Emerging Force: China in the Region and the World
By Zhang Yunling

China stands out as a silver lining in the clouds that hang over the global economy, and there is much the country can do to assist a recovery in the US and Europe, such as stimulating demand in its domestic economy.

But if there is one thing that matters most in China’s continued economic strength, it is that China will inevitably have a greater voice in regional and world affairs in the future, writes Zhang Yunling.

SINCE CHINA’S REFORM and opening-up policies began in the late 1970s, the country’s average annual economic growth rate has hovered near 10 percent. Currently, China’s gross domestic product is second only to the United States; it is the world’s largest exporter and importer and the largest holder of foreign exchange reserves. Along with China’s remarkable economic rise has come a significant increase in China’s role in both regional and global development and governance.

With the economies of the United States, the European Union and Japan reeling from weak growth and burdensome debt levels, China has emerged as a key driver of global economic growth, contributing, along with other major emerging economies, nearly two-thirds of new global economic output. As Daniel Burstein has argued, a power shift toward Asia is under way, and “China lies at the heart of this Asia shift” (Burstein, 1998). According to many projections, China will surpass the United States as the largest economy in the world by 2030. China has benefited greatly from integrating into the world market and participating in the existing international economic system, because this has helped the country reform its old planning system and rapidly assimilate into the global economy. This process is set to continue in the future because China has no reason to reverse a course that has had such positive results. As a newly emerging power, China will naturally become a more important player in helping to shape regional and global development and governance.

To sustain growth in the future, however, China will have to restructure its economy from an investment- and export-led model to one based on innovation and domestic-led demand. It will also have to adopt policies that ensure social safety nets and equitable distribution of wealth. China also needs to establish a new, sustainable economic foundation by implementing a green development strategy and establishing a good governance system that redefines the role of government and enhances the role of the market. With its economy moving into a new phase through steady technological innovation and an explosion of domestic demand, China will surely play a bigger role as a major market and capital resource for regional and global economic growth (Powell, 2011).

CLOUDS OVER THE GLOBAL ECONOMY

Obviously the global economy is facing many serious challenges. According to a survey released in November 2011 by the World Economic Forum, the “confidence deficit” continues worldwide, with international experts remaining pessimistic about the state of the global economy and global governance over the next year. An immediate concern is whether the US economy will continue to move out of the shadow of the financial crisis. Currently, it is marked by low growth, high unemployment and mounting trade and budget deficits. The European Union, meanwhile, is suffering from the contagion effects of its sovereign debt and euro crisis. There are widespread fears that a default by one or more EU member states could well push the EU economy back into recession and plunge global financial markets into uncertainty. The declining demand from these developed markets has profound impact on emerging economies since most of them depend on developed markets.

In order for the United States to stimulate its vulnerable economy, the administration of President Barack Obama needs to adopt more effective measures — especially ones aimed at stabilizing the dollar and combating trade protectionism. As for the European Union, it is critical to restore market confidence through fiscal consolidation, structural reforms and more effective economic governance. Bolstering the financial sector and strengthening governance of the euro zone is vital for the survival and reinforcement of the common currency. The good news is that EU member states have recently agreed to a treaty that would submit member states to greater budget oversight, have agreed to increase the size of the European Financial Stability Facility and decided to provide more assistance to debt-crisis economies. Having said this, fundamental reform of the European Union’s fiscal system is still urgently needed.

The current crisis also shows the weakness of the international system and global governance. The International Monetary Fund (IMF) needs reform if it is to better represent the interests and concerns of the emerging economies and enable them to play a greater role in global governance. New and effective regulations for governing international financial markets need to be formulated and implemented. In this respect, the Group of 20 (G-20) nations can play a major role. By bringing major developed and developing economies together in a larger forum with a more important role in global crisis management and macroeconomic co-ordination, the G-20 can make world economic growth more sustainable and balanced. The ongoing agenda for economic restructuring and support for the global multilateral system are critical to the process of restoring confidence.

AN INTEGRATED ROLE

China’s economy is highly integrated into the global market, so the country should participate actively in initiatives to reform the international system. While a stable and evolutionary reform process is important to China, the desired outcome should see structural changes that produce a new, more effective international system. Some have worried that China may “operate both within and outside the existing international system, seeking to transform that system while at the same time, in effect, sponsoring a new China-centric international system” (Jacques, 2009). The fact is that a China-centric system would neither be acceptable to other nations nor in China’s own interest.

China’s leadership believes that the current trade imbalance between China and the United States is largely rooted in irresponsible US fiscal and monetary policies, so the United States should focus on adopting more responsible and
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credible policies. To be sure, China itself should also make efforts to restructure its export-led growth model and generate stronger internal demand in order to reduce its dependence on external markets and trade surpluses to drive economic growth. The economies of China and the United States are highly interconnected and complementary. This requires them to co-ordinate and co-operate closely as they seek to rebalance and restructure their relationship. A trade war would not only hurt both countries, but also the regional and global economies.

The European Union, meanwhile, remains China’s largest trade partner. China supports a stable euro and intends to play an active role in helping Europe out of its current debt crisis. However, as the state-owned Xinhua news agency has reported, China cannot play the role of savior of the Europeans, although it is eager to provide assistance through the IMF (Chin, 2011).

ALLIANCES, AGREEMENTS & DIALOGUES Elsewhere, China has been active in promoting efforts to improve regional governance through various forums involving the Asia-Pacific region as a whole. East Asia, Central Asia and Northeast Asia. The goal is clear: to help create a favorable environment for economic co-operation, enhanced political trust and regional security. It is significant that China’s strategy is focused broadly, encompassing more than just economic issues. An important part of these efforts are free trade agreements, whether bilateral or sub-regional, such as the FTA between China and the Association of Southeast Asian Nations (ASEAN). They are different from market-driven integration, because in addition to being compliant with the rules of the World Trade Organization, they provide a broader framework for co-operation among governments of different countries. Experience shows that FTAs can have a profound impact on improving governance in individual economies and regional systems.

In the past decade, China took the initiative to establish the China-ASEAN Free Trade Agreement (CAFTA) and played a leading role in the feasibility study for the East Asia Free Trade Agreement (EAAFTA, often referred to as “10+3” because it includes the 10 members of ASEAN plus China, Japan and South Korea), China has also actively sought to promote trilateral co-operation with Japan and South Korea. For China, CAFTA is more than just a trade agreement. It helps to provide a comprehensive framework for co-operation between China and the ASEAN countries. China is now the largest market for ASEAN exports, but relations go well beyond trade to include infrastructure, connectivity and capacity-building for human development. Currently, there are multi-layered frameworks for co-operation in East Asia, most of them centered on ASEAN: ASEAN+1 (China), ASEAN+3, ASEAN+6 (China, Japan, South Korea, India, Australia and New Zealand) and the East Asia Summit (EAS), which consists of ASEAN+6 plus the United States and Russia.

CO-OPERATION AND HARMONY Although China participates in all of these regional arrangements, it views ASEAN + 1 as its core regional relationship followed by ASEAN+3. China worries that the recent enlargement of the EAS from ASEAN+6 to include the United States and Russia may weaken the co-operative spirit of East Asia because of different strategic interests. Inviting more big powers into the EAS makes it difficult to maintain harmony in East Asia.

In Northeast Asia, meanwhile, there appears to be momentum toward improved co-operation among China, Japan and South Korea, with the establishment in September of the Trilateral Co-operation Secretariat in Seoul following annual summits among the three countries since 2008. Moreover, leaders from all three countries reaffirmed their commitment to forging a trilateral FTA during their meeting Bali in November 2011. This trilateral co-operation will help in overcoming historical grievances that have long divided the countries and also provide a better foundation for regional integration with ASEAN.

Recently, much attention has been focused on the Trans-Pacific Partnership (TPP) led by the United States. Although China is the second-largest economy in this region, it is excluded from the TPP negotiations. China’s view is that the Asia Pacific Economic Co-operation (APEC) forum is the most appropriate one for regional issues of the kind envisioned by the TPP. While the United States is touting the TPP as a kind of high-level FTA for the 21st century, it will fundamentally change the nature of the APEC approach to regional relations. It can also be seen as a move by the United States to weaken East Asian integration and co-operation. This should worry ASEAN, not just because many member states aren’t included in the TPP, but also because it could have a negative impact on ASEAN’s central role in building an East Asian community. China hopes that the momentum for regional co-operation in East Asia will not be weakened by the US push for the TPP.

In this context, a great concern is how China manages its relations with the United States. That relationship today encompasses both economic prosperity and political security. From China’s perspective, as long as America recognizes and accommodates its interests — both its desire for continued economic growth and to assume a greater role in global affairs — China will not challenge US strategic interests and leadership. The differences between the countries can be reconciled, as their respective interests overlap more than they differ (Zhang and Alexandroff, 2009).

By focusing on common goals such as global growth and prosperity, China and the United States can establish and promote a partnership that will benefit both countries, as well as the rest of the world. Collaborative action on trade, investment, finance and global corporate governance are all areas where China and the United States could together benefit the global economy. Economic interdependence is, of course, about creating common interests and reducing incentives for conflict or instability. Currently, however, the structural trade imbalances between China and the United States are fueling tensions. The United States is pushing hard for China to allow the renminbi to appreciate quickly, while China is insisting on a gradual appreciation of the currency. More broadly, some in the United States see relations with China as a zero-sum game — any rise in China’s global influence and leadership comes at its expense. As a matter of fact, though, China’s regional strategy “does not rely upon pushing the United States out of Asia” (Zhang and Tang, 2006). With the United States now a part of the East Asia Summit, hopefully the two countries will use this common framework to manage their interests and relations in a collaborative way.

The rise of China will end the current Western-dominated world order, but it will not end the Western world, as some alarmists in the West fear. In a highly interdependent world, human society’s future rests on true co-operation from all sides.

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REFERENCES


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