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Review Paper

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THE INFLUENCE OF RAPID GROWTH OF CHINA TO EXCHANGE RELATIONS WITH THE EU

УТИЦАЈ УБРЗАНОГ РАСТА КИНЕ НА ОДНОСЕ РАЗМЈЕНЕ СА ЕУ

Summary: *In order to overcome the disadvantages of the existing two types of economic systems - the socialism and capitalism, there was a need to find a system that will use the positive aspects of both systems. One country succeeds more than successfully to combine bases of the centrally planned and market system. Socialism in the Chinese style, as it is called by Gregory and Stuart proved to be a successful practical example of the market socialism. After the implementation of China's reforms, they have kept a one-party system and state ownership, but have accepted the market allocation of resources. In the Constitution of the People's Republic of China, Chinese economy is voluntarily classified as a socialist market economy. That China is more than a successful example of market socialism, is shown by the remarkable growth rates and the unprecedented progress of the country in the last thirty years.*

Reforms have enabled the opening of China to foreign trade, which before 1978 was almost non-existent. After the establishment of the first diplomatic relations with the EU, in 1985 the Agreement on Trade and Economic Cooperation EEC and China was signed, which officially begins establishing bilateral trade relations. Special importance for the progress of trade relations is China's entry into WTO in 2001, and the signing of the strategic partnership of the EU and China in 2003. The volume of trade between the two economies is growing steadily, and the main characteristics of their trade relations is a continuous deficit which the EU has realized in the exchange with China. Although the European Union is the largest trading partner of China, and China is the second trading partner of the EU, differences and difficulties in the field of trade still exist.

Keywords: *market socialism, China, reforms, economic growth, trade relations*

JEL classification: *F63, P21*

Резиме: *Да би се превазишли недостаци постојећа два типа економских система – социјалистичког и капиталистичког, јавила се потреба за проналажењем система који ће искористити позитивне стране оба система. Једна земља успијева и више него успјешно да функционише комбинујући основе централно планског и тржишног система. Социјализам у кинеском стилу, како га називају Грегори и Стјуарт показао се као најуспјешнији практични примјер тржишног социјализма. Кина је након спроведених реформи задржала једнопартијски систем и државно власништво, али је прихватила тржишну алокацију ресурса. Она се у Уставу из 1999. године самоиницијативно класификовала као социјалистичка тржишна економија. Да је Кина и више него успјешан примјер тржишног социјализма, показују завидне стопе раста и незапамћен напредак једне земље у последњих тридесет година.*

Спроведене реформе омогућиле су отварање Кине за спољнотрговинску размјену, која прије 1978. скоро да није ни постојала. Након успостављања првих дипломатских односа са ЕУ, 1985. године склопљен је Споразум о трговинској и економској сарадњи ЕЕЗ и Кине, чиме и званично почиње успостављање билатералних трговинских односа. Посебан значај за напредак трговинских односа има улазак Кине у СТО 2001. године, те потписивање стратешког партнерства ЕУ и Кине 2003. године. Обим размјене између ове двије економије континуирано расте, а главна карактеристика њихових трговинских односа јесте континуирани дефицит који ЕУ остварује у размјени са Кином. Иако је Европска Унија највећи трговински партнер Кине, а Кина други по реду трговински партнер ЕУ, разлике и тешкоће у пољу трговине још увијек постоје.

Кључне ријечи: *тржишни социјализам, Кина, реформе, привредни раст, односи размјене*

JEL класфикација: *F63, P21*

1. INTRODUCTION

In the age of globalization, when modern economic systems are interconnected and mutually dependent, there is a distinct need for examination of differences in their performances. The results of those researches showed certain advantages and shortages of socialism and capitalism. A theory of planned socialism arose as a consequence of efforts of some theoreticians to unite positive performances of these systems into one economic system.

According to professor Vukmirica (2012), People's Republic of China is a unique example of a country whose economic and social development is based on two systems: "socialistic" – centrally planned and "capitalistic" – market system. It is a system which Gregory and Stuart (Gregory and Stuart 2013) call *socialism in the Chinese style,* where state and private economy coexist, national planning does not exist and a right to private property should be protected.

Reforms that were implemented by Deng Xiaoping in 1978 enabled extremely poor, closed and planned economy to become the biggest world exporting and the most attractive country for foreign investments. China has continuously recorded high growth rates, balance of payments surplus and current account surplus, high inflow of foreign direct investments, high savings rates, and the biggest foreign exchange reserves in the world as well.

A growing competitiveness and strengthening of China in the world economy after the implementation of Chinese reforms have led to strengthening of trade relations with the EU, particularly after joining the WTO. China has become the second trade partner of the EU, while the EU is the most important partner of China in foreign trade. At the same time, a fast growth of China represents a challenge for the EU, not only for its growing trade deficit, but many other problems in the field of trade, mainly low prices and dumping.

But has the use of market socialism in Chinese economic system really led to improvement in standard of living? Can market socialism bring a country to a leading position in economy within three decades? How has such growth influenced the exchange relations between China and the EU?

2.THE SUCCESS OF MARKET SOCIALISM IN CHINA

2.1. The beginning of transition – Chinese economic reform

The underdevelopment of the country and a great poverty that were consequences of closeness of Chinese economy was stopped in 1978, when Deng Xiaoping began to implement popular Chinese reforms. Unlike other socialist countries that implemented a reform, the reason China went through this process was not a deep macroeconomic crisis. On the contrary, there was fiscal and balance of payments equilibrium, and a high level of domestic savings as well.

The conditions for reforms implementation were more favorable than in majority of other countries, but the success of reforms themselves was granted by a special approach in their use. Basic characteristics of Chinese reforms were experiments and gradualism, which enabled the authorities to remove shortages of the reforms timely, in case they notice that it could lead to economic disorders. In this way they would successfully avoid costs of reform failure on the national level (if they proved to be unsuccessful on the local level). However, this system enabled reformers on local levels to get credits, and also to take responsibility for the reform (un)success as well. The gradation in reform implementation provided time needed for the fulfillment of necessary requirements (institutions, laws, individual trainings, etc.) for a successful reform implementation.

Although the implementation of reforms in China started spontaneously and illegally, contrary to the expectations, Deng Xiaoping and his followers supported reform initiatives that originated from rural areas. A spontaneous division of land spread to other villages, which meant a start of *the agrarian reform*. The agrarian reforms were first not only because they represented the beginning of reforms implementation, but they were significant for the reform efforts as well.

Although China did not have a plan for the implementation of reforms, however the reforms in one sector brought to the reforms in others. 'The system of collective responsibility'[1] and the growth of relative prices of agricultural products motivated agricultural producers to increase productivity. The surpluses available for investments into industry appeared as well as the first township and village collective enterprises (township and village enterprises, TVEs), which made a beginning of the *industrial reform.*

Since the agricultural and industrial reforms had positive results, China began to realize that it had to become *open for exchange with the rest of the world.* The openness of Chinese economy led to a purchase of necessary capital that would support the development of agriculture and industry by

[1]The system of collective responsibility is an agreement of a group of rural households to collectively deliver share to the state, while keeping the rest for their personal use or sale

investing into new technology and equipment. That certainly speeded up its development, since the world competition 'forced' China (even there was an advantage in low costs of working force) to modernize its production and to produce high quality products. Besides the reforms of foreign trade corporations (which previously had represented a state system of foreign trade), the government stimulated the export by conducting several devaluations and directly stimulating and subsidizing export enterprises by giving them tax reliefs and introducing many other 'mercantilist' measures. Hong Kong, with the biggest trading port in Asia, has provided the infrastructure through which Chinese goods wins the world market. A big part of foreign exchange assets (about 1/3) incurred from the export of goods was used for import of new machinery and equipment, which resulted in China becoming a main rival to the biggest world traders in a very short time. The entrance of China into the World Trade Organization (WTO) in 2001 obliged its authorities to obey the rules and regulations of WTO, but still Chinese authorities have been avoiding to adopt most of the mandatory regulations.

By passing the Law on mutual investments in 1979 and opening 4 special economic zones in 1980, China encouraged foreign companies to invest into businesses with Chinese partners. China has become a country with the largest number of *foreign direct investments* (FDI) of all developed economies, with the record of US$ 117.6 billion of foreign direct investments in 2013 (Wang and Qing, 2014).

FDI enabled Chinese enterprises to have easier access to modern technologies, new capital and foreign markets as well, which additionally increased Chinese export. In 1985 Chinese companies with foreign investments exported goods worth less than 1 million dollars per year, and they made 1% of Chinese export. Up to 1995, the export reached almost 50 million dollars and share of 32% of total Chinese export. Almost all largest world companies saw the advantages of investments into the projects in China, although those advantages required certain prerequisites. Transnational companies could invest into China only if they became partners with a Chinese partner through mutual investments, which meant compliance to the Chinese business practice.

2.2. Socialism in the Chinese style – "Chinese economic miracle"

After thorough reforms implemented by Deng Xiaoping, China still kept one-party dictatorship and some socialist roots in order to create socialism in the Chinese style, with a big public sector and leading role of communist party. However, besides weak protection of right to property, weak corporative management, lack of democracy and rule of law, the table 1 shows that China has achieved an amazing progress in the last three decades. Record in GDP growth rates which approximately were about 10% amazed the world. The constant growth of the export that overcame import provided an increase of foreign exchange reserves to China, which in 2010 reached the level of almost US$2914 billion. The openness of Chinese economy provided inflow of several hundred billion dollars of foreign direct investments after the foreign investors rushed into China, and that amount has been constantly increasing.

Table1 Macroeconomic indicators of development of China after 1978 reforms

Indicator	1985	1990	1995	2000	2005	2010
GDP (billions US$)	306.67	356.94	728.01	1,198.47	2,256.90	5,930.53
GDP per capita	292	314	604	949	1,731	4,433
Average growth rate for 5 years	10.78	7.92	12.28	8.62	9.76	11.22
Import (% GDP)	13	13	19	21	32	26
Export (% GDP)	9	16	20	23	37	29
Reserves including gold (in billions US$)	16.88	34.48	80.29	171.76	831.40	2,913.71
FDI (in billions US$)	1,956.00	3,487.00	35,849.20	38,399.30	104,108.69	243,703.43
Gross savings (% GDP)	35	40	42	37	48	52
Unemployment (%)	-	-	4.5	4.5	4.1	4.2
Inflation (%)	9.3	3.1	16.9	0.3	1.8	3.3

Source: Author's analysis of data downloaded from The World Bank 2016

A continuing growth of China after thorough reforms had its negative sides as well. The country was affected by great oscillations of consumer prices. In order to prevent further inflation growth, the government decided to take appropriate measures to decrease inflation, which led to reduction of inflation and oscillations after 1995.

Despite remarkable GDP growth rates and the third GDP in the world (after the USA and the EU), China still belongs to a group of countries with low standard of living. The table 2 shows that China is far below the level of GDP per capita in developed countries, for the analyzed period. The growth of GDP per capita achieved on a yearly basis is not enough for China to avoid the middle income trap and to enroll to the list of developed countries.

Table 2 GDP per capita in developed countries and China in the period of 1985-2010

	1985	1990	1995	2000	2005	2010
Austria	9 085	21 479	30 064	23 995	37 048	45 190
Canada	13 764	21 037	20 152	23 638	35 119	46 361
China	292	314	604	949	1,731	4,433
Denmark	11 969	26 423	34 774	29 981	47 546	56 213
Finland	11 215	27 854	25 608	23 542	37 331	44 142
France	9 613	21 414	26 487	21 859	34 051	39 700
Germany	-	21 675	30 791	22 907	33 514	40 169
Japan	11 539	25 388	42 847	37 633	36 172	43 374
Korea	2 432	6 291	11 892	11 598	17 959	21 063
Luxembourg	12 376	33 236	50 738	46 544	82 370	105 095
Netherlands	9 219	19 801	27 166	24 275	39 157	46 936
Switzerland	15 801	36 620	46 301	35 902	52 138	72 184
USA	17 198	22 520	27 411	34 802	42 068	46 201

Source: Author's analysis of data downloaded from UNCTAD 2016

Although the standard of living is still low comparing to the leading world economies, the percentage of population that is below poverty line decreases every year. In 1980, 84% of population was below the poverty line, while today there is 13% of total population, with the income per capita which is almost 30 times bigger now. More and more young people have access to high school education. In 1970 only 28% of privileged young people attended high school, while now 82% of youth are enabled to get the education in these institutions. China sends its youth to get education on prestige universities around the world in order to obtain the best education and to use acquired knowledge for further development of their home country.

Another important result of the reforms was the development of private sector. Prior to 1978, private enterprises were illegal. After the implementation of economic reforms, "family enterprises" began to exist. Up to 2002, the share of GDP strictly produced by private enterprises exceeded the half. Up to 2004, there were more than 3 million private companies. Today, there are over 40 million entrepreneurs who employ 200 million of people and generate two thirds of industrial products.

2.3. Does the trend of rapid growth continue?

Today, China is the second biggest economy in the world, after the USA, and the trend of rapid growth of this country continues to exist. Although in the last three years there has been a slight decrease in GDP growth rate, it is still on a remarkable level of 6.8% (2015). GDP per capita in 2015 reached the level of US$ 14 300. The level of unemployment is 4.2% and the inflation of 1.5% in 2015 is quite stable (measured by the change of consumer price level).

The base of Chinese development is definitely the exchange with the rest of the world. China reached the highest level of foreign exchange reserves (including gold) in the world (US$ 3.22 trillion in 2015) thanks to a continuous achievement of balance of payments surplus in the constant inflow of foreign direct investments.

Table 3 Macroeconomic indicators 2011-2013

Indicator	2013	2014	2015
GDP(in trillionsUS$, PPP)	17.02	18.27	19.51
GDP percapita	12400	13400	14 300
Average growth rate	7.7	7.3	6.8

Source: Author's analysis of data downloaded from The World Factbook 2016

China is the first country in the world in amount of export (US$ 2.27 trillion in 2013) and the second in import (US$ 1.6 trillion). Table 4 shows that China is a country with the highest export level in the world nowadays; the biggest export is made to the USA (17%), the EU (15.9%) and Hong Kong (15.5%). The less known fact is that China is the second country in import of goods, where in 2014 the most of goods were imported from the EU (12.4%) and Korea (9.7%). The trade balance surplus in China in 2015 was almost 347.8 billion dollars, and Germany followed with 286.3 billion dollars of surplus. The largest surplus was achieved only by the EU (US$ 351.9 billion), while the deficit of the USA was 460.6 billion dollars (data downloaded from The World Factbook).

Table 4 Indicators of Chinese foreign exchange in 2014

MERCHANDIZE TRADE	*Value* 2014	*Average annual change (%)* 2010-2014	2013	2014
Commodity export, (millionUS$)	2 342306	10	8	6
Commodity import, (million US$)	1 959356	9	7	0

	2014		2014
Total world export share	12.33	**Total world import share**	10.26
Classification in total export		**Classification in total import**	
By main groups of goods		By main groups of goods	
Agricultural properties	3.2	Agricultural properties	8.7
Fuel and ore	2.7	Fuel and ore	26.9
Industrial products	94.0	Industrial products	60.1
By main destination		By country of origin	
1. USA	17.0	1. European Union (28)	12.4
2. European Union (28)	15.9	2. Korea	9.7
3. Hong Kong, China	15.5	3. Japan	8.3
4. Japan	6.4	4. USA	8.2
5. Korea	4.3	5. Taipei	7.8

Source: World Trade Organization 2016

China has the biggest share in the USA (19.9%) and the European Union (16.6) imports, while its major import is from the EU (12.4% and Korea (9.7%). Finished products manufactured in factories that import raw materials for production make the most of the export. High technology products get increasing significance in Chinese export. At present, China is the most important country in export of highly developed technology. The export of these products (558 billion dollars in 2014) is almost three times bigger than the Germany export and approximately 3.5 times bigger than the USA export.

Table 5. The export of highly developed technology of the developed countries and China.

The export of highly developed technology(US$)	2011	2012	2013	2014
USA	145 638 600 147	148 330 989 468	148 530 552 453	155 640 595 588
Germany	183 371 439 118	187 015 792 743	193 799 440 986	199 718 151 684
China	457 106 558 431	505 645 680 350	560 058 333 865	558 605 991 980

Source: Author's analysis of data downloaded from The World Bank 2016

In 2013, the public debt was 31.7% of GDP, were the most of it was used for the improvement of infrastructure (Xiao 2014). Although some people think that there is a possible threat of debt crisis, the share of public debt of Chine in GDP is much smaller from those in Japan (226.1%), the USA (71.8%) and many other European countries. By following this growth trend, the debt will not reach the internationally recognized critical limit of 60% of GDP for a long time. As China Daily (Xinhua 2014) reports, the external debt of China has reached the level of 863 billion dollars by the end of 2013, which is an increase of 17% comparing to year 2012. The debt due for payment is about 527 billion dollars. The most of the external debt (677 billion dollars) is short-term (up to one year), while the rest are middle-term and long-term debts. Denominated debts in dollars are dominant (about 80%), and euro (5.5%) and yen (5%) follow.

The budget deficit in the last year was 2.6% of GDP, while the current account had a surplus of US$ 176.6 billion. In 2013, there was a record inflow of FDI. The most of FDI in China come from Asia, and the biggest investor is Hong Kong (that possibly plays a role of agent for China in different countries). The biggest world companies struggle to use the advantages of Chinese cheap and disciplined labor force, so each year there are more and more foreign investments coming to China. Such kind of inflow of funds through FDI enables China to finance part of the gross capital stock, while the rest is financed from the savings of citizens, which was 47.4% of GDP in 2015. This high amount of savings is a consequence of negative experience Chinese population had faced an extreme poverty after the Great Leap Forward and Cultural Revolution.

The point of the socialism in the Chinese style is that "national champions" remain in state ownership. The state owns and controls in average 50% of GDP through state enterprises whose value encompasses over 90% of market value of all Chinese companies. Although the corporatization of state enterprises was implemented, the practice of soft budgeting of state enterprises still continued.

The reforms still have not influenced the financial sector, since the main Chinese banks are under central government directive, while the foreign financial institutions still have difficult access to a vast Chinese market (despite the requests from WTO). Chinese banks can finance only 4% of private companies, while the rest is reserved for the inefficient state-owned enterprises. The majority of loans to private companies are carried out in informal money markets[2], under unfavorable conditions, which forces private companies to either make high profit rates or to finance the expansion of business from savings.

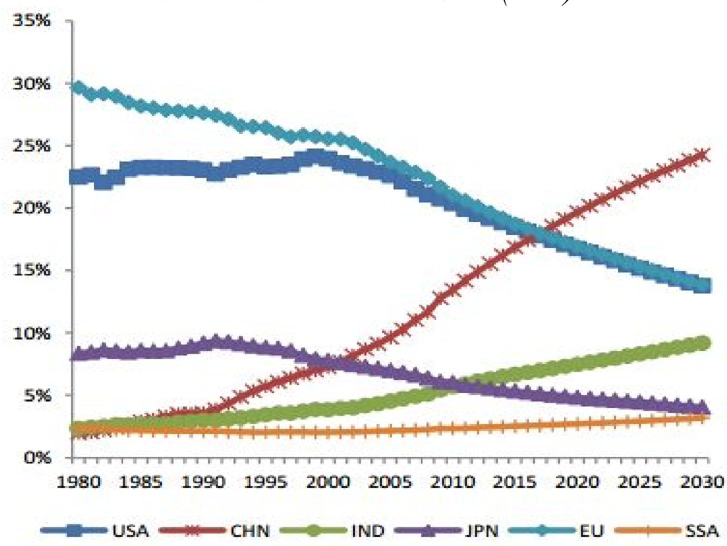
However, China continued to implement the reforms and structural changes, which was confirmed by the 13th Five-Year Plan adopted by National People's Congress on a session kept in March 2016. The main priorities in this Plan are sustainable growth, industrial development and improvement of domestic consumption, which can be concluded from the China's basic development goals for the period of 2016-2020.

Dynamic and fast (the fastest in the world) economic development of China in the recent years is an evidence of the advantage of planned market development versus random stampede toward market (Vukmirica 2012). A successful coordination and mutual existence of the market economy and centrally planned economy enabled China to become the second largest economy in the world.

Although the plan to slow the growth down to some extent compared to the previous years (7% annually), the Chart 1 shows that, this year, the growth will be sufficient for China to take over a leading position in share of world GDP. Until 2030, this percent will be around 25%, which will be far more than in the EU and the USA (15%).

[2] It is estimated that these loans are about 10% of GDP annually

Chart 1 Share in world GDP (PPP)



Source: Gros and Alcidi 2013.

According to the EU researches, the growth rate of the world GDP will remain approximately the same (3.8%), and up to 2030 it will barely double, while the growth rate in China will decrease to 6.7%, but its GDP will almost triple. According to the economists from the World Bank, there are two reasons for decrease of GDP growth rate. The first one is a consequence of a policy of one child in China, which leads to constant aging of population and limiting labor force growth rate. It will lead to decrease of saving (which will remain on a high level), and the investments will decrease as well. The other reason is a direct consequence of rapid growth which will lead to weakening of its main competitive advantage (cheap labor force). Productivity growth will provide salary increase, which definitely will cause the growth of consumption and import. The increase of income will lead to increased use of services and a relative growth of service prices comparing to the producer goods. Since the productivity in the services sector is smaller than in production, it will lead to growth rate decrease.

It is predicted that per capita income (PPP) of USD 7 000 in 2010 will increase to USD 24 000 in 2030, while the American income will increase from USD 43 000 to 53 000.

The export growth will slow down due to increase of China's share in the world market, and import growth will occur as a consequence of bigger domestic demand. Although it will lead to decrease of foreign trade surplus, China will still remain the leader in the world market.

A global growth indicator of an economic system is not only the ability of a country to attract foreign investments, but the ability of domestic companies to invest and do business abroad as well. According to the researches of UNCTAD (Global Investment Trends 2012), China is already the most promising country which the transnational companies want to invest in, but a country whose investments to the rest of the world are most desirable as well.

Still, the size of an economy is not the only criterion of its functioning and its power. A great part of Chinese population is very poor, and standard of living is far below the American one. Inequalities regarding wealth of individuals, and rural and urban areas development as well are in constant growth. Investments into social system, education and environment are still very low. China, by its long-term strategies, tends to mitigate the consequences of rapid growth, but the political system where everything is subordinated to the Communist party where there is a high level of corruption and insufficient observation of human rights disables fast improvements.

2.4. The influence of rapid growth of China to exchange relations with the EU

Before the economic reforms were implemented in 1978, China had not even existed on the map of the trade exchange of European Economic Community. The first diplomatic relations were established in 1975, and the first agreement between the governments of the Economic Community and China was signed in 1978 and it was named the "Trade Agreement 1978". The official establishment of bilateral trade relations started in 1985 with signing the Agreement on Trade and

Economic Cooperation between EEC and People's Republic of China. The Agreement covered areas such as trade, investments, development and economic cooperation aid, and it replaced the Trade Agreement 1978. Trade relations improved after China joined the WTO in 2001, and they moved upward after signing a strategic partnership between the EU and China in 2003. Today, the EU and China represent two out of three world's largest economies and they are regarded the world's largest trade and investment partners.

When China established diplomatic relations with the European Union in 1975, the total bilateral exchange was barely US$ 2.5 billion (Shixue 2011), and in the year when the Trade Agreement was signed it was US$ 6.4 billion. However, today the daily value of exchange of goods between the EU and China is US$ 1.5 billion. The European Union is the largest trade partner of China, while China is the second trade partner of the EU (immediately after the USA) (Leal-Areas 2010).

The export of the EU to China represents 8.5% of the total export of the EU, while the EU mostly imports Chinese products (16.6%). In 2014, 15.4% of the total Chinese export goes to the EU, while the most of import to China is from the EU (11.3%).

Table 6 The most important trade partners of the EU in 2014

Export (by main destinations)		Import (by the country of origin)	
1. USA	16.4	1. China	16.6
2. Switzerland	9.7	2. Russia	12.2
3. China	8.5	3. USA	11.6
4. Russia	6.8	4. Switzerland	5.6
5. Turkey	4.4	5. Norway	5.3

Source: World Trade Organization 2014

After China joined the WTO, trade relations improved, which can be seen in Table 7. European export has continuously grown in the past ten years, while the import from China declined for over 13% in the time of the Global economic crisis. However, the next year the import increased again. During 2012 and 2013, the import decreased again, but in the following years it has grown constantly. In 2015, the export of the EU to China increased for 3.5% and reached the level of € 170.4 billion. China is the largest supplier of the EU with € 350.4 billion worth import in 2015 (16% or almost € 48 billion higher than in 2014). Merchandize trade in 2015 was € 520.8 billion (European Commission 2014).

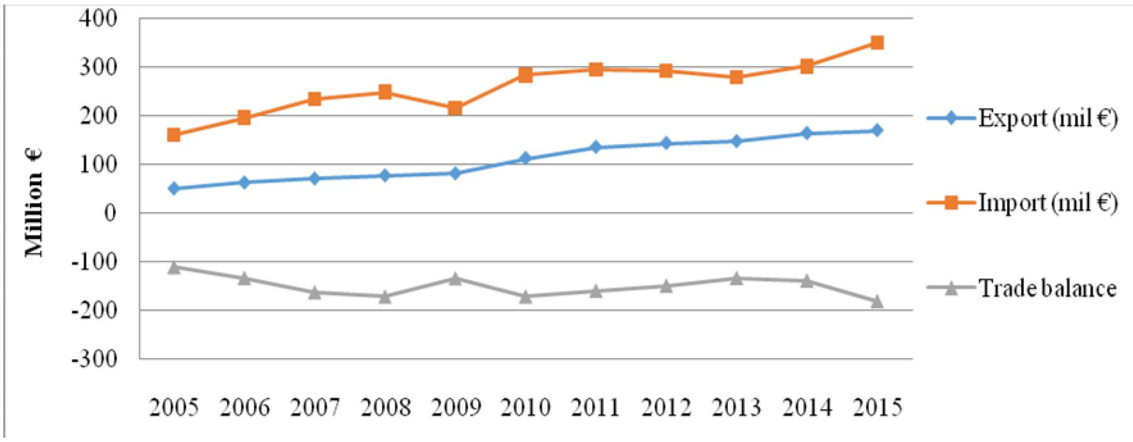
Table 7 Import, export, growth and foreign trade balance of the EU and China.

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Export (mil €)	51.7	63.7	71.8	78.3	82.4	113.5	136.4	144.2	148.2	164.6	170.4
Export growth %	-	23.1	12.8	9	5.3	37.7	20.2	5.7	2.7	11.1	3.5
Import (mil €)	161	195.8	233.9	249.1	215.3	283.9	295	292.1	280.1	302.1	350.4
Import growth%	-	21.6	19.4	6.5	-13.6	31.9	3.9	-1	-4.1	7.9	16
Trade balance	-109.3	-132.1	-162	-170.8	-132.9	-170.5	-158.6	-147.9	-131.9	-137.5	-180.1

Source: Author's analysis of data downloaded from EUROSTAT 2016

A characteristic of trade relations between the EU and China is a continuing deficit in foreign trade balance of the EU with China. The deficit grew until the Global economic crisis in 2009, when it decreased. In 2010, the deficit grew again and it reached the amount of € 170.5 billion, and its record value was reached in 2015, when the amount was € 180.1 billion.

Chart 2 Foreign trade exchange between the EU and China



Source: Author's analysis of data downloaded from EUROSTAT 2016

Chinese import from the European Union, since the joining the WTO, has provided over million working positions for the workers from the exporting countries, while the Chinese export has enabled European families to save more than € 300 per year. 2/3 of the bilateral exchange comes from the mutual investments, which means that the European Union makes profit from the Chinese surplusas well. The EU and China mostly exchange industrial products, where the percentage of import (96.6%) is bigger than the percentage of export (79.9%).

Table 8 The structure of import/export of the EU to China

Import 2013			Export 2013		
Product	Value (million €)	Share (%)	**Product**	Value (million €)	Share (%)
Primary products	10 646	3.0	**Primary products**	22 275	13.1
Industrial products	338 423	96.6	**Industrial products**	136 190	79.9
Other products	635	0.2	**Other products**	10 326	6.1
Other	732	0.2	**Other**	1 585	0.9
Total	350 436	100	**Total**	170 376	100

Source: Author's analysis of data downloaded European Commision 2016

Totally 20% of FDI of the European Union has been invested in China, by which the European Union becomes the investor with a largest share in FDI in China. Unlike China, only 2.6% of total FDI in the EU is from China. European companies invested € 15.5 billion in China in 2012, and Chinese people invested € 7.6 billion in the EU, which is 0.7% of the total FDI in the EU (European Commission, 2014).

Although they are among the largest trade and investment partners in the world, there are several differences and difficulties in the field of trade between the EU and China:

- The protection of intellectual property rights,
- Forgery and piracy of products,
- Concern about the product safety,
- Bilateral trade deficit growth,
- Undervaluation of Chinese currency,
- Delays in WTO rules implementation and harmonization,
- Chinese competitive advantage due to poor social and environmental standards,
- Favored national industries subsidizing (Leal-AreasR., 2010).

The problem with the textile and clothing trade is a particularly known as the restrictions to the technology import as well. After China joined the WTO, the EU filed two antidumping lawsuits against China, and till 2010, there were 11 lawsuits (Shixue J 2011). Up to March of the last year there were 52 antidumping measures and 3 measures against Chinese export subsidizing, which affected less than 2% of the Chinese export. One of the main obstacles to antidumping is a so called status of the trade economy which is used as a benchmark for the EU trade regulations. When China joined the WTO, it was agreed that it should be treated as a non-market economy till 2016. When China in 2016 changes its status into market economy, there should be less antidumping lawsuits against Chinese products.

3. CONCLUSION

In everyday practice, there are neither "clean systems" and "models", nor "homogenous systems". There are significant differences within economic systems of developed market or economic systems of non-market centrally planned economies. To create a system that offers a possible combination of "equity" of socialism and efficiency related to market allocation, the theoreticians made a hybrid of socialist and capitalist system called market socialism.

After the dissolution of planned socialist economies in the late 80s and 90s of the last century, trade socialism became the main alternative in capitalism. For countries that want socialism and are aware of shortages of a centralized planning, the solution is in combining socialist property with settings of trade economy.

A unique example of a country in the world whose economic and social development is based on trade socialism foundation is People's Republic of China. A transformation from an extremely underdeveloped agricultural producing country to the second economy in the world, with the tendencies to take over a leading position, China owes to the economic reforms implemented by Deng Xiaoping in 1978. Gradual and experimental introduction of the reforms has provided a memorable progress of the country in the last three decades. China achieved amazing growth rates which on the average were 10%. Openness of the economy attracted billions of investments and enabled introduction of the most modern modes of production into Chinese factories. China becomes competitive in the world market and a leading world exporting country, particularly of the high technology products. Foreign companies are interested in not only cheap working force, but a vast Chinese market as well. At the same time, China becomes one of the leading importing countries, where the most imported goods are raw materials and supplies. Private sector has been developing, although state enterprises still remain dominant.

A rapid growth of China led to strengthening of bilateral trade relations with the European Union and after joining the WTO, China becomes one of its most important foreign trade partners. The total bilateral exchange after the openness of Chinese economy was barely US$ 2.5 billion. Today, the goods worth US$ 1.5 billion is being exchanged between China and the EU on a daily basis. A characteristic of this trade relation is the existence of continuing surplus in the Chinese trade balance with the EU, that is, the deficit in the EU balance, and the existence of many problems and differences in trade as well. After China joined the WTO, the efforts were put into solving problems of dumping by introduction of antidumping measures and forcing China to speed the process of harmonization of WTO regulations.

Although the rapid economic growth improved the standard of living in China, a great part of population has still been struggling with the extreme poverty. Social and economic differences of the population have been more and more visible, and the existence of a one-party system leads to problems of corruption, workers' insecurity, insufficient social and health protection, and insufficient environment protection as well. Chinese authorities became aware that leaving these problems unsolved could endanger further development, so they decided to change a growth strategy. The last predictions show that China still goes to the right direction, and even this year it could take over the leading position in the world economy.

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