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CHINESE ECONOMIC "DRAGON" AND ITS IMPLICATIONS TO THE WORLD

Pham Quoc Tru*

Rising competition for the leading position in the world

According to some researchers[1], the Chinese economy was once the biggest in the world in the period approximately from 14th to 19th centuries with its GDP accounting for 25 to 30 per cent of the world's. It was not until 19th century that with the industrial revolution, Western Europe overtook China, and the time for America was not until the 1940s.

The decline of the Manchu dynasty, the foreign invasions and dominations, the Koumintang - Communist civil war and the chaotic period of three decades under Mao Zedong had turned China into a poor and less developed country. In the late 1960s, China was still one of the poorest developing countries in the world with a very modest economy.

In 1978, Deng Xiaoping launched the reform, transforming the centrally planned economy into a market economy. The modernization,

* PhD., Deputy Director General, Institute for Foreign Policy and Strategic Studies, Diplomatic Academy of Vietnam.

[1] See Ligang Song, "Growth and rapid development of China: a view from historical perspective and international context", paper presented at the *Conference on The role of China in the world's economy*, held by The Pacific Trade and Development Conference Series (PAFTAD 34) in coordination with the China Economic Research Center, Beijing University, from December 7th to 9th, 2010.

industrialization, openness and international integration have soon resulted in great changes in China. In the three consecutive decades (1980-2010), China was able to maintain an average economic growth of around 10 per cent, a miracle unprecedented in the world.[2] Amid the global economic - financial crisis in 2008-2009, China still maintained the economic growth of 9.1 per cent in 2009, the highest in the world, while the economies of the US, Japan, the Great Britain, France, German fell respectively -3.9%, -5.2%, -4.9%, -2.5% and -4.7%. Especially, in 2010, although the Chinese government took a number of measures to reduce economic growth, the growth still remained high, reaching 10.3 per cent. The Chinese Trade Ministry has projected that in 2011, the China's economy would grow at about 8.7%.[3]

China has been very successful in its economic reform and rapid development in the direction of industrialization and modernization. The success owe to the following factors: (i) China has pursued a sound development policy; (ii) promoted the advantages, particularly abundant material resources, and human resources with good skills, and an army of qualified intellectuals and scientists; (iii) ensured political stability and peaceful environment to focus on development; (iv) taken the advantages of opportunities and favorable conditions that the process of globalization and international integration has created, especially the openness of developed countries, to promote exports and attract capitals as well as technology from them; (v) mobilized high levels of savings for reinvestment.

[2] Yang Yao, "Double transition and development strategy based on exports", paper presented at the Conference on *The role of China in the world's economy.*

[3] Source: IMF, *World Economic Outlook*, 2010.

Thanks to its sustained economic growth at a high level over the past three decades, by the end of 2010, China has surpassed Japan to become the world's second economy, with the gross domestic product of $5,880 billion, about 40% of US GDP ($14,660 billion). However, if calculated by purchasing power parity (PPP), China's GDP equals about 68.7% of US GDP.[4] Before the reform, China's economy was largely backward, agricultural economy. The process of reform and openness has turned China into an industrialized country. At present, industry and services account for 91% of China's GDP (with industry taking approximately 50% and services more than 41%) and using more than 60% of the labor force.[5] The tremendous growth in manufacture has made China one of the world's largest manufactured goods exporters of the world, with its market share growing from only 5% of the world in the mid 1990s, to 14% in 2008.

Also from 2008 on, China has become the world's largest exporter. In 2010, China's total export value reached $1,577 billion, while the US exports the world second largest - stood at $1,280 billion. With the total value of annual trade surplus of approximately $300 billion, in the recent years, China has become second to none in these terms. [6] Chinese goods, from household appliances, electronic products, garments, office equipment, toys, to machine tools and technology, from cheap to expensive goods have been seen all over the world.

Owing to continuous trade surplus in the recent years, China has become the world leader in foreign exchange reserves with the total reserves valued at about $2,847 billion in late 2010. [7] It has become the

[4] Figures from Wikipedia, link: http://en.wikipedia.org/
[5] "Economy of the People's Republic of China", Wikipedia.
[6] Ibid.
[7] Source: Wikipedia.

America's largest creditor, holding over $1,160 billion of bonds released by the US government (up to December 2010), far exceeding Japan - the second largest creditor with $882 billion, and Britain - the third largest creditor with $272 billion.[8]

Regarding the foreign direct investment (FDI), after joining the WTO, China has become the most attractive destination for the world's FDI. In the decade of 2000-2010, China attracted $60-70 billion annually in the form of FDI. Following the global crisis, the flow of FDI into China has greatly increased to $105.7 billion, in 2010 an increase of 17.4% compared with 2009,[9] and accounting for 1.15 of total FDI in the world, taking the lead among the emerging as well as developing countries. [10]

The quick development of the economy and the high accumulation has allowed China to invest further into the outside world to secure global goods and service markets, and ensure the safe and stable energy supply for the economy. These activities are particularly strong recently. In 2003, China's direct investment into foreign countries (ODI) was only $2.84 billion (0.45% world's total FDI), but this has increased to $56.53 billion (5.1% world's total FDI) in 2009. Thus, in the recent years, the annual growth rate of China's ODI was 55%.[11] In the risky and volatile area of Africa, China has become the largest foreign investor, with the

[8] *Thanh Nien online*, on March 1st, 2011.
[9] Trade statistics in China's Trade Ministry announcement, link: http://cafef.vn/2011011811403294CA32/fdi-vao-trung-quoc-nam-2010-lap-ki-luc-moi.chn
[10] In 2010, the world's total FDI is projected to reach $ 1.536 billion, according to "World's Investment Prospects to 2011", Economic Intelligence Unit, *the Economist*.
[11] Bijun Wang and Yiping Huang, "Chinese overseas Direct Investment: Is there a China Model?", paper presented at *Roundtable on Chinese Overseas Investment*, held by China Center for Economic Research (CCER) of Beijing University, in coordination with Australian National University in Beijing, on December 5th, 2010.

total value of direct investment of more than $9 billion in 2009. Particularly in Libya, China has invested $5.2 billion in many oil, gas and construction projects.[12] In Southeast Asia, China's direct investment has exceeded $10 billion in 2010, and the country has become the largest foreign investor in Cambodia, Laos and Myanmar. In addition to the foreign direct investment, China also increased its indirect investment through the purchase of stocks from foreign companies. From 2007 to the mid 2010, China's total investment in the form of buying stocks and holding shares in foreign companies over the world reached $83.86 billion, mainly in European countries ($28.4 billion), Asia ($24.43 billion), North America ($13.79 billion), and Australia ($ 4.6 billion).[13] Particularly in the US, China's investment in both forms from 2007 to 2009 was $ 25.83 billion.[14] Recently, China has increased its aid to developing countries, especially those in Asia and Africa. So, China is now a significant provider of aid in the world. According to the Financial Times, by the late 2010, the China Development bank had granted aid for 90 nations with the total value up to $141 billion, surpassing the level that World Bank provided in the period from 2008-2010 by approximately $10 billion.[15]

With the spectacular growth over the past three decades, China's economy is projected to maintain high growth rates in the current decade and its GDP will probably catch up with the US in the next 15-20 years. However, in terms of purchasing power parity, China's GDP will likely overtake the US in about a decade to become the largest economy in the world.[16]

[12] *Dan Tri online*, on March 1st, 2011, at http://dantri.com.vn.

[13] Charles Wolf, "Reversing the flow: China's Recent and Future Cross-Border Investments and Acquisitions", paper presented at the Pacific Trade and Development Conference Series (PAFTAD 34), Beijing December 7th to 12th, 2010.

[14] ibid.

[15] "China has become the new World Bank", at http://vitinfo.vn/Mmuctin/ Quocte/ Kinhtetoancau/LA85547.

Implications to the world

On December 2010, at a conference in Beijing, Professor Ligang Song from the School of Economics and Administration, the Australian National University noted that the international integration process of China, whose economy enjoys strong growth and with the population of nearly one quarter of the world's has created enormous potential market for other countries and driving international economic integration to an unprecedented level in history. It has contributed to increasing the scope and the depth of the international division of labor, created better opportunities for the development of production and consumption, thus raising prosperity and welfare of related countries. However, the strong development and international integration of China's economy has brought about the re-positioning and re-distribution of economic activities worldwide, increasing possible clashes between China and other countries, creating many problems with the outside world. [17] Following are the most notable implications:

First, the rise of China's economy has created an important driving force for the world economy.

With an average growth rate of 10% over the past three decades, especially the growth rates of 9.1% (2009) and 10.3% (2010), and the economy being ranked third and then second among the world's, and in the context of severe global downturn caused by the global financial

[16] Ligang Song, "Growth and rapid development of China: a view from historical perspective and international context", ibid.

[17] Ibid.

crisis, China is now acting as an important driving force for global economic development.

This dynamic role stems not only from the rapid development of China's economy itself, but also from the positive impacts of China's market opening, of its deeper economic integration with the world and the region through joining the WTO and the conclusion of bilateral and regional three trade agreements, as well as its strong investment in the world and its support to other developing countries.

Many countries in the region and over the world are now benefiting from China's economic development by taking advantage of its huge market to become the top trade and investment partner of most East Asian and Southeast Asian countries. Regarding Japan, in 2010, China was its largest trade partner with the share of 20.7% of its total international trade, in which imports and exports accounted for 19.4% and 22.1% respectively. [18] Concerning Korea, China has become a leading trade partner with the total two-way trade of $141 billion in 2009, and is projected to reach $300 billion in 2015. Export from Korea to China account for 25% its total export. [19] Regarding ASEAN, China is now the group's largest trade partner, accounting for 12% of the total trade of its member countries. Since the Free Trade Agreement ASEAN - China came into effect, trade between the two sides has increased rapidly, by over 50% within 8 months, in which export from ASEAN to China went up by 47.2%.[20]

Second, thanks to its economic achievements and increasing standing in the world economy, China- along with other emerging

[18] *JNCnetwork*, on March 3rd, 2011, at www.japancorp.net.
[19] *The New York Times*, on August 5th, 2010.
[20] China Briefing, link: www.china-briefing.com/ on March 3rd, 2011.

economies, are playing an increasingly important role in global and regional governance, substantially contributing to shifting the world economic order as well as the contemporary playing rules.

Since joining the WTO, China's role has become more and more important in this forum, especially in the negotiations within the framework of the Doha Round. China and some other member countries of BRICs are now the major actors in some areas, particularly in the negotiations on agriculture, manufacturer and subsidies.

At the G-20 forum, China was the key figure of the group of emerging economies and developing countries, making constructive contribution to existing order and rules of the G-20 as well as related global governance institutions. The achieved reforms of the IMF, especially the increase by 6% of the votes for the developing nations in this organization, and the adoption of the measures to provide development assistance to developing countries at the Summit of the G-20 in Seoul on November 2010 could not have been reached without the strong support of China and of other developing countries.

Regarding the negotiations on climate change, as one the two world's biggest CO2 emitters, China and the United States played the decisive role in the outcome of the conference.

Third, being the world's top trading country which can produce highly-competitive goods (due to low price) and captures the increasingly larger world market share, China has fuelled international competition, creating more problems to many countries, resulting in increasingly shaper disputes, even "trade wars" between China and other countries. Over the last decade has seen thousands of suits concerning dumping, subsidy and protection. Regarding China alone, since joining the WTO, it has been subjected to hundreds of commercial disputes legal cases.

Fourth, the strong growth of China's economy has given rise to the price increase of many goods in the world, especially fuels and basic materials. To maintain the high growth, China needs a lot of energy and raw materials. In 2009, China consumpted 10.4% of total oil, 48.4% of total steel, 26.5 % of total rubber, and 33% of total aluminum of the world.[21] Since the supply of those commodities is limited, large consumption of China and the growing demand in other economies in the world [22] have increased their prices rapidly in recent years. Regarding the petrol alone, the average price in the period from 2004 to date has more than doubled the average price in the period from 1983 to 2003. [23] It is projected that, with the increasing demand for energy in the world and the uncertainty of current supply, the price of fuel, especially oil, would rise sharply in the coming years. This will create more problems to many economies, especially to the oil- importing countries, and threatens the overall recovery of the world economy after the crisis. Analysts have estimated that if oil prices continue to be pushed up and maintained at the level of $130-140 per barrel for a year, world's economy would fall by about 2% of its development.[24]

In addition, the high prices and scarcity of natural resources and energy have also given rise to the race among countries to gain control and exploit these resources to serve the consumption and development needs. The recent years have witnessed many disputes and clashes over the control of oil, gas and resources in Europe, the Middle East, Africa,

[21] Ligang Song, "Growth and rapid development of China: a view from historical perspective and international context", ibid.
[22] China has to import about a half of the internal consumption of oil annually, and is expected to be the world's biggest oil importer.
[23] Ligang Song, ibid.
[24] Nguyen Tuyen, "Seven oil-price crisis in history", *Vnexpress*, on March 4th, 2011.

and also in East Asia. China has taken various steps to seek and control energy supplies, especially oil for its economy. It has invested tens of billions of dollars for this purpose in many parts of the world, especially the potential countries in Africa, Latin America and the Middle East. It has fiercely disputed the Eastern Sea with other countries in the region partly because of the potential for oil here. Such actions have increased the tension and disputes between China and other countries concerned.

Fifth, the unevenness of global economy has worsened the friction between China and other countries concerned. The rise of China as a huge economy has been changing the structure of the world trade as well as its development trends. Trade correlation of China and other emerging economies with other countries, especially the developed ones has changed. Most of these countries are in deficit. Since the early 1990s, China has scored trade surplus with growing extent. Especially since 1997, China's average annual trade surplus has been about $300 billion. The US has experienced the largest trade deficit. Since 1980, the US has continually suffered from trade deficit which reached its peak in 2006 with $817 billion. In 2008, due to the crisis, the trade deficit decreased to $400 billion, but increased again in 2009, and exceeded $500 billion in 2010. American trade deficit with China is the largest, with average level of hundreds of billions of US dollars per year, and grows continually.

Data on the US deficit in trade with China in 2001-2010

(Unit: billion USD)

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
83	103	124	162.2	202.2	234.1	258.5	268	226.83	273

Source: US Census Bureau, Foreign Trade Statistics, www.census.gov/foreign-trade/balance/

America's large trade deficits as well as those of some countries, and the increasing trade surplus of China and those of emerging countries have been partly responsible for the tense debates in a number of international forums, among the US, China and related countries, making observers worried about the possibility of a new "trade war". Indeed, in recent years, because of the increasing pressures of international commercial competition and disadvantages in trade balance, particularly in the context of global economic-financial crisis, many developed countries, including the US have increasingly resorted to protective measures, further worsening trade relations between them and the related countries, especially those between China and the US, the EU. In America, the trade deficit, particularly the deficit with China, has drawn special attention from politicians and the public. The issue has even been discussed in the Congress, forcing the Obama administration to define it as a priority in both domestic and foreign policy. In both bilateral as well as multilateral relations, the US has put strong pressures to compel China to adopt measures necessary to correct the severe imbalance of the current US-China trade relations. In the framework of the G-20, the US has made a proposal to limit the trade surplus of all countries to under 4% of its GDP. The proposal was rejected by both China and the EU, since China and some big exporters in the EU (particularly German) would be strongly affected by the limitation (both countries have a much higher than 4% trade surplus- GDP ratio).

Besides the imbalance of trade, the imbalance on the domestic currency's exchange is also one major problem affecting trade and financial relations among countries, and provoking hot debates, and even has become a cause of recent tensions among some countries. Since the outbreak of the global economic- financial crisis, many countries maintain the currency value lower than its true value to facilitate their exports. This trend has increased considerably, and become what some analysts called a "race to devaluate the currency". This has caused negative impacts on the macroeconomic stability and balance in many countries, hindered international trade in general, especially damages to the countries which maintain their market currency exchange rate. Many countries have voiced discontent and warned against the risks of this negative trend. China and the US are the two main rivals in this "currency war", and also the main subjects of criticism. Regarding China, the US and many countries hold the view that the policy to devaluate the yuan that Chinese government has long maintained has caused global imbalance, especially the severe deficit of the US and other countries. The US, the EU and many other members of the G-20 have requested the Chinese government to revalue the yuan and restructure its monetary policy comprehensively. However, the Chinese side has maintained that the cause of the global imbalance and the US deficit was structural rather than the yuan exchange rate. China has stated that it does not pursue the policy of maintaining the devaluation of the yuan, and that the currency basically reflects its true value. However, China does not decline to consider adjusting the yuan, stating that necessary adjustments could be carried out gradually following market directions, so as not to damage the macro stability and driving force for the growth of China's economy. Meanwhile, many countries, including the members of the EU and BRIC group have criticized the US monetary policy of low interest rate. They argue that because the US Federal Reserve has maintained the dollars at low interest rate, investors have tended to turn to other currencies with higher interest rates. This has revalued the currencies in those countries, thus hindering their exports. Many countries have been concerned about the decision by the US government to inject $600 billion into its economy in the future, because this move would further revalue the dollar. To defend its policy, the US has argued that the policy crisis of low interest rate which has long followed in the US aims to overcome the crisis and encourage domestic production, not to facilitate export and by no means represent the causes of countries' currency devaluation race. The recent summit of the G-20 in Seoul failed once again to resolve these two thorny issues. This has reinforced many people's concerns about a global trade and currency war. Surely, these continue to be hot issues in the coming G-20 summit to be held in France in 2011.

Sixth, climate change in recent years has become a hot issue due to the growing world's emissions, to which China has made the largest contribution. This second largest economy has consumed a great amount of raw materials and fuels. The research by professor Stephen Howes, of the Australian National University, shows that China emissions of CO2 through the burning of fossil fuels rank first worldwide in 2010, accounting for 25% of world's total emissions in 2009, much higher than the US's second-ranking 17% of world's emissions.[25] The huge emissions continue to rise, exacerbating the greenhouse effect, adversely affecting the status of climate change, causing heavy damages to the economy and threatening the lives of people in many areas on earth. Efforts of international negotiations for years within the framework of the UN conference on climate change to slash CO2 emissions has not progressed as expected, mainly because two biggest CO2 emitters (China and the US) have repeatedly refused to make specific and strong commitments. Negotiations and struggles among countries on this issue will continue with intensity in the future so that specific regulations and measures to minimize emissions of greenhouse gases can be materialized.

[25] Stephen Howes, "Climate change mitigation: a defining challenge for China", speech at the Conference on The role of China in the world's economy, held by the Pacific Trade and Development Conference Series (PAFTAD 34) in coordination with the China Economic Research Center, Beijing University, from December 7th to 9th, 2010.

To conclude, the Chinese model of development seems very successful, quickly transforming an agricultural economy with the population of 1.3 billion into the second largest economy in the next 1-2 decades. However, this development model brings along many implications to the world, especially to the countries concerned, apart from internal problems for China itself. Regarding positive aspects, the rise of China's economic "dragon" has promoted the development of the world economy, created opportunities and favorable conditions for developing countries thanks to the high growth and deep integration of this giant economy. However, the rise of China also creates many risks and challenges threatening the world in general and the countries concerned in particular, notably the increase of competition, clashes and conflicts, the escalation of prices of energy and of other basic goods, the increasing severe global imbalance, higher risks to the environment, and global climate. That is the price that China and the world must pay for the development.

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