In such an environment, China was getting closer to the Russian Revolution. When World War II started, the east coast of China was under Japanese occupation. Siding with the Allied Powers that won the war, China survived heavy Japanese pressure and took over the primary industries that the Japanese had built on Chinese soil.

China spent great energy to fix the national economy between 1949-1952. The Chinese administration achieved relative stability through its centrally planned economic policy, yet it encountered severe issues in growth and prosperity (Saray and Gökdemir, 2007). Mao's economic policies fueled by heavy industry led to adverse effects on consumer goods, service sectors, added value, and living standards. In 1958, reformist movements were initiated to reduce the centralization of the economy. Deng Xiaoping and Prime Minister Zhou Enlai attempted to change the economic model in 1962. Mao saw this initiate as a rebellion against himself and declared the Cultural Revolution.

Soviets' policies of intimidating China were beginning to haunt Mao. While losing the USSR's alliance, China went into the Cultural Revolution and isolated itself from the world between 1962-1971. During this period, Mao realized the strategic superiority of nuclear weapons, which he previously viewed as a paper tiger, in policymaking. China, which tested the atomic bomb in the 1960s, became a nuclear power in the Cultural Revolution (Tabak, 2008). By 1967, the Chinese administration started to try the Hydrogen bomb. Furthermore, China launched its first satellite in 1971 and the second one a year later in 1972. At that time, such a technology was not a development to be ignored.

Surrounded by Soviet-backed forces such as Vietnam, North Korea, and Cambodia, China became in need of the alliance of the USA

during the Cultural Revolution. The USA, on the other hand, fell into the swamp of Vietnam in the early 1970s. The USA's losing power against the USSR led to its rapprochement with China. US President Nixon stated that the USA should cooperate with China and assigned the famous diplomat Henry Kissinger on this mission. The USA restored its relations with China in 1971, lifted the embargoes imposed on China, and included China as one of the five permanent members of the UN, which is the head of the international system (Tabak, 2008).

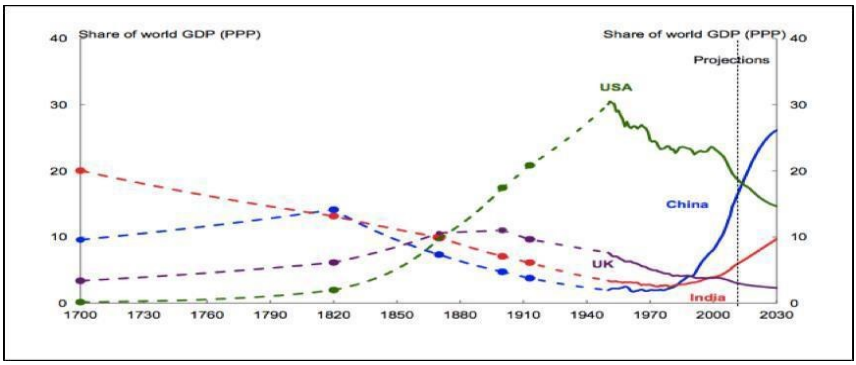
Mao died in 1976. Despite the relative political conservatism in the country during the 1980s, the free market mechanism, which gradually gained strength in the world economic conjuncture, and the existent potentials in regional and global markets forced China to reform. Geo-political factors were crucial in China's transition to economic reforms (Kumba, 2010). However, with the help of the strategic forces described in this chapter, China has been relatively integrated into the global liberal economic system on its own terms, unlike many developing countries that had to undergo rapid change. This factor forms the foundations of the deviations of the applied reforms from the Big Bang and Gradual approach.

Deng came to power after Mao, and he began to produce constructive policies that moved faster to economic objectives in international relations. While pursuing these policies, China depended on pragmatic approaches. For instance, o*ne country two system* policy played an essential role in the regain of Hong Kong and Macau. This system assured to protect the existing judicial system, legislative and executive autonomy in the regions, and all the fundamental freedoms to which the people of these regions were accustomed (Overholt, 2019). China abandoned the closed and stereotypical foreign policy and evolved its relations based on cooperation with neighboring countries. With this strategy, China achieved economic integration with neighboring countries at the initial stage of reforms.

The Reformist Era

Before scrutinizing detailed economic reforms implemented in China after 1978, examining the countries' share in world GDP is essential. The green graph the USA's share, and the blue demonstrates China's shares in world GDP. When comparing to the economic development of the USA between the years 1820-1950, we can see that there is a steeper tendency in the Blue graph. In China, economic growth has exhibited a swift and extraordinary dynamic performance (see Figure 1). According to UNCTAD data, while China's GDP (at current prices) was only 218 billion dollars in 1978, this figure increased to 14.342 billion dollars in 2019. China continues to be the second-largest economy in the world. Likewise, income per capita GDP (at current prices) incremented from 225 dollars in 1978 to 10.004 dollars in 2019.

Figure 1. Countries' world GDP (PPP) ratios (%) (1700-2030).



Source: IMF.

China, which tried the Soviet model based on the planned economic system in the 1950s, started to popularize the liberalization policies after failing. The effect of weak national economic infrastructure, old production technologies, and low worker productivity on this was enormous (Wu and Xiaowei, 1993). In the spring of 1992, Deng Xiaoping said: The planned economy is not precisely socialism. Likewise, the market system is not precisely capitalism. There may be planning in capitalism, as well as a market system in socialism. This description directed the country's perspective on the market system to be market-oriented rather than planning (Wang, 2009). Deng's statement drew an image away from the Big Bang approach since it implied partial liberalism.

China employed the *open door policy* and rational approaches based on *the soft power strategy* against the great powers. These strategies were critical for access and expansion into international markets, economic integration with foreign countries, and a market-oriented economic model. Consequently, China performed great efforts to take advantage of bilateral trade and investment opportunities with neighboring countries. By utilizing natural and lower labor cost advantages and offering low taxes, massive incentives, and irrefutable contracts, China increasingly succeeded in attracting foreign direct investments (FDI), particularly in advanced sectors, from neighboring countries at the early stages of economic development.

China opened the way for collective companies, private enterprises, foreign capital organizations, and the private sector after it had decided on reform with the new regulations. China narrowed the management structure based on direct planning in the transition period to the Socialist Market Economy. After organizing the reforms in rural areas, the government started to reform the urban areas between 1985 and 1989. The revision of the ownership structure, the reduction of import taxes, quotas, and licensing barriers on commercial goods, the abolition of mandatory import and export plans promoted the open economic model in this period. The target was to transform the coastal areas swiftly, which took FDI inflows into a market economy; inland areas, on the other hand, were relatively planning weighted. In this sense, the reforms were implemented piecemeal in China, although they seemed a Gradual mentality (Zhang and Yi, 1998). With a pragmatic approach, China implemented economic policies based on factual data. Instead of a single program for the whole country, China prepared suitable schedules for each geographical region and economic sector according to their conditions.

Institutions responsible for regulating and controlling the markets in China commenced organizing in the 1990s. Regulatory institutions were the product of administrative reform initiatives conducted during the 1990s. This reform aimed to weaken the organizational remnants of the socialist period and focus on a western-style organization. Another critical strategy of China was openness to knowledge and learning by doing method (Sezen, 2009).

With this strategy, China exhibited a superior performance to simulate and position in sectors with no previous experience and

accelerated its industrial skills. The reform, which created a kind of change and economic development that is rare globally, was the product of planned work, not a miracle. There were two different keys to this economic reclamation, including the institutional amendment. The first one was the success in resource allocation, and the second one was the opening to the international market (Garnaut, 2001).

Agrarian reform

China started the reforms from the agricultural field. In this area, China applied the contractual family responsibility principle. The basic philosophy of this principle was to encourage family units to become decision-makers and increment production by diminishing the influence of the central authority on agricultural production decisions (Fan, 1990). In 1978, China made three crucial decisions to augment agricultural productivity. These decisions were to make a 20% absolute increase in the purchase of grain prices, to perform a 50% increase in the quota production determined by the state, and to achieve a decrease of approximately 10-15% in agricultural input prices (Tokatlıoğlu, 2006).

The production and productivity in agriculture augmented rapidly within the scope of the dual price system. The binary price system affected production positively. In this system, planned quotas were allocated over plan prices, while productions over plan were traded on the free market (Zhang and Yi, 1998). Agriculture, which was the starting point of reforms, played a critical role in adopting the reforms by the people. Given that 80% of the population rested on agriculture in 1978, we can argue that the agrarian reform had a Big Bang effect. However, the Gradual approach predominates when we consider all the reforms.

Modernization of public enterprises

China accelerated the modernization of public enterprises between 1985-1991. Based on the growth in this term, there was a structuring dependent on rural enterprises and labor-intensive manufacturing. Besides, efficient resource allocation shifting production factors from weak areas to productive areas (especially from public to private sector) played a vital role in growth (Pingyao, 2006). Politically loyal and older officials in the public sector were replaced with younger and more educated personnel. Furthermore,

the new compulsory retirement law, which the government employed, paved the way for promoting young civil servants (Whyte, 2009).

Managerial and financial decentralization

With the decentralization system, the central government targeted more efficient economic activities by preventing local governments from relying on the central government budgets. The primary purpose of the decentralization system was local businesses. It, however, was not limited to state enterprises. The central government transferred a significant amount of authority to local governments to encourage foreign capital. For instance, the proportion of the aggregate foreign investments managed by the local managements increased from 35% in 1985 to 68% in 1992 (Montinola et al., 1996). Moreover, the central government stimulated local governments to enhance their efficiency (Knight, 2016).

The central government designed the unbundling system to organize and control the tax management more efficiently. At the same time, with the new budget law enacted in 1995, the central government, by performing audits and planned studies, took strict measures to prevent both central and local governments from causing fiscal deficits. The new precautions prohibited the central government from withdrawing excess money from the Central Bank and covering the current accounts deficits. In addition, they foresaw a balanced budget for all local governments, regulated bond export with strict rules, and forbidden borrowing from the financial market (Cao et al., 1999).

Foreign direct investments

China organized some regulations to appeal to foreign companies and investors to strengthen foreign capital inflows. The government established special economic zones, which had physical and institutional infrastructures and industrial parks. In addition, it granted tax privileges to foreign investors in the special economic zones. The experiences obtained from these regions, which were organized to attract the educated workforce and technology transfer, played a crucial role in structuring the country's economy. In China, FDI inflows have contributed tremendously to advanced management practices, innovation, and global value chains (Lovely and Huang, 2018).

In reforms, the Chinese government decreased income tax by 40% to foreign-owned businesses that reinvest their profits within five years. During economic reform, China's tax rate for Joint Ventures was almost half of many other developing countries (Ventura, 2005). China had the opportunity to increase its high technology and advanced production capabilities through capital-technology-intensive FDI inflows. To exemplify, according to UNCTAD data, while China's human capital productivity index was 47.40 in 2000, it augmented to 60.50 in 2018. According to World Bank data, the share of high technology in China's aggregate exports reached 30% in 2019. This rate is 17% in Japan and 19% in the USA.

According to MOFCOM's (January-May 2018) data, approximately 70% of FDI came from Hong Kong to China. Throughout its economic development, FDI inflows from Hong Kong, which has a developed banking and financial system, to China have contributed significantly to economic growth. Other countries that invest the most in China are Singapore, Taiwan, South Korea, and Japan.

According to UNCTAD data, while the total FDI inflows from abroad to China in 1990 was 3.48 billion, this figure reached 141.22 billion dollars in 2019. Following the decisions taken by the Chinese government within the scope of the Silk Road Project, the investments of Chinese SOEs have incremented in the raw materials, energy, infrastructure, and telecommunication sectors in developing countries. As understood, FDI outflows of China have grown faster than its FDI inflows in recent years (see Table 2).

Table 2. China's foreign direct investment inflows and outflows (billion dollars)

Foreign Investments	**1990**	**1995**	**2010**	**2019**
FDI Inflows	3,48	37,52	114,73	**141,22**
FDI Outflows	0,83	2	68,81	**117,12**

Source**:** UNCTAD.

FDI inflows are the engine of high-tech exports in China. Nevertheless, it is critical to note that the share of foreign companies in high technology exports is descending in China. While the percentage of foreign enterprises in exports was 41% in the

pharmaceutical products, 86% in electronic products, and 98% in office and telecommunications products in 2011, these percentages decreased 37% in the pharmaceutical products, 74% in electronic products, and 93% in office and telecommunication products in 2016 (Lovely and Huang, 2018). These outcomes demonstrate that China is slowly yet progressively localizing high technology in line with the Gradual approach.

Privatization of state-owned enterprises

After testing the failure of SOEs, the Chinese administration took several measures to prevent the loss of SOEs. It pursued a policy of selling the small ones while keeping the large ones. The Chinese administration discovered the exclusive role of massive SOEs in economic growth in technological sectors where the private sector was reluctant due to high investment outlays and risk factors (Qi and David, 2019).

This policy, which does not comply with the Big Bang and Gradual approaches, ratifies that China does not ignore the monopoly mechanism, which is the dominant character of the global economic system, particularly in advanced sectors. A strategy such as creating dynamic domestic corporations (e.g., Huawei®, ZTE®) that ensure technological development and internal economies of scale was vital in advanced sectors where the international monopoly corporations are heavily active.

Foreign trade policy

In the planned period, foreign trade was under the control of the state. The ministry executed command of foreign commerce via several companies specialized in certain product areas (Lardy, 1992). In the reform period, China made foreign trade practices convenient as a preparatory of economic development. According to Garnaut (2001), these applications were; establishing foreign trade companies that are not affiliated with the state, transforming the monopoly structures of the country into competitive firms, providing agency services and financing to foreign commerce entrepreneurs, and reducing the mandatory practices on foreign trade.

The customs reimbursement system, which increased China's sectoral competitiveness, has been a strategic application for export and economic growth. China created this system to ensure discounts

in import customs on raw materials, intermediate, and investment goods (Çeştepe, 2012). It has made its service sectors and credit institutions functional to evolve export sectors. China has implemented direct incentives such as low-priced and energy to strengthen its high-tech manufacturing and exports in special regions. Moreover, China has provided bank loans at preferential rates, tax incentives, and additional concessions for special economic zones.

China has not rushed to open up to imports during the reform period through its savings-oriented economic policy. The sustainable competitiveness of costs, supported by the stable exchange rates and savings-oriented economic growth policy, such as loan interests, labor, energy, raw materials, communication, stimulated FDI inflows and exports. China's prudent import policy, protected by its low-value exchange rate, and direct and indirect incentives for export sectors represent the center of deviations from the Big Bang and Gradual approach. Moreover, it is significant to analyze the technological performance of China's trade balance as a result of these policies with evidence.

The product groups with the highest trade deficits are raw materials such as fuel and minerals (oil, gas, and others) shown in the following. China cannot meet the increasing energy demands in proportion to economic growth despite having sufficient energy reserves. Therefore, it imports large amounts of energy. While labor-intensive sectors such as textiles and clothing determined the positive trade balance in the 1990(s) and 2000(s), capital and high-tech products such as office and electronic products became the driving force of the positive trade balance after 2010. As seen below, China achieved a technological transformation in its foreign trade balance (see Table 3).

Table 3. Sectoral trade balances of China (SITC_Rev3 classification) (billion dollars)

Sectors	1990	2000	2010	2017
Agricultural Products	2,2	-3,16	-56,65	-102,46
Fuels and Mining Products	3,73	-21,5	-326,95	-382,11
Iron and Steel	-1,57	-5,3	14,51	33,17
Chemicals	-2,93	-18,11	-61,9	-51,21
Pharmaceuticals	0,22	0,83	2,65	-11,251
Office and Electronic Products	-1,86	-1,86	**342,59**	**383,91**
Transport Equipment	-6,19	1,9	17,53	-0,389
Automotive Products	-1,54	-2,22	-25	-29,28
Textiles and Clothing	**11,55**	**38,18**	186,49	242,51

Source: WTO. Negative values (-) indicate the trade deficit.

The augmenting adequacy of China's trade balance in advanced sectors has been the driving force of economic development. In this outcome, there are significant effects of the success shown in financing the augmented R&D outlays. According to UNESCO data, while China's total R&D expenditure was 92 billion dollars in 2002, this figure ascended to 255 billion dollars in 2010 and 438 billion dollars in 2018. The R&D strategy of China is another critical parameter of the development strategy of the Chinese economy.

Peaceful foreign policy and market-oriented reforms contributed significantly to the success of China. These strategies were instrumental in China's membership in the World Trade Organization (WTO) in 2001. After joining the WTO, China commenced augmenting production and export faster (Zhao, 2019). According to World Bank data, China's total exports between 2001 and 2004 exceeded the 10-year total exports between 1990 and 2000. According to UNCTAD data, the aggregate export figure, which was 761 billion dollars in 2005, increased to 1.57 trillion dollars in 2010 and 2.49 trillion dollars in 2019. Likewise, total imports augmented from 659 billion dollars in 2005 to 1.67 trillion dollars in 2010 and 2.07 trillion dollars in 2019. China has a trade surplus of 421 billion dollars in the commodity trade in 2019.

Reasons for Decreases in Growth After 2010 in the Chinese Economy

Song et al., (2019) discover that the Chinese economy has commenced reaching its slowdown in recent decades. The literature warns of an impending recession, underlining that the Chinese economy is facing some issues. Nevertheless, this outcome is not only valid for China. The average decrementing figures in the world economy denote a much faster decline than in China. According to World Bank data, while the world average economic growth figure between 2009 and 2020 is 2.03%, this figure is 7.36% in China (the average loss in China compared to its previous 10-year period is around 2%-3%). The valuable monetary and high-interest policy of the USA, which has left its mark in recent years, has adverse effects on the growth figures for developing countries.

According to Brodsgaard and Ruuten (2017), the inability to absorb China's increased capacity in heavy industry goods due to low global demand causes a slowdown in economic growth. In China, State Economic Enterprises (SOEs) have started to increment their investments in the domestic real estate market as a source of income. Oversupply proceeds to augment since the housing market commences declining. These investments have turned into liabilities in a short time, and the Chinese state has had to undertake these obligations. Another significant issue in China is the deepening income inequality problem. According to economists such as Roger Chen and Yiping Huang, this factor will negatively affect the Chinese economy in the future (Hill, 2019).

Song et al., (2019) analyzed the slowing economic growth in Solow's model. According to the analysis, the primary reason for the declining economic growth is the decrease in investments. Brandt et al., (2020) focused on the reductions in Total Factor Productivity (TFP) in China. The authors determined that the average of TFP, which was 2.8% between 1998-2008, diminished to 0.70 between 2008 and 2018. Brodsgaard and Ruuten (2017) emphasize that the Chinese state has recently promoted high economic growth. The authors report that the Chinese state has allowed large SOEs to merge to enhance their global competitiveness in steel, maritime and nuclear energy. This philosophy is contrary to the understanding of the market economy and the Chinese market. Moreover, these practices roll out deviations from the Big Bang and Gradual approaches.

Conclusion

China succeeded in being on the side of the winner in both global wars as World War II and the Cold War. In the Cultural Revolution, China turned into a nuclear power under the embargo conditions. In 1971, China succeeded in amending its diplomatic ties with the USA by taking advantage of the competition between the USA and USSR. After improving its diplomatic relations with the USA, China became one of the five permanent members of the UN in 1971. Despite several issues, China regained Hong Kong and Macau thanks to its foreign policy strategy. By adopting rational approaches to its diplomatic relations, such as open door and soft power policy, China stimulated the FDI inflows and expanded in international markets.

Through its strategic advantages (as mentioned above), China integrated into the global liberal economic system, which many developing countries had to undergo a rapid change, according to its own conditions and potentials by keeping away from the Big Bang mentality. Some studies in the literature associate the Chinese reform movement with the Gradual approach (see Bhaumik and Estrin, 2005; Brunnermeir et al., 2017; Hofman 2018, Weber, 2021). However, explaining Chinese reforms comprehensively with the Gradual approach is impossible (see also Zhang and Yi, 1998; Whyte, 2009). Zhang and Yi (1998) state that the timing of reforms in China does not match the gradual approach. Therefore, the authors see the reform movements in China as a piecemeal movement involving experimental processes. Whyte (2009) demonstrates that no single theoretical model can account for the Chinese economic reforms.

When both approaches are compared, it is understood that the Gradual approach in the literature in explaining the Chinese reforms outweighs the Big Bang approach. When the outcomes of the implemented Chinese reform strategy are analyzed realistically, it is seen that the development of China cannot be fully explained with a Gradual approach. For instance, agricultural lands have not been privatized in China, and the Chinese administration proceeds to hold a large number of SOEs. Even in some sectors, mergers have been taken place between SOEs to strengthen competitiveness in global markets. Despite demonstrating remarkable performance in the liberalization of foreign trade during the reform period, China did not wholly open its domestic markets to imports thanks to consistent low-value exchange rate and savings policies. The manufacturing industry

of China, which is supported by excessive direct and indirect subsidies, is indirectly well protected.

This study presents to the literature that the reforms applied in the Chinese economy cannot be 'fully' explained by the Big Bang and Gradual approach. This result endorses Whyte (2009), who demonstrates that no single theoretical model can account for the reform movement in China. However, more research and discussions are needed to support this consequence. This paper finally emphasizes the significance of future studies in this area. In these studies, the net results and practices of the Chinese reforms should not be neglected.

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