

# **A Rising China and Its Economic Implications**

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## **Brief Reviews of China's Economic Status**

### *The Chinese Economy in 2010*

Various economic indicators show what China is today. In 2010, China has become the world's second largest economy, overtaking Japan. It has overtaken Germany as the largest exporter in 2009. It is the world's biggest holder of foreign reserves. China supplanted the U.S. and Japan as, respectively, the world's largest auto market and the biggest producer in 2009. What's interesting is that these facts have already been forecasted by commentators and analysts few years ago. Currently, there is a growing numbers of research papers, which forecast that China will supplant the U.S. as the world's largest economic power by 2050, or 2020, or even 2015 even though some criticisms have been raised on the forecasts.

### *Visualizing China's Power since the Global Financial Crisis*

The global financial crisis marked a turning-point for mapping out a new global economic order. American leadership including American model of economic growth (market-oriented economic system based on economic liberalism) was significantly impaired. On the contrary, China's economic significance to global economy has loomed large especially after the global financial crisis. It increased China's role for stabilizing international financial system. With the decline of the U.S. economy, the economic

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potential of Chinese market began to draw the attentions as it is perceived as a new market replacing the existing U.S. market. An increase in China's economic roles come to be translated into its growing influences on the global economy. It enlarges scope and space for China's involvement in designing a new global economic order. With its enhanced economic influence and self-confidence, China actually has shown different attitude toward the U.S. since the global crisis. It called for comprehensive reform of the international financial institutions such as the World Bank and IMF, and raised questions about the dollar system. Widening economic imbalance between China and the U.S. eventually ignited the trade and currency disputes between the two, but it seems hard to come to an agreement. Likewise, China feels freer to maintain strengths of Chinese model. At the regional level, China's economic and political influences have been much more enhanced by providing an attractive market and intensifying regional production networks.

### **The Future Directions of Chinese Economy**

Regarding the future direction of Chinese economy, combinations of political and economic factors can be examined. Politically, it can be assumed that the CPC (Communist Party of China) maintains its political control, or loses it. Economically, it can be expected that the two different directions in politics will be accompanied by two different economic policies; that is, whether the government places an emphasis on economic growth or growth with distribution. The first possible direction may be a combination of firm political control by the CPC and pro-growth economic policy. In this case, China would be able to maintain its high economic growth. However, it would

deepen regional, urban- rural, and class disparity, combined with escalating social tension. It, in turn, would lead the CPC to tighten its political control. Secondly, it can be expected that the CPC maintains its political control and will commit itself to achieving economic growth with distribution. Resolving economic polarization would boost domestic demands. With growing domestic markets, China will become a global market as it exerts the fast-growing economic influence across the globe. Another future direction may weaken the CPC's political control. In such case, the CPC may focus on reducing social tensions by emphasizing distribution policy. However, it becomes rather challenging for the weakened central government to effectively implement development projects. China consequently can be trapped in a vicious circle of policy failures and social chaos. Lastly, China may experience political liberalization and a full scale of marketization, at the same time, which could develop Chinese economic system in the long run while aggravating social disparity.

The most likely case is the second combination because the CPC effectively maintains its political control and, likewise, energetically implements sets of plans for development with distribution. It seems that the Chinese leadership is well aware of China's structural problems that it must successfully deal with so as to achieve successful and continuing economic development. China is facing the tasks of overcoming its over-dependence on export processing trade and labor-intensive industries, alarming disparity and also underdeveloped service industries and financial system. In order to overcome these problems, the Chinese government is committed to achieving balanced regional development, urbanization, development of service industries, as well as shifting industrial structure toward technology and capital intensive industries. Following the 11<sup>th</sup>

5 years plan, the government has emphasized balanced regional development and sustainable development strategy for the 12<sup>th</sup> 5 years plan (2011-2015).

In addition to the government policy, attention must be given to China's economic potentials. There seems to be a consensus that China will sustain high economic growth for the next ten years (EIU, PwC, G.I.). The rationale for such forecast stems from the fact that China's sources of growth are still underdeveloped and, thereby, have a high possibility to become new economic engines. First of all, many provinces in China still remain underdeveloped. The Chinese government currently is committed to development of the marginalized central- and western provinces, pouring huge amount of money into the regions. The government's commitment to the regions will continue for some time. For example, the government ambitiously promotes development projects in marginalized areas such as the "Revive the Northeast" (*Zhenxing Dongbei*). Second, Chinese service industries still lag far behind those of the developed countries. Given the service industry has a high potential for creating jobs, the opening-up of service industries will substantially contribute to providing new jobs. China's urbanization rate currently remains at 46%, but is expected exceed 50% for the coming 12.5 plan period. It is expected to reach more than 60% by 2020, which means creating 13 millions new urban populations every year by 2020. Last but not least, the economic potential of Chinese financial sector deserves special attention. Developing and globalizing the financial sector will definitely change China's economic status in the global economy.

### **Impacts of a Rising China and Conditions for China's Rising Influences**

What are the regional and global impacts of a rising China? Rapidly rising Chinese

economy as the global economic power may give an alarming sign for neighboring countries including the U.S. Still, if looking in the context of global production network involving China, China's economic rise is not necessarily threatening, but rather brings about mutual benefits both for China and other countries. Closely looking at Chinese export, foreign companies account for 56% of the total amount of Chinese export. It means that China is the center of the global production network. It also implies that foreign investors are the beneficiaries of China's economic growth under the structure of global product division. At the regional level, China provides attractive markets for ASEAN countries and forms production division with South Korea and Japan.

As far as Sino-U.S. economic relationship is concerned, it is not necessarily conflictual but can be complementary at least under the current economic conditions. The relationship is deeply interdependent, so that the two powers have vital interests in avoiding deadly conflicts since, on the one hand, the U.S. is the biggest consumer market for China; the economic stability of the U.S. is crucial for China's economic growth, on the other hand, China plays a crucial role in maintaining the dollar system; China's service sector, especially financial market, will be attractive for the U.S. In a nutshell, the two countries have different comparative advantages in industries, so that they keep complementary economic relations. Nonetheless, there is no guarantee that the current relationship will continue because Chinese industrial structure is more geared toward capital-, knowledge-, and technology-intensive industries. Furthermore, massive amounts of capital accumulation strongly props up the development.

Consequently, China has been providing more economic opportunities for its economic partners than posing significant economic threats. However, for how long will they enjoy

the current economic relations? What if China becomes a global competitor in areas of high-technology, service industries, and financial industries? What would happen if China comes to try to rewrite the current international economic order?

On the global and regional implications of a rising China, we need to pay special attention to what roles China will play for global economy rather than whether or when China overtakes the U.S. China's substantial influences on the world will be determined by how much interest other countries or economic units have in China. In this respect, if China becomes a global market such as the current U.S. market, it would be a powerful ground for increasing China's political as well as economic influences. Will Chinese market be able to develop as a global market? In order to become a global market, solid domestic demands must be formed, through the growth of the middle class. It is reported that the estimated number of the middle class in China is about 100 millions (annual income of over \$170,000). It is one thirteenth of its total population (approximately 1.3 billion). It indicates that Chinese market demand has been limited by a relatively small size of the middle class. The growth of the middle class can be promoted by implementing policies aimed at narrowing the regional and urban-rural gaps.

Economic growth model must be transformed from the extensive growth to the intensive growth. It is time for China to seek for another economic transformation; that is, from extensive economic growth to intensive economic growth or sustainable growth. Three decades of China's extensive growth have created problems such as widening and deepening gaps between classes, urban-rural, and regional disparity, environmental problems, and leaving the economy vulnerable to downturn in the global market. Those huge gaps create social unrests, thereby ultimately threatening the legitimacy of the CPC'

rule. Unexpected external impacts such as the global financial crisis can be directly translated into downturn of Chinese economy. In recognition of these problems, the Chinese leadership is now committed to promoting intensive growth. It includes promoting balanced regional development, acceleration of urbanization, improvement in living conditions, development of service industries, as well as development of high-technology and capital intensive industries.

If China successfully takes the direction of the second combination (the CPC's control and development with distribution), it would become a global market. Growth of domestic demands will reduce Chinese economic dependence on the foreign market. It can be also expected that China becomes a strong competitor in areas of high-technology and capital-intensive industries. It will substantially increase not only Chinese influences in the regional and global economy but also in political affairs.

### **China's Rise and ROK-China Relations**

What are the implications of China's rise for China-ROK economic relations?

China has been South Korea's number one trade partner since 2003. China currently is South Korea's biggest importer (\$86.7 billion) and exporter (\$52.2 billion). Likewise, 80% of South Korea's trade surpluses come from China. South Korea was China's sixth largest trade partner in 2009. South Korea's trade dependence on China reached 20.53% in 2009. The component ratio of South Korea's export to China vividly shows how much South Korea's economy depends on China. The export share of producer goods including parts and components and semi-finished products accounted for 82% of the total amount of South Korea's export to China in 2005 although it decreased to 68.7% in 2009. Given

that South Korea's dependence on overseas trade exceeded 90 % of the national income in 2009, China's economic conditions carry special implications for South Korea.

South Korea and China have enjoyed mutually beneficial relationship through their economic trades. While labor-intensive and processing industry and trade has been a locomotive for China's economic growth, South Korean industries have been based on capital- and technology-intensive industries. Problem is that, however, Chinese economy is moving from labor-intensive processing industry to capital- and technology-intensive industry, narrowing the technological gaps between China and South Korea. Without a doubt, the economic relationship is changing into an economic competition in many areas. The changing industrial structures can change the bilateral economic relationships. Nevertheless, it is likely that South Korea's economic dependence on China will be further expanded and deepened.

It is interesting to note South Korea's trade dependence both on China and the U.S. for the last two decades. In 1991, South Korea's trade dependence on China was 2.9% while its dependence on the U.S. was 24.42%. On the contrary, South Korea's dependence on the two powers was conspicuously reversed during the last two decades. The U.S. accounted for just 9.71% of South Korea's trades while China for 20.53% in 2009. What will be the economic effects on politics? Still, South Korea maintains a strong alliance with the U.S. and has intensified a strategic & cooperative partnership with China. It is expected that South Korea will devise both hedging and engagement strategy to deal with a rising China, intensifying the strong alliance with the U.S. because it has to deal with North Korea. Nevertheless, South Korea's increasing economic dependence on China will substantially reduce the scope and range of strategic choices available in dealing

with China, thereby threatening its political position. China now is no longer an option for South Korea in economic terms.

### **Concluding Remarks**

The future direction of China's status in the regional and global economy will hinge on Chinese roles for the global economy and the proposed values in terms of political and economic model. In order to change its status from the global factory to the global market in the global economy, China first has to maintain its socio-political stability. Second, it has to successfully implement the policy for intensive growth. If Chinese market evolves into a global market, it will cause substantial changes in economic interests of many countries in relation with China. Increasing economic interests in Chinese market will deepen and widen China's economic and political influences on the global issues.

Likewise, it can provide a strong foundation for Chinese soft power. The problem is what values China proposes to the world; whether Chinese values can attract others' sympathy. The current authoritarian political rules in China cannot perform those desired roles. In order to attract others', China has to create a new set of Chinese values in terms of political idea, culture, and political and economic system to gain understanding of others.

Consequently, in order to examine rising China's impact on global economy, we need to keep an eye on Chinese domestic affairs, and whether the CPC maintains its strong political control and also whether the government successfully implements the 12<sup>th</sup> 5years plan.