

CIGI'08:

China in the Shifting World Order

Student Session Reports

Session Report: The Rise of China

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Where is China today? This session attempted to get a sense of the proverbial "rise of China". Where China is today? Where will it be tomorrow? The implications of these questions are quite daunting both for China and the world, in terms of both the challenges and the opportunities that present themselves.

Understanding where China will go tomorrow requires understanding where China is today, and the challenges that will define its future. In the four decades following Deng Xiaoping's "opening up" of China in 1978, China has experienced remarkable economic growth. The gross domestic product (GDP) has increased by an average of 9 percent every year after 1978. At that time, China was one of the least developed countries in the world and its economy was extremely isolated. Eighty percent of its population lived in rural areas, three hundred million of whom were desperately poor, at a time when the total population was significantly smaller. Economic policies were focused on heavy industry state-owned enterprises.

Since that time, a number of processes have led to a near total transformation of the Chinese society. The keys to China's success have been, among other things, the government's embrace of an open market economy, a shift in economic policies towards favouring smaller and more dynamic private enterprises, and the emphasis on

industry and the service sector as opposed to agriculture. The locus for economic activities has moved from the countryside to the cities. Economic openness and market reform have fostered competition, decentralization, transfers of technology and knowledge, and reallocation of capital and labour. Its enormous trade surpluses with other countries have allowed the China's government to acquire US\$1.8 trillion of American government debt in the form of US Treasury Bills and Bonds. It is important to note that these transformations have happened simultaneously, but with their own driving forces and dynamics.

Solving today's problems, meeting new ones

China's unrivalled economic success has come at a steep price. China is finding out that rapid development comes with a host of unwelcome consequences and externalities, including mounting social costs and a massive pollution problem. Deep chasms have opened up within China: divides between rich and poor; urban and rural and east and west; and the export-oriented coastal provinces and the land-locked provinces of the interior. China has not been spared from the vicissitudes of the global economy, and though it steered clear of the Asian Financial Crisis in 1997, the current financial crisis is wrecking havoc in the export-oriented provinces. Chinese stock markets have been hit particularly hard, and the bottom has fallen out of the housing market, leading prices into a tailspin. High levels of government investment have compromised the resilience of Chinese markets.



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Economic development has been the primary objective of the last three decades, to the detriment of other policy areas, and there is a growing sense that China needs a more comprehensive approach. Starting in 2008, a nationwide debate sprung up about how to make China's development more balanced, sustainable and comprehensive. A growing consensus advocates a shift away from a single-minded focus on the economy towards a new paradigm centred on human needs. China needs new policies aiming for a more congruent approach between the economy and social, environmental and cultural dimensions. The focus furthermore needs to be on development that is sustainable, not only in terms of the environment, but also in terms of institutions and the financial system. Ever-increasing supplies of affordable energy is critical to China's future, but should not be allowed to compromise China's efforts to deal with massive pollution problems.

Much of the debate about the future concerns how China will meet the considerable challenges facing it. In other words, its future will be largely defined by whether, how, and to what degree, it manages to meet them. Yet, some problems that will arise are universal constraints rather than domestic ones. One such issue regards how long China's economic engine can keep the same break-neck speed. Data from the neighbouring economic "tigers" — Japan, Taiwan and South Korea — suggests that the GDP threshold where economic growth starts to decelerate is around US\$13,380 per capita. With continued growth in excess of 10 percent every year, China will reach this point in ten year or less. After that, the future becomes dramatically less predictable.

A large part of the reason for that is that 55 to 60 percent of China's dramatic growth has taken place in the so-called extensive margin (in other words, the number of potential inputs, such as capital or labour, which are employed in the economy). Early on, China drew on a massive number of poor subsistence farmers and urban unemployed to fill new service sector and industrial jobs. However, the extensive margin is now largely exhausted, which implies that further productivity growth will have to come from the intensive margin. In other words,

further gains must be derived from utilising existing resources such as labour or capital more intensively. This could happen through for example a reallocation of these to more productive areas of the economy or increased investment in research and development. On the other hand, China continues to be hampered by structural inefficiencies, biases in the financial sector, and the continued emphasis on the industrial strategy of promoting Chinese counterparts to the Japanese "keiretsu" and the South Korean "chaebols." These are large, government supported and family-controlled business conglomerates that too often attain monopolistic tendencies and lead to problems for small firms in securing financing.

Where will China be tomorrow?

China is different from the West, but it is also different from other socialist nations. Despite China's communist ideology it has developed a taste for capitalism, and has engaged extensively with world markets. China is also many different things. It is a nation state, concerned about its sovereignty and territorial integrity. It is vast spanning, with enormous cultural, geographical and social differences. China is also very old. These facts, and others, mean we cannot predict China's future by looking at the development of western countries.

China is not standing still. It has signalled commitment to a slew of important reforms, such as development of the countryside and its western provinces, increased transparency and a clamp-down on corruption. There appears to be a broad consensus within China to continue the process of opening up to the outside world, and to foster increased communication in order to build trust and mutual understanding. Part of the process of opening up also includes becoming more involved in global affairs, such as the current financial crisis, or security issues. However, in order to do this, China must resolve a growing number of domestic challenges. The next 30 years will be critical in that regard, and promise no easy solutions. In this period, China faces challenges in reforming medical care, building a social security net, funding pensions and strengthening the rule of law, to name but a few.

Will China rise to become a superpower? Will it surpass the United States as the world's principal economic engine and locus of global affairs? China will undoubtedly become more powerful, but its lack of global ambitions may keep it from becoming a superpower. It is not a given that China will assume a leadership role. In fact, it has thus far not been eager to do so, pursuing instead issues of national interest such as securing supplies of raw materials. China nevertheless has an important role to fill in the world if it so chooses. The west cannot leave China out, nor should China refuse to get in. On the other hand, China is an ancient civilization, and many of its contributions have been of the non-material form. Perhaps one of the most valuable lessons it has been bestowed on us all is the vision of a harmonious world. It dictates that by appreciating your own beauty and knowing how to respect the beauty of others, we can all learn to appreciate the beauty of each other. There is much wisdom in that, which we should all remember.

About the Author

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