
China's Economic Growth in a Context of Globalization

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Introduction

For the last thirty years, China has experienced a rapid economic growth. A research recently conducted by our Institute indicates that the last 20 years' 9-10% annual growth is due for 5 to 6% to factors of production and for 3 to 4% to productivity enhancement. In other words, China economic growth is not only an extensive one as some people say. China low level of inflation and profits realized by the companies also fully indicate that to a great extent expansion stems from increasing efficiency and better use of natural resources and production factors.

An open system

The main factor of productivity increase is the system reforms. No matters if it is economic, political, financial reforms or expansion of the capital market, all have been important contributors to the Chinese economic growth.

The second factor is the opening of the country. On the one hand, China has introduced large amounts of international capital. Today almost all the multinational corporations are engaged in some kind of activities in China. On the other hand, China has progressively opened its market and entered the WTO. Today the degree of dependence upon foreign trade has already reached 80%. Exports contribute for about 15% to GDP¹.

Other factors of the rapid growth are urbanization, and development of education and research.

¹ The contribution of exports to GDP is commonly estimated around 35 to 40%. The author based its own analysis on recent works that changed the method of calculation.

Emergence of a Chinese model

One important peculiarity of the Chinese expansion is that it takes place in a context of globalization. Compared with developed countries history, one may say that China is the first great Economy that achieved economic development under a pattern of “globalized expansion”. China has integrated itself in the world economy system, accepted foreign direct investments and gradually opened its market. This pattern of expansion is intrinsically a peaceful one. Indeed it does not engender conflicts nor favor a closed economy consecrated to inner growth. It is rather a pattern of expansion achieved inside the frame of globalization, through recognition of inter-dependency and mutual constraints. The expansion *per se* is then mutually beneficial, which is a crucial difference with the process of economic rise of many other countries in the history.

The Chinese economic growth can be a useful experience and lesson for other developing countries. How to advantageously utilize various beneficial factors of market globalization while keeping control on the potential risks induced by international market in developing countries? Here is a challenge any developing country is confronted with.

In the future, we consider that the carry on of rapid expansion is highly predictable. Factors that nourished the last 30 years growth will still have effect like the pretty high level of savings or the series of structural reforms. The impact of the low cost of labor force or the foreign capital inflows will be reduced. On the opposite, the impact of education, science and technology innovation or urbanization will be reinforced. Under the comprehensive action of these factors, China will maintain its growth during the next ten to twenty years.

Identification of the uncertainties

However, we have to consider that, as any other developing countries, China has and will have to face all kind of problems and unbalanced situations that will challenge its economic development.

First are the critical imbalance between the levels of consumption and savings ; the substantial increase of foreign trade surplus; and the large inflows of foreign capital. Adding the huge rise of foreign exchange reserves, which is linked to the precedent elements, China market may be in jeopardy because of excess of fluidity, risks of economic overheat or even risks of bubble in speculative markets.

The high level of savings is not only due to obsolete social security and banking systems that constraint resident consumption, more important is the inherited finance and taxation system. The major cause of savings increase is companies reserves. To shift this tendency many more structural reforms are required, in particular reforms of the finance and taxation system. Things cannot be changed by relying on a simple exchange rate readjustment.

Besides, China now experiences large foreign trade surplus that were supposed to exceed 10% of GDP in 2007. In the case of a great Economy on the international scene it is a problem that has to be seriously addressed since it may be source of global economy instability.

How to handle imbalances

All the imbalances described above amply reflect how much structural problems are still crucial in China. Today, Chinese policy makers in economy area are working hard to adopt all kind of measures and to improve the situation. The reform of the exchange rate system began in 2005. The former fixed exchange rate has already been transformed into a supervised floating exchange rate linked to supply and demand. However, China being a developing country, it has to be cautious and assure that economic stability is preserved during the process of transition from a fixed exchange rate system toward a flexible exchange rate system and toward the liberalization of individual credit.

If a large scale exchange rate readjustment could resolve at one time the current international economy unbalances, China should accept to endure once such a policy even if the unemployment rate is high. But the problem is that we are in an international currency system based on the American dollar, and if the dollar continuously devaluates, China can not resolve the US trade deficit even if it conducts large scale exchange rate readjustment. China cannot either guarantee that jobs may go back to the US. China is not able to satisfy the American politician's requests. Actually, what would surely happen if China accepts to revalue its money, is that as soon as the American dollar undergoes a new devaluation, the US will request China to carry on another large scale revaluation. Successive revaluation would not only seriously affect Chinese economy, but also would lead to flows of speculative capital. A substantial raise of speculative actions is an outside charge toward the financial system, a source of instability that is difficult to overcome for a developing country.

Therefore, the fact that China adopts gradual and balanced currency adjustment measures can be considered as a due contribution from a poor country to intricate global economic imbalances. It contributes to the reservation of a stable economic growth. We wish that other countries, and especially developed countries assume their responsibilities in terms of global economy unbalances.

Developing countries specific risks

Social disparities

Besides the global economy imbalances issues, China also faces an array of domestic potential risks specific to developing countries. Most important are economic disequilibrium: while income disparities are growing up, phenomenon of social inequalities intensifies. With a population of 1.3 billion persons and still 35% of the active population to leave the agricultural sector, it appears that the income disparities issue is to be a long-term issue. In order to relieve its population from these growing disparities, Chinese government is expanding the social security system and building a new canvas of public services. However, the best way to resolve the situation is still a dynamic economic growth and job creation so that more workers from low income social stratum will transfer to better income position. More workers will leave the agricultural society, experience the urbanization and industrialisation process and in the course of the transfer they will better share the gains of the economic growth.

Only if China keeps on the same level of growth, will the country overcome current imbalances. If China had to suffer financial upheaval that would stop economic growth and work market enlargement, income disparities may become a fixed and perpetual phenomenon as it is observed in some other developing countries.

Rapid growth consequences

China economy is faced with other problems such as natural resources expenditure and environment pollution. These have already become crucial political issues in China. It arouses close attention especially from the new high income urban residents whose environmental protection consciousness quickly raised these last years. China starts considering that it is in its own interest to enhance as soon as possible energy efficiency ratio and reduce all kind of pollution such as greenhouse gas emissions. But at the same time, China, in a globalizing world, will use world natural resources. China economic growth and the improvement of its population consumption standards will inevitably be a source of pollution.

Compared with the development process of developed countries one or two hundred years ago, the level of gas emissions or pollution per capita or per GDP unit in China today is far lower. Furthermore many polluting industries have been transferred to China. While we try to reduce gas emissions caused by consumption, we cannot ignore developing countries population's will to upgrade life standards and expand purchasing power level. China's economy cannot yet spread "low greenhouse gas emission" jobs like in developed countries where the large majority of jobs belongs to the service industry (financial activities in particular are low polluting sectors). Most of Chinese people rely on the manufacturing industry. If the developed countries keep the same standards of living and go on consuming the same level of natural resources and energy, in other words, if they keep on polluting as they do while banning developing countries from improving their standards of living through industrialization, then the international stability is in question.

To achieve world peace and nature preservation, responsibilities must be commonly assumed. We must share the responsibility for environmental protection and reduction of gas emissions, but the standards of living must be widely enhanced and income disparities reduced.

Conclusion

After 30 years of economic growth, China is still a poor developing country with a per capita GDP of 2000 dollars. China's development needs a peaceful environment. It needs to integrate into the global market. It needs to take its responsibilities as much as a large developing country can do. But China also needs that the international society understands what are the challenges and risks facing such a large emerging nation. It needs that international governance framework evolves by taking into account the interests of developing countries. Only under these conditions will emerge a more peaceful international society, a more peaceful globalization.