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Chinese Dominance in the Global Economy

A study of effects of how China's economy affected other economies.

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Abstract

The story of economic development in China is interesting. Since its inception of People's Republic of China in 1949, the economy was based after the soviet model. So, accordingly, the communist China severed its ties with the capitalist world. It substituted imports with domestic goods using its own resources. However, it was also very dependent on Soviet resources and advices.

The aim was to create a model of state-owned heavy industries sector from the capital accumulated from agriculture. This model allowed China to use its resources to establish the foundations of an industrial economy. Employment and social welfare were assured to all citizens, and China moved ahead of most developing countries in educating its citizens and ensuring better health for them. The Chinese leadership took major policy decisions in the 1970s. This was because industrial production was not growing fast enough, international trade was minimal and per capita income was very low. China ended its political and economic isolation with the establishment of relations with the United States in 1972.

The privatisation of agriculture in 1982 was followed by the privatisation of industry in 1998. Trade barriers were eliminated only in Special Economic Zones (SEZs) where foreign investors could set up enterprises. In China, the state played and continues to play a central role in setting up a market economy. Privatisation of agriculture led to a remarkable rise in agricultural production and rural incomes. High personal savings in the rural economy led to an exponential growth in rural industry. The Chinese economy, including both industry and agriculture, grew at a faster rate. As of 2020, Chinese have come a long way. With the second largest economy of the world, it dominates the global economy. The paper analyzes its impact on Pakistan, Africa and USA.

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I. INTRODUCTION

It is not a surprising fact that the Chinese economy has been the fastest growing economy of the world since decades. Even around 1700s, the Chinese economy was globally dominant and was far larger than that of Britain or of the United States. Even then, the distribution of income among its people (that is, the per capita income) has remained unequal through-out the years.

China has an average growth rate of almost 10% since the past 30 years and also it is the most populated country in the world. The main reason of this rapid growth of the Chinese economy at a rather rapid pace is through its mass exporting to foreign countries.

The enterprises are mostly state owned or of mixed ownership, and thus the system is described as a socialist market economy. Out of the 10 largest stock exchanges in the world, 3 of them are in China alone, consisting of the Shanghai, Hong Kong and Shenzhen stock exchanges, by both- market capitalisation and trade volume. There is also a rapid increase of Foreign Investors by almost 45% in the Chinese bonds. The public sector in China generates more than 60% of employment in the country, thus signifying a heavy role of the State. China also enjoys an abundant availability of natural resources and has the world's largest total banking sector assets. It receives the highest Foreign Direct Investments (FDI) in the world as of the year 2020, receiving inflows of $163 billion. It has the second largest outward foreign direct investment, at US$136.91 billion for 2019 alone, following Japan at US$226.65 billion for an equivalent period.

The country also has the highest number of billionaires in the world, with total of 658 billionaires and second highest number of millionaires, with a total of 3.5 million millionaires! The country accumulates most of its wealth from exports, since it is also the largest manufacturing economy of the globe. China entered the World Trade Organisation and became its member in the year 2001. Since then it has a free trade policy with several nations, including ASEAN (Association of South East Asian Nations), Australia, South Korea, New Zealand, Pakistan, India, Taiwan, Vietnam. The country has the largest manufacturing capacity, resulting in it contributing to largest number of people in the Chinese work force, which are around 778 million people.

In this report, the main focus will be around the dominance of such a huge economy towards countries like United States, Angola and Pakistan along with some other countries.

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II. REVIEW OF LITREATURE

The economic reforms implemented by China in 1978, helped China majorly towards its achievement of becoming a global economic leader. China follows a Socialism economic policy, which even though is criticised by some, proved to be an effective method for the Chinese. The control of the State on various businesses and restrictions imposed by them helped boost the employment, but on the other side of the coin, prevented the countries' globalisation.

"The Economics of China", published by the National Bureau of Economic Research, states their own perspectives of the economies of China- the past experience and the future prospects. While the Chinese aggregate development is impressive, it has raised the question of whether the growth is sustainable, and has led to a set of distributional issues and wellbeing concerns. They argue that the interior issues combine with those raised by China's rapid integration and ever-growing presence within the international arena to jointly frame the challenges by the Peoples' Republic. There are major challenges that China needs to face to stay on the upward economic trajectory. First, the growing population imposes a threat on the already uneven and stressed natural resources. Further some other threats are degrading land, water and air pollution, climate change, etc. to name a few. Second, the various inequalities regarding distribution of income and lower tax for state owned companies, lower minimum wages pose a threat. These are although addressed by the government; their implementation seems to be vague and narrow. Third, China has a large number of State owned enterprises which hold monopolies in "strategic sectors" such as banking, telecommunication, energy and utilities. State-owned enterprises have access to lower interest loans from the state-dominated banking sector. Such preferential access to cheap credit for state-owned enterprises suppresses the competition and innovation from the private sector (both domestic and foreign) and encourages the inefficient allocation of resources, over-investment, and overcapacity in industrial production.

"A theory of economic development and dynamics of Chinese economy" by SaiteLu, Jim H.Shen, WeipingLi, JunZhang; constructs a theoretical model which captures the recent slowing-down of Chinese economy. The economic process in China has been heavily reliant on investment and exports for quite a while . The failure to translate the advantages of economic process into domestic consumption involves urgent action to rebalance the Chinese economy. Another important result is associated with China's accumulation of foreign reserves and net capital flows. In contrast to the favored argument that the growing foreign reserves in China are, thanks to the manipulation of its exchange rates and export-led growth, the financial domination plays a key role in understanding the foreign reserve accumulation in China.

- "China and India in the Global Economy" by Jens Hölscher, Enrico Marelli and Marcello Signorell have highlighted the positive growth effects of opening and integrating in the world economy for both countries. On one hand, the extraordinary growth of those countries can sustain global economic growth; on the opposite hand, world economic dynamics obviously affect their economic performance. Therefore it is not clear, whether these growth rates will be sustainable in an environment of a sluggish recovery from the crisis in Europe and the United States. Some reorientation by the Chinese towards domestic development rather than export-led growth might be appropriate. In addition to the continuation of important investment plans for infrastructures, housing, education, etc. also consumption should increase in the next years, for India. However these two giant economies have unequal distribution of income, which can be overcome by liquidation of such extensive reserves such as gold and commodities, and also by expansion of public services.

III. OBJECTIVES OF STUDY

1. An analysis of how the fastest growing economy dominates the globe.
2. A study of Chinese economy and its impact on other economies.
3. Tools used by China to establish dominance.
4. How fast is China really growing? What is the end result?

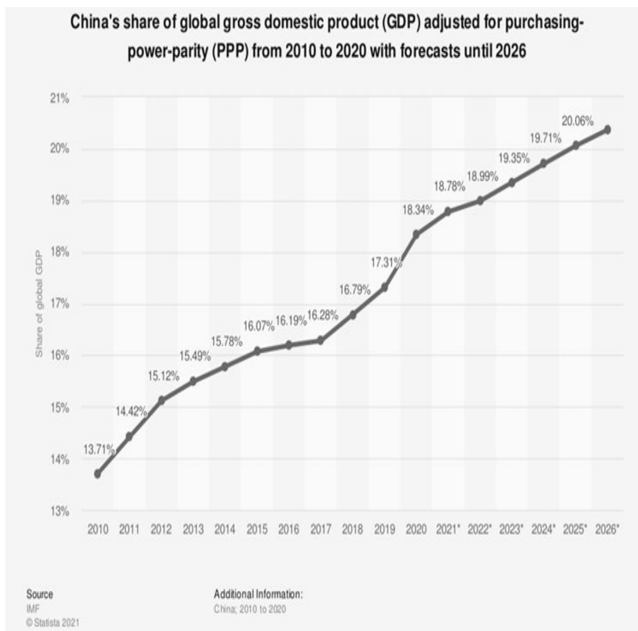
IV. RESEARCH METHODOLOGY

The study has been done via data collection mode only, that is, the study has been carried out with the help of secondary data only, collected from various government websites, reports, journals, statistical collections, articles and the like.

For the Data Analysis part, pictorial representations have been made from verified secondary sources, below which the necessary observations are stated.

V. DATA ANALYSIS

Graph 1



China is the largest importer and exporter of products in the world and is also among the most important manufacturing economies in the world. The country is also amongst the world's largest agricultural producers and consumers. It relies heavily on intensive agricultural practices and is the world's largest producer of pigs, chickens, and poultry. Livestock production has been heavily prioritized since the mid-1970s. China's chemical industry has also seen a substantial rise with a heavy focus on fertilizers, plastics, and synthetic fibers. China's usage of chemical fertilizers amounted to approximately 54 million metric tons in 2019.

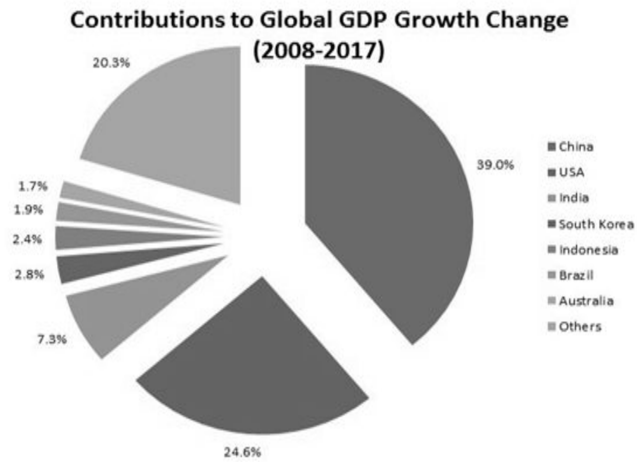
GDP composition in China

Construction and Industrial sector account for almost half of China's GDP. Some of the main industries include mining and mineral extraction, food processing, coal, machinery, textiles and apparel, and consumer products. Almost half of China's output is devoted to investment purposes. However, because the country tends to support gross output, innovation, technological advancement, and even quality are often lacking.

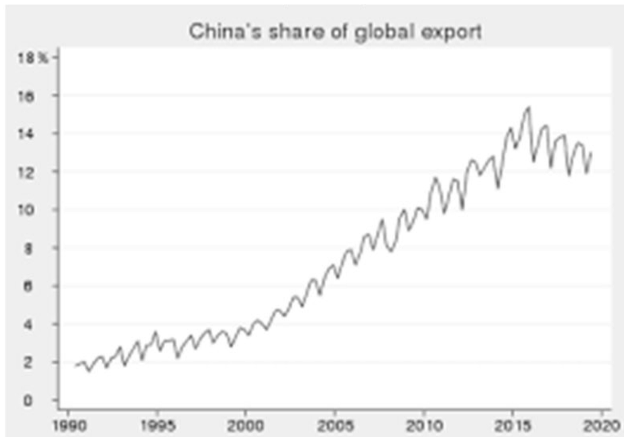
Graph 2

During the past four decades, the Chinese economy has experienced as many as three growth surges. The first took place following the period of 'reform and opening-up' from the late 1970s; the second occurred post-implementation of taxation reforms in 1994; and the third happened after China's entry to the World Trade Organization (WTO) in 2001. Over the entire period of reform (1978–2018), the annual growth rate of the Chinese economy was more than 9 per cent and China's per capita income reached US$9,600 in 2018.

Rapid growth in China has led to its economy making up a significantly greater share of both the Asian and the global economies. In 1980, China contributed about 2 per cent of the global economy; in 2018, this was nearly 16 per cent (Above figure). Furthermore, the importance of the Chinese economy is not only seen in its own mass scale, but also in its contribution to global economic growth. In 2018, China was the largest contributor to global economic growth, at 32 per cent.



Graph 3



In 1986, to reinforce and secure access to foreign markets for its growing exports, China applied to hitch the general Agreement on Tariffs and Trade (GATT). The newly formed WTO – founded in 1995 – provided a more structured regulatory environment for international trade, a global dispute settlement mechanism, and also as lower cross-border transaction costs resulting from lower tariffs and restraints on the utilization of some non-tariff barriers.

China's accession to the WTO in 2001 allowed Global Value Chains (GVCs) to reliably tap into the country's potential as a producing powerhouse, enabling it to dramatically expand its exports to the rest of the world. From then on, history was written fast. By 2010, China was already the world's undisputed export leader.

The COVID-19 pandemic has further demonstrated the key role that China plays within the global economy. In early 2020, when COVID-19 infections were gathering pace across the country, production processes across the world stopped or slowed due to disruptions faced by Chinese suppliers.

Moreover, high levels of export stability had afforded China not only a swift export recovery from the pandemic, but also allowed for further gains across a spread of export sectors, despite the fact that those sectors have experienced overall decline. As a result, China's share in the world trade increased further during 2020, to just about 15%.

In 2021, China's trade recovery from the pandemic crisis has been impressive. In the first quarter of this year, its exports surged by almost 50%, comparatively to the previous year.

Although such a large increase is partly due to the low base of the previous year, the result of the first quarter is still 27% higher (about $150 billion) than the first quarter of 2019, that is, before COVID-19 hit China and then the global economy.

Expert opinion on Chinese Dominance:

China's future development and dominance is likely to have an immense impact on twenty-first century global outcomes. It is therefore surprising that, so far, so little attention has been given to comparing and evaluating expert forecasts of China's future economic growth.

Chinese leaders recognize that the global trade regime has been extremely important to the country's economic and military rise. Yet when they look at the key features of the world, they see mostly threats. In their view, American alliances do not prefer peace and stability; they hamper China's potential and prevent Asian nations from giving Beijing its due.

Seen through that lens, promoting democracy and human rights is neither moral nor gentle, but a mere propaganda supporting a dangerous doctrine that threatens to delegitimize the Communist government and energize its domestic enemies. U.S.-led international institutions appear as tools for imposing the States' will on weaker states.

VI. FINDINGS

Economies affected by the Chinese-

- **China and Pakistan**

  China is dominating in the emerging power equipment markets around the world. Chinese Transmission and Distribution (T&D) manufacturers provide extensive investment and funding in a lot of high growth markets, with a precondition of providing equipment and services on these infrastructure projects. Pakistan is far and away the largest in terms of Chinese aid. A total of $35B has been secured by China for multiple power generation and transmission projects beneath the China Pakistan Economic Corridor (CPEC) agreement. The investment is spread across seventeen power generation projects and one HVDC transmission project. Chinese corporations, under CPEC, are going to be performing on four wind generation projects of 300MW capacity, one solar energy project of 900MW, three hydro power projects of two,714MW, five coal projects in Thar Sindh 3,960MW and 4 imported coal projects of 4,260MW in total alongside a ±660kV HVDC cable between Sindh and Punjab. These projects are of utmost strategic importance for China to expand their influence within the region. Operating with Pakistan results in shorter supply routes, and quick development of the western province of Xinjiang (Capital Kashgar).

Matiari-Lahore HVDC Project:

One of the key projects in China Pakistan Economic Corridor (CPEC) is the ±660 kV Bipolar Matiari-Lahore HVDC transmission line project, which will transmit 4,000 MW of electricity. This project is the first ever HVDC transmission line in Pakistan and it will also be the first transmission line project in the country being developed by the private sector. Previously all the transmission work was administered by the TSO, National Transmission Dispatch Company (NTDC), itself. The project includes two converter stations and two electrode-grounding stations at Matiari/Lahore, three repeater stations and a transmission line.

This provision of such an extensive debt given by China to Pakistan is a step towards achievement of dominance in the country. It is costlier for Pakistan to borrow from other countries and/or any other financial institution as a heavy rate of interest is attracted in the process. China very well knows this and the fact that the repayment of this debt by Pakistan won't be possible as the country is already burdened by previous debts, but as a part of their strategic dominance, they still provide the necessary funds without expecting return of the principal amount and at a very low rate of interest with manageable terms of compliance.

Now, during the time of repayment of such debt it becomes clear that Pakistan is unable to repay it along with interest, China proposes to take over the project for which Pakistan had taken debt. This would mean that Pakistan would no longer be liable to that debt, provided China would operate that project from Pakistan.

We could clearly see here that this would entail a continuous flow of revenue for China by operating in Pakistan and dominating through that project on which Pakistan's economy depended heavily.

China and Angola

China has been one among the main investor countries in Angola and, as per the unfinished statistics, up to now the Chinese investment volume already exceeded 20 billion U.S. dollars," said the Chinese Ambassador in Angola, Gong Tao, quoted by Portuguese press agency Lusa. In a news conference in Angola's capital, Luanda, the diplomat declared that Angola's debt to China decreased, supported a report on "China-Angola relations consistent with the eight initiatives proposed within the 2018 Beijing Summit of the Forum on China-Africa Cooperation (FOCAC)."

Acknowledging that the Angolan economy goes to a really critical phase with three recessions in 2016-2018, the document emphasizes the need for investment to spice up the economic activity and ensure employment creation for over 3.6 million unemployed people within the country.

This fact is not left unattended by the Chinese, as the country uses this as a base to establish dominance. China is always moving strategically in its achievement of global economic dominance.

There is conjointly the development of the electrical production plant of Soyo, supported by the commercial and banking concern of China and built by China Machinery Engineering Corporation (CMEC).

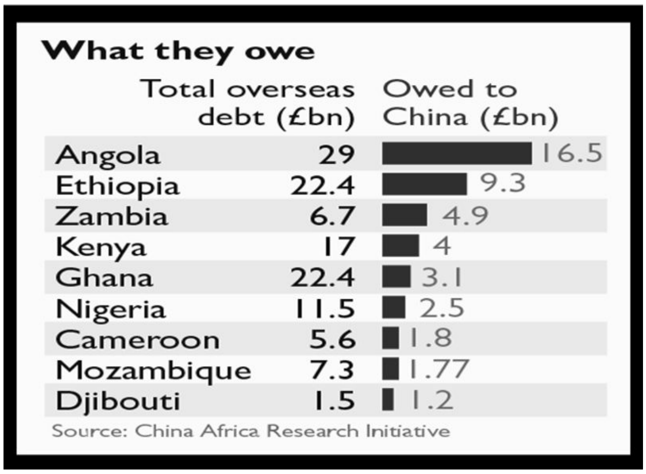
Since 2007, China has been the foremost important Angolan partner in terms of petroleum export, leaving the U.S. behind. As total crude exports decrease, the share destined to China continues to rise. In terms of imports, Chinese imports are far very less when compared to its exports. One could easily analyse here that the country focuses more on exports rather than on imports.

Financial relations between China and Angola grew in late 2003, when a “framework agreement” for brand spanking new economic and commercial cooperation was formally signed by the Angolan Ministry of Finance and the Chinese Ministry of Trade. There is also a $90 million loan by Angola from the Exim Bank of China for the rehabilitation of the Luanda railway and the construction of a 45 km electricity distribution line between Quifangondo and Mabubas. Angola has also received a $1 billion oil-back line of credit for the China Exim bank to repair the country's infrastructure.

In addition to trade, China has significantly stepped up its foreign direct investment (FDI) to Angola in the recent years. While the most crucial Chinese operations in Angola are concentrated in oil exploration and construction, there has also been a dramatically significant increase in non-oil Chinese FDI to Angola overall. According to Guo Zhen Fu, president of Nissan in China, economic stability in Angola has reduced the risks of investment and provides stability for investors. The Angolan government has conjointly inspired the private-sector development via a replacement investment law that has equal treatment to foreign and Angolan native firms, a replacement industrial code, and a land tenure law with the aim of clarifying property rights and customary tenure.

In 2005, the Chinese visited Angola with an offer. These included a $6.3 million interest free loan and a pledge to take a position of $400 million in Angola’s telecommunications sector, and $100 million to upgrade and enhance the Angolan military’s communication network. PRC companies have also been active in infrastructure projects like building roads, bridges, schools, shopping centres, office buildings and low cost housing projects. Early this year, the Chinese companies were awarded a huge contract to rehabilitate the Bengela railroad, which is the country’s major and critical railroad at a cost of $300-500 million. China has also been involved within the rehabilitation of Zambia’s rail network and is already participating within the construction of the stretch which will connect Zambia’s main railroad to the Bengela railroad, allowing landlocked Zambia to manoeuvre its products via Angolan ports.

Chinese companies also will begin work on a serious petroleum refinery soon. In 2006, trade between the 2 nations reached the $5 billion mark, making Angola the second largest Chinese trading partner in Africa and China the third largest Angolan trading partner. As of 2006 China has overtaken Portugal, Russia and Brazil as Angola’s favourite aid donor. Many Chinese companies using cheap labour from China are increasingly putting Portuguese companies, who have traditionally dominated the country’s market, fully out of business. While there are not any reliable sources on the amount of Chinese nationals in Angola, they're believed to number in several thousands. China’s ever growing entrenchment in Angola’s economy means that its ability to influence the MPLA’S government policies has increased significantly.



While the major Chinese exports in the whole continent of Africa, are more in Nigeria, however, Nigeria also has considerable amount of exports to China and the rest of the world. This puts Nigeria at an advantage against Angola when repayment of debt is considered. Angola has very low amount of exports to other countries (including China) and the major part of its debt, as shown in figure above, corresponds to the Chinese.

- **China and United States**

The United States of America needs China much more than China needs the United States. China continues to be an export-oriented economy, and therefore the American consumer is its, by far, the largest customer, but China’s export share of its gross domestic product has fallen from over 37 percent in 2007 to slightly less than 20 percent today, an vital outgrowth of a decade-long rebalancing. By drawing increased support from local demand, China is better able to handle the pressure of tariff taxes and other actions that are aimed at its exporters. Not so with the United States. The U.S. depends heavily on China for providing the low-cost goods that enable the financially weaker American consumers to make ends meet. The U.S. also additionally depends heavily on China to enable its own exports. Chinese goods are manufactured at a very low cost and this low cost provider strategy helps China to have an upper hand over the export of goods to the U.S., or say, any other country in the world.

The U.S. also depends on China to produce funding for its budget deficits. It is by far the largest foreign holder of U.S. Treasury securities –around $1.3 trillion in direct ownership and at least another $250 billion by quasi-government. A lack of Chinese buying could turn the next Treasury auction into a halt.

Over 70% of active pharmaceutical ingredients used in the U.S. market are produced overseas. Almost all pharmaceutical supply of the U.S. is imported from China. This dependency of the U.S. on China got heavier due to the on-going Covid-19 pandemic. U.S. is left with no choice but to import from the Chinese manufacturers, like all other countries are forced to.

There are major industries like the telecommunication equipment that is made in China. They’ve become the biggest players. The leading provider of 5G instrumentation — and largest owner of patents — is Huawei, not Cisco Systems.

A recent study found out that the United States is now dependent on foreign suppliers and producers for not only cheap products and consumer goods like footwear and plug-in headphones, but also high-end electronics, major pharmaceutical inputs and medical equipment, and also defence supplies and technology. The latter does not differentiate China.

VII. SUGGESTIONS AND RECOMMENDATIONS

- The countries who need to reduce their dependency on China should try to substitute the products they import from China to the local ones, or maybe import from other countries. If they go for the local method, they not only reduce their dependency from China, but also generate local employment which further enhances their economic stability. Another advantage from the local method is that these countries establish their selves as another alternative for other countries that depend on China in the same or similar form. Now, if producing locally seems impractical due to any given circumstances, then countries may try to find other importers apart from China. This will ensure that the particular countries' imports are highly diversified and no single country can create their own monopoly. As seen in India, the Prime Minister of the country, Mr Narendra Modi while giving his address to the country during the global pandemic, stated that India should be "Aatmanirbhar", meaning, self-sufficient. During this time of crisis, India took a huge step by banning various Chinese apps and encouraged people to buy 'Make in India' products and this initiative was a great shocker for China as well as the rest of the world.
- Another step that could be taken should be to reduce Chinese investments in the country by means of improving the tariff rates or imposing other various restrictions. China is the largest manufacturer of the world, particularly due to its huge population. However, so is India! The manufacturing bases could be shifted from China to India or any other country so that Chinese manufactures are forced to increase their prices or reduce their supply, or both.
- The laws for carrying out a business in China are very stringent. Therefore many are discouraged from doing business in China, which results in majority of profits being distributed to the Chinese itself. These same policies can be implemented by other countries so in order to ensure distribution to the countries' own people. This is known as "Reciprocal policies".

VIII. CONCLUSION

This study examines the implications of China's emergence as a serious player within the world economy. Its integration into the international economic order poses major difficulties for the remainder of the globe. These problems include bringing China's mixed market/centrally planned economy into the GATT, adapting to competition from labour-intensive Chinese exports, encouraging further market-oriented reform, and accommodating its demand for international capital. But China's participation within the world economy additionally offers vital opportunities for trade, investment, and international cooperation to promote world prosperity and stability.

China powered its way out of the coronavirus lockdown of 2020, becoming the sole major economy within the world to grow since last year. Its share of worldwide output exaggerated at the quickest pace in decades, which suggests that it could overtake the U.S. as the world's biggest economy sooner than expected. It's now on line to take the topmost spot as soon as 2028 — about two years earlier than predicted, in line with estimates from the Brookings Institute.

The rapid suppression of the virus allowed factories to resume production as the rest of the world was still locked down, while an export boom for everything from face masks to laptops helped fuel the rebound.

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