

China in the World Economy



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China : A Snapshot

- China - one of the fastest growing economies in the world
 - GDP : US\$ 14.3 trillion in 2018-19
 - Growth : over 6% p.a. (average in last 30 years)
 - Share in the world trade : about 14% percent,
 - poverty : 5.7%
- Spends nearly 9% of its GDP on infrastructure

BRI of China (1/2)



- In 2013, China launched a massive initiative **OBOR**, rechristened as **BRI**
- **BRI** : a development strategy that focuses on connectivity and cooperation between Eurasian countries
- the 21st-century Maritime Silk Road
 - The "**Belt**" refers to economic and overland transport links across China to Central Asia and Europe; and
 - "**Road**" is a network of maritime routes connecting regions through Chinese sea ports.
- BRI : economic corridor, seeks to build ports, railways and pipelines in a mission mode



BRI of China (2/2)

- China : expected to spend nearly US\$ 150 billion a year to link various countries along the old Silk Road with Europe
- Participation of about 68 countries, accounting for
 - 60% of the world's population and
 - 40% of the world's GDP

Objectives of BRI



- The centerpiece of China's foreign policy and domestic economic strategy to establish it as a global economic superpower
- Projects involve infrastructure developments and investments in different parts of Asia, Africa and Europe
- Focus of the China on completion of the BRI before the 100th anniversary of the People's Republic of China in 2049
- For this purpose, the policy coordination, inter-governmental cooperation, macroeconomic policy and communication mechanisms are ensured in a Mission mode.

One Belt Links



- One Belt links the Asia-Pacific region and Europe, such as China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan along the silk road as well as the other observer states and dialogue partners.
- Two main trends for One Belt, starting from China and ending in Europe:
 - i. One goes to Europe via central Asia and Russia.
 - ii. Second route through central Asia and west Asia to the Persian Gulf and the Mediterranean countries.

One Belt Objectives



- One Belt aims to develop
 - Economic partnership between China and countries and regions along the land silk road
 - Seeks to strengthen the infrastructure construction along the road
 - Digest China's excess capacity and labor
 - Safeguard China's energy (such as Kazakhstan oil) and food supply, and
 - Promote the development of China's western region.

One Road Link



- An economic cooperation between China and southeast Asia, South Asia, the Middle East, north Africa and Europe along the maritime silk road
- **Two main directions** for One Road:
 - i. to reach the Indian Ocean from China's coastal ports and extend to Europe.
 - ii. from China's coastal ports through the south China sea to the south Pacific.

One Road Objectives



- The 21st Century Maritime Silk Road
- China's Xinjiang and Fujian provinces the biggest winners of One Belt and One Road, with unprecedented opportunities for development.
- Fujian approved to be the core area of the 21st century maritime silk road
- Xinjiang positioned as the "core zone of the silk road economic belt".



Why India not part of the BRI? (1/3)

- China selling its political proposition as a new pathway for global growth, solidarity and development
- China's outward expansion through the construction of new supply chains and trade routes designed to serve its economic interests by capturing the flow of raw materials from Asia and Africa and, Europe
- Thereafter, supplying finished products to the world
- India is skeptical.
- trust deficit between the two countries.

Why India not part of the BRI? (2/3)



- As the British packaged their imperial design as a show of benevolence that the railways in India, just as an example, were being built to benefit Indians, so does China too
- the BRI passes through the disputed POK. That is a China Pakistan economic corridor
- India raised objection to the BRI passing through POK
- In response to the China's initiative, India launched its own a project called Project **Mausam and Sagarmala** to counter the Chinese incursion

Why India not part of the BRI? (3/3)



- India in a much better position compared to countries like Sri Lanka, Bangladesh, Nepal and Myanmar
- China plays a role of ‘big brother’, a sort of, to many countries
- somehow made many countries agree to accept the infrastructure projects and investment. Now, China is doing a lot in their countries.

China's Entry in WTO (1/2)



- An important landmark with regard to the Chinese economy is their entry into the WTO in the Doha round of negotiations on the 17th September, 2001
- China became the 143rd Member of WTO on 11th December, 2001
- This was culmination of 15 long years of negotiations, especially with the United States, started in 1986.
- Huge benefit to China because of its entry into the WTO
- China's exports increased from 2.7% in 1995 to 13.7% percent in 2016

China's Entry in WTO (2/2)



- Around 200 transnational corporations entered China.
- China an attractive business destination because of
 - freedom to hire and fire that doesn't exist in India
 - Cheap labor,
 - Flexible labor laws,
 - low tariff rates on electricity/ Low tax rates,
 - Absence of bureaucratic interference
- China made concerted efforts to control and leverage the global data economy for itself
- Technological prowess, ranging from building next-generation communication, infrastructure and digital platforms to offering surveillance tools to authoritarian governments,
- China well-positioned to script future administrations and regimes around development, finance, and even war and conflict.



The US Postulate (1/3)

- Successive US Govts. and the western world played a crucial role in bringing China into the global community,
 - culminating in Bill Clinton's decision to welcome China into the WTO system
- The strategic thinking behind the US and western World to enable China to enter the global community had two main reasons:
 - Full-on engagement with Beijing would alter the opaque nature of Chinese politics, making it more liberal and open
 - China will offer 'big market', and 'big business'



The US Postulate (2/3)

- The subsequent outsourcing of manufacturing and industrial capabilities from the West to China allowed Beijing to
 - ‘bide its time’
 - as it strategically built its influence through control over global supply chains
- Because of the enormous financial returns accruing from labor arbitrage, governments turned a Nelson eye to China’s endeavors
- China used this economic lure to flex its political muscle,
 - first in Asia and
 - now, through the BRI, into the very heart of the EU.

The US Postulate (3/3)



- No single trade policy initiative as resulted in larger gains in international trade than China's entry into the WTO
- Hyper-globalization processes steadily building up China's industrial might
- simultaneously causing enormous social and political churn among the Western working and middle classes
- The onset of the COVID-19 pandemic has quickly buried the US postulate.
- The intense engagements with China fail to alter its politics
- The free and open liberal world order runs into rough weather.

Contrast : India and China (1/2)



- Both India and China's GDP growth rates been twice that of the global growth rate for the last 20 years
- In both the countries, demographics have been a key driver of growth
- Chinese are answerable to none
 - Participatory multi-party democracy in India in contrast to absence of democratic Institution and one party regime in China.
- A crisis of sorts triggered LPG (Reform process) in India in 1990-91
- In contrast, the economic reforms process in China, in the year 1978, based on well charted strategy

Contrast : India and China (2/2)



According to Milton Friedman

‘Only a crisis - actual or perceived - produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around....our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable.’

- Economic reforms in India driven by management of crisis
- Inflation was galloping at 17%
- India didn't have enough foreign exchange to:
 - meet the import bill for more than two weeks,
 - serve its debts
- It had to pledge on its gold reserves.

China and the US : Contrast (1/3)



- In the past, the US leveraged its pole position in the global economy, its military and industrial strengths, and its technological supremacy to build a world order that responded to its interests
- No equivalence between the two
 - Checks and balances in place in the US
 - being a democratic society,
 - conditioned by its electoral cycles,
 - largely an open society and
 - freedom of media,
- No such thing exists in China
- At the peak of its might, the US withdrew from Vietnam due to intense media scrutiny



China and the US : Contrast (2/3)

- Will images of damage to the livelihood and ecology along the Mekong convince the Communist Party of China (CPC) to abandon its damming projects upstream?
- Will the thousands of deaths caused by Covid-19 within and outside China make it more transparent?
- The answer is resounding no.
- The next globalization era, increasingly underwritten by Beijing, may well be less free and less open than ever before.

China and the US : Contrast (3/3)



- To balance China's global ambitions, other countries may choose to trade only with geographies and nations where political trust exists, thereby fragmenting supply chains
- India and the World be ready for a new phase of 'gated globalization'
- The global pause induced by Covid-19 offers a moment to reflect on the contours of China's strategic emergence.

Before we move to **'Quiz'**



**Any
Comment/Suggestion/Queries**



Quiz (1/3)



Quiz Question-1: What is OBOR?

- a. One Bolt One Road
- b. One Belt One Road
- c. One Belt One Roadway
- d. None of the above

Quiz (2/3)



Quiz Question-2 : What was the size of China's GDP in 2018-19?

- a) Below US\$ 10 trillion
- b) More than US\$ 10 trillion but below 13 US\$ trillion
- c) More than US\$ 13 trillion but below 16 US\$ trillion
- d) More than US\$ 16 trillion but below 20 US\$ trillion

Quiz (3/3)



Quiz Question-3

In which year did China become a member of the WTO?

- a) 1995 alongwith India
- b) 2000
- c) 2001
- d) 2002

References



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Thank you