

China's Rise and Its Implications for the Global Economy

Jitaru Loredana

"Alexandru Ioan Cuza" University of Iași,
Doctoral School of Economics and Business Administration,
jitaru_loredana10@yahoo.com

Popescul Lorena Florentina

"Alexandru Ioan Cuza" University of Iași,
Doctoral School of Economics and Business Administration
lorena.popescul@student.uaic.ro

Abstract

Since 1978, the world has been witnessing China's formidable growth at an average growth yearly rate of about 10%. Even when the world economy was affected by the global economic-financial crisis, China's economy grew 9-10% per year. The objective of this study is to provide a complex view of the Chinese economic growth and to identify the effects of this growth on the world economy. To that effect, this paper is structured in two parts. In the first part, we analysed the evolution of the Chinese economic growth and the drivers of this spectacular growth. In the second part, we identified and analysed the implications of this growth for the global economy. To achieve our objective, we used the method of documentary research.

Key words: *China, economic growth, implications, world economy*

J.E.L. Classification: F43, F63, O44

1. Introduction

In recent years, China became a major centre of economic, military and commercial power at a global level. It is currently the second most attractive destination for foreign direct investment, it has the largest stockpile of foreign currency and it is the largest creditor.

It is worth mentioning that China also played a major, dominating role in the world economy from 1100 to 1800. Thus, Professor Petras, based on the empiric data provided by John Hobson in his work *The Eastern Origins of Western Civilization*, underlined the importance of this player during that period. According to Petras, "as early as 1078, China was the world's major producer of steel (125.000 tons); China was the world's leader both in technical innovations in textile manufacturing (seven centuries before Britain's 18th century 'textile revolution') and in trade. It is especially important to emphasise how China made the West's emergence possible. It was only by borrowing and assimilating Chinese innovations that the West was able to make the transition to modern capitalist and imperialist economies" (Petras 2012). While China's status of world leader was challenged by Britain in the 19th century, in the 21st century, China regained the status of the second biggest world power. Following up on that, the next section will review the main aspects related to China's rise in the world economy.

2. China's rise in the world economy

Throughout time, China experienced a remarkable economic growth. This was due to the fact that, starting from 1978, "the central government undertook significant reforms to industrialise and open up the economy with a dual-track system comprised of 'market-economy' and 'plan-economy' segments for each market" (Akkemik, 2015, p. 133); furthermore, the Chinese government "developed systems of physical and institutional infrastructure to attract foreign

investors" (Kaya, 2014, p. 347), becoming one of the most attractive destinations for foreign investment, especially that coming from Europe.

"In the past 20 years, China had a spectacular evolution as far as economic growth, infrastructure development and attracting FDI are concerned. In 2010, China was ranked second among the world economies based on GDP, surpassed only by the US, after China's GDP in current prices had exceeded Germany's GDP in 2007 and Japan's GDP in 2010" (Oehler-Şincal, 2010, p. 31). However, it is important to note that the gap between China's GDP (\$11,383 trillion) and the US GDP (\$18,558 trillion) also remains high in 2016.

The share of the Chinese economy in the world GDP increased from 2.2% in 1982 to 14.6% in 2012. In 2016, China was responsible for 15.256% of the world GDP and it is expected to account for 20.008% in 2020, according to the estimates of the IMF. China's spectacular growth is all the more noteworthy since "other world powers, at the beginning of their growth, started off from a far more substantial share of the world GDP e.g. 6.5% for Germany in 1870, 7.1% for Japan in 1960, 8.9% for the US in 1870 and 9.6% for the Soviets in 1950" (Kliman, 2014).

Table no. 1: China's economic growth from 1978 to 2021 (%)

1978-1989	9.587
1990-2000	9.836
2001	8.3
2002	9.1
2003	10.0
2004	10.1
2005	11.3
2006	12.7
2007	14.2
2008	9.6
2009	9.2
2010	10.4
2011	9.2
2012	7.8
2013	7.7
2014	7.4
2015	6.91
2016	6.588
2017	6.171
2018	6.030
2019	6.000
2020	5.9
2021	5.8

Source: The World Bank, IMF

As the table above shows, the average yearly growth rate in the period 1978-1989 and in the period 1990-2000 was 9.587% and 9.836% respectively. After China's admission to the WTO in 2001, the growth rate increased to 14.2% in 2007, but then dropped in the following years due to the global economic-financial crisis. Nevertheless, the growth rate remained in the vicinity of 9-10%, "effectively raising China to the status of the saviour of the world economy" (Akkemik, 2015, p. 135). Its average contribution to the yearly world economic growth between 2007 and 2011 was 24.3% (Pencea, 2012, p. 42). After 2013, while China's economic growth rate remained far superior to that of the major powers, it slowed down.

China's spectacular economic growth was due to factors that acted as "driving forces" for the Chinese economy. These factors include: international trade, capital investment, China's admission to the WTO etc.

In terms of trade, China's commercial exchanges grew at a fast pace. For instance, in 1980, China's international goods trade amounted to \$37,940 million, while, in 2016, it totalled \$3,685,592 million. In 2009, China became the world's largest exporter, surpassing Germany, as well as the world's second largest importer. In 2013, China's trade amounted to \$4,159 billion (exports of \$2,209 billion and imports of \$1,950 billion), making it the biggest trade power of the world, surpassing the US. In this context, researchers Subramanian and Kessler told *The Economist* (2013) that "the share of Chinese exports in the total of global exports, which experienced a remarkable growth of more than 10%, can be compared to that of Britain in the 19th century, when it used to control the commercial flows as the world's top exporter". Furthermore, "the development of China's foreign trade accelerated the modernisation of the national economy and improved the standard of living of the 1.357 billion people in China. This also helped towards the Chinese economy's integration into the world economy and managed to make the process of economic globalisation to lead to the common prosperity of all countries and regions" (Kaya, 2014, p. 348).

As far as capital investment is concerned, it comes, on the one hand, from attracting foreign direct investment and, on the other hand, from internal savings. According to statistical data, after China's admission to the WTO, FDI attracted by China increased from \$44,241 million in 2001 to \$249,859 million in 2015.

Another driver of economic growth in China was its admission to the World Trade Organisation (WTO) in 2001, after 15 years of negotiations, "a time during which it concluded bilateral agreements with 37 countries" (Edmonds et al., 2006, p. 1).

It is important to note that, despite experiencing an average yearly growth rate of about 10% in the past 39 years, China promotes a "peaceful growth". In this context, Chinese leaders emphasise the fact that the People's Republic of China "respects the US as the guarantor of international order in East Asia and has no ambition to seek hegemony and dominate world affairs; China will further integrate itself into the international economic system and acquire world resources by peaceful means, that is trade and investment" (Jianyong, 2008, p. 440).

Unfortunately, "China's success, while impressive, masks some severe deficiencies in its economic structure" (Troilo et al., 2010, p. 274). This was due to the fact that the Chinese growth rate is driven, for the most part, by exports and by FDI, which are not sustainable in the long run. That is why, in order to achieve its long-term economic growth objectives, China should adopt strategies of economic development based on stimulating internal consumption. An important role in supporting China's sustainable economic development will also be played by an increase in the importance of the research and development field. According to Moniruzzaman, "rapid growth of China needs to be sustained by skilled intellectuals and scientists that become the core of Chinese modernisation and development." (Moniruzzaman, 2013, p. 11). In addition, the World Bank, in its report *China 2030: Building a Modern, Harmonious, and Creative Society*, emphasised the fact that "well-designed fiscal reform can help sustain rapid growth, address important social gaps, and make the development path more environmentally friendly" (World Bank, 2013, p. 89).

To sum up what we have shown so far, we can say that the People's Republic of China is currently a global player that is vital to the world economy. This is also emphasised by Krugman in his paper: "China is destined to be a major economic power even if it achieves only a fraction of Western productivity levels" (Krugman, 1994, p. 75). As such, China is bound to influence the world economy. In the next section, we will identify the implication of China's economic growth for the world economy.

3. The implications of China's economic growth for the world economy

The reforms implemented by Deng Xiaoping aiming at opening up the Chinese economy to the whole world resulted, on the one hand, in the growth of the economy, making China the second biggest power in the world, and on the other hand, in the change of the world order. China's economic development and its integration into the world economy comes with both benefits and challenges. According to Moniruzzaman (2013, p.1), a sustainable economic growth in China "will shift the epicentre of political power from the West to the East bringing a civilizational change".

Since the design and launch of the market reforms, the Chinese economy has grown about 30 times, becoming "one of the most important manufacturing centres in the world" (Ikenberry, 2008), which resulted into an increase in the demand of raw matter. "Until 2006, China had already consumed 32% of the world's steel, 25% of the world's aluminium, 23% of the world's copper, 30% of the world's zinc and 18% of the world's nickel" (Wolf, 2008). Moreover, „China is one of the top energy consumers. Most of the energy comes from the Muslim countries"(Moniruzzaman, 2013, p.22). In this context, China adopted a policy of cooperation with the Muslim countries based on "harmony, security and prosperity to the neighbours"(Jianyong, 2008, p.442). As we well know, some Muslim countries are known for frequent violations of the rules necessary for the proper functioning of the world economy, rules laid down by competent international institutions and organisations. This caused the major powers to become irritated and "has undermined China's international moral image" (Jianyong, 2008, p. 440).

According to researcher Pencea, "China's influence over the world economy manifests itself not only through its impact on the global demand for various goods, but also through the impact on the world supply" (Pencea, 2012, p. 62). Considering that the People's Republic of China manufactures goods at low prices, it also influences global prices for those products, forcing companies making the same products to go bankrupt or to change their policy on market competitiveness.

Unfortunately, China's economic success comes at a high price: environmental degradation. Pencea highlights this price in her work: "about one third of the Chinese territory is affected by acid rain, 25% is desert and almost 100 cities experience landslides due to the overexploitation of groundwater. Moreover, 80% of rivers are polluted and 50% of the populations consumes contaminated water. China holds one third of the waste produced by mankind, with vast quantities being stored, untreated, on the shores of Quemoy Island, while 1 billion tonnes of untreated waste water are released into the Yangtze River every year" (Pencea, 2010, pp. 67-68). Furthermore, many analysts claim that the People's Republic of China is one of the world's biggest polluters. Thus, Zhou et al. (2013, p. 18) "suggest that this formidable growth of China affected both the Earth's resources and the energy. In addition, environmental degradation leads to conflict between the Chinese civil society and government."

If we look at the way in which the major world powers perceive the impact of China's rise in the world economy, we notice that the US claims that "a healthy economy in China is vital both to the United States and to the rest of the world" (Ikenberry, 2008). At the same time, the US sees China as a threat both from an economical and scientific point of view, and from a military point of view.

With regard to the impact of China's economic growth on the EU, this has been and will continue to be a massive one. China became the main source of Europe's imports, while the EU became the main market for the Chinese goods. As a result, China quickly turned into one of the most representative commercial partners of the EU.

It is important to mention that certain analysts suggest that a 2% decrease of the Chinese economy in the years to come may cause a drop of 0.6% of the GDP growth in the euro area (Schuman, 2015).

In view of what we have shown above, we can conclude that China's rise and integration into the world economy provides both opportunities and challenges to all the countries of the world.

4. Conclusions

Over the years, China experienced a multidimensional growth: economic, political, military, scientific and technological.

In the past 40 years, China underwent dramatic reforms and enjoyed a remarkable economic growth. As a result, the country's importance in the world grew. By the size of its economy and its potential for economic growth, China stands as a political and economic world power that impacts not only the Asian economy, but also the global one.

In our opinion, in order for the People's Republic of China to continue to experience sustainable economic growth, it should adopt development strategies based on innovation, stimulate internal consumption and, last but not least, revise its policy of cooperation with the less earnest Muslim

countries. Such a revision is recommended with a view to gaining the trust of the major world powers.

It is worth mentioning that China does not wish to take the place of the United States. On the contrary, China claims to promote a peaceful economic growth aimed at developing a world living in harmony.

Furthermore, throughout this paper, we had the opportunity to note that many researchers are following China's rise closely. Some believe that this player will become the biggest world power of the 21st century, while others think of this as a myth. That is why, we feel that the right answer to the question "Will the 21st century belong to China?" is "Only time will tell".

5. References

- Akkemik, K.A., 2015. Rapid Economic Growth and Its Sustainability in China. *Perceptions, Spring*, Volume XX, No. 1, pp. 133-158.
- Edmonds, C., La Croix, J.S., Li, Y., 2006. China's Rise as an International Trading Power. *East-West Center Working Papers*, No. 88, pp.1-45.
- Ikenberry, G.J., 2008. The Rise of China and the Future of the West Can the Liberal System Survive?, *Foreign Affairs*, [online] Available at: <<https://www.foreignaffairs.com/articles/asia/2008-01-01/rise-china-and-future-west>> [Accessed 18 Aprilie 2017].
- Jianyong, Y., 2008. Peaceful Rise of China: Myth or Reality?. *International Politics*, No.45, pp.439-456.
- Kaya, M. G., 2014. The place of China in international trade and finance system. *Journal of Economics, Finance and Accounting*, Vol 1, Issue 4, pp 347-361.
- Kliman, D., 2014. Is China the Fastest Rising in History?, *Foreign Policy*, [online] Available at: <<http://foreignpolicy.com/2014/05/16/is-china-the-fastest-rising-power-in-history/>> [Accessed 18 Aprilie 2017].
- Krugman, P., 1994. The myth of Asia's miracle. *Foreign Affairs*, Vol. 73 No. 6, pp. 62-78.
- Moniruzzaman, M., 2013. The Rise of China and Its Implications for the Muslim World. *Journal of Economic Cooperation and Development*, 34(1), pp. 1-32.
- Oehler-Şincai, I. M., 2010. Rolul Chinei în plan global și regional, prin prisma comerțului cu bunuri și a fluxurilor de ISD. *Journal of Global Economic*, Vol. 2 No. 1, pp.27-47.
- PENCEA, S., 2012. China un nou pol de putere în economia mondială. *Journal of Global Economic*, Vol. 4, No 2, pp.41-71
- Petras, J., 2012. China: Rise, Fall and Re-Emergence as a Global Power. *Global Research*, [online] Available at <<http://www.globalresearch.ca/china-rise-fall-and-re-emergence-as-a-global-power/29644>> [Accessed 19 Aprilie 2017]
- Schuman, R., 2015. The impact of China's economic situation on Europe. *European Issue*, no.376, [online] Available at: <<http://www.robert-schuman.eu/en/european-issues/0376-the-impact-of-china-s-economic-situation-on-europe>> [Accessed 19 April 2017].
- The Economist, 2013. When giants slow down, [online] Available at: <<http://www.economist.com/news/briefing/21582257-most-dramatic-and-disruptive-period-emerging-market-growth-world-has-ever-seen>> [Accessed 20 Aprilie 2017];
- Troilo, M., Sun, Z., 2010. The limits of China's growth. *Chinese Management Studies*, Vol. 4 No. 3, pp. 273-279.
- Wolf, M., 2008. The future: China changes the whole world, *Financial Times*, [online] Available at: <<https://www.ft.com/content/078a3fb2-cdb7-11dc-9e4e-000077b07658>> [Accessed 21 Aprilie 2017]
- World Bank, 2013. China 2030 - Building a Modern, Harmonious, and Creative Society.
- Zhou J., Smith H. and Smith W., 2013. China's Rise and Environmental Degradation: The Way Out. *International Journal of China Studies*, Vol. 4, No. 1, pp. 17-39.