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The Rise of China: How it will Impact the World

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Abstract

China is rising again, and this time, the change is taking place in response to Beijing's policy responses to an external economic crisis. China has handled domestic economic crises before but this time around the structural impact on the country's economy and its relationship with the outside world will be very different and considerably more profound. How China will change and how that change will influence the world – not just the global economy but also the international political order – are subjects that have begun to receive some attention in academic and policy circles. This paper attempts to bring out some of the issues that should inform the debate.

China's "Second Rise"

There is now a consensus among policy analysts all over the world that China is well on its way to becoming a global economic powerhouse. Even if it does not become the world's largest economy in three to four decades – as some believe that it might – it will certainly be the second largest behind the United States. The fact that the country's economy has begun to recover at a faster pace than was expected in the spring of 2009 is a testimony to its strength. At that time, the global economy was in a deep recession and the Chinese dependence on markets in developed countries was expected to hurt it badly. However, that does not seem to have happened. The World Bank has now forecasted China's growth rate at 7.2 percent in 2009. This is a long way down from the 11.9 percent in 2007 but it is still remarkable, given the sluggishness in other parts of the world. China is likely to achieve this impressive rate of growth in spite of a fall in the rate of real export growth from 20 percent in 2007 to eight percent in 2008 and to a forecast of minus 10 percent in 2009. According to one assessment, "China may have accounted for as much as two percentage points of annualised growth in inflation-adjusted world output in the second quarter of 2009".² This was possible since the country is no longer as dependent on exports for growth as was believed before the present crisis hit the globe. It may lead the emerging economies towards "decoupling", a concept

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² Stephen Roach, "I've been an optimist on China. But I'm starting to worry", *Financial Times*, 29 July 2009, p. 20.

according to which, these economies are no longer linked with the world's rich nations but move in tandem with them.

China's rapid recovery from the setback caused to its economy by the deep recession in the West, in particular the United States, its largest trading partner, is owed to two facts – the aggressive response by the state to the decline in the rate of economic growth, and the rapid, but still not fully understood, restructuring of its economy. In 2008, Beijing moved decisively to prevent a sharp decline in the gross domestic product by injecting large sums of public funds into the economy. A stimulus package of 4,000 billion Renminbi (US\$585 billion) was launched largely to further develop physical infrastructure – roads, railways, airports, ports, bridges and tunnels. The money would flow from the federal budget to the state-owned agencies responsible for building and maintaining the infrastructure. It would be spent quickly by bringing forward the projects that were already included in the current five-year plan or at the planning stages. Beijing's main concern was with rising unemployment. Some 20 million workers – mostly migrants from the countryside – were laid off by the industries in the private sector that depended almost entirely on exports to the West. Under the Chinese system of human resource management, the unemployed workers were required to return to their villages. The Chinese were fearful that this return would make the countryside restive. Given the country's history, Beijing is always alert to the possibility of “peasant rebellions”.

One consequence of this large stimulus to the economy would be a significant increase in the share of the public sector in the Chinese economic system. This would reverse the trend of the last two decades when the authorities encouraged the state sector to shrink in size in the expectation that people who lost their jobs in the state-owned enterprises would find employment in the rapidly-expanding private sector. This approach differed markedly from the one adopted by the countries that once made up the Soviet Union and those in Eastern Europe as they switched their ideologies. Communist Europe adopted capitalism by following the “big bang” approach. The Chinese, ever pragmatic, opted for the gradualist approach. One consequence of the way the Chinese have handled the current economic downturn was the interruption of the process of transferring workers from the public to the private sectors of the economy by creating space for them in the state sector. Another unintended outcome of this would be the strengthening of the state's role in the economy, which would be used to handle the opportunities created and problems posed by its unique urbanisation experience.

China's urban future will be shaped by the highly dense development all along the country's east coast, from Dalian in the northeast to Guangzhou in the southeast. Within the next few decades, we will probably see 500 million people living in this narrow strip of land with a combined income of US\$10 trillion and income per capita of US\$20,000 in today's dollars. What would turn into a ribbon of the national economy could later become multinational as the strip extends itself north to Korea and south to Vietnam and other countries in Southeast Asia. With this development will come a massive structural change in the Chinese economy. It will not be possible for the country to maintain land-intensive economic activities. Agriculture will become a smaller part of the economy as will the part of the manufacturing sector that needs a great deal of space. In a relatively new sub-discipline of economics – economic geography – focus has begun to be placed on the impact of density and distance on economic structures.³ Some of the hypotheses being developed by those who have begun to

³ See The World Bank, *World Development Report, 2009: Reshaping Economic Geography*, Washington DC, 2009.

practice this discipline will be tested in China, one of which is that with high density, distance also begins to matter. This would mean China's increased reliance on the countries that have the physical space to conduct the activities that would be expensive and difficult in China, and that are physically close to it. This should bring South Asia economically closer to China.

Impact on the Global System of China's Second Rise

How will this new China affect the global economy and its political system? It is possible to contemplate three possible futures for the global economy and how these might shape the international economic and political systems. All three will have considerable outcomes for South Asia and less obviously for Singapore. We can argue that the world is moving away from unipolarism when the United States was the undisputed leader, and going towards bipolarism. That this may happen has led to some talk about the G7 or G8 being replaced by the G2 – the United States and China. This would mean slowing the move towards the creation of a multilateral system that receives direction from a much broader grouping than the G7 or G8. In this context the role played by the G20 was seen to expand. This group includes, in addition to the G8, the 12 largest emerging economies from all parts of the world. It has met twice since November 2008 and was supposed to come up with a new structure for managing the global economy. This would have led to the development of a new form of multilateralism. This has not occurred and may not happen for the simple reason that the G20 was being built on top of a system that had an unstable foundation. The focus remained on the United States and Western Europe. The latter, in particular – and for the reasons that we will later mention briefly – is no longer the most vibrant part of the global economy. There may not, after all, be such a widening of influence and reshaping of the global economy as was believed would be the case only a few months ago. The G2 may emerge as the most important player in the new system. The slow move towards multipolarism may be preempted by the continuing strength of the economy of the United States and what I have called the “second rise of China”. That this may be happening was demonstrated by the inaugural session of the Strategic and Economic Dialogue between Washington and Beijing held in Washington in the closing days of July 2009. Both sides fielded large delegations and the discussions covered a large number of issues of interest to both countries. In his opening address, United States President Barack Obama said that the United States-China relationship will “shape the 21st century”. With that, he launched the G2 without giving it that name.

It can also be argued that what we are seeing is the emergence of a multipolar world. Such global configuration will reshape not only the global economy but also the international political system. Systems with many poles are inherently less stable compared to those dominated by one or two powers, as was the case in the post-Second World War period. We could see a global system with as many as seven centres of economic activity – the United States, Japan, China, India, Brazil, South Africa and the European Union. The first six of these will try and create their own spheres of influence, while the European Union is still in a formative phase with a considerable dispersal of power among the nation states that belong to it. For as long as it does not find a way of working as one entity able to pull its weight in unison, it will not be able to create much of an impression on other parts of the world. Europe and Japan are also two parts of the post-industrial world that have as yet to find a way out of the demographic cul-de-sac in which they find themselves today. Declining population and

an aversion to compensate it through immigration will inevitably produce less economic dynamism. India may not be able to match China's economic success any time soon.⁴

The remaining six economic centres could, if circumstances permit, create their own spheres with a greater prospect of clashes than is likely in a bipolar world. These clashes will occur in the areas where the different spheres come into contact. The most likely places where this may occur are in Central Asia , South Asia and the Middle East. Not only will this result in competition for geographic space – which was the reason in the past for clashes between centres of power, there will, in addition, be economic reasons for conflict. In a global system increasingly short of scarce resources vital for sustaining development, there will be immense competition for energy and water and possibly some minerals vital for development.

A third scenario is also possible. If the United States and China become the two dominant powers, the global system will have three and not two tiers – the two global powers, four or five regional powers and the rest. In the former case each major power will seek to circumscribe the other by creating economic and political alliances close to the other power. This will create some tension of the type that characterised the “Cold War” period in which the United States and the Soviet Union challenged each other. The United States then built a chain of alliances around the Soviet Union and China – this was when it regarded China as an extension of the Soviet Union – while Moscow tried to recruit Cuba and a number of small Central American states as partners. Moscow also encouraged a number of developing countries to remain unaligned. The Non-Aligned Movement in which India played the role of leader had a consequence of limiting the reach of the United States. However, America and China may not confront each other the way America and the Soviet Union did during the Cold War. This is for two reasons, of which the first was that the United States and China are economically much more dependent on each other than the Soviet Union and the United States ever were. China needs the United States' markets and technology, while the United States requires Chinese surplus capital. Furthermore, neither China nor the United States has expansionary territorial ambitions. That was not the case with the Soviet Union, which was constantly trying to expand its sphere of influence, if need be by the use of military force. This was what it did when it invaded Afghanistan in 1979. A G2 system, therefore, may be more stable.

The current thinking in the United States emanating from a number of policy institutions on both coasts of the country sees the coming global arrangement from the bipolar perspective, in part because such a system is familiar to the policymakers as well as policy analysts. This is one reason why the administration of President George W. Bush paid so much attention to cultivating a new relationship with India. There is a simple idea behind this. Developing India as a counter-weight to China will further the United States' interests, particularly in Asia. It is difficult at such a fluid period in the world history to predict with some confidence as to which of these three directions the global system will go. That said, a somewhat higher probability can be attached to the third of these three scenarios. Nonetheless, it would be useful to study all three with greater analytical depth.

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⁴ This point is well developed in a recent article by an Indian economist. See Shankar Acharya, “Rising India labors in the shadow of Asia's real giant”, *Financial Times*, 29 July 2009, p. 7.