

FUELING THE DRAGON'S RISE PROSPECTS FOR THE CHINESE ECONOMY

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AS MANY CHINESE POLITICIANS SAY, CONTRARY TO RUSSIANS WHO, AT THE END OF 1980s, "NOSEDIVED INTO THE POOL FORGETTING TO FILL IT WITH WATER FIRST," CHINESE LEARN TO SWIM SLOWLY, WITHOUT "DIVING INTO DEEP WATER" OUTRIGHT", SAYS PROF. MACIEJ WALKOWSKI, AN EXPERT ON INTERNATIONAL ECONOMIC RELATIONS FROM DEPARTMENT OF INTERNATIONAL ECONOMY AT THE FACULTY OF POLITICAL SCIENCE AND JOURNALISM, ADAM MICKIEWICZ UNIVERSITY IN POZNAŃ, POLAND, INTERVIEWED BY RAFAŁ WIŚNIEWSKI FROM THE R/EVOLUTIONS EDITORIAL TEAM ABOUT THE FUTURE OF THE CHINESE ECONOMY.

INTERVIEW WITH **MACIEJ WALKOWSKI**
BY RAFAŁ WIŚNIEWSKI

During the last three decades of "reform and opening" the Chinese economy achieved record growth rates. Which factors do you assess as the main drive for this "economic miracle" and are they likely to exact the same effects in the coming decade?

It is true that in 2010 China became the second biggest economy in the world surpassing Japan. Chinese GDP in 2010 amounted to 5,88 trillion (tn) USD counted according to nominal exchange rate (Japanese GDP- 5,47 tn USD). In that year 61 Chinese companies were included in the prestigious "Global Fortune 500" ranking which presents and classifies the world's biggest corporations. The value of China's trade turnover at the end of December 2011 was estimated at the level of 3,642.1 billion (bn) USD (exports- 1,898.6 bn USD, imports- 1,743 bn USD). At the same time China is the world's second (after the USA) importer and ninth investor. The value of Chinese FDI in 2011 amounted to 67 bn USD while the inflow of FDI to China in recent years oscillates between 80 and 110 bn USD. Chinese companies most often invest in strategic resources, especially fuels, new technologies, as well as energy and infrastructure. China – "world's biggest manufacturing plant," is additionally recognized by experts as the second most attractive economic region in the world (after India) for outsourcing activities (captive off-shoring and offshore outsourcing). In the year 2006 a program named "1000-100-10" has been initiated in China, with three goals in mind: development of 1000 Chinese companies capable of providing outsourcing services, convincing 100 international companies to conduct their outsourcing operations in China, finally creation of 10 outsourcing hubs in China. In the year 2010 those targets had not only been achieved, but even surpassed. Analysts of the socio-economic situation in China especially stress the phenomenon which is the longevity of unusually high GDP growth rate during almost thirty years of transformation. On average it is in the range of 10% annually, amounting to the highest rate of growth in the world, for such a long period of a state of this size.

China owes this startling development mainly to very beneficial investment conditions (special economic zones) and inflow of foreign investment and technology connected to them, still cheap but successive increasingly expensive labour force, traditional industriousness of Asians, export subsidies, as well as competitiveness of domestic production artificially sustained through the fixed and market-distorting tying of the yuan's exchange rate to the dollar.

It is a well known fact that further socio-economic development of the PRC encounters several serious challenges (like for example overdependence on exports and investment, “bad debts” problem, or environmental degradation). Which of them, in your opinion, have the greatest potential to disrupt the current period of high economic performance?

China faces many serious development problems. Among them we can name its ecosystems’ devastation (China is the biggest CO2 emitter in the world), crime, corruption (referring to the so-called “crony capitalism”), overpopulation, rising unemployment, the serious problem of its “greying society,” problems with energy balance, regular accusations of organised cybercrime (break-ins into servers of US IT companies and military), problems with intellectual property protection (massive counterfeiting of brand products) and accusations levelled at this state concerning production standards, potential dumping practices (social, pay and currency) or for example the use of its monopolistic position in the rare metals trade. The biggest barriers for China’s further development are growing income disparities (along the city/countryside lines as well as east/centre-west of the country divisions) and decidedly too low share of consumption in relation to its GDP (overreliance on exports and investment).

“ THE BIGGEST BARRIERS FOR CHINA’S FURTHER DEVELOPMENT ARE GROWING INCOME DISPARITIES AND DECIDEDLY TOO LOW SHARE OF CONSUMPTION IN RELATION TO ITS GDP

It seems that Chinese party-state leadership has reached consensus about a need for deep structural reforms in order to preserve and further the economic achievements of the last three decades. Only this month the State Council has outlined a reform program concerning, among other things, taxation, exchange rate, capital flows or property and population registration issues. What changes are crucial in order to preserve the long-term health of Chinese economy?

The most important element is stimulating domestic demand what, considering the Confucian inclination of the Chinese towards saving, will surely not prove easy. Indicators of consumption in relation to GDP are presently worse in the PRC than in Japan and South Korea...

after World War II and almost two times lower than in the USA. The government must substantially strengthen budget financing of health care, pension and the disability payment system, education and many other forms of state’s social policy. To put it another way, it must relieve hundreds of millions of citizens from the necessity of saving money for those purposes, thus encouraging present consumption. At the time of global post-2008 economic crisis this is an especially salient proposition. The archaic system of temporary registration of rural citizens living in cities (called hukou), which prohibits ca. 150 million people from receiving public services, should also be abolished. Another task is to diminish the income gap now growing in the country and the social discontent (also in the form of ever better organized protests?). The Gini coefficient, which illustrates this problem, is higher only in India and Brazil. What good comes from the fact that China has the best developed market for luxury goods in the world, if still ca. 400 million people live for less than 2 USD a day?

The set of policies adopted by the Chinese Communist Party from the start of “reform and opening” in the late 1970s onwards and its effects have in large extent defied prescriptions of western economics and political science theory. Can we really talk about a distinct “Chinese model of state capitalism” which could hold lessons for both developing and developed economies?

In contrast to Russian neoliberal “shock therapy” from the times of prime minister and finance minister J. T. Gaidar (at the beginning of the 1990s) based on the rules of the “Washington consensus,” China strives “step-by-step” to realize the free market economic model of its own unique making. This attitude is conceptualized by analysts as: gradualism, growth based authoritarianism, the Chinese experiment, state capitalism, or the Beijing consensus. B. Liberska, a renowned specialist in the field of international economic relations, calls the model adopted by China “controlled (managed) globalization.” It means that the country opens itself to globalization, but on its own conditions, without giving up its ability to control capital flows and foreign investors’ activity, adopting the rules of the free market game selectively and opening up to competition only in selected sectors. This Chinese development model, in B. Liberska’s opinion, is attractive for many Third World states, which experienced various economic and financial crises in the past as a result of their application of the neoliberal recommendations of the IMF and after

opening their markets. Some of them, for example in Africa, Latin America or South-East Asia, recognize the Chinese economic model, coupled with a deliberate democratic deficit and authoritarian style of governance as a solution, which enables them to avoid crisis situations in the future, as well as guarantying faster and more stable socio-economic development. As many Chinese politicians say, contrary to Russians who, at the end of 1980s, “nosedived into the pool forgetting to fill it with water first,” Chinese learn to swim slowly, without “diving into deep water” outright. This approach softened the shocks during the market transformation, allowed attainment of macroeconomic stability and establishment of appropriate institutions of market regulation, control and supervision (however strange and incomprehensible this may sound to supporters of various schools of classical neoliberalism, among them the so-called “Chicago school” of Milton Friedman).

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SOME STATES IN AFRICA, LATIN AMERICA OR SOUTH-EAST ASIA, RECOGNIZE THE CHINESE ECONOMIC MODEL, COUPLED WITH A DELIBERATE DEMOCRATIC DEFICIT AND AUTHORITARIAN STYLE OF GOVERNANCE AS A SOLUTION

China has already surpassed Japan as the second biggest economy in the world. Right now many observers predict that it is only the matter of time before the PRC catches up and even perhaps surpass the current no. 1- USA. Is it a realistic notion, and if yes, under what conditions?

It is worth remembering, that the PRC has for many years now attracts most foreign investors in the world, regularly updates its production and services, develops the stock exchange, emphasizes education and science and generally has an excellent understanding of the main challenges it will face in the coming decades. The PRC’s development policies are being mapped out every five years. They sketch out the direction of the country’s development, which affects both the private and state dominated sectors. The present, twelfth plan has been published in March 2011 and covers the 2011-2015 period. The plan contains policies which are supposed to facilitate the rise of domestic consumption, improvement of the quality of life, development of the western and central regions, as well as improving environmental

protection. It names seven strategic economic programmes which will receive special exemptions and financing:

- Energy consumption limitation and environmental protection
- New information technologies
- Biotechnology
- Manufacturing of high quality machinery
- New energy sources
- New materials
- Vehicles powered by clean energy

If these are realized, there is a great probability that already around year 2020-2025 China will become world’s greatest economic power (overcoming the USA) by such measures as share in global GDP or current account balance. However, the Chinese standard of living, measured by GDP per capita (even in PPP terms) will remain lower than in the Triad economies for much longer.

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