

China in the world economy

China's rapid development has brought changes at the national level: some good, some not. Another result of China becoming a major player in the world's economy is greater interdependence with the rest of the world.

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Economic achievements

Since the economic reforms and open door policy of the late 1970s, China's economy has grown at an annual average of 9.4 per cent. Living standards have risen accordingly. The average household saw its income increase twenty-fold over the past 25 years. In the early 1980s, bicycles, wristwatches and sewing machines were called 'the three most luxurious things'. Many households now own TVs while some urban families have their own cars.

To join the international economic community, new legislation since the 1980s has addressed enterprise, market order and macro-regulation, while laws such as the Trademark Law, Copyright Law, Patent Law and Foreign Enterprise Law have been updated. Laws addressing tax, food, consumers' rights, unions and environmental protection were written and gradually strengthened. This new legislation has created new possibilities.

Besides traditional state-owned industries, overseas and private investment have become major contributors to China's economy. IT, real estate and the automobile industry are now spurring national economic growth. The industrial structure has changed with the development of capital-intensive and technologically advanced industries; products have become high-tech. Government policy to invigorate the country's poor regions by exploiting natural resources in the West, revitalizing the Northeast's heavy industry and boosting Central China's economy is designed to balance the country's development as a whole. Joining the WTO has been a further spur to economic growth.

Problems

China's economic development, however, faces some tough problems. One is the increasing gap between rich and poor, as well as between urban and rural households. In Beijing, the income differential between high and low income groups is 4:1. This gap comes from many factors, including incomplete agricultural and economic reforms, regional differences in education and unbalanced economic development between districts.

The economic structure still needs improvement. Before China's reform and opening to the world, heavy industry was emphasized while development in agriculture and light industry stagnated. Economic growth was accompanied by shortages of daily necessities. Since 1978, China has unnecessarily been repeating basic construction work, while service industries have made up a small percentage of the national economy. China's fast economic growth also takes on the environment through pollution and the waste of resources. Until recently, China one-sidedly pursued economic growth with less-advanced science and technology in its production processes. Now environmental and resource problems have begun to restrict China's economic development.

China's economic development is also increasingly constrained by external factors. Worldwide manufacturing moving to China has increased energy and resource consumption; China now needs to import 40 per cent of its oil. The fluctuation of oil prices on the international market greatly affects China's economy. China's foreign trade is also limited by trade protectionism, while the RMB is under constant pressure to be revalued. All these problems are connected: solving one may create new problems elsewhere. When any problem, however small, is multiplied by a population of 1.3 billion, it becomes a huge problem; when financial power and material resources are divided by 1.3 billion, it translates into low per capita GDP. This calls for prudence.

China in the world

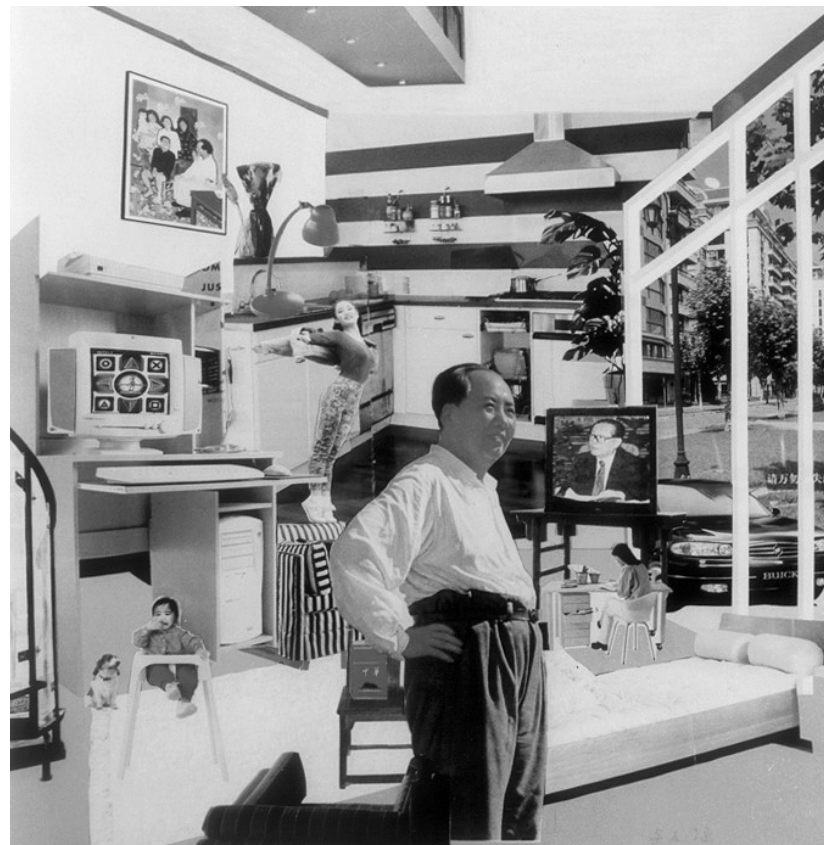
The Chinese economy, making up 12.6 per cent of gross global product, ranks third in the world in purchasing power parity. Number one, America, accounts for 21.1 per cent, and the EU, 19.9 per cent.¹ Last year, China was number four in the global commodity trade, with imports and exports valued at over 1,100 billion USD. China is now the EU's second-largest trading partner after the US, and the US's third. Alongside

the traditional economic centres of America, Japan, Germany and France, China has become a power in the world, particularly in Asia. Chinese economic development has given new drive to the world economy.

China's trade with the rest of the world keeps growing. In 2004, trade between China and the EU was valued at 125.84 billion Euros, up 22 per cent from the previous year; with ASEAN it rose 35 per cent to 106 billion USD. Trade with the US went up by 34 per cent to 170 billion USD, while trade with Japan rose 26.9 per cent from the previous year to 168 billion USD. China's economic development is creating opportunities for the rest of the world; certain industries and companies abroad, however, suffer negative consequences.

China and the EU

The China-EU economic relationship has grown rapidly. Since 1978, trade has increased 40-fold. The EU is China's largest trading partner, its fourth-largest foreign capital resource, and its largest technology exporter. Both China and the EU benefit from bilateral trade and investment; meanwhile, China's competitiveness inevitably threatens some EU industries, such as textile manufacturing, whose products are typically more expensive. As a result, some European companies have cut



Courtesy of Shanghai

jobs or moved production to China. For example, while workers in Germany have lost their jobs because of plant closings, in China Volkswagen has been booming. Europe, however, has maintained its superiority in highly-skilled labour, something China lacks. A Volkswagen technician in Shanghai stated that Chinese labour couldn't meet the German company's standard of quality. Given the trend in global labour migration, skilled German workers should be welcome in China, where some Europeans earn more owing to their companies' success in rapidly-growing economic sectors. For example, one of the China Petroleum & Chemical Corporation's three support industries, the multi-billion-dollar ethylene project, is entirely under contract to three European companies: BASF, Shell and British Petroleum. European companies are also well-represented in the construction of China's basic infrastructure: Siemens and the Swedish-Swiss ABB provide electricity and rail facilities, while France VEOLIA and British Thames Water are building province-level water factories. In this way, China provides a new market that fuels economic development in an EU otherwise restricted by its own limited internal demand. In 2003, for example, European cars accounted for 40 per cent of the Chinese car market.

China and ASEAN

China is ASEAN's sixth-largest trading partner, with far greater potential that is quickly being realized. During the 1997 South-east Asian Financial Crisis, China's efforts to keep the RMB

from devaluating closed bilateral economic relations. Since 1990, trade volume between China and ASEAN annually increased by 20 per cent. In 2004, bilateral trade valued 105.9 billion USD, increasing by 35 per cent. Even in the first two months of 2005, bilateral trade volume reached 16.6 billion USD while ASEAN ranks fourth among China's trade partners.² ASEAN still has a trade surplus with China but both have comparable strength in labour-intensive production and in their levels of trade with developed countries. Since the 1990s, however, China has replaced ASEAN as the main investment destination for developed countries. The China-ASEAN Free Trade Area will be an opportunity for China and ASEAN to decrease competition between themselves and instead present their shared advantages to third parties. In shaping the China-ASEAN Free Trade Area, China has promised to give ASEAN a more favourable tariff than the one it promised the WTO, which will greatly promote internal trade. ASEAN's exports to China is estimated to increase by 48 per cent and China's exports to ASEAN by 55 per cent. The China-ASEAN Free Trade Area will be of most benefit to the least developed countries of ASEAN, though setting it up will be very difficult, as societies, economies and cultures vary greatly across Asia. Much work remains on both sides.

China and the US

The world gives its full attention to bilateral trade between these two giants. Trade between China and the US is usually accompanied by disputes about the US trade deficit and unemployment caused by the flood of cheap Chinese products. In fact, the US trade deficit with China, like its total trade deficit, results from US domestic demand accumulatively exceeding its supply. Another reason is that the US still maintains a 7,000-page list of commodities and high-tech military and civilian products whose export to China is limited. Meanwhile, increasing unemployment in the US is mainly caused by its own technological advances in production and in the telecommunication industry. However, Morgan Stanley, an American commercial consulting company, admitted that in the past eight years cheap Chinese commodities have helped American customers save more than 600 billion USD.³ Of course, trade relations also involve politics.

An economically stronger China is a good thing for the rest of the world. By entering the WTO, China made two promises important to its emergence as a world power. Firstly, it will abide by international regulations, meaning that it is ready to undertake international responsibilities and to fulfill international obligations. Secondly, the Chinese government will gradually open its market, meaning that China has agreed to develop its economy with an open and acceptant attitude, giving equal trade opportunities to developing countries. As Chinese Premier Wen Jiabao said, 'Understanding is the base of cooperation, respecting is the premise of understanding'.⁴ The People's Republic of China has proven itself ready and willing to play a greater role in the international community. The world in turn should be ready to accept it with open arms. ◀

YU YOUHAN

Just what is it that makes today's home so modern so appealing? (edition of 100), print, 47 x 45cm, 2002.

Notes

1. World Economic Outlook, IMF, April 2004
2. China's customs statistics, 2005. www.customs.gov.cn/tongjishujv/index.asp Data found on 15 May 2005
3. 'Prosperity of China's Economy is Benefit to World Economy'. www.china.org.cn/chinese/zhuanti/ (25 March 2004)
4. Experts and Scholars Round table at 7th China-EU Summit, 7 December 2004.

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