The Emerging Role of China in Global Economy

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China is known for its huge population; it is currently the most populous country in the world with more than 1.3 billion people (Central Intelligence Agency, 2011). Decades ago, many people did not know much about China. Nonetheless, its economic growth has been growing so rapidly and significantly that it started to draw the attention of the world leaders, economists, and foreign affairs officials. Recently, it even surpassed Japan as the world's second largest economy in terms of GDP output (Ujikane, 2011). During 2010, China's GDP reached its highest of $ 5.88 billion while Japan's 2010 GDP is $ 5.46 billion (CIA, 2011). Today, most of the things that is consumed or used by the world population are made in China. It is the world's biggest exporter with $ 1.5 trillion of exports in 2010 (CIA, 2011). China's growing power and importance in the world had gotten to the point where its domestic actions and policies start to influence the global market. This research project will examine and evaluate China's emerging role in the global economy, as well as its significances to the rest of the world. It starts with the review of China’s history and economic reforms, and then the research will analyze and compare its GDP, Foreign Trades, and Foreign Direct Investments with other developed countries. Furthermore, it will assess the geographical impacts and downsides of its economic success, and it will provide the future outlooks of what China would do with its rising power and influence in terms of policy implementations and global issues.

History

China was once known for its great civilization. During the 11th century, China was the most developed economy in the world. At that time, China had advanced technologies in rice cultivation, printing, ship building and compass, gunpowder, scientific and technical experimentation. Not only in technology, China had also grown in economic revolution; such as population boom, commercialization, paper money, iron, steel, textile, silk, and ceramic (Ebrey and Schirokauer, 2008). Nevertheless, there were domestic revolution and the unsuccessful war which destroyed China. Furthermore, Russia had realized China's condition and took over the province in the China's Northern part. In addition, France took over Indo-China province and enforced Beijing to renounce its colonial power (Fitzgerald, 2010).

Around 1700s, most of European countries and North America were experiencing the industrial revolution, but it did not occur in China due to shortages of capital and excessive government control. In addition, domestic industry and manufacturing were managed by the society. These reasons caused hesitation among investors to invest in China; instead such investments were made to Europe and United States. After the first Opium war, more foreign investors started to come, and the output of manufactures grew slightly. However, the profits were not re-invested to China (Veeck et.al., 2007, p.270).

In 1949, China, led by Mao Zedong, had been proclaimed Communist. During his leadership, he tried to shift the economic power back to the China's interior from the coast. He promised to restore China's focus to interior development (Veeck et.al., 2007, p.193). Few decades after Mao Zedong leadership around 1978, Deng Xiao Ping was the one who change the economic system. The reform sought to take advantage of the supply and demand system. Initially, the system was implemented to agriculture segment and its production rose significantly (Veeck et.al., 2007, p.185). Then, the reform was implemented in certain cities to other sector of industries; this reform was called "socialism with Chinese Characteristics." It was kind of a "Dual Track" system where the country used capitalist economic system, and still maintained some elements of traditional central planning (Veeck et.al, 2007, p.188). Deng continued with the ideas of four modernizations from Premier Zhou Enlai which are focusing on agriculture, industrial, technology and defense (Veeck et.al, 2007, p.273). Since then, China has been growing extraordinarily, in terms of GDP growth, import and export trade, and Foreign Direct Investment. If China can maintain its level of growth and development, then China could arguably be the most powerful country in terms of economy within the next few decades.

Analysis

GDP rate of a country determined the growth of its economic output. Each country will have various GDP. If a country has higher GDP, that country is considered as having stable economy. On the other hand, if a country has lower GDP, then it is considered as having volatile economy. Table-1 shows 2010 total GDP in the top five countries in the world. The total GDP of the United States is still number 1; this GDP presented that USA is a rich country with high per capita income, and it is also considered as the most powerful economic country in the world. On the other hand, China had just become the second most powerful country by GDP. In 2009, China’s GDP was a little bit below Japan. As many economist and analysts expected, it surpassed Japan in 2010. Graph-1 shows that China’s GDP growth rate has been growing rapidly over the past decades, while GDP of Japan and USA had been kind of stagnant in the last decades. China’s average GDP growth rate from 2000 to 2010 is 17%. If this growth rates continues, it is expected that China would surpass USA to have the world’s largest economy by 2030 and become the most powerful country in the world.

In 2010, China was the world's biggest exporter; it generated almost 10% of the world merchandises exports (CIA, 2011). Exports make up the value of all goods and services supplied to the world. On the other hand, imports mean receiving goods and services from the rest of the world. It “includes the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services" (World Bank, 2011). China's trade with the world has also grown extensively in the last decade; from 2001 to 2010, its exports grew from $266 billion to $1.578 trillion. Similarly, its imports grew from $243 billion to $1.395 trillion in 2010, which made China the world second highest importers after US (Table 4). The rest of the worlds are depending more on China in the past few years; especially its top trade partners, such as United States, Japan, Taiwan, South Korea, and Germany (US – China Business Council, 2011). For that reason, China also has to maintain a good relationship with these countries, so they will keep buying and selling to China. Additionally, this situation shows clearly that China holds a major role in global economy.

Foreign direct investment is "the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor" (World Bank, 2011). It could be a joint venture, stock purchase, wholly owned subsidiary, etc. FDI in China had grown significantly from $3.5 billion in 1990 to $147.8 billion in 2008. Many foreign companies invested in China to build manufacturers, branch offices, retail stores, car dealers, network infrastructure, financial services, etc. According to AT Kearney's FDI Confidence Index Report, China has the highest index of 1.93 in 2010, and has been the index leader since 2002 (Laudicina et.al, 2010, p.10). China's increased of domestic consumption in all market sectors are part of its attractiveness for the foreign investors. In 2009, Chinese bought more new cars that Americans, which was the largest car market in the world. Moreover, China politics environment is stable, and its efforts in reducing its dependency on trade exports have so far proven to be successful; it shows an optimistic sign to foster China's long run economic growth (Laudicina et.al., 2010, p.12). Being the top choice of FDI destination country for the last decades has placed China in a very important position in the global economy.

Impacts on regions

Special economic zones are generally defined as regions or areas in a country which has different economic regulations and rules, and it usually offers certain incentives to businesses or foreign investors, such as free trade, lower business taxes, etc. It is done so in order to attract more investors to invest or open business in those regions (World Bank Group, 2008, p.2). China established four SEZs in 1979 which include Shenzen, Zhuhai, Shantou, and Xiamen. These SEZs have capitalist-oriented market, and they are allowed to create their own system and regulations. All of these 4 initial SEZs are located close to Hong Kong and Taiwan due to the already established transport and shipping system in these regions (a.k.a. Pearl River Delta region) (Veeck et.al., 2007, p.245). With all the rapid success that these regions achieve, China opened up 14 SEZs in 1984, and created Open Economic Regions in 1985 (Map 1). The economic development of SEZs has been fundamentally influenced by huge investments from overseas Chinese in Hong Kong and Taiwan. These SEZs served as a model for China spatial reorientation, and they take China toward its current success, the world second largest economy (Veeck et.al., 2007, p.178).

The new regulations and special treatments to coastal regions allow greater and more advanced developments in those regions compare to the other part of China; especially, Central and West China. This social and economic disparity resulted in complaints from the disadvantageous regions, which demanded similar treatments (Veeck et.al., 2007, p.196). As a result, China modified its legal system and economic policies for the interior regions to attract foreign investors. In 2000, during the Third Session of the Ninth National People's Congress, Shi Guangsheng, China’s Minister of Foreign Trade and Economic Cooperation, noted that “in implementing the strategy of western region development, the State will adopt a series of preferential policies to encourage foreign businesses to invest in central and western regions” (Mission of the People's Republic of China, 2004). The new policies are 15% income tax reduction for foreign investors that invest in the selected category or industry in the western region. Reinvestments by foreign investors will be entitled to preferential policies on condition that foreign fund exceeds 25 percent of the total existing invested capital. Foreign-invested enterprises in East China are allowed to conduct business or deal with foreign and domestic-funded enterprises in West China (Mission of the People's Republic of China, 2004). In addition, “importing items and equipment for scientific and technological development by qualified foreign-funded R&D centers will be exempt from tariffs, importing value-added tax and goods and services tax by the end of 2010” (China Briefing, 2010). Moreover, the Chinese government will create, update, and add more accommodating regulations and measures to encourage foreign investments in the western region with the purpose of increasing the development of the Central and West China economy.

Drawbacks: High Reliance on Exports and Inflation

Even though China’s economy has always been growing rapidly in the past decades and it has the largest foreign reserve in the world, it does not mean that China has no economic issues in its own. There are few downsides from its economic success; and the two major downsides are high reliance on exports and inflation. In 2008, the global economic recession affected China’s exports significantly. For almost three decades since 1979, its exports had always been increasing; nonetheless, in 2009, its export growth was decreasing from $1.4 trillion in 2008 to $1.2 trillion in 2009. In 2006, China’s export was accounted for about 39% of total GDP (World Bank, 2011). Therefore, China has to increase its domestic consumption in order to make the economy less dependent on exports for future GDP growth.

The other economic problem that China faces is inflation. According to Daryl Jones (2010), "Chinese CPI and PPI are up 2.8% and 6.8%, respectively, year-over-year. Combined, this is the largest spike in combined inflation in 18 months; Chinese property prices, based on a survey of 70 cities, were up 12.8% year-over-year in April." In the recent months, Chinese government had modified some of its regulations and policies to slow down the inflation, such as increase interest rates on loans and deposits, raise the capital reserve ratio for banks, raise agricultural subsidies, and forbid some Chinese companies from raising consumer prices (Barboza, 2011). If these two issues continue, it might threaten China's economic growth in the long run.

Planning

The 12th Five Year Plan

In 1953, China introduced its First Five Year Plan which includes allocating resources, planning for economic development, setting economic, political, and social targets, and preparing for policy or regulation reforms. This plan is based largely on the Soviet approach to economic planning, and it has been proven successful so far (Veeck et.al., 2007, p.183). In its 12th Five Year Plan (2011 – 2015), some of China key economic targets are as follows (Xinhua, 2011):

- 7% annual GDP growth
- 45 million new jobs in urban areas
- Less than 5% urban unemployment rate
- Keep inflation at its minimum
- Increase domestic consumption (reduce dependence on exports)
- 47% of GDP from service sector value-added output

Investing overseas (Outward Direct Investment)

Besides receiving a lot of foreign investments, China has also started to invest overseas.

With foreign reserves of $2.85 trillion by the end of 2010, China is currently the world largest capital surplus country (Bradsher, 2011). Despite global financial crisis in 2008, China Outward Direct Investment (ODI) has continued to increase. China's ODI went from $26.51 billion in 2007 to $55.91 billion in 2008, an increase of over 110 percent. In 2010, China ODI was $59 billion, making China the world's fifth largest ODI investor (Salidjanova, 2011, p.1). Based on the analysis by Salidjanova (2011), USCC Policy Analyst, the purposes of Chinese ODI are to get access to raw materials and energy, acquire technology, brands, and know-how, seek new market, and avoid trade barriers (p.10). According to the Chinese Ministry of Commerce (2011), "China's ODI will surpass foreign direct investment (FDI) in the country in the next five to 10 years".

Conclusion

The role of China in the global economy has drastically changed in past few decades. From a closed country with almost no connection with the outside world, it has now evolved and become a very influential one in the global economy. It serves "its commercial role as market, producer, and investor; its industrial role as manufacturer and innovator; its service role as collector, distributor, and processor of goods, services, and information" (Veeck et.al., 2007, p. 182). It is currently the world's largest exporter and the second largest importers. China's foreign trades and its inflows of foreign investments have made China the world largest capital surplus country. Its economy was so powerful that its GDP was still growing during the global economic recession in 2008. One of China's most important global activities is its role as an investor in the international market. Its ODI has increased from less than $100 million in the 1980s to $59 billion in 2010 (Salidjanova, 2011, p.1). China is planning to match its outward investment with its inward investment within the next five to ten years, which would surpass $100 billion.

Currently, China's top investments destination countries are Australia, Hong Kong, USA, and some Asian and African countries. With its foreign capital reserves level, it is very likely that China would be the world's largest ODI country in the next decades. Moreover, China is planning to play a bigger role in South East Asia, and it is vowing to give financial assistance to many of the developing countries in Southeast Asia. In April 30, 2011, Wen Jiabao, Chinese Premier, said "China would speed up land transport connectivity between China and ASEAN and provide financial support to road, rail, communication, electricity and other infrastructure development in ASEAN countries" (Deng, 2011). One of the examples, China would give $19 billion loans to Indonesia in 2011 (Suharmoko and Rondonuwu, 2011). China's plans and activities represent an important part of the reform of its domestic economic policies and the implementations of its 12th Five Year Plan; furthermore, its emerging status as one of the global economic power will be more prominent in the next few years.

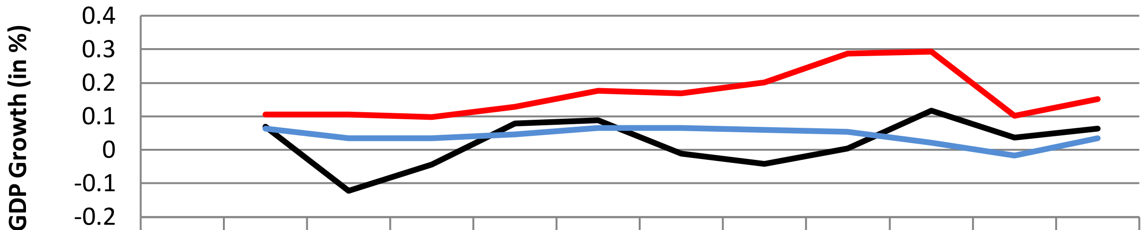
Appendix

Table 1: Top 5 Highest GDP in 2010

Country	GDP (US $ in trillion)
United States	14.62
China	5.745
Japan	5.391
Germany	3.306
France	2.555

Source: www.cia.gov

Graph 1: GDP Growth Rate
2000 - 2010



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CHN	11%	11%	10%	13%	18%	17%	20%	29%	29%	10%	15%
JPN	7%	-12%	-4%	8%	9%	-1%	-4%	0%	12%	4%	6%
USA	6%	3%	3%	5%	7%	6%	6%	5%	2%	-2%	4%

Source: Worldbank.org

Table 2: 2010 Top 5 Exporters (US$ in trillion)

RANK	COUNTRY	EXPORTS
1	China	1.578
2	Germany	1.337
3	United States	1.27
4	Japan	0.7652
5	France	0.5087

Table 3: 2010 Top 5 Importers (US$ in trillion)

RANK	COUNTRY	IMPORTS
1	United States	1.903
2	China	1.395
3	Germany	1.12
4	Japan	6.368
5	France	5.777

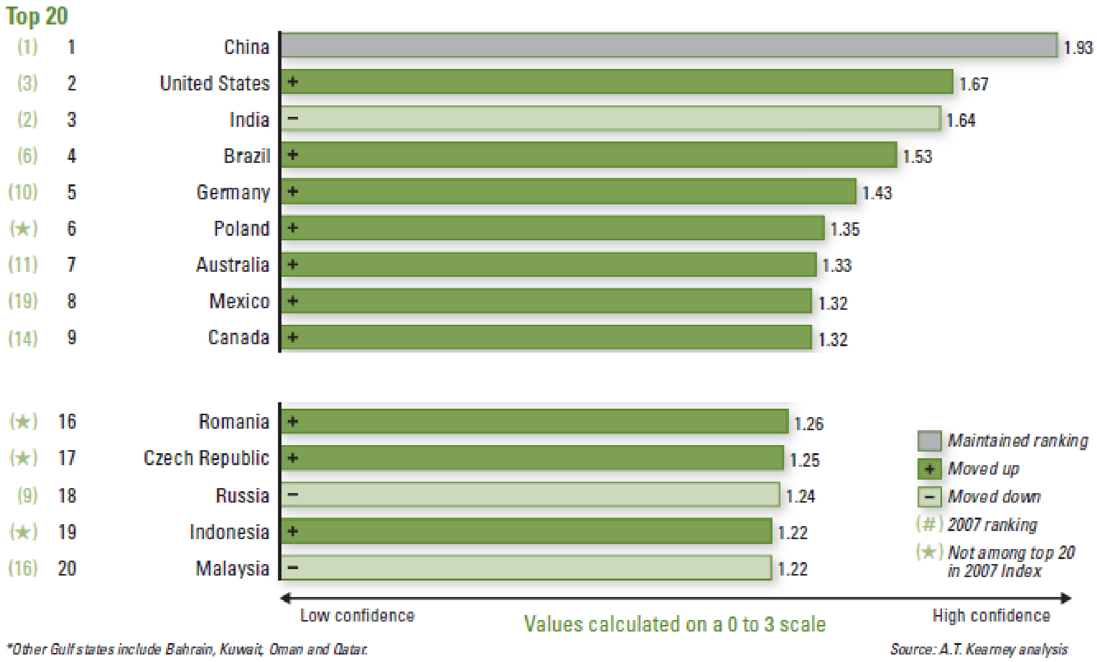
Source: www.cia.gov

Table 4: China's Trade with the World, 2001-10 ($ billions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	266.1	325.6	438.2	593.3	762.0	968.9	1,217.8	1,430.7	1,201.6	1,577.9
% change*	6.8	22.4	34.6	35.4	28.4	27.2	25.7	17.5	-16.0	31.3
Imports	243.6	295.2	412.8	561.2	660.0	791.5	956.0	1,132.6	1,005.9	1,394.8
% change*	8.2	21.2	39.8	35.9	17.6	19.9	20.8	18.5	-11.2	38.7
Balance	22.6	30.4	25.5	32.1	102.0	177.5	261.8	298.1	195.7	183.1

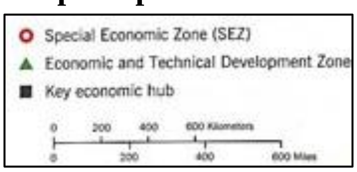
Notes: *Calculated by USCBC. PRC exports reported on a free-on-board basis; imports on a cost, insurance, and freight basis. Source: PRC National Bureau of Statistics

Figure 1: 2010 FDI Confidence Index



Source: www.atkearney.com

Map 1: Special Economic Zones



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