Economy of China: Dependence and Influence on the World Economy

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Abstract: It is proved that along with the rapid growth of Chinese economy we can see the growth of such problems as growing interdependence of Chinese and world economies which is an obstacle to the further economic development of the country and a veiled threat to the stability and prosperity of the world economy.

Key words: USA • Japan • China • The growth rate of GDP • Exports • Imports • Quality of life • Energy • Energy consumption • Unemployment • HDI

INTRODUCTION

During the latest years both the rapid growth of the Chinese economy and the interest of economists to the country’s economy have grown impetuously. Today, the role and the influence of China on the world economy is one of the most controversial and tangy problem. The main issue is the effect of the interdependence of the Chinese and global economies and ambiguity on the entire world economy.

Today, opinions about the character of the influence the Chinese economy on the world’s one, on the perspectives of economic, scientific and technical and the social development of the country, as well as on the great effect the growing inner CPR’s troubles have on the rest of the world vary. In addition, because of a comparative newness of the given problem is not studied multilaterally.

A number of economical, resource and socio-economical issues of the country influences the dynamic of the world’s economy. All the given issues set the topicality of our research.

Finding out the reasons and outcomes of China’s impetuous growth and predicting a possible place the country’s economy will become a serious issue in the nearest future for the entire world economy. There are two major groups of scientific researches, which characterize the depth the studied problem. First of them is theoretical works of the economists who specializes in the macro-economical evaluation of the Chinese economy. Sinologists, who specialize on the issues of the country’s economical growth, represent the second group. Talking about the theoretical part of the studies, it is important to add, that among the problems with the definition and evaluation of the Chinese economic model, which we can often meet in works on the Chinese economy, we can find out that the Chinese economy issue is not completely researched either in the Russian or in world literature.

In our research we agree with the position of the leading Chinese economists, Huang [1] and Sung [2, 3]. They argue that, although the intensive export of China has brought the country to the economic prosperity and the foreign investments are, no doubt, significant, the country is too dependable on the foreign investments, what causes market disproportions. The authors also argue that the Chinese system has led to the fragmentation of the national economy and prevents its internal growth. In the recent years, some scientists warn that China cannot depend on export as on the main leading force of the economic growth any longer: Deer and Song [4], Akyuz, Y [5], Guo, K and N’Diaye [6]. Moreover, this fact weakens the world economy and becomes the real threat for it. The authors prove that China cannot be separated from the global economic cycles.

Make themselves conspicuous the works of the scientists who have made efforts to define the possible outcomes the Chinese growth might have on the other developing countries: Shafaidin, S. Mehdi [7], Jenkins and Edwards [8]; Schmitz [9]; Kaplinsky and Messner [10].
A multisided analyses of the Chinese development character and its influence on the rest of the world is necessary for the prediction of the country’s and world’s further development. Moreover, it is important for finding out perspectives of the intensifying China-world integration and determining the reasons of the contemporary troubles of the Chinese economy and their possible outcomes. As well, we take an effort to evaluate the degree of China’s integration into the world economy and define her role in it. As lateral effects of the deepening integration and obstacles to a further economic development, we also list potential issues, which include an increasing territorial differentiation of the economical development of China, resource and ecological threats. In research we used comparative analysis of CPR with different groups of countries, comparisons of opinions of different authors, as well as comparisons with the world experiences in growth and economic development.

**Expositions of the Research and Their Groundings:**
During the creation of the SEZs, China’s gold-exchange reserves began their fast, but unstable, growth – Picture 1.

It was SEZs to stimulate the growth of Chinese external trade (Picture 2), which, in its turn, has brought CPR into the world economy and turned out to be one of the reasons China has become one of the leading players in the world market. During the researched period a specific gravity of Chinese exports was larger than that of the imports. These excess had been increasing. This fact confirmed, that the internal demand on foreign goods and services decreased, what indicated the growth of the competitiveness of the goods and services, produced in China. Today, China is first in the list of countries leading in exports (1506 billion USD) [13] and second after the USA in imports (1307 billion USD) [14].

However, the country’s export orientation is a serious problem not only for Chinese economy, but also for the entire world economy. The further growth of the Chinese exports will be accompanied with the significant budget profit on the international market. China will face numerous economic crises. Because of the intensifying integration and globalization, the rest of the world will face the crises as well. As China depends on the external resource markets and capitals gratefully, the shortening of the Chinese exports may lead to deficit on the external markets, which, as a result, will affect both the Chinese and world economies negatively.

At Picture 3 one can see a comparison of three indicators: a change of the GDP value, imports of energy resources and consumption per capita, years 1991-2010. It is important to notice that during the analyzed on the graph period the GDP growth had been uninterrupted.

During the period, the increase of GDP had been provoking an increase of energy consumption, what shows the growth of the country’s production capacity.

However, together with the GDP and energy consumption per capita growth, there had been a noticeable growth of energy sources import. This indicates a shortage of the mentioned resources in China.

![Pic. 1: Dynamic of the foreign direct investment inflows and golden-exchange reserves (1981-1990 yrs.)](image1)

![Pic. 2: Dynamic of China’s specific weight in the world exports and imports](image2)
At the beginning of the analyzed period, the Chinese exports of the energy sources exceeded their imports. There was enough energy to support GDP growth, but, starting with 1999, the imports of the sources have exceeded their exports. At the analyzed graph one can see that from the same period the temps of the GDP growth has started to increase together with the energy consumption per capita, what has been provoking increasing imports of the energy sources. This growth shows that the Chinese economy had lost the energetic resources self-sufficiency.

According to the data from Picture 4, the USA and the CPR are the world’s leaders in energy consumption. The share of the alternative energy sources in China is significantly lower than that of the USA, Russia and Japan. This fact shows that the effectiveness and ecological safety of China’s energy consumption is low.

The Chinese economy is characterized with quite a large volume of oil and oil products imports. Therefore, it is one of the main indicators of a huge dependence of the Chinese economy on the international energy-source market. This fact causes one of the main threats for the further growth and development of the country’s economy and, as a result, for the influence China has on the world stage. Besides, the low effectiveness and ecological inefficiency of the Chinese energetic is a deterring factor for the direct foreign investments inflow, from which China’s economy is in a great dependence too.

Considering all the above, one can see, that the Chinese dependence on the international capital market, energy and other resources is not only China’s problem, but also a serious issue for the world’s economy: for the world as a unity and for the each country separately, especially for the Russian Far East.

As a custom, they consider the foreign direct investments, which have increased during the latest decade, as one of the base factors of the China’s impetuous economic growth and development. In the latest years, the Chinese government supports an outflow of the FDI, as these investments’ objective often is not an increase of capital, but the control of resources, complete ownership of technologies and the integration into the national and international markets.
According to the given at Picture 5 data, China outperforms the USA, Germany and the Great Britain in terms of share of the FDI inflows in GDP. However, volumes of the foreign direct investments’ inflows and outflows into the Chinese economy are the least among the leading countries – the USA, the Great Britain and Germany. The Great Britain, the USA and Germany are one of the five leading countries in terms of the given indicators, while China in the ninth in the foreign direct investment inflow list and the fifteenth in the foreign direct investment outflows list. This fact, however, does not reduce the degree of the dependence of the Chinese economy on foreign capitals.

A negative outcome of the intensive growth of the Chinese economy is a significant amount of “bad debts”. In the latest two years Chinese banks have issued a record amount of credits, a total sum of which has exceeded 17.5 trillion Yuan (2.7 trillion USD) [22]. Moreover, the external debt of China has increased more than two times for the latest ten years (Picture 6). China was twenty-third [23] in a range of the external debt sizes in 2011.

In addition, "at the end of August 2011 the international rating agency, "Fitch", warned about the possible downshift of the Chinese debt rating because of the increasing amount of defaults and inflation rates. In April 2011 "Fitch" had already decreased its forecasts on the Chinese rating, from "stable" to "negative". Today, China’s debt rating in Yuan is "AA-"[22]. China’s debt rating downshift leads to decreasing confidence in the country’s economy, reduction of the FDI inflows and, as a result, to down slowing of the CPR’s economy growth. The described perspectives may cause a deficit of cheap goods and services, which China sells on external markets, what, in turn, will cause other crisis outcomes for the world’s economy.

The Chinese economy is involved in a soap bubble of the international market of goods. Moreover, it was China and India to contribute the most significantly to creating this soap bubble at the expense of the export-oriented economies and their increasing resource imports. One of the reasons of the discussed above soap bubbles has become the growing Chinese integration, which is an essential term and source of China’s development.

It is predicted, that one of the discussed bubbles will blow soon and it will lead to immediate blows of the rest ones. If it happens, a new wave of world’s economic and financial recessions will rise and it will be as strong as today’s one.
From 2000 to 2010 years China’s golden-exchange reserves had been growing rapidly and continuously (Picture 7) at the expense of the export-oriented economy. Today, China is the first in terms of volume of the golden-exchange reserves.

With an increase of China’s golden-exchange reserves, dependence on foreign currencies’ levels, mainly on the USD and Euro, is growing. As a result, the Chinese dependence on the entire world economy is growing too. In addition, the intensive increase of the golden-exchange reserves, in perspective, leads to emergence of over evaluated actives. To escape this threat, China refuses to follow a super-conservative strategy of saving her reserves at expense of their investment in government obligations of reliable countries only. A part of the country’s Central Bank reserves is used for purchases assets abroad.

From the year 2005 a rapid growth of patent applications amounts has began, what indicates that the given market has stepped on a civilized way and from the beginning of the discussed decade an uninterrupted growth of the patent applications from the country’s residents has begun (Picture 8).

Today, China produces 20 percent of the world’s high-technological exports. However, not everything is so good about this. About 90 percent of the Chinese high-technological exports is produced by branches of trance-national corporations. Along with this, China’s national corporations’ production of the high-tech goods in the total amount of goods is only 2-3 percent. A lion share of the R&D spending belongs to international companies, which have branches in China. For instance, “Nokia” has accumulated 40 percent of its entire cell-phones R&D in its scientific and technological centre in Beijing. Today, the scientific and technological development of China depends greatly on the trance-national corporations, their investments and interest in the Chinese market. A program of creating a "knowledge economy", which is aimed to reduce China’s dependence on foreign technologies from 80 to 30 percent in fifteen years, confirms that.

A major perspective of the growing integration with China is a genesis and rise of a hidden threat for the stability and wealthy of the world economy in the face of China.

CONCLUSION

Borrowed from the world’s experience means of economic development had mainly a great effect in China thanks to national features, unemployment, combined planned and market economic orders and a gradual transition to a new economic order. However, the discussed means have had negative outcomes as well: significant differentiation of life and development levels among the country’s provinces.
One of the main energy issues is China’s great dependence on import of energy. In addition, China’s energy is characterized with a large share of oils and a small share of alternative sources of energy. In particular, an electric power supply utilizes coal. As a result, with an increase of the Chinese energy consumption, its effectiveness grows too slowly to be effective. In addition, the given structure of the Chinese energy sector is a reason why the country’s ecology is worsening, although the CPR has an international support in solving the problem. The ecological issues have negative outcomes on both economic and social lives.

Integration with China is growing rapidly with the country’s imports growth, their intensification of energy and other resources consumption, growing dependence on inflows and outflows of foreign investments. These are the spheres of the world’s life, where China plays one of the leading roles. Along with this, the discussed processes have caused “soap bubbles” in China and among other developing countries dependent of the CPR. After one of the bubbles blows, a significant damage will be caused not only for China’s stability and wealthy but also for the entire world economy. The growing concentration of crude in the Chinese economy is also a negative outcome of the growing integration with China as it provokes a growth of differentiation in the crudes distribution in the world economy and, as a result, impedes development of the other national economies.

Such a rapid and significant economic and scientific and technical development of China at constant conditions and structure of the country’s economy is able to give birth to another one world economic and financial crisis.

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