

The Rise of China and Its Implications

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Outline of the lecture

- The rise of China: an overview
- Examining the capitalist development of socialist China
 - Reforming the rural and the urban economy
 - Which dominates: SOEs or the private sector
 - Opening to the world: foreign investment and international trade
 - Rising profile in global capitalism
- Responding to the rise of China
 - Japan, Korea, and Southeast Asia
 - Europe, the US, and the world order

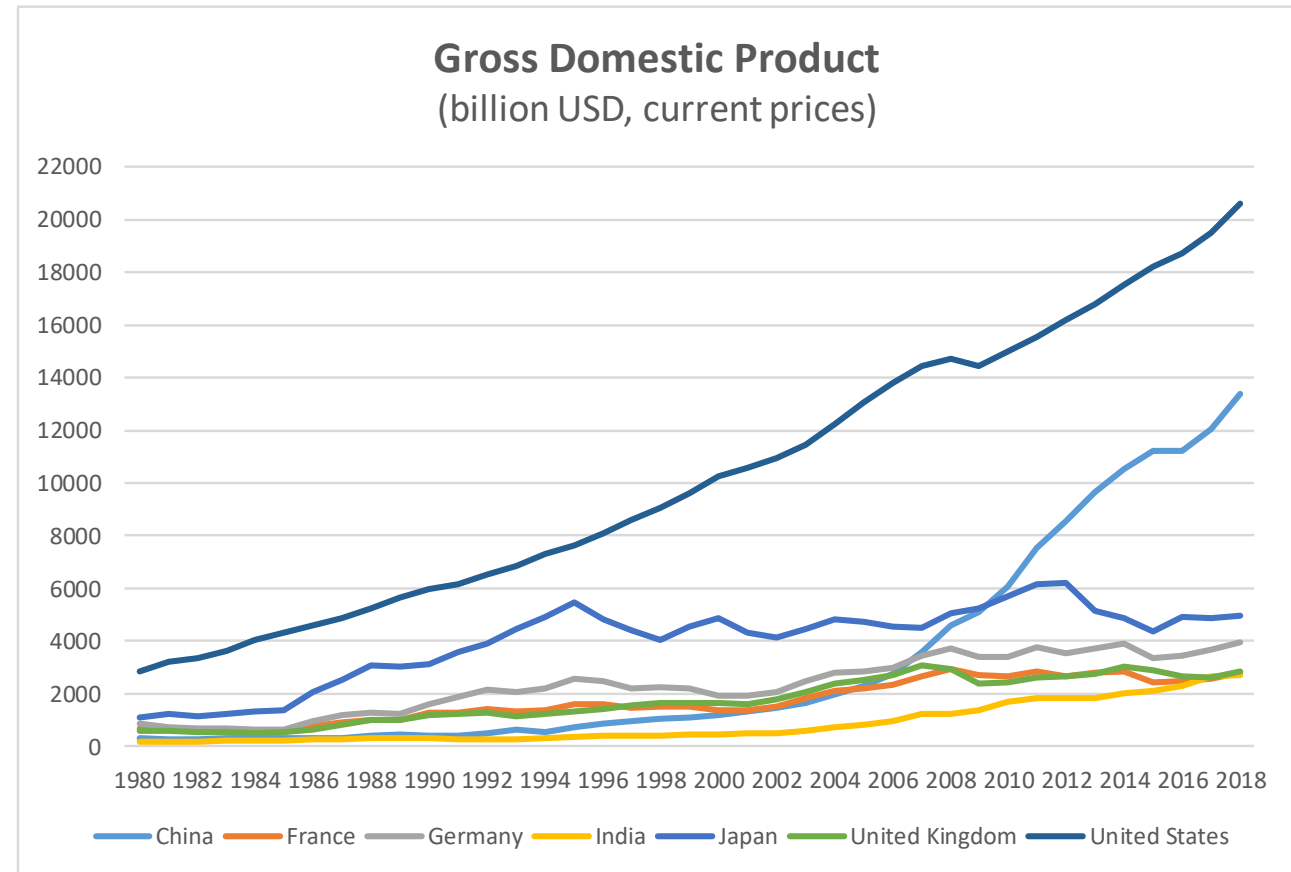
The rise of China: an overview

- The rapid growth of Chinese economy
 - The economy grew nearly 43.78 times between 1980 and 2018
 - Despite its volatility, the average growth rate between 1980 and 2018 is 9.51%
 - GDP per capita rose from 309 USD in 1980 to 9,580 USD in 2018



The rise of China: an overview

- China in global comparisons
 - China's GDP surpassed France in 2005, the UK in 2006, Germany in 2007, and Japan in 2010
 - In 2018, the Chinese economy was roughly 65% of the US economy, and about 2.68 times of the Japanese economy
 - Sustained high growth only occurred three times, all in East Asia: Japan (1955-1973) 8%; South Korea, Taiwan, and Thailand (1982-1996) 7.4%, 7.1% and 6.8%



Examining the capitalist development of socialist China

- Gradual transition from a planned socialist economy to a market-based capitalist economy
 - “Cross the river by feeling the stones” (Deng Xiaoping)
 - Two-track approach (1978~1992): experimental reforms in designated areas
 - Comprehensive reforms (1993~): Tax, finance, SOEs, social welfare, WTO...
- Four essential aspects of China’s capitalist development
 - Reforming the rural and the urban economy
 - Which sector dominate?: SOEs or the private sector
 - Opening to the world: foreign investment and international trade
 - Rising profile in global economy

Reforming the rural and the urban economy

- The rural and urban division in China
 - Divided by the *hukou* system, rural and urban residents have very different (and unequal) access to job, education, healthcare, pension, and housing
 - Migrant labors/workers (about 277.5 million in 2015): a major source of cheap labor; however, they are discriminated (temporary) urban dwellers, many of them face the problem of left-behind families
- Reforming the rural economy
 - The ‘household responsibility system’ greatly contributed to agricultural output in the early 1980s
 - Township and village enterprises (TVEs) was the backbones of rural industrialization; at its peak level in 1996, TVEs employed 135 million workers and accounted for nearly 28% of the GDP

Reforming the rural and the urban economy

- Reviving the industrial production
 - Ownership change and industrial output (Naughton, 2007)

| Ownership | 1978 | 1996 |
|-------------------|--------|---------|
| State-owned | 77 | 33 |
| Collective (TVEs) | 23 (9) | 36 (28) |
| Private/household | 0 | 19 |
| Foreign invested | 0 | 12 |

| Ownership | 1998 | 2004 |
|------------------|------|------|
| SOEs | 49.6 | 38.0 |
| Joint-stock | 6.4 | 42.1 |
| Foreign-invested | 24.7 | 30.8 |
| Collective | 19.6 | 5.3 |

- Promoting modern corporate governance in the state/public sector
 - The private sector emerged through insider privatization and managerial buyouts (MBOs) in the late 1990s
- Restructuring the social welfare system
 - Home ownership; health care, pension, and unemployment insurance

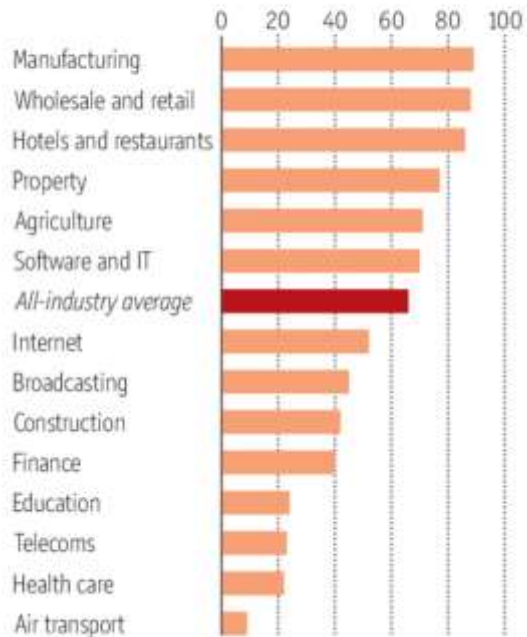
Which dominates: SOEs or the private sector

- The public (state) sector in socialist China
 - Ideological loosening, SOE reforms, and state regulation
- Governance and regulate on in the Chinese economy
 - A three-tiered ownership and regulatory approach (Pearson, 2015)
 - Top-tier (oil, electricity, telecom, military): SASAC and direct state controls
 - Middle-tier (autos, construction, machinery, etc.): mixed ownership, industrial policy, regulatory competition
 - Bottom-tier (consumption, export-oriented, light manufacturing): private sector domination, SMEs, state social regulation
- Contribution to job, growth, and innovation (Song et al., 2011; Economist, 2015)

Which dominates: SOEs or the private sector

Where the private sector scores

Private-sector share of fixed-asset investment by industry, 2013, %



Source: Gavekal Dragonomics

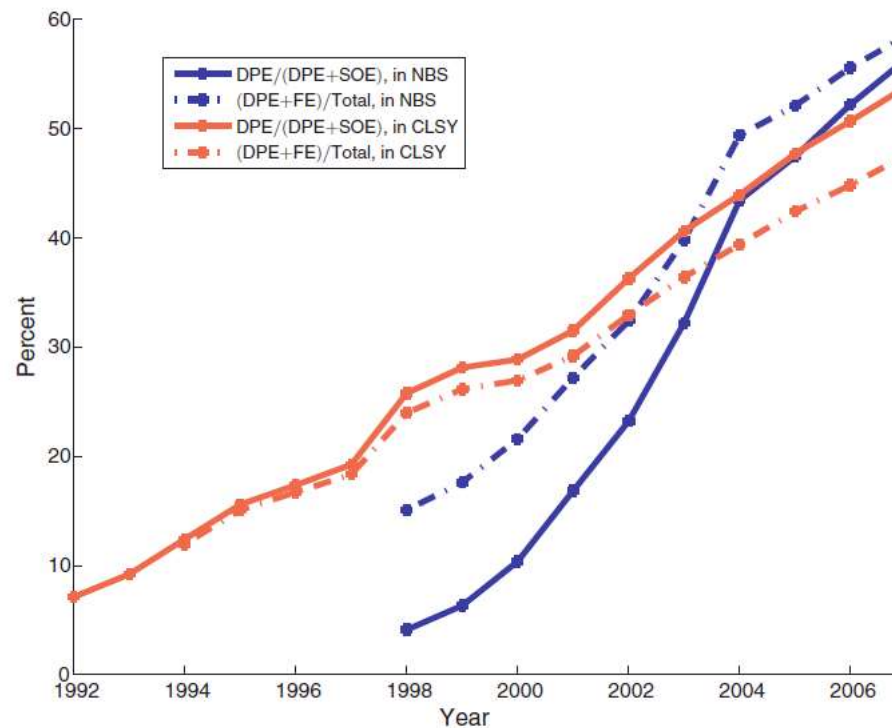


FIGURE 2. PRIVATE EMPLOYMENT SHARE

Spot the difference

Return on assets of Chinese industrial enterprises*, by ownership type, %



Sources: CBIC; Gavekal Dragonomics

*7-month centred moving average

Economist.com

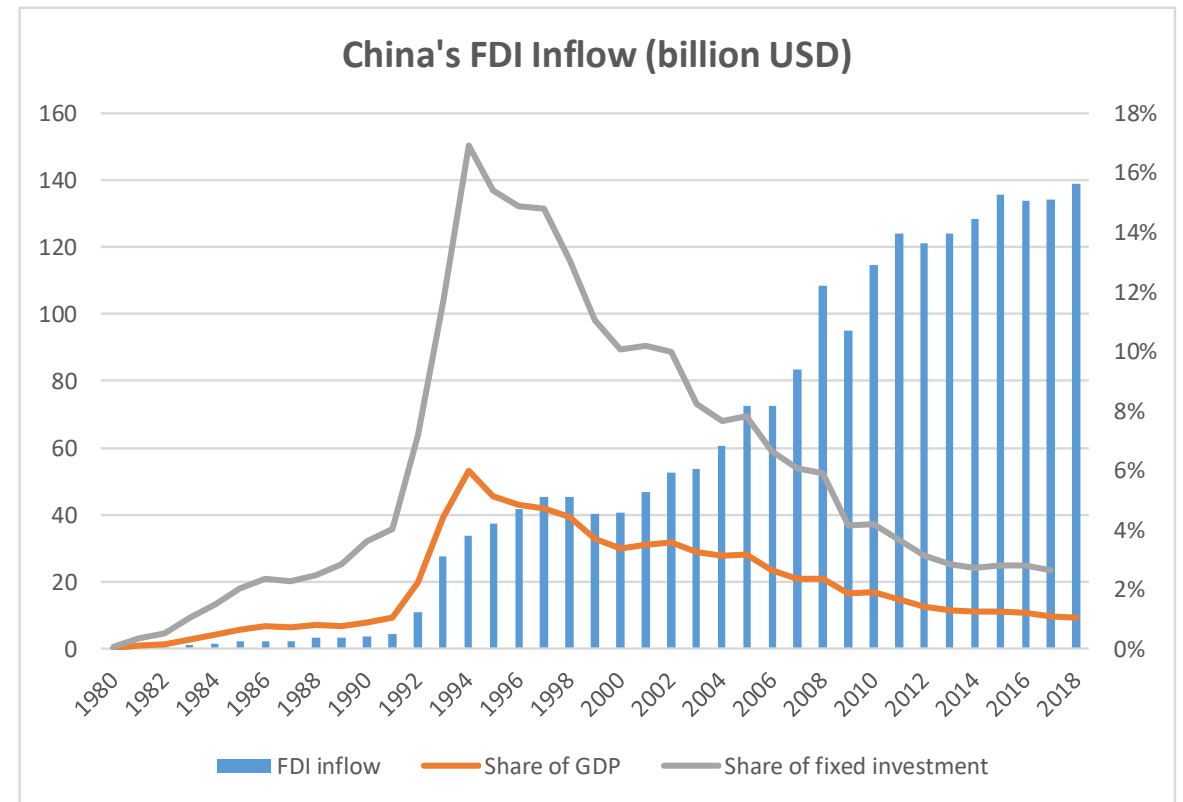
Opening to the world: international trade and foreign investment

- Export-oriented growth strategy
 - Export-processing contacts
 - Special Economic Zones
 - Export-oriented FDIs
- Embracing international trade
 - China joined the WTO in 2001
 - FTAs with 14 economies (incl. with HK and Taiwan)
- A changing paradigm?
 - Rapid trade growth
 - Trade/GDP ratio reached 63.5% in 2006
 - Falling trade reliance reversed in 2017



Opening to the world: international trade and foreign investment

- Opening to foreign investment
 - FDIs poured into China after 1992, and continued to grow afterwards
 - Mainly from East Asia, often concentrated in manufacture, and clustered in coastal China
- FDIs introduced competition, with important management, marketing and technology spill-over effects
- Yet, the declining importance of FDIs in China's GDP and gross fixed capital formation



Growing profile in world economy

- Dominance in global trade
 - China is the largest trading country in the world (surpassing France and the UK in 2003, Japan in 2004, Germany in 2009, the US in 2012)
- Rapidly increasing outward investment
 - Outward FDIs, the China Investment Corporation (CIC)
- China-led multilateral projects
 - The Belt and Road Initiative and the Asian Infrastructure Investment Bank
- Enhanced position in global economic governance
 - A key member state of the IMF, WTO, G20, BRIC
 - RMB became one of the five major currencies included in the SDR in 2016

Growing profile in world economy

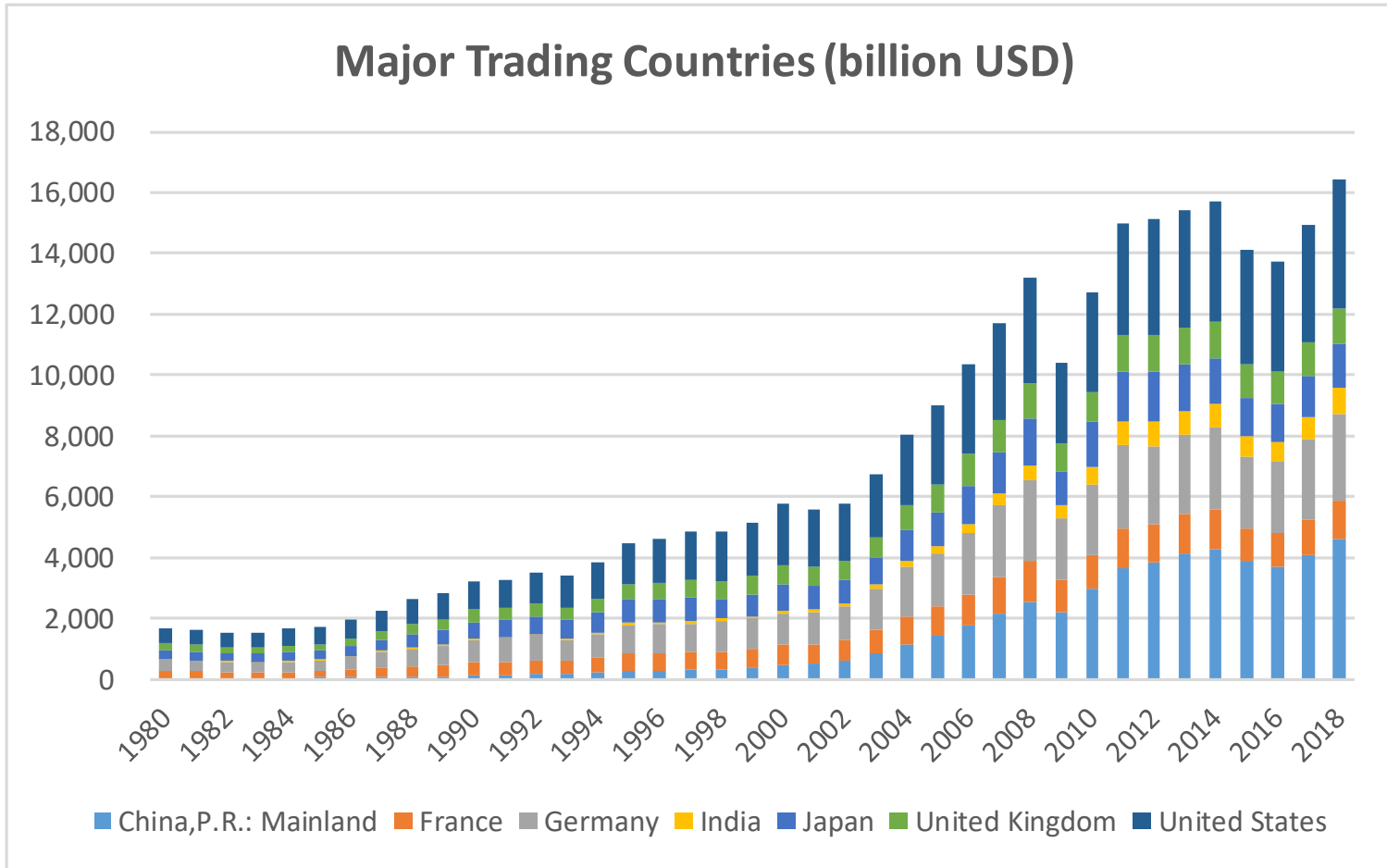
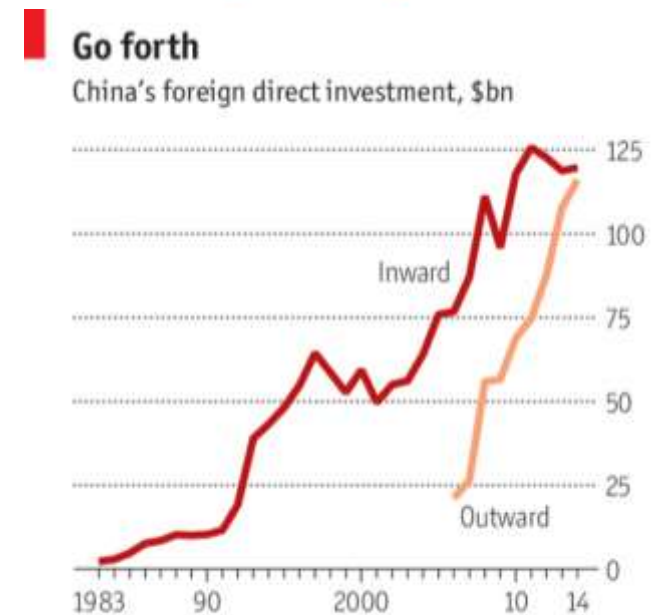
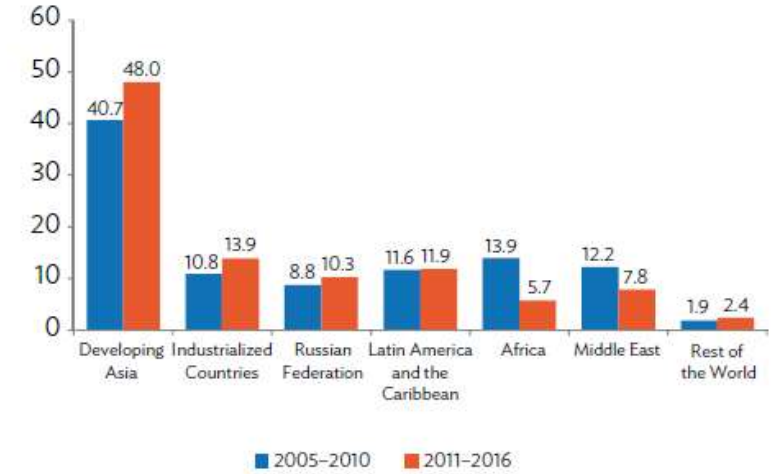


Figure 10: Share of PRC Manufacturing Greenfield Foreign Direct Investment Abroad by Destination (%)

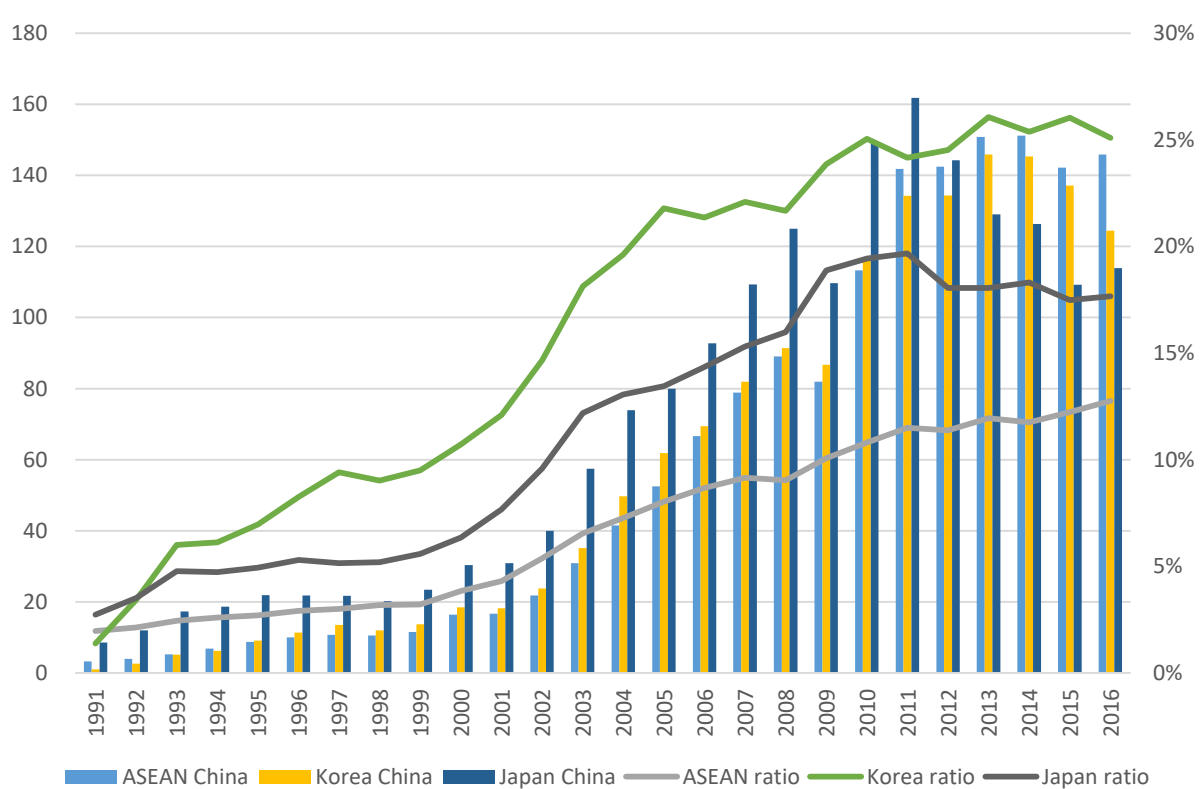


Responding to the rise of China in East Asia

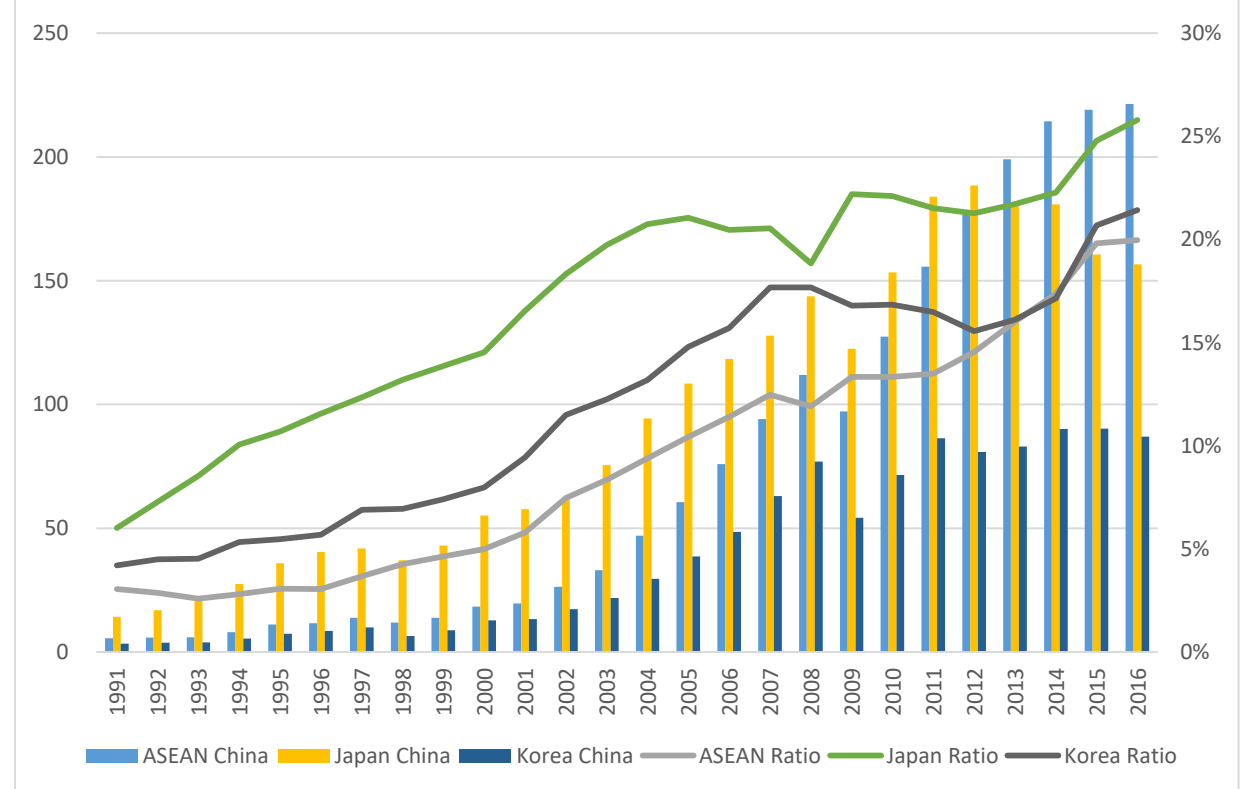
- The multiple impacts of China's rise on East Asia
 - Growing economic reliance on China
 - China-centered regional production networks
 - Ever growing trade reliance on China
 - Gradually worsening trade balance with China
 - China's development aids to developing East Asia
 - About 32.8% of China's foreign aid went to Asia (China's Foreign Aid)
 - China-led multilateral regional projects
 - BRI, the AIIB
 - China's diplomatic assertiveness
 - Great power mentality
 - Territorial claims and disputes
 - China's increasing military capability and projection

East Asian countries trade dependence on China

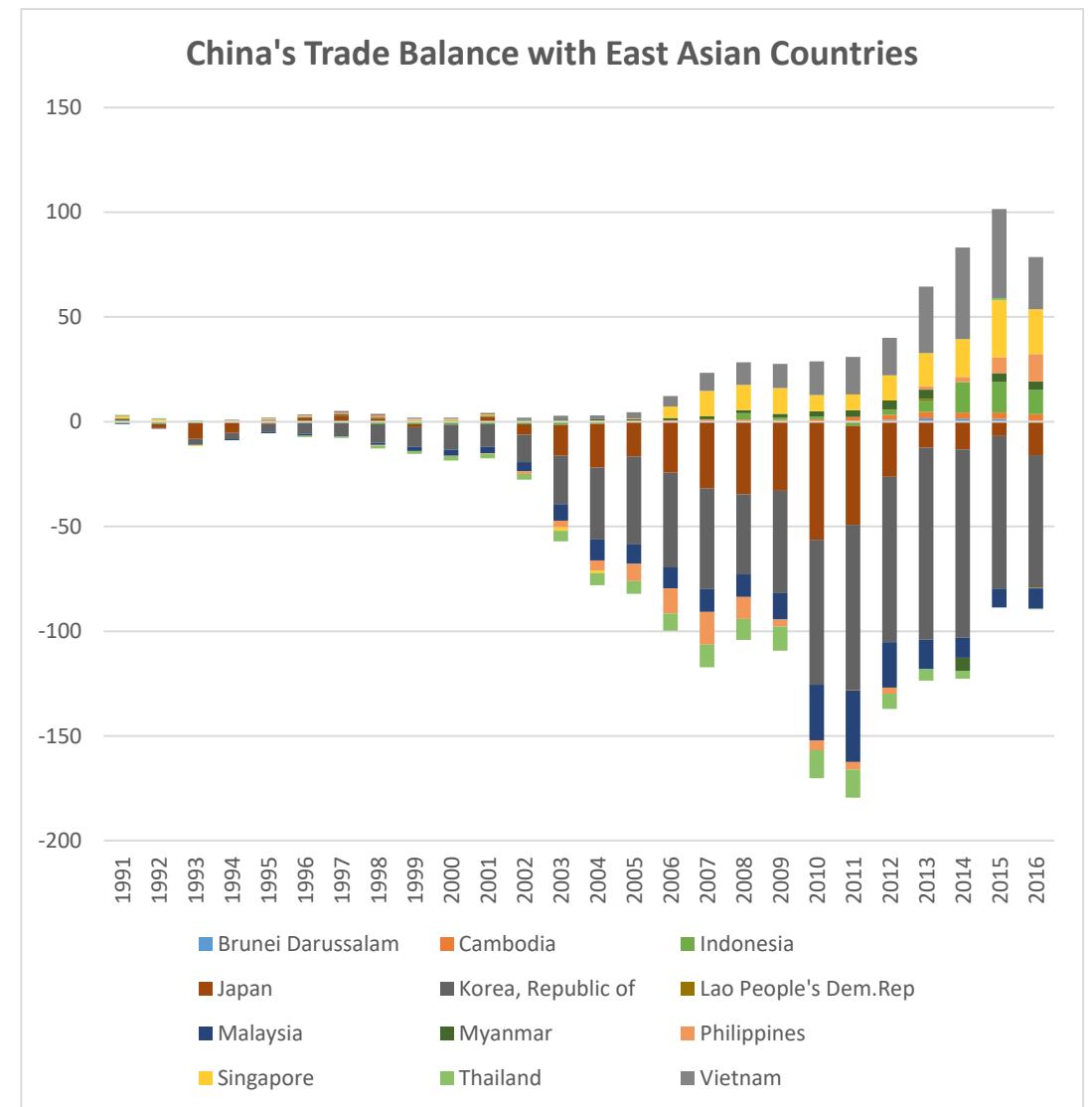
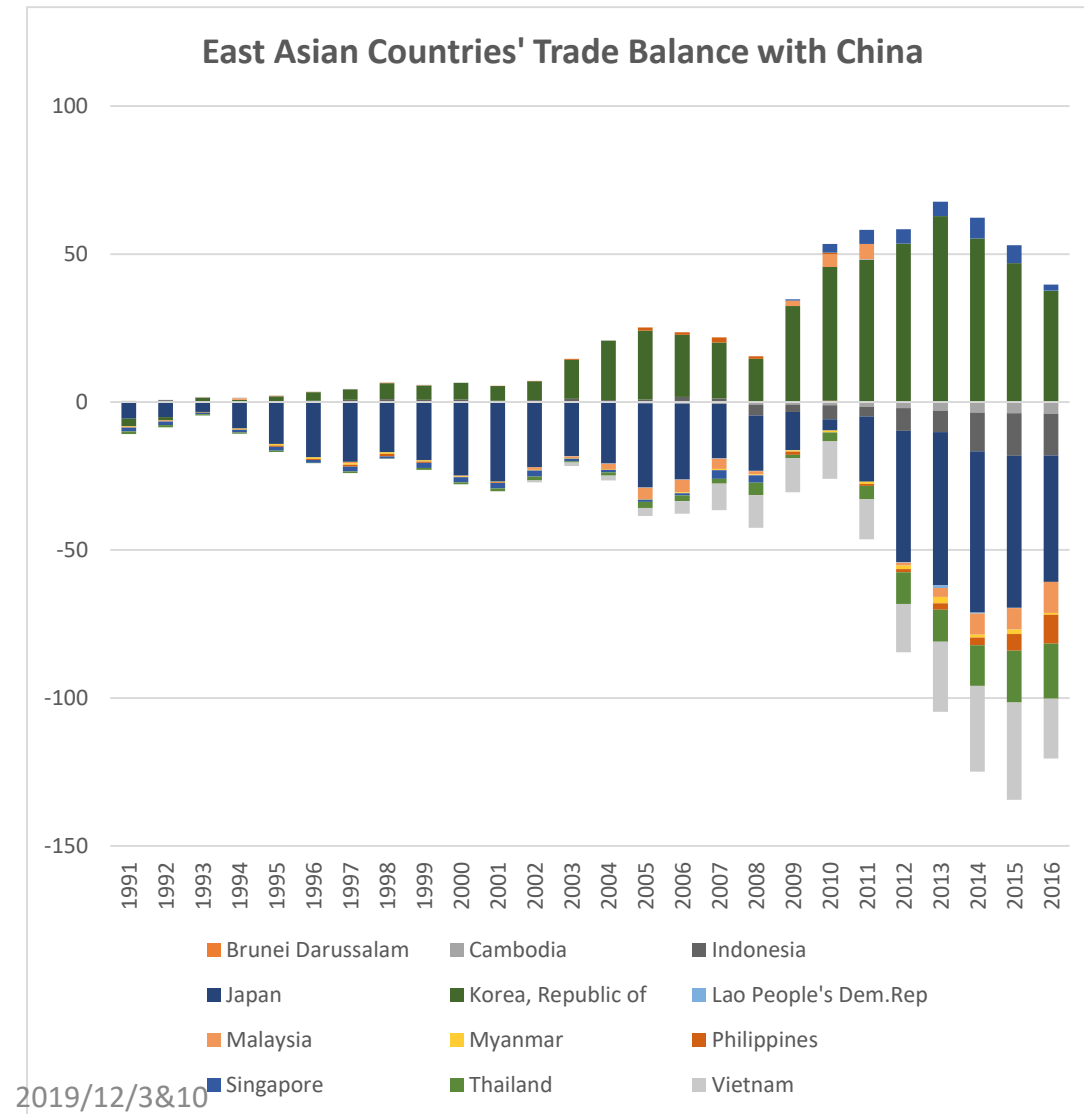
East Asian Countries' Export to China



East Asian Countries' Import from China



East Asian countries trade balance with China



Responding to the rise of China in East Asia

- Japan
 - Competition for leadership and influences in East Asia and beyond
 - Pursuing the 'Strategic and Reciprocal Relationship' with China
- South Korea
 - Embracing economic interdependence, yet with growing doubts after THAAD
 - In search for security and balance between China and the US
- Southeast Asia
 - Accommodating the rise of China
 - Strategic hedging and inclusive institutional balancing
 - Outright government challenge (in Philippines) and public outcry (in Vietnam)

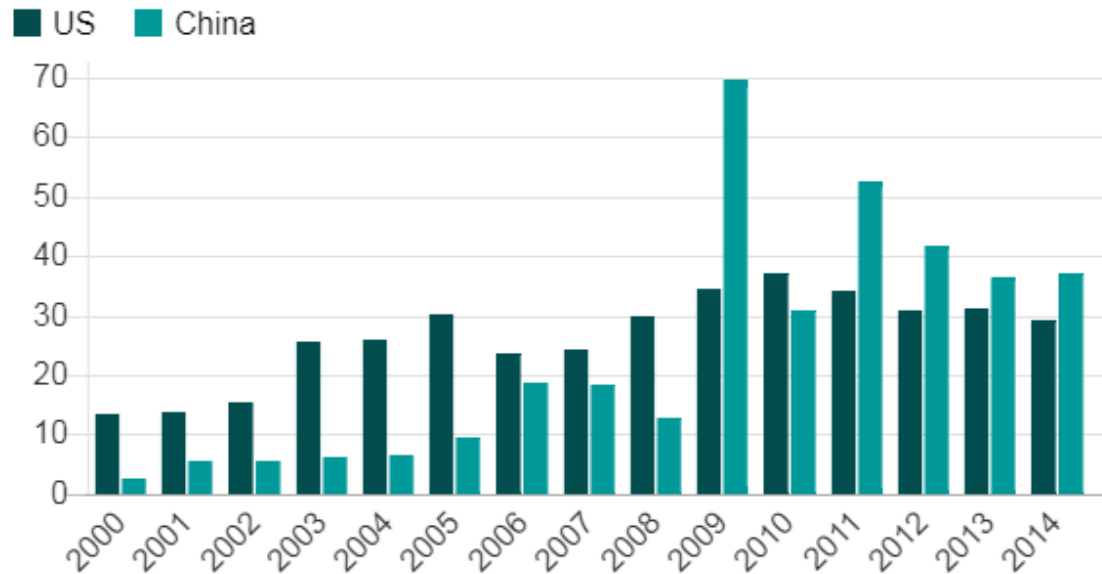
Responding to the rise of China outside East Asia

- China's growing presence around the world
 - Forging economic links across the world
 - China became the largest trade partner of India in 2008, Africa in 2009, and the Middle East in 2011 trade with Latin America grew nearly 25 times between 2000~2012 (Christensen, 2015)
 - Becoming a major donor country
 - China committed \$354.3 billion to 140 countries between 2000~2014 (AidData, 2017)
 - Active participation in global governance
 - Key member of the existing international organizations (UN, IMF and WTO)
 - New regional and global groupings (SCO, BRICS, G20, NDB, AIIB, etc.)
 - Dealing with the global challenges (e.g., UN peacekeeping, climate change)
 - Promoting China's soft power
 - Confucius Institute, Chinese language, culture, arts and tourism

China's Foreign Aid in 2000~2014 (AidData, 2017)

US v Chinese state finance going abroad

Official aid and other financial transfers (\$ billions)

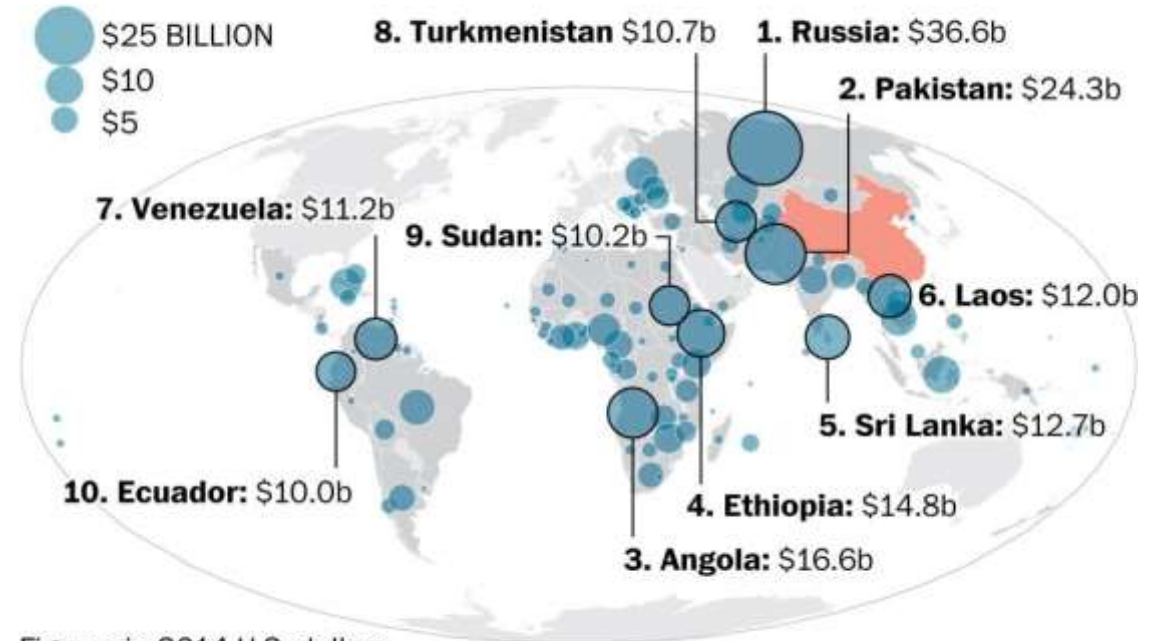


Source: AidData



Where China sends its money

Total official funding to each country from 2000 to 2014.
Known projects (with known amounts) only.



Figures in 2014 U.S. dollars.

Source: AidData

REUBEN FISCHER-BAUM/THE WASHINGTON POST

World military spending in 2016

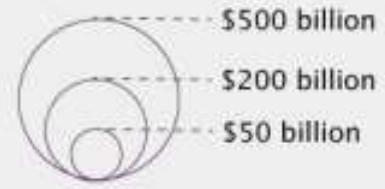
\$1.69 trillion
Military spending in 2016



Share of global GDP in 2016



Change from 2015



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Responding to the rise of China outside East Asia

- The United States
 - Engaging China through reassurance and deterrence
 - From Obama's 'Pivot to Asia' to Trump's 'Bargain with China'
- The EU and European countries
 - China's challenge to the EU's trade policy-making; the HRs and Tibet issues
 - European countries' response to the AIIB: shaping China from inside
 - China in Central and Eastern Europe: '17 + 1'
- The world order: three possible scenarios
 - A multipolar order of great powers
 - G2: China and the US
 - Less possible: region-based global coordination