

# The Foreign Trade And Economic Cooperation In Intensive And Effective Economic Growth Of China <sup>1</sup>

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## ABSTRACT

In this research work, Author focus on the analysis the foreign trade and economic cooperation in intensive and effective economic growth of China. It must be emphasized that openness to trade is associated with higher incomes and growth and there are the need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. The key of trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia Pacific state. In the new circumstances for the development of the global economy and the international trade, People Republic of China seems to be a production superpower, able to change the world trade. The question raised is whether the West will see China rise as an opportunity for cooperation and peace or for conflict. Economic growth is generally more preferable in China to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. The main aim of the paper is the presentation of the foreign economic cooperation in intensive and effective economic growth of China.

**Key words:** China, foreign trade, cooperation, effective economic growth

## INTRODUCTION

It must be emphasized that there are the need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. It suggests that the multilateral trading system will need to adjust to developments in trade and in the trading environment. The key of trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia and especially to China. A long-termed stability of China depends however on the fast economic growth, which is possible only when this country will be a partner able to play global roles. Question raised is whether the West will see China's rise as an opportunity for cooperation or for conflict. The main aim of the article is the presentation of the international cooperation in intensive and effective economic growth of China. In the research was use quality and quantity methodology. The article presents the variation in the foreign trade policy among states, intensive economic growth and inequality development in China, the liberalisation of China trade policy and their effects, the increase of China role in international business, the tendencies to international trade liberalisation in China and the problem of environmental protection, the tendencies to bilateralism in the foreign trade policy of China.

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### **THE VARIATION IN TRADE POLICY AMONG STATES**

Since the end of World War II, the promotion of free trade has been a pillar of international economic policy, promoted through numerous international treaties and organizations. Among economists, the consensus seems to be that freer trade is an imperative in developing world (Caughlin, Chrystal, and Wood, 1995), (Sachs and Warner, 1995:1-95). However, despite the pressure of international organizations and the advice of economists, there is a large amount of variation in trade policy among states (Kennedy 2007: 145).

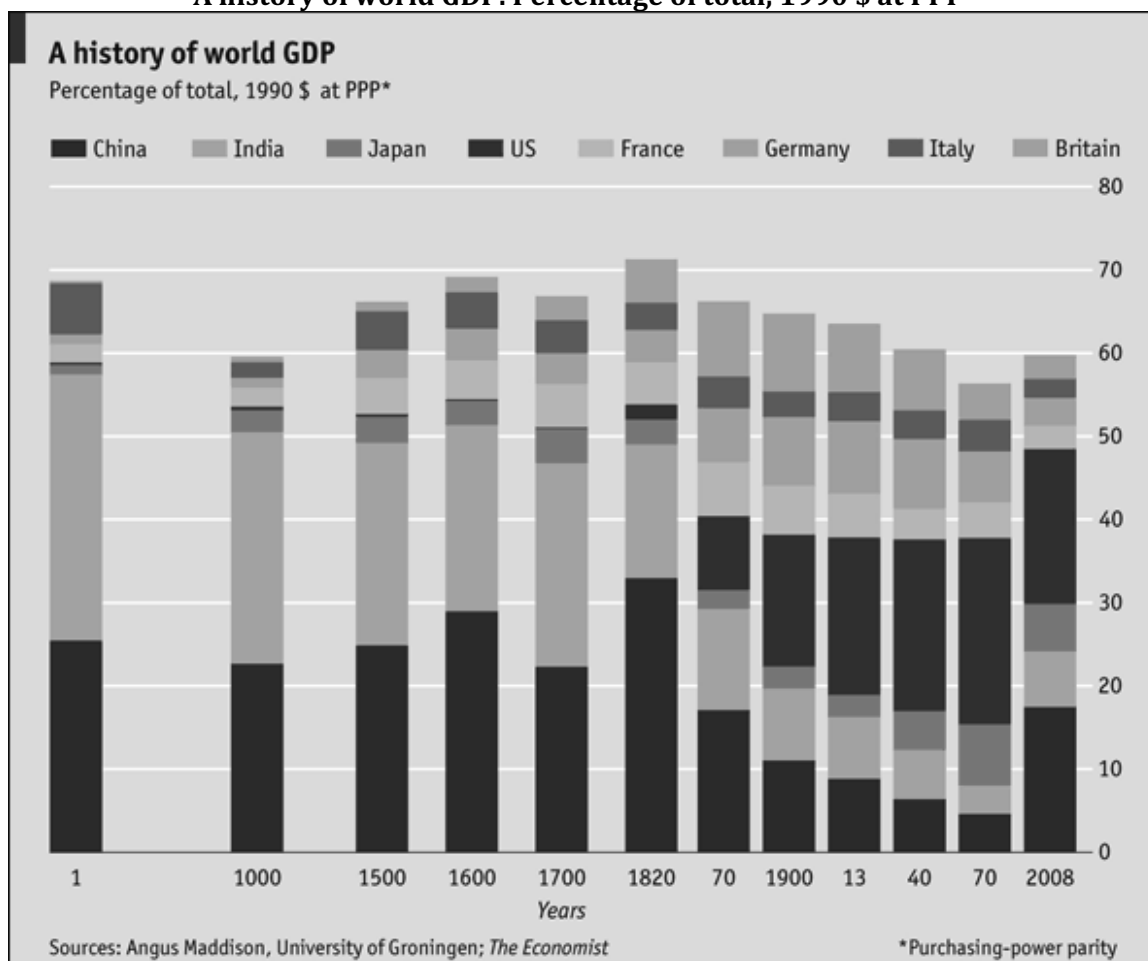
While the WTO has a cursory agreement on trade-related investment measures (TRIMs), a comprehensive agreement has failed to materialize in multilateral forums like the OECD and the WTO. Talks over the Multilateral Agreement on Investment (MAI) broke down under OECD in 1998 because of the pressure from environmental and labor groups concerned with “race to the bottom” scenarios and also due to France’s refusal to join the. In 1996, investment was one of four so-called Singapore Issues. But it was thwarted in Cancun in 2003 by developing countries for fear of domination by Western multinationals, and also by NGOs and civil society groups concerned about the adverse impact in environment and labor. The investment issue was thus dropped from Doha agenda (Pekkanen, Solis and Katada, 2007:960).

The WTO – through its agreements on safeguards and antidumping, for example – does offer some recourse for states to rein in the forces of free trade. However, many experts suggest that there are legal ambiguities in WTO regime that have limited invocation of safeguard measures (Kawase, 2006). Japan is moving toward the use of WTO-consistent safeguards. These concerns have been fueled because there is increasing Chinese competition in weak industries and because it is harder to request supplying countries to take grey measures such as VERA in agriculture and textiles than it was in the past (e.g., edible fats from New Zealand; textiles from Korea and China). But officials do not appear to have high hopes of using safeguards as a matter of routine under the WTO because the text and precedents regarding the Safeguard Agreement are murky enough to deter successful invocation and because, if it takes place, invocation is scrutinized heavily in the WTO dispute-settlement system (Kawase, 2005), (Kawase, 2006).

### **INTENSIVE ECONOMIC GROWTH AND INEQUALITY DEVELOPMENT IN CHINA**

Economic growth in China has proceeded at a dramatic pace over the past thirty plus years. In this period, China adopted a number of economic policies and reforms that made significant and continuous economic progress possible. In the 18th century, China’s economy was the largest in the world and accounted for 25% of global output. But by the first half of 20th century, China was known as the “the poor man of Asia”. In 1949—when China had a quarter of world’s population and its economy produced only 5% of global output (LaFleur, 2010). In 1850, China supported almost half a billion people with agricultural technology that was largely developed 1,000 years earlier (LaFleur, 2010). In 1949, 89% of China’s population lived in the countryside, with agriculture accounting for about 60% of total economic output (LaFleur, 2010). Since 1978, China’s economy has doubled in size every eight years (McGregor 2010: 28). Between 1978 and 2005, China’s economic output—as measured by real gross domestic product GDP—

**Chart 1**  
**A history of world GDP. Percentage of total, 1990 \$ at PPP\***



Sources: Angus Maddison, University of Groningen: *The Economist* <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10.2013.

grew 9.6% per year (LaFleur, 2010). Between 2000 and 2007, China’s international trade exploded—with exports increasing almost 490% and imports growing 425% (LaFleur, 2010). The backbone of China’s economy, agriculture and industry together employ more than 70% of the China’s labor force and account for over 60% of the country’s GDP (Rediff Business, 2010). Much of the population benefited from the reforms but a large part of the population remains below or near the poverty line. There are vast differences in the geographical distribution of income in China. In 2001, the central government adopted the Minimum Subsistence Guarantee (MSG), which replaced the Basic Subsistence Guarantee (BSG). The program covers poorly paid workers, laid-off workers, unemployed pension and retirement pension labor. Recipients of MSG aid increased from 4.6 million in 2001 to 22.4 million in 2004. Payments to recipients soared from 1.2 billion per year in 1998 to 10.2 billion in 2004 plus an additional 9 billion Yuan from local government sources (Doherty and Lu, 2013).

Since the late 1990’s, China shifted its regional development focus from the coast to the western and northeast regions. A large amount of funds have been invested in infrastructure, energy, environmental and extraction projects. About 60% of the population lives in the countryside. In 2004, the central government increased its funds for education, culture and the health services to the countryside. Rural residents are now allowed to work in the city and the state has helped peasant workers receive unpaid wages (Chen, 2009). Nevertheless, efforts to deal with income inequality have a long way to go. In 2004, rural per capita income was only

31% of the rural income. 21.5 million rural populations earn only about \$90 per year. An additional 35.5 million including providing peasants with basic service and the means to achieve upward mobility. The central government needs to provide effective education, health and housing services, empower local governments to deliver the aforementioned services and restrain the abuses by local cadres. The ratio of urban to rural income was 3 1/3: 1 in 2007 (Chen, 2009:121). The population of rural residents is about 720 million. An additional 230 million rural residents work in urban areas (Chen, 2009:134). Beginnings with the 16th NCCPC (2004) agricultural taxes were abolished and farmers were to receive subsidies for their production. Beginning in 1998, major attention was given to infrastructure development especially in electric, biogas, water and rural roads. Rural highways cover about 95% of townships and 87% of administrative villages. By 2007, China's cumulative investment in rural electric utilities exceeded RMB 270 billion (Chen, 2009:127). Social development in rural areas was enhanced by government investment in education, medical services and culture development (television and radio are broadcasted to all villages). Also, a social security system that provides a basic living allowance of 50 RMB per month was approved in 2006 (Xie, 2008).

influence market forces. For example, it maintains an extensive network of grain reserves. From 2006-2008, state owned enterprises (SOE) were the dominant purchasers of grains. In this period, global prices were falling so that this action supported domestic prices. The size of grain reserves is kept secret so it is not possible to assess demand and supply conditions. Inhibiting the free flow of information is anathema to the efficient functioning of competitive markets. The government's immense purchase of grain is inconsistent with its privatization and development of free markets in the agricultural sector of the economy. The low productivity and income of the rural population is a legacy of the planned economy, which prohibited the free flow of labor and capital across regions. Currently, agriculture contributes only 11% of GDP while employing over 40% of the labor force. The government uses subsidies and pricing policies that marginally increase farm income in the short run. But, the long run effect is to keep farmers entrenched in low-income grain production (Doherty and Lu, 2013).

In the last several years, China's supported grain prices have been above global prices. Consequently, grain exports have fallen. Intent on supporting China's production of grains (wheat, corn, rice, cotton and soybeans), the government purchased large quantities for its reserves. China was tempted to raise grain tariffs but this would have been a violation of its WTO commitment to keep tariffs below 3%. China needs to introduce greater freedoms and flexibility in its grain policies to improve its international competitiveness (Doherty and Lu, 2013).

The Solow-Swan growth model demonstrates that regional (and country) differences in per capita income are largely the result of differences in the capital-labor ratio (K/L). Higher K/L ratios produce higher growth rates in per capita income over regions and the opposite is true for lower ratios. Given factor mobility, labor will migrate to capital rich regions and capital will move to labor rich regions. Factor mobility across sectors will speed the rate of convergence. Studies have shown that this convergence pattern has occurred among the states of the US and the countries comprising the Common Market (Sachs and Warner, 1995).

The path of convergence also depends on a host of other factors: technology, skilled labor, foreign direct investment (FDI), resource endowment, government restrictions and so forth. Generally, convergence is faster and more effective in regional sectors that are linked by open trade and factor mobility (Jian, Sachs and Warner, 1996). Many of the forces of convergence are repressed in socialist economies. In China, restrictions imposed on the movement of labor

and favoritism shown to state owned enterprise (SOE) reduces the self-correcting forces of free markets. Constraints against unregistered migration from rural to urban areas are not currently as restricted as they were before 1980. Still unregistered migrants may lack access for their children to schools and medical services(Doherty and Lu, 2013).

There is a huge difference in the economic well being of urban versus rural and coastal versus inland residents. Substantial income growth occurred in eastern, southern and northeastern China. Very little development occurred beyond Chongqing into central China or further west. Since 2000, eight provinces accounting for 40% of the population have generated 75% of the growth in GDP. In 2006, Shanghai had a per capita income of \$15,000 while Guizhou's per capita income was a mere \$1,247 on a purchasing power parity basis (Reuvid, 2008: 55).

China is divided into 30 provinces. These provinces can be aggregated into three regions: North Coastal, South Coastal, and Interior. The North Coastal Provinces (Including Shanghai, Tianjin, and Liaoning) have the highest income levels. The South Coastal regions (e.g., Guangdong, Fujian and Zhejiang) are next. The Interior provinces (e.g., Shaanxi, Shanxi and Ningxia) have considerably less income (Jian et al.1996)

In 2002, the 16th NCCPC (National Congress of Communist Party of China) established policies to raise the income of farmers and improve the efficiency of agriculture. Over the next several years the CPMCC (Communist Party China Central Committee) introduced initiatives to:

- 1) give priority and provide greater assistance to less developed areas;
- 2) expand employment opportunities and enhance public services such as, education and medical care;
- 3) reform onerous rural farm taxes; the overall burden on farmers was reduced from 8.4% to 6% (Chen, 2009:125);
- 4) provide a substantial agricultural subsidy program for farmers which was introduced in 2004; by 2008, farmers received RMB 1 to billion (Xie, 2008);
- 5) make significant increases in rural basin infrastructure, e.g., electric, utilities, highways, and water and biogas utilities.

In 2006, the rural residence population was 949 million. About 230 million of rural laborers were working in urban areas (Chen, 2009: 134). China's farms are much too small to operate efficiently. Combining farms, farming cooperatives will release millions of laborers. How to employ the released labor is a long term and monumental problem that must be solved by the government.

To presents the spectacular growth and inequality in China important is the following equation and its major component parts:

$$Y = C + I + G + \text{Exports} - \text{Imports} \quad (1)$$

Where Y = Gross Domestic Products (GDP or Income)

C = Consumption

I = Investment (Domestic and Foreign)

G = Government Expenditures

China's growth was largely fueled by government expenditure in heavy investment, infrastructure, resource development and residential and commercial real estate. In the 1980's consumer spending exceeded 50 percent of GDP. However, by 2009, consumer expenditure

dropped to 30% of GDP as government spending for infrastructure and the export industries overwhelmed residential consumption. In the most recent five-year plan, nonfarm workers are scheduled to receive wage increases of up to 15 percent annually for the next five years. This is projected to increase consumer spending to 45 percent of GDP. This would represent an increase in consumer spending of \$540 billion. In terms of Eq. (1), consumption (C) will play a greater role in the growth of GDP and this will produce a more balanced and sustainable growth path (Doherty and Lu, 2013).

The current 11th Five Year Plan recognizes the following imbalances in past growth strategies:

- 1) heavy reliance on investment and efforts at the expense of domestic demand;
- 2) emphasis on heavy industry over services;
- 3) increases in income disparity between urban and rural areas and between inland and coastal provinces; and
- 4) large differences in access to social, medical and educational services (Doherty and Lu, 2013).

The global crisis of 2008-2009 affected China's economy via exports, foreign domestic investment (FDI) links and the real estate market; China adopted a huge stimulus plan to counter the depression effect of the international crisis. As a result, China's economy grew 8.7% in 2009 (World Bank China, Research Working Paper No. 9). China's GDP growth for 2011 is forecasted to be 9.1 to 10.0%, according to Goldman Sach's Global Economics, Commodities and Strategy (ECS) Research group (Sachs, 2010). China's GDP growth for 2012 is forecasted to be 9.5% (Sachs, 2010). Between 2010-2020, China's average annual real GDP growth rate is expected to be 9.5% ( *Top 10 largest economies...*, 2010). In a 2011 Gallup poll, 52% of Americans named China as the world's leading economic power today compared to only 32%

**Table 1 Real GDP Growth Forecasts**

**Real GDP Growth Forecasts**

%yoy	2009	2010		2011		2012 (GS)
		GS	Consensus*	GS	Consensus*	
<b>USA</b>	-2.6	2.8	2.7	2.7	2.4	3.6
<b>Japan</b>	-5.2	3.5	3.0	1.1	1.2	2.0
<b>Euroland</b>	-4.0	1.7	1.6	2.0	1.4	1.9
<b>UK</b>	-5.0	1.8	1.7	2.4	2.0	2.6
<b>Brazil</b>	-0.2	7.5	7.6	5.0	4.5	4.3
<b>China</b>	9.1	10.1	10.1	10.0	9.1	9.5
<b>India</b>	7.4	8.5	8.4	8.7	8.5	8.3
<b>Russia</b>	-7.9	3.8	4.0	5.3	4.3	5.6
<b>BRICs</b>	5.5	8.7	8.6	8.6	7.9	8.2
<b>Advanced Economies</b>	-3.2	2.9	2.8	2.5	2.2	3.0
<b>World</b>	-0.6	4.9	4.7	4.6	4.1	4.8

\* Consensus Economics November 2010

Source: GS Global ECS Research

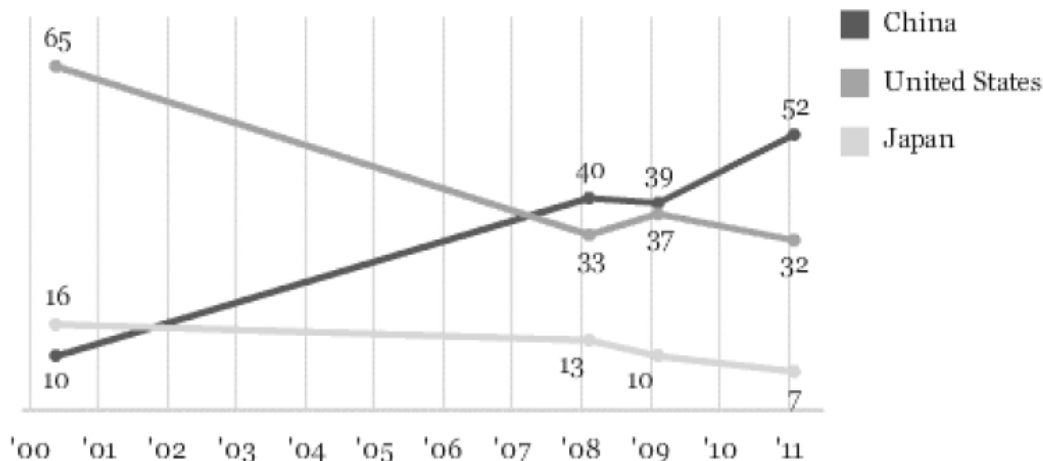
Source: Goldman Sachs Global ECS Research, Dec. 2010

of Americans naming their own country (*China Surges in Americans' Views.....2011*). The stimulus was composed of infrastructure spending, tax cuts, consumer subsidies, and transfer payments. Also, substantial loans to local governments were made for infrastructure projects. The share of total new lending going to residents; e.g., mortgages, increased from 14% in 2008 to 26% in 2009. Policy makers stress that future growth should be driven more by consumption and that the benefits of prosperity should be more evenly shared. There needs to be a reallocation of resources to sectors that have been shortchanged or ignored. Financial sector

**Chart 2**  
**Perceptions of the World's Leading Economic Power Today**

*Perceptions of World's Leading Economic Power Today*

Which one of the following do you think is the leading economic power in the world today -- [the United States, the European Union, Russia, China, Japan, India]?



GALLUP

**Source: Gallup's annual World Affairs survey, "China Surges in Americans' Views of Top World Economy" Feb. 2011**

reform is needed to improve access to funds by private enterprises, particularly service firms and small-size firms. In addition to financial reforms, adjustments are needed in prices and taxes to eliminate the subsidization of industrial (capital) inputs. Also, the dividend policy of state-owned-enterprise (SOEs) must be revised to achieve a more efficient allocation of investment funds. Finally, restrictions of private firms to enter the service sector should be revised (Doherty and Lu, 2013).

#### **THE LIBERALISATION CHINA FOREIGN TRADE POLICY AND THEIR EFFECTS**

The access of China to World Trade Organisation (WTO) (10 November 2001) was a historical decision, the evidence of evolution which was taking place within that organisation, giving it a more universal, global form. This means also that it expands on a huge market which can open itself up for foreign competition. However, there are many problems to be solved in China itself. The country is undergoing the transformation towards the market economy. Gaining the economic balance is still very difficult.

The access of China to the WTO was the moment in which new trade rules became obligatory. In the next five years China eliminated all kinds of quotas and other non-tariff barriers that slow down the inflow of foreign goods. Customs duties which were lowered from 44% in 1992 to 15% in 2001 were gradually reduced to an average of 9%. Foreign banks received the right to introduce the foreign ownership in 100% of economic fields and the right to take in the deposits from the Chinese in their own currency.

The Chinese trade practice becomes more and more subjected to the anti-dumping rules, to the intellectual property rights and to other laws, accepted officially by Beijing, as well as by the provinces, where the protection of the Chinese firms may still take place. In general opinion, as far as China is concerned, WTO is both a challenge and a chance. However, in case of

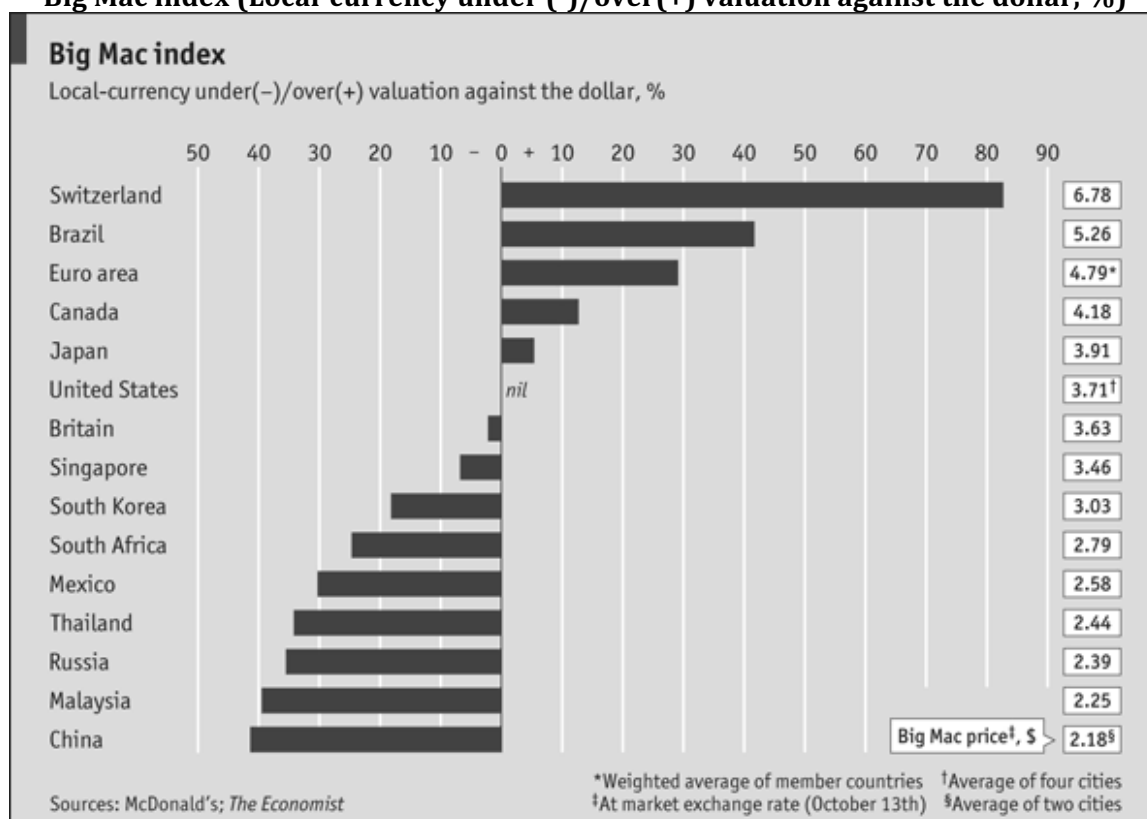


agriculture, it is easy to see the challenge, while the chances are rather difficult to spot. The reason lies in the fact that the area of the Chinese farms are too small when compared with the American agricultural giants. Nevertheless, during the last two decades the Chinese laid strong foundations for reforms. Membership in WTO means also the acceleration of the already implemented reforms.

In the 19th century, the U.S. was—as China is now—“a predominantly rural country undergoing a massive shift toward an urban, industrial economy. By the 1850s, the U.S. was en route to becoming the workshop of the world, rapidly churning out cheap yet high-quality textiles, clocks, guns and other goods. The British dubbed this miracle the ‘American system of manufactures,’ and it became the envy of the world...British commentators once said (that) New England factories used reverse engineering to mimic the latest Lancashire technological breakthroughs.”(*How China Is like....*, 2010)

China’s weak currency—which is good for Chinese exports—also makes the yuan (RMB) one of the most undervalued currencies in the so-called “Big Mac index”, a measure of purchasing-power parity. While a Big Mac averages US\$3.71 in the U.S.....you can buy one in China for only 14.5 yuan (US\$2.18) in Beijing and Shenzhen on average (*Bun Fight*, 2010).

**Chart 3**  
**Big Mac index (Local-currency under (-)/over(+) valuation against the dollar, %)**



Source, McDonald's; *The Economist*, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

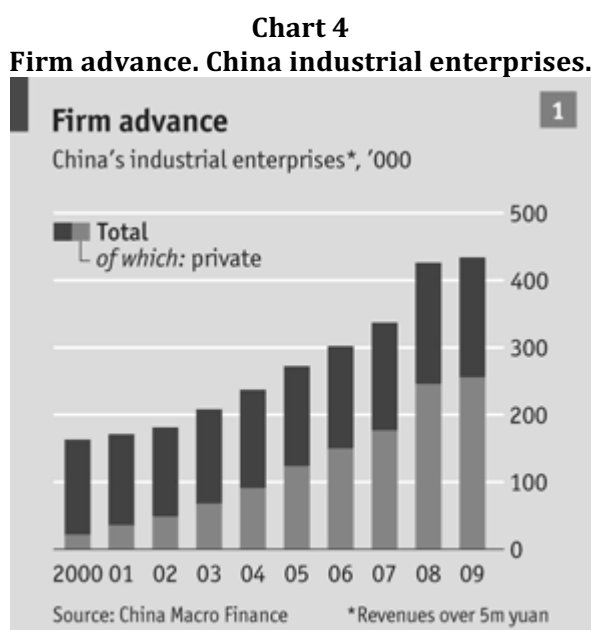
China is poised to make its money a global currency, which “could strengthen China’s influence in overseas financial markets and begin to erode the dollar’s dominance.” According to Nobel laureate economist Robert A. Mundell: “The RMB is likely to become a reserve currency in the future, even if the government of China does nothing about it.”(*In China, Tentative Steps...*,

2011). China's has over US\$1 trillion in foreign exchange reserves (exceeding Japan's), and continue to grow around \$200 billion each year

(The World Bank 2011). China's foreign-exchange reserves hit record highs on Q4 2010 to reach US\$ 2.85 trillion. The \$199 billion gain was the largest quarterly increase since Bloomberg data began in 1996 (*China's Currency Reserves Rise...*, 2011). China owns over 25% of U.S. Treasury Bonds and is the largest creditor in the world (Rediff Business, 2010). China is also the U.S.A.'s largest creditor, holding more than \$900 billion worth of U.S. This value indicated Treasury bonds o the USA in October 2010. The second and threeted creditors are Japan and the U.K (*Factbox: China leads...*, 2011).

China became the world's biggest initial public offering market in 2010 (Dealogic 2011; PricewaterhouseCoopers, 2010).

China's emerging market stocks are predicted to quintuple in the next two decades—reaching a market value of around \$80 trillion by 2030 (Sachs, Moe 2010). The Shanghai Stock Exchange was the fifth largest stock market in the world in December 2010 (market capitalization of US \$2.7 trillion) (*List of stock...*,2013) . Eight of the ten largest stocks on the Shanghai Stock Exchange are state-controlled enterprises (*Shanghai Stock Exchange*, 2013), 98% of China's banking assets are state-owned, as are most of China's financial institutions (*Rediff Business*, 2010). China's state-controlled entities are not particularly profitable. The average return on equity for companies wholly or partly owned by the state is barely 4%. In comparison, the returns of unlisted private firms are no less than ten percentage points higher. It is often said in China that a new economic era has recently begun, described as guo jin min tui: state advances, private retreats.( *Let a million*, 2011). The number of registered private businesses in China grew by more than 30% a year between 2000 and 2009. But these figures exclude unregistered businesses. No one knows quite how much private companies contribute to China's fast-growing economy...However, enterprises that are not majority-owned by the state account for two-thirds of industrial output.( *Let a million*, 2011)



Source: China Macro Finance. Revenues over 5 m yuan.

<http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10.2013

China's private firms account for about 75-80% of profit in Chinese industry and 90% in non-

financial services ( *Let a million...*, 2011).

**Chart 5**  
**The receding state. China state-owned enterprises' share of industrial: (%).**

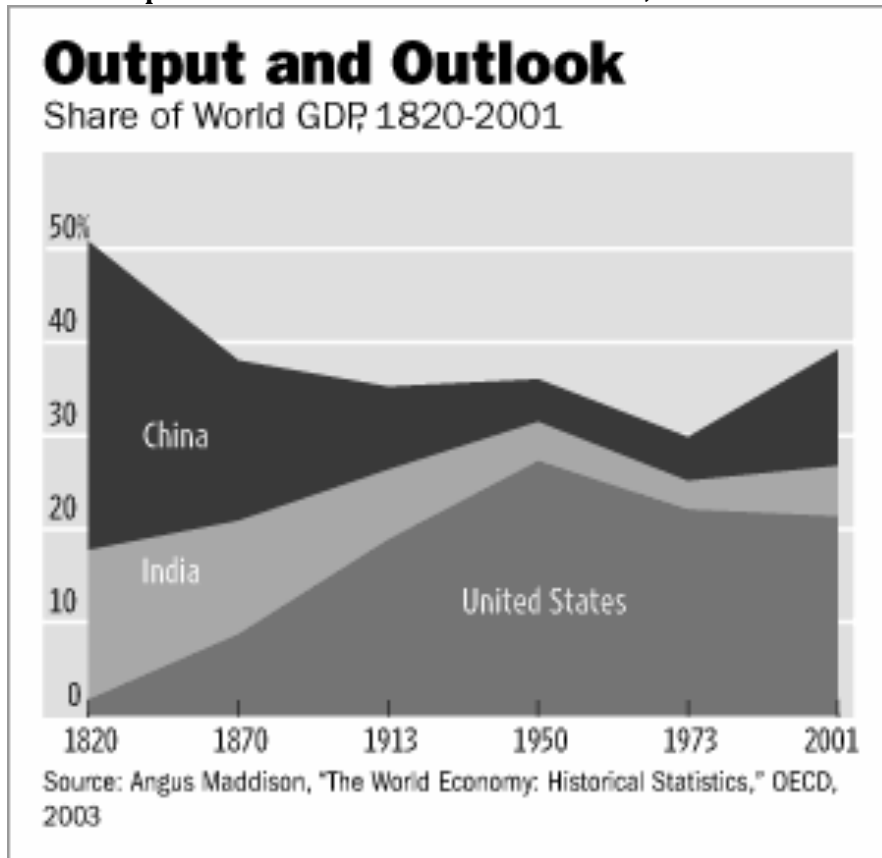


**Source: CEIC; Keywise Capital Management**

**<http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10.2013**

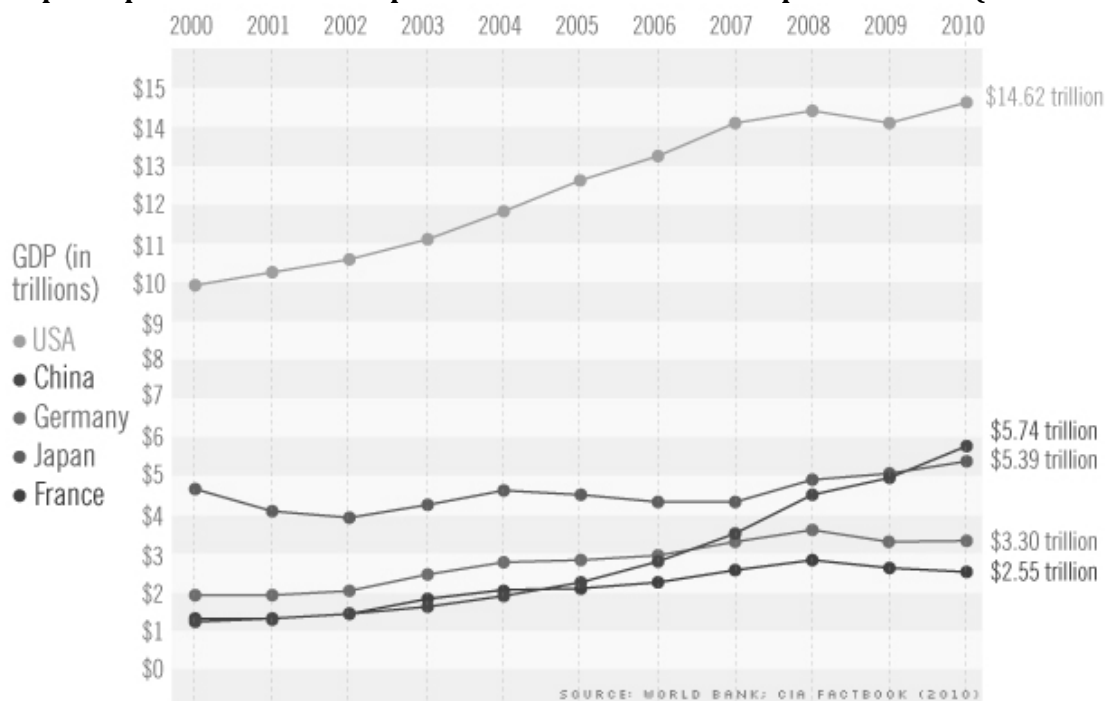
China is the world's fastest-growing major economy, with an average growth rate of 10% for the past three decades years. In 2000, China's accounted for only 7.1% of the world's total GDP (in PPP terms). In 2010, that figure increased to 13.3%. By 2020, it is expected to reach 20.7% (*Top 10 largest economies in 2020*, 2010). In 2000, China topped Italy to become the world's sixth-biggest economy. In 2005, China overtook France to become the fifth-largest. In 2006, it moved up again by knocking off the U.K. In 2007, China became the third-largest economy by topping Germany (*China is richer...*, 2011).

**Chart 6**  
**Output and outlook. Share of World GDP, 1820-2001**



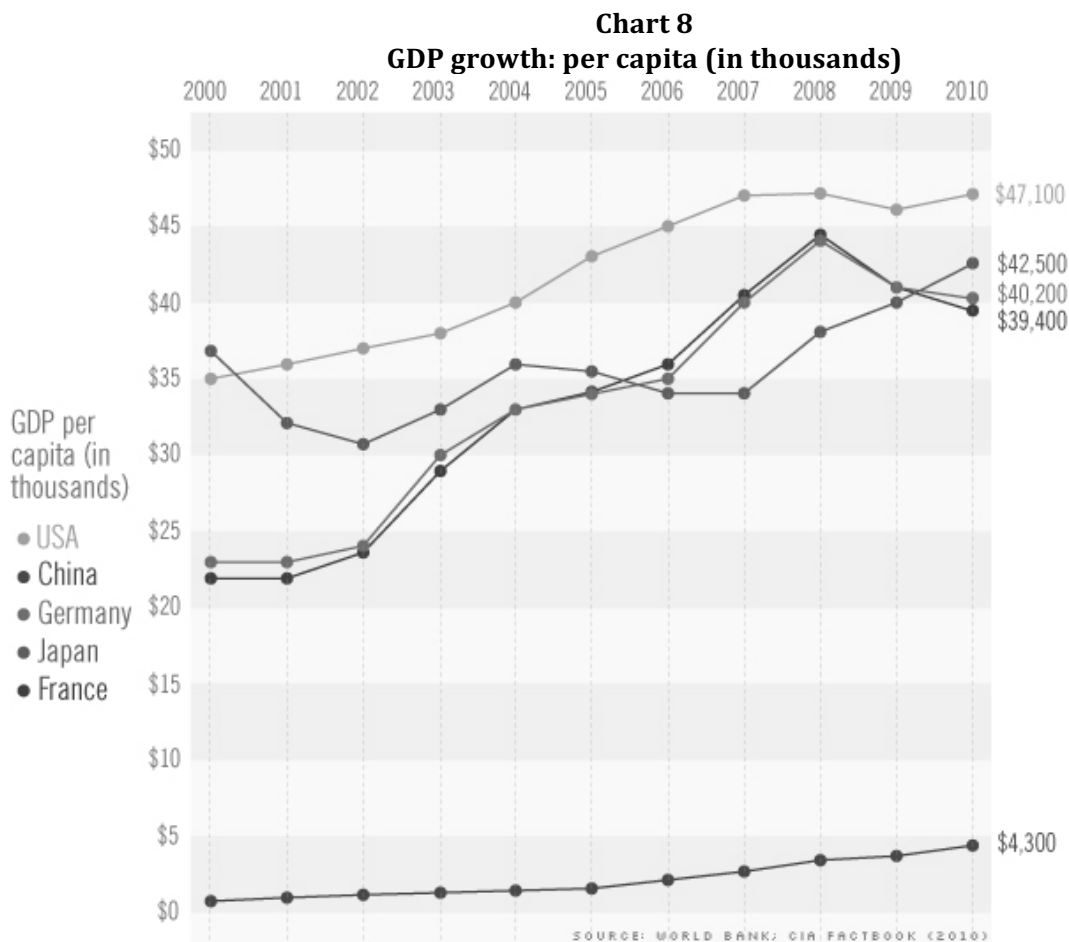
Source: Angus Maddison, The World Economy: Historical Statistics, OECD, 2003  
<http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013

**Chart 7**  
**GDP per capita of China in comparison with the most developed countries (in trillions)**



Source: World Bank; CIA Factbook (2010) <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013

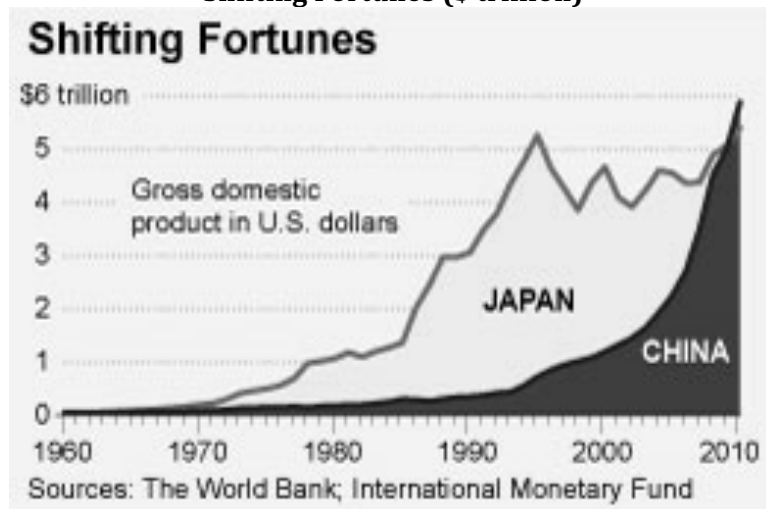
However, China’s per capita GDP still only ranks #127 (2010), just under that of Albania and Turkmenistan (.CIA World Fact Book, accessed 2011).



Source: World Bank: CIA Factbook (2010) <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013

China is the world’s second largest economy, after overtaking Japan in 2010. (The Economist, 2010; CNBC , 2010; The Guardian ; 2011). China could overtake the U.S. as the world’s biggest economy by 2030, according to economic experts (*China Passes Japan...*, 2010).

Chart 9  
Shifting Fortunes (\$ trillion)

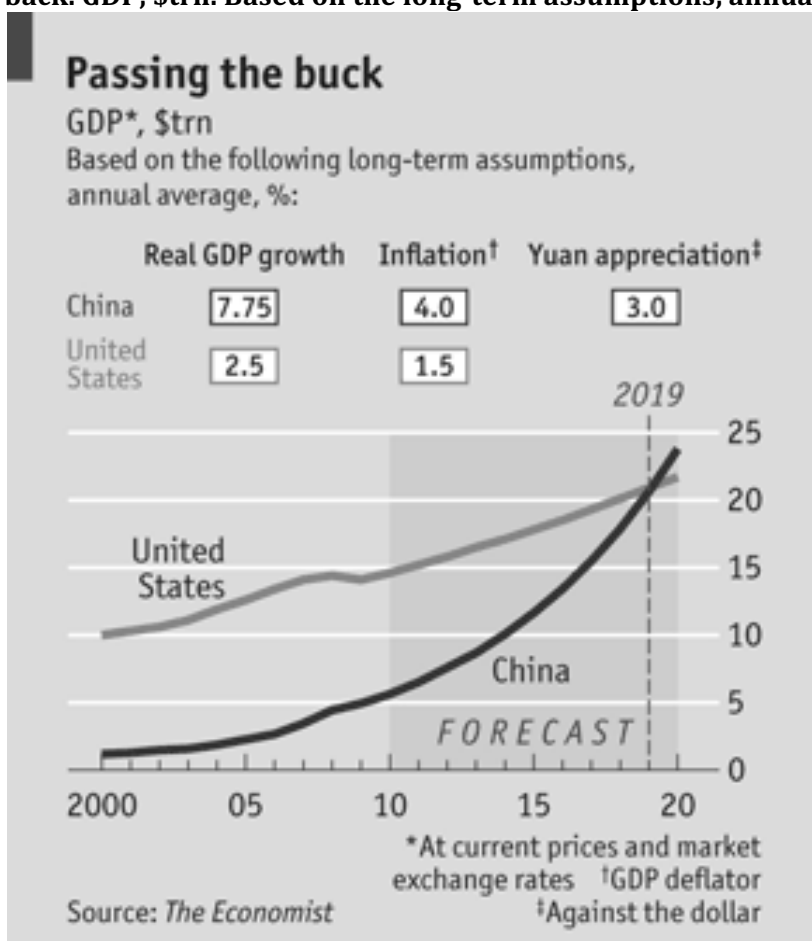


Source: World Bank; International Monetary Fund <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013

According to Goldman Sachs Group Inc. chief economist Jim O'Neill China could overtake the U.S. as the largest economy as early as 2027. China's economy could overtake the U.S. economy by 2019, "given reasonable assumptions", according to *The Economist* in 2011. The posting says that "Absent a total disaster in China, the transition will take place, and that right soon. Why? Well, China remains far behind the developed world in per capita terms, and because there is plenty of catch-up left to accomplish, there's plenty of room for rapid growth. And China's population is enormous. It has over four times as many people as America, and so its output per capita only needs to be about a fourth of America's to match it in total size." (*How to gracefully step...*, 2011)

**Chart 10**

**Passing the buck. GDP, \$trn. Based on the long-term assumptions, annual average, %.**



**Source: The Economist, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013**

Estimates by R.J. Tammen et al. (2000) anticipate that China will overtake the United States in mid-century (Tammen, Kugler, Lemke, Stam, Abdollahian, Al-Sharabati, Efid, and Organski 2000) but Euromonitor International predicts that China will overtake the USA to become the largest world economy in 2020 (tbl..2). The global market research group writes: “by 2020 there will be a major shift in the global balance of economic power compared to 2010. Emerging economies will rise in importance and China will have overtaken the USA to lead the list of the world’s top ten largest economies by GDP measured in PPP terms.” (*Top 10 largest economies in 2020*, 2010). Thus American dominance in this time should endure. Afterwards, Asian demands for modification to the international system will likely increase, and unless resolved, will be increasingly likely to be imposed by force. The question raised by this

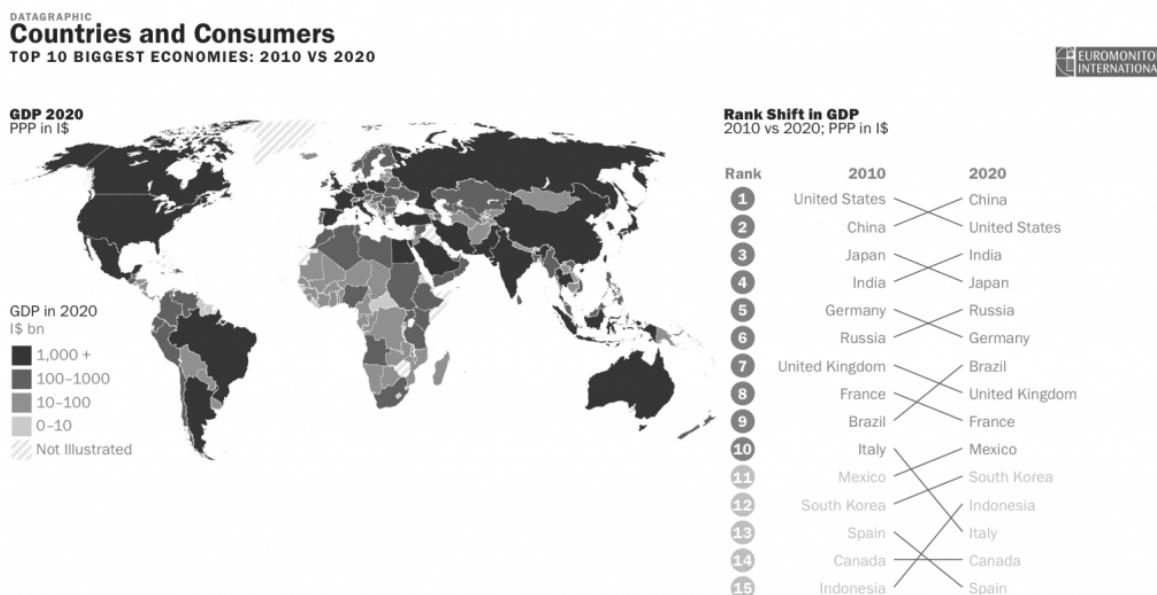
**Table 2 The global balance of economic powers in 2010 versus 2020**

Rank	Country - 2010	GDP (U\$ million)	Country - 2020	GDP (U\$ million)
1	USA	14,802,081	China	28,124,970
2	China	9,711,244	USA	22,644,910
3	Japan	4,267,492	India	10,225,943
4	India	3,912,911	Japan	6,196,979
5	Germany	2,861,117	Russia	4,326,987
6	Russia	2,221,755	Germany	3,981,033
7	United Kingdom	2,183,277	Brazil	3,868,813
8	France	2,154,399	United Kingdom	3,360,442
9	Brazil	2,138,888	France	3,214,921
10	Italy	1,767,120	Mexico	2,838,722

Euromonitor International from IMF, International Financial Statistics and World Economic Outlook/UN/national statistics

**Source: Facts about China: ECONOMY & GDP 2011-2012, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/>**

**Map 1  
Countries and Consumers. Top biggest economies: 2010 vs 2020**



**Source: Facts about China: Economy & GDP 2011-2012, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/>**

empirically grounded extrapolation is whether the West will see China’s rise as an opportunity for cooperation (as former European enemies did when responding to the post-World War II resurgence of Germany by creating the EU) or for conflict (Kugler, 2006, p.39).

Intensive development through economic growth is generally preferable to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. Access to the economies of other nations is sufficient; a rising nation does not need territorial control of them. Peaceful development can thus take the place of aggressive expansion. Since World War II, a number of economies have adopted this principle, including Germany, Japan, China and other East Asian Nations (Rosecrance, 2006:33)..

China will enter a world market in which many of the spoils have already been appropriated. But fewer and fewer major firms may actually dominate the world economy. Some countries, like Mexico, will possess few, if any, decreasing cost industries. They will have to send their



labor elsewhere to retain economic advantage. China will be studied with United States, Japanese, and European firms contributing high technology to Chinese development. Aside from textiles, however, it is not clear how many purely Chinese industries will attain economies of scale.

Under these circumstances, even very strong countries economically will be at least partly dependent on industries headquartered somewhere else. Even today, America does not represent the attainment of unipolarity in economics, whatever its military might. It is dependent upon money market and foreign direct investment from China, Japan, and Europe. Economic concentration today has three or four different nodes, not just one. The same will be true in 2020 or 2030. Decreasing cost (increasing returns) industries will be located in different zones and no one Great Power will monopolize them all. Europe will boast the London-Frankfurt and Zurich-Milan corridors. America will find large-scale competitive champions in two zones-Boston to North Carolina and San Diego to Seattle. China will have industrial or software concentrations in north China, Fujian, and Guangdong terminating in the Pearl River Delta. But no country, however powerful in terms of GDP, will incorporate all worldwide industrial or service potential. It is even possible that the defense industry on an international basis is one of increasing returns to scale. Under the circumstances, there will be overlapping zones of economic competency among Great Powers, and some countries will be left out altogether.

The assumed result of one Great Power hegemony replacing another and a shift between unipolarities will not be obtained in the next few decades. Thus, even very powerful countries militarily will find themselves needing the products and markets of countries (and corporations) located somewhere else. In theory, a very strong power militarily might be able to expand to take over the industries on which it has become dependent, but for a host of reasons this is unlikely. Again, cost-benefit reasons would cut against any attempt at conquest – openness would provide access to such industries much more efficiently than seizure that would not be successful in the longer term (Rosecrance, 2006, p.35).

One, of course, cannot be sure that the more full-throated globalization of the present and future will remedy the difficulty. History shows that states sometimes engage in war for insufficient reasons, neglecting the ties that bind nations together. Short-term motives take precedence over long-term maximization. But they are not likely to do so between the United States and China, both long-term maximizers. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success.

In addition, should she decide otherwise, there are neighboring power that would present barriers to extensive expansion. Japan, a unified Korea, India, and Russia all border on China. Even if the United States were not a major power guarantor of the existing settlement, these powers would make Chinese external expansion difficult if not impossible. Japan, perhaps, has traditionally underused her power, but this is not true of Russia or India. A unified Korea will represent another uncertainty for China. Again, economic ties with these nations will be preferable to military expansion against them. And the presence of the United States and its military bases will occasion additional hesitation. No one can be certain that relations among Great Powers will be peaceful ones over the long term. But the current economic, political, and military relationships make that prospect much more likely than it has been in the past (Rosecrance, 2006, p.35).

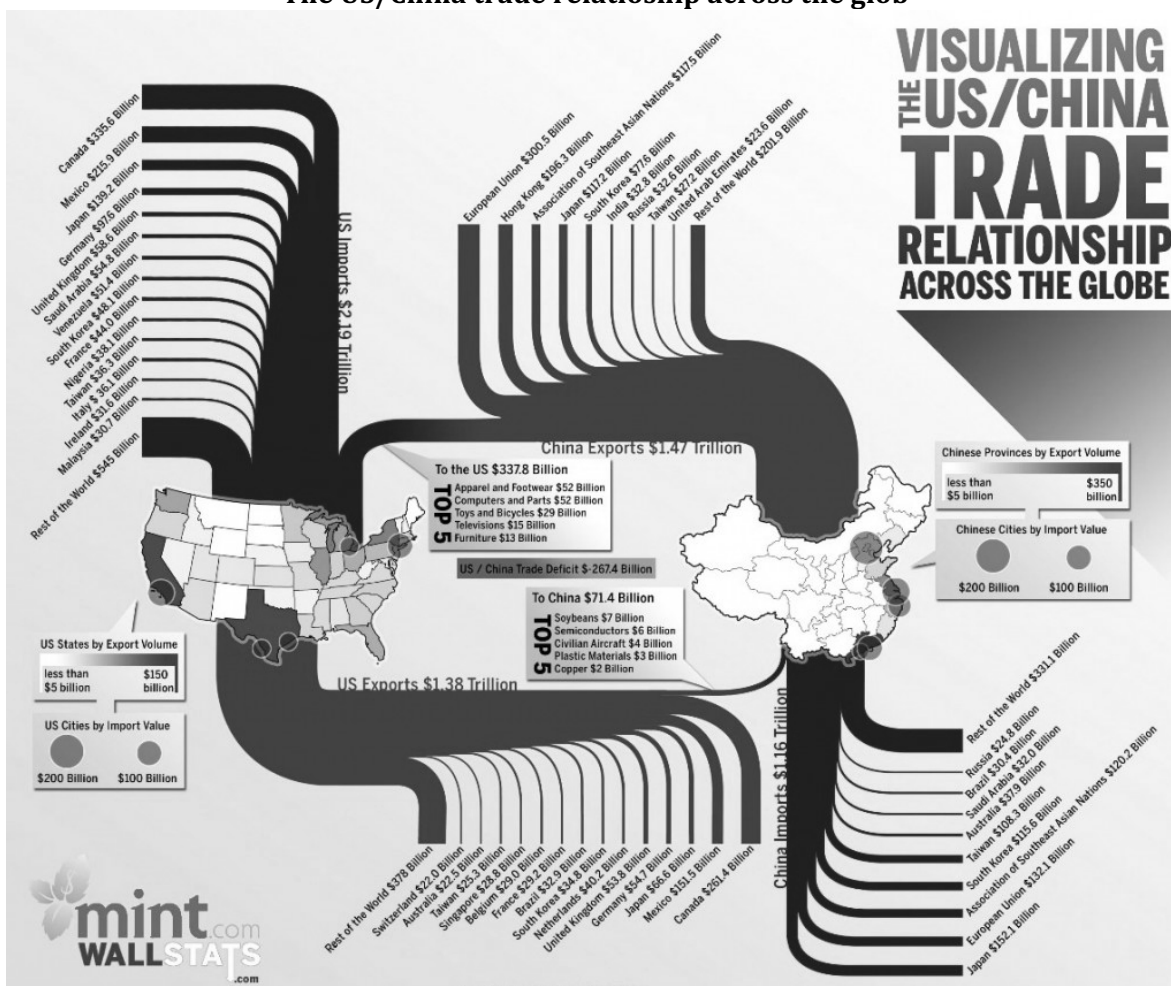
### THE INCREASE OF CHINA'S ROLE IN INTERNATIONAL BUSINESS

In the new circumstances for the development of the global economy and the global trade which result from the war against terrorism, the eyes of the world have been turned to China. This country seems to be a production superpower, able to change the world trade. In many areas it possesses comparative advantages. First of all, there is lots of cheap labour force, millions of gifted engineers, and a well-developed infrastructure. In that context, the decisions from September 17<sup>th</sup>, 2001, eliminating the last obstacles on the way of China to WTO, were particularly important.

The access of China to WTO is a historical decision, the evidence of evolution which was taking place within that organisation, giving it a more universal, global form. This means also that it expands on a huge market which can open itself up for foreign competition. Consequently, the transnational corporations, from semiconductors to the internet and passenger cars, will press strongly for the door to China to be opened wider. However, there are many problems to be solved in China itself. The country is undergoing the transformation towards the market economy. Gaining the economic balance is still very difficult. The United States and Great Britain are helping to introduce there so-called "market shock". The war against terrorism exerts a tremendous pressure on the world economy. Among other things, it accelerated the access of China to WTO, making this country part of the present world. It becomes obvious that also China has joined that war.

China is the world's number one exporter after taking the top spot from Germany in 2009. China's total 2009 were US\$1.2 trillion, compared to Germany's US \$1.17 trillion (816 billion euros) (*China's customs office, the Federation of German...*, 2010). About 20% of China's exports go to the United States (The World Bank, 2011). The U.S. is China's largest trading partner (LaFleur 2010). In 2010, U.S. exports of goods to China jumped 32%, to US\$92 billion (*Your Next Job:...*,2011). of China's top 10 trading partners are in Asia, including Japan, South Korea, Taiwan, Singapore (and Hong Kong) (LaFleur 2010) Six of the world's largest container ports are in China.(*Trading Places...*2010)

**Chart 11**  
**The US/China trade relationship across the glob**



Source: Facts about China: Economy & GDP 2011-2012, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

**Chart 12**  
**World's largest container ports (Volume, million TEUs\*)**

World's largest container ports		World's largest container ports	
Volume, million TEUs*		Volume, million TEUs*	
1989		2009	
Hong Kong	4.5	Singapore	25.8
Singapore	4.4	Shanghai (China)	25.0
Rotterdam (Netherlands)	3.9	Hong Kong	20.9
Kaohsiung (Taiwan)	3.4	Shenzhen (China)	18.2
Kobe (Japan)	2.5	Busan (South Korea)	11.9
Busan (South Korea)	2.2	Guangzhou (China)	11.2
Los Angeles (United States)	2.1	Dubai (United Arab Emirates)	11.1
New York/New Jersey (United States)	2.0	Ningbo (China)	10.5
Keelung (Taiwan)	1.8	Qingdao (China)	10.2
Hamburg (Germany)	1.7	Rotterdam (Netherlands)	9.7
Long Beach (United States)	1.5	Tianjin (China)	8.7
Yokohama (Japan)	1.5	Kaohsiung (Taiwan)	8.5
Antwerp (Belgium)	1.5	Antwerp (Belgium)	7.3
Tokyo (Japan)	1.4	Port Klang (Malaysia)	7.3
Felixstowe (Britain)	1.4	Hamburg (Germany)	7.0
San Juan (Puerto Rico)	1.3	Los Angeles (United States)	6.7
Bremen/Bremerhaven (Germany)	1.2	Tanjung Pelepas (Malaysia)	6.0
Oakland (United States)	1.1	Long Beach (United States)	5.0
Seattle (United States)	1.0	Xiamen (China)	4.6
Manila (Philippines)	0.9	Laem Chabang (Thailand)	4.6

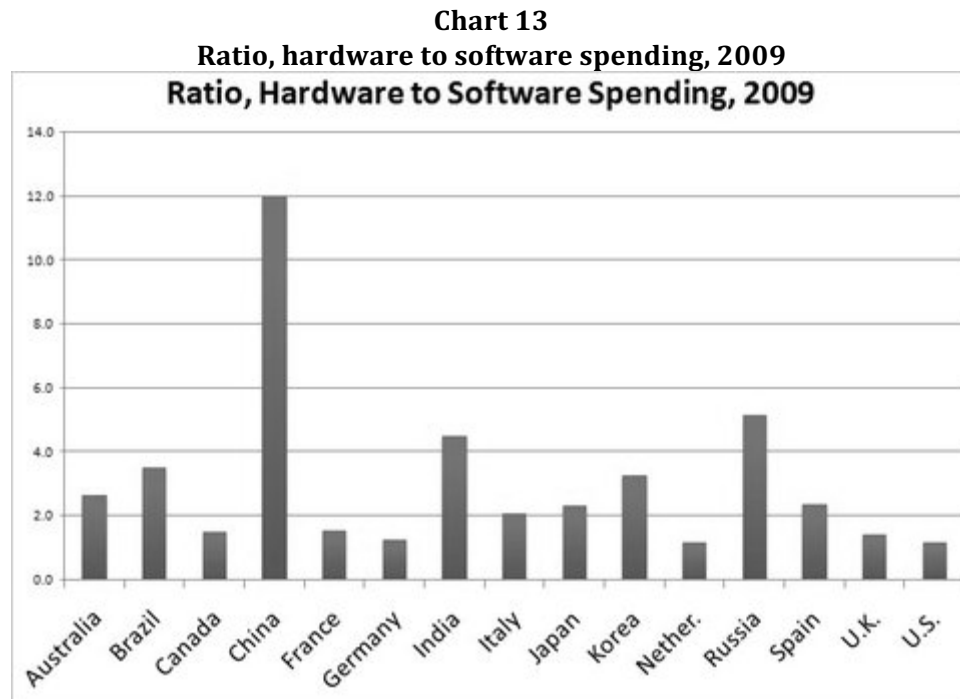
Source: Containerisation International \*Twenty-foot equivalent units

\*Twenty-foot equivalent units

Source: Containerisation International, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

China has some of the highest piracy rates in the world—with a piracy rate of 96% in PC software, 93% in motion pictures, and 85% in records and music (Fang 2007), (International Intellectual Property Alliance, 2010). The U.S. Trade Representative's office estimated in 2005 that 85% to 93% of all sales of copyrighted products in China were pirated (Fang 2007). The International Intellectual Property Alliance has estimated U.S. trade losses in China due to piracy at \$3.5 billion in 2009—combined losses from music, movie, book, and software companies (China vows tougher punishments..., 2011). An estimated 79 percent of China's computers run on pirated software, according to the Business Software Alliance (Twelve Software CEOs..., 2010)

China is world's second-largest market for computer hardware sales...but is only the eighth-largest for software sales (The Real Problem..., 2011).



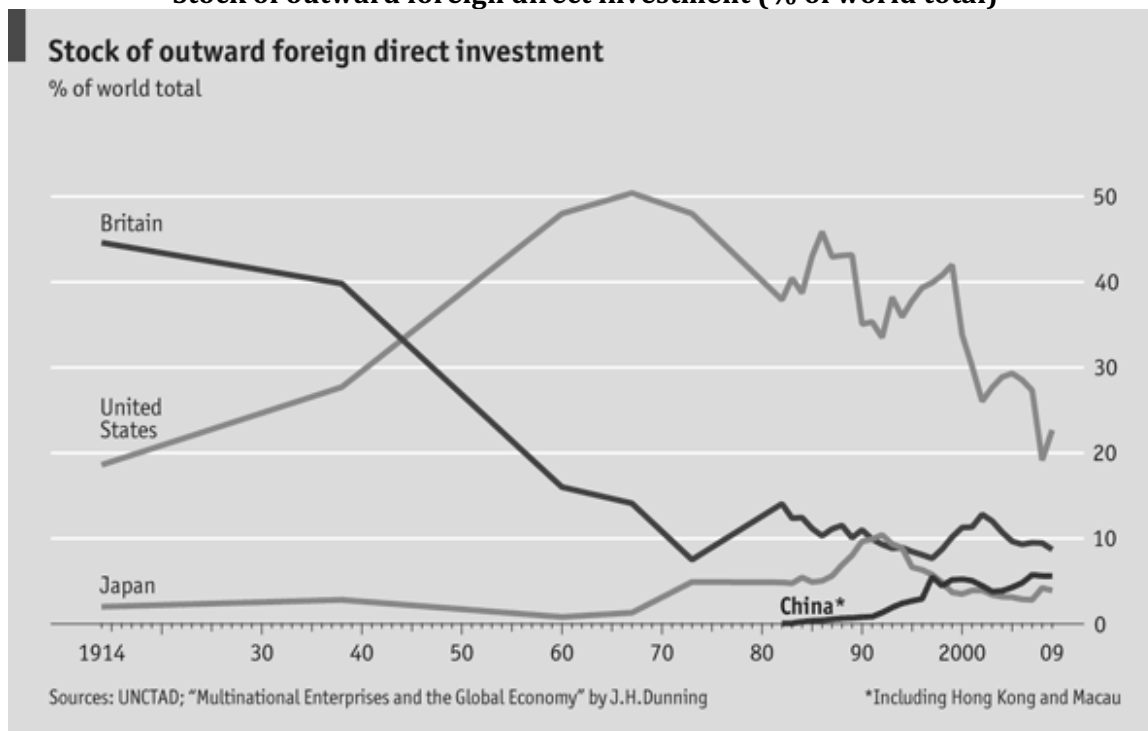
**Source:** Facts about China: Economy & GDP 2011-2012, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

Nine out of ten DVDs sold in China are illegal copies according to the Motion Picture Association of America—costing Hollywood US\$2.3 billion a year in lost revenue (Fang 2007). 79% of counterfeit and pirated goods seized by U.S. Customs are of Chinese origin, representing \$204.7 million of the total seizure value in 2009. (U.S. Customs & Border Protection, 2010). In the late 1800s, Europeans widely viewed America as the source of inferior goods and pirated versions of best selling books, according to U.S. historian Stephen Mihm. For instance, Charles Dickens complained bitterly about how many unauthorized copies of his books were sold in the U.S (Wasserstrom, 2010).

Foreign investors are aware that after the rules of WTO have been accepted, they will be able to function in China in a relatively high safety, which is an important factor during the war conducted against terrorism. However, nobody expects that China will immediately introduce all the institutions supporting the rules of WTO. Anyway, the Chinese trade practice becomes more and more subjected to the anti-dumping rules, to the intellectual property rights and to other laws, accepted officially by Beijing, as well as by the provinces, where the protection of the Chinese firms may still take place.

China is now the biggest exporter and receiver of foreign investments. China was the second-largest recipient of Foreign Direct Investment (FDI) in 2009, attracting US\$95 billion, (behind only the U.S., which drew in \$130 billion) (United Nations, 2010). China attracted \$105.7 billion in foreign direct investment in 2010—the first time FDI in China crossed the \$100 billion mark (*China FDI rises strongly...*, 2011); (*Foreign Direct Investment*, 2011).

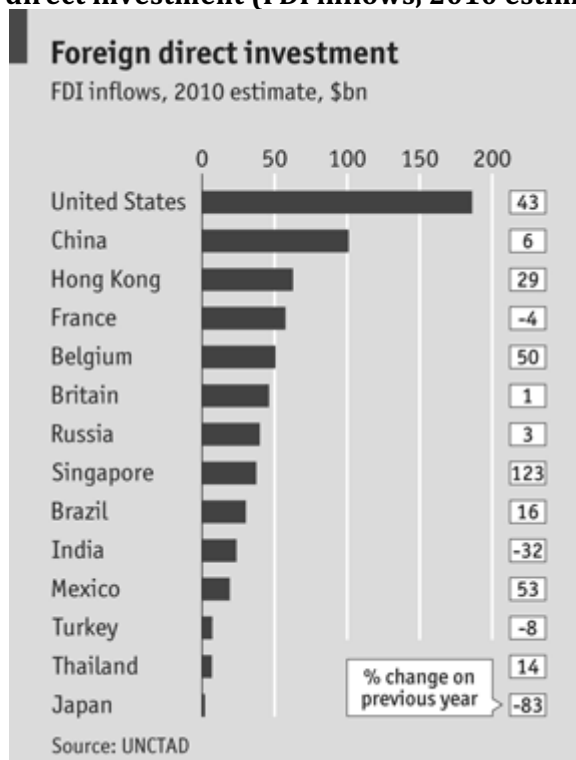
**Chart 14**  
**Stock of outward foreign direct investment (% of world total)**



\*Including Hong Kong and Macau

Source: UNCTAD; "Multinational Enterprises and the Global Economy" by J.H. Dunning  
<http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/>  
 11.10.2013.

**Chart 15**  
**Foreign direct investment (FDI inflows, 2010 estimate, \$ bn)**



Source: UNCTAD, <http://www.china-mike.com/facts-about-china/economy-investment-business-statistics/> 11.10. 2013.

A question may arise: what exactly are Chinese doing to become an important production

centre of the world? First of all they have young employees with higher education who earn \$1.50 a day and thousands of new employees entering the market every year. Many Chinese universities and institutes are still educating relatively lowly paid engineers. Besides, the price of land for an industrial firm is almost the cheapest in the world - it is \$25 for a square meter in Shanghai, which means half of the price in Kuala Lumpur and Bangkok and 60 times less than in Yokohama, Japan.

**Table 3 Comparison of selected costs between Shanghai and Yokohama**

	Shanghai	Yokohama
Engineering staff pays/ per month	\$180-\$540	\$4.200-\$5.000
Factory workers' pays/ per month	\$125-\$270	\$3.300
Price of industrial land/ per square meter	\$25	\$1.539
Rent for a flat/ per square meter	\$24	\$31-36
Installing the telephone	\$152	\$650
Industrial electric power	\$0.07	\$0.14
Direct tax	30%	30%

**Source: Business Week / October 22, 2001, p. 56.**

Telephone and port services, electric power and other elements of infrastructure, in the biggest, key cities are the best in all the developing world. Chinese bureaucrats, stimulated with the official grants, have become much more efficient and now they can be compared to their biggest rivals, that is, the bureaucrats of Thailand.

In China one has to do with the same accumulation and a similar type support for industry to that which can be observed in case of her production rivals from Latin America and South-East Asia. Such cities as Beijing or Huangho manufacture and supply, on a global scale, electronic equipment of the world quality. Car manufacturing also develops very fast. The enterprises with mixed capital, of the joint venture type, produce in a particularly intensive way. Such Shanghai firms as Shanghai Automotive Industry Corp., which has a capital co-operation with Volkswagen and General Motors Corp., and Tianjin Automotive, co-operating with Toyota Motor Corp., belong to that group of enterprises.

The Chinese successes lead to a more expensive labour force, and consequently different firms from the developing countries start offering a cheaper labour force, although not in large quantities so far. Even India, where wages are the lowest in the whole world, is not able to compete with the productivity of China in the area of low technology industrial goods. Hence, the shops of Bombay and Calcutta are filled with Chinese products.

In general opinion, as far as China is concerned, WTO is both a challenge and a chance. However, in case of agriculture, it is easy to see the challenge, while the chances are rather difficult to spot. The reason lies in the fact that the area of the Chinese farms most often does not exceed half a hectare, which means they are too small when compared with the American agricultural giants. Nevertheless, during the last two decades the Chinese laid strong foundations for reforms. A long-termed stability of that country depends also on the fast economic growth, which is possible only when the foreigners become convinced that China is a

partner able to play global roles. Both the world and China should be properly prepared for this.

China supports globalisation, declaring that it is the most efficient way of fighting poverty. This country wants to be a part of a global world and it is aware that it must observe its laws. In 2005, China was the fourth biggest exporter after European Union, Germany, United States of America and the fourth biggest importer after United States, European Union, Germany in the world (CIA-The World Factbook, China 2006). Currently, China is the largest destination for foreign investment (Reuvid, 2008). Due to China's access to WTO, her share in the world trade will increase from 3% to 7% (in 1986 it was only 0,7%). The results of the transition provide compelling evidence of the efficiency of market incentives. Other factors that have contributed to China's ascendancy to a world economic power include privatizing much of its industry, joining the World Trade Organization (WTO), formation of the Chinese Stock Exchange, passage of the Company Law (1993) and a multitude of corporate governance principles to protect shareholders and provide a framework of shifting from state to private ownership of capital (Doherty and Lu, 2013). It is being estimated that by the year 2020 China will take the first position among the world powers.

### **THE TENDENCIES TO INTERNATIONAL TRADE LIBERALISATION IN CHINA AND THE PROBLEM OF ENVIRONMENTAL PROTECTION**

The tendencies to liberalise the international trade often stand in clear conflict with the protection of the natural environment which, during the intensification of production, found itself in the centre of attention also in China. The process of pollution was one of the negative results of scientific-technological revolution. Many countries introduced special legal regulations in order to protect the environment against pollution. Ecological organisations of different types were established, and also the pressure groups, especially in industrialised countries, interested in the use of trade restrictions by governments for protection of the environment.

The pressure groups acting for natural environment protection see the trade policy in two aspects: as the way of improvement the standards of environmental protection in individual countries and over their borders, and as the instrument for persuading those countries like China to sign the international agreements on environmental protection. The imports restrictions against the producers coming from the countries with low standards of environmental protection may lead to the improvement of production standards by the local companies resulting from fighting with low competitiveness, and from the attempts to compete with foreign firms (Anderson, 1997, p. 319).

In trade policy, of discriminating means in relation to the environment, is in accordance with the article XX of WTO, and it testifies to the fact that trade barriers are used for the protection of the environment. In this context it is important to underline that, the activities related to environmental protection are in conflict with the tendencies leading to international trade liberalisation. From the theoretical point of view, we cannot say that trade liberalisation may help the environmental protection, especially when serious steps have to be taken in order to protect this environment against further degradation (Chichilnisky, 1994, p. 851 - 874; see also Copland and Taylor, 1995, p. 716 - 737; Corden, 1996). On the other hand, when some government find itself in a difficult situation, the trade reforms will be much more advantageous for that government than the actions in the environmental protection area (Bhagwati and Srinivisan, 1996) what we can observe also in China. In this situation the pressure groups connected with the environmental protection are against the international trade liberalisation.



The actions of those groups on WTO forum, and their regional activity against the reduction of trade barriers, have three reasons: 1) free trade means the growth of production and income, which, in turn, leads to the degradation of the environment, 2) free trade and growing investments cause the growth of transport activity and encourage companies to transfer the production to the countries with low ecological standards, which from the environmental point of view is wrong, 3) freedom for foreign investments discourage local companies to develop the technologies favourable for environmental protection (Anderson, 1997, p. 319). The question of reaching some form of an agreement between the problems of international trade liberalisation and the protection of natural environment especially in the context of the sustainable development became an important task for the WTO. The program of WTO activities included:

- the relations between the means used in trade and in environmental protection
- the relations between multilateral trade systems and the environmental protection means, applied for protection of the environment
- the influence of the effects of environmental protection on the liberalisation of international trade
- the relations between the mechanisms leading to compromises within WTO and within the multilateral agreements on environmental protection (Martin and Winters, 1995, p. 1-3).

Reaching the effective agreements on the international trade liberalisation and on environmental protection in the light of sustainable development is considered to be both very difficult and very delicate question. The problems of environmental protection have become most important issues especially in China. Therefore, it is evident that the international market has to take them into account. In the context of the sustainable development, the key problem is to make a proper choice: is the introduction of restrictions on international trade the best solution, or will the benefits from environmental protection (as applied by a multilateral trade system) be higher than the costs?

It is necessary also to emphasize that if the rules of international trade are clear – and if they are perceived to be supportive of important environmental values – then their legitimacy will be much greater also in China. Over the long term, public support for the WTO depends on a perception that it is balanced and fair (Esty, 1998, p. 123). Efforts to address the issues identified above could greatly enhance the WTO's reputation. Competing trade and environmental principles could best be balanced through creation of an interpretive statement that focuses on how the “exceptions” spelled out in Article XX would be implemented, rather than through full-blown renegotiation of the environmental elements of the trading system (Esty, 2000, p. 250-251).

Finding ways to address the environmental issues that inescapably arise in the context of deeper economic integration and tendency to the sustainable development must be seen as an important trade policy priority, as a matter of WTO commitment to undergirding the trade regime with sound economic theory, and as a matter of political necessity. Building a trading system that is more sensitive to pollution control and natural resources management issues is mandated by the growing degree to which these realms intersect with trade and environmental policies mutually reinforcing are also advisable to the extent that the presence of trade rules that internalize externalities will prove to be more economically efficient over time. Institutionalizing the links from the trade regime to environmental actors and other elements of civil society will also pay dividends. A culture of openness within the WTO is likely

to generate policies that the public accepts and that therefore become more useful and durable (Esty, 2000, p. 250-251).

### **THE TENDENCIES TO BILATERALISM IN THE FOREIGN TRADE POLICY OF CHINA**

Globalization can create changes in domestic markets also in China and placing pressure on political actors to obtain aid from the government. We can observe the groups which want to coordinate activities and change foreign trade policy. China's government provide the justification for protection of the domestic market to response to global competition. Significant government ownership of the productive resources of a country has a negative effect on trade liberalization, while fragmentation of decision-making authority, has a positive impact on the liberalization of trade policy (Kennedy, 2007, p. 165).

It is important to underline that generally in the area of foreign policy analysis has focused on "three i's": interest groups, international structure, and ideas (Kennedy, 2007, p. 146). Contemporary structure of the world suggests that freer trade was a reflection on U.S. interests and its hegemonic status after World War II, while a problems with free trade is a reflection of the U.S.'s hegemonic decline (Krasner, 1976, p. 317-347). The literature on ideas suggests that policy beliefs are reflected in laws and institutions. In contrast to these explanations government interests in the economy and in maintaining stability also play a large role in trade policy (Kennedy, 2007 p. 146). A multilateral forum with near universal membership offers maximization of gains from trade also for China however bilateral FTA often yields very small gains from trade and usually increases transaction costs by producing idiosyncratic sets of rules. But at the same time, a large state like China can acquire a high level of control in terms of partners, issues and agenda selection, and sectoral exclusions or inclusions based on domestic political needs (Pekkanen, Solis & Katada, 2007, p. 962).

One can contend that industrialized of aggregate economic gains in the interest of national welfare (largest in multilateral forums) or seeking control over rules in line with political interests (greatest in bilateral forums) also in China. The liberalizing rules are no longer an acceptable political price for the economic gains bundled across sectors. Yet, this sort of vague statement fosters uncertainty for domestic actors at home in uncompetitive sectors like agriculture and in several cases like for example in Japan trade officials need to show that they have more concrete control for political reasons-an element more credible in a bilateral setting than a multilateral one (Pekkanen, Solis & Katada, 2007, p. 962). This situation may also to indicate the back from globalisation to the mercantilist tendencies in the foreign trade policy of China (Puślecki, 2008).

### **CONCLUSIONS**

The trade policy plays a key role in the maintenance of both economic and political liberalization of China. The prominence of rent seeking in a country can have far-reaching implication for its economic development. Both structural and micro-political economy analyses of foreign trade policy have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of trade policy and protectionism has changed over time. In the economic depression protectionism played important roles in the politics of political parties. In a global financial and economic crisis in 2008-2010 started to prevail also protectionist tendencies which accompany economic recession. Weakened has the same time, the impact of multilateral trade agreements on the processes of liberalisation of international trade in the framework of the WTO and increased the importance of bilateral agreements and regional agreements. This tendencies it can observe also in China. This point of view is very important for the theory and practice of the contemporary international business.

Further trade liberalisation and improved framework policies would increase trade and promote growth. It must be emphasized that openness to trade is associated with higher incomes and growth and there are the need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. The key of trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia. A major factor, was the even more remarkable transformation of China, as market reforms opened up its economy to foreign trade and investment, and unleashed an unprecedented growth dynamic that has continued, with only minor slowdowns. In the new circumstances for the development of the global economy and the global trade, People Republic of China seems to be a production superpower, able to change the world trade. In many areas it possesses comparative advantages. China may continue their development to specialise in electronics and increasingly in services. With or without further trade agreements, services will be more traded and trade policies will have to adjust to changes in the organisation of global value change. The question raised is whether the West will see China's rise as an opportunity for cooperation or for conflict. Economic growth is generally more preferable in China to military and extensive expansion. With new investments, a country can transform its position through industrial expansion at home and sustain it through international trade. China is especially sensitive to the advantages of intensive growth and will not wish to disrupt essential economic arrangements that have been crucial to her success.

The integration of China into the world trade system may have increase aggregate welfare in the rest of the world by 0,4% but factor incomes in individual sectors may fall or rise by more than 5%. Dealing with relative wage pressures and needs for structural adjustment due to rising trade integration will thus be important. The benefits from trade liberalization are transmitted through several channels like shifting production from low to high locations, relocation of factors of production towards sectors and firms with high productivity and rising incomes due to an increase in market size that supports more specialisation, faster technology diffusion and stronger incentives to invest in "non-rival" assets. The former two effects include mostly static from international trade in goods, services and factors of production, while the latter entails dynamic growth effects. Significant static and dynamic efficiency gains – especially for South countries – could be reaped through further multilateral trade liberalization while global welfare gains from regional agreements are much more limited due to trade diversion. While fostering multilateral trade liberalisation has proved difficult in the recent past and regional arrangements have been frequent, the former should remain priority due these larger benefits and despite the practical challenges of seeing through such reforms in a multipolar world. This results are based on the "partial multilateral" trade liberalization scenario based on multilateral cuts in tariffs (50%) and transaction cost (25%) relative to baseline.

It is important to underline that also fiscal consolidation will require major efforts in several countries. Fiscal pressures will build up in reverse areas over coming decades unless extensive fiscal reforms are pursued. China growth could be curbed further by damages from environmental degradation due inter alia to climate change, wich are likely to affect these countries earlier than expected. By 2060, environmental damages in China may lower GDP by more than 5% compared to the central scenario.

China's growth is good for the world economy with significant terms of trade gains being experienced in its trading partners, reduction in poverty and increases in living standards. Chinese economic growth has been good for Chinese with massive reductions in poverty and

rising living standards. Moreover, China is now a very large regional power and the preceding discussion has provided evidence that it is having a very large growth effect on its neighboring trade partners. If China continues its path of stable growth there is every reason to expect continued and expanded benefits for its trade partners.

Rapid economic growth appears to have spread from China, and, while much of the old capitalist heartland is mired in economic stagnation and fiscal crisis, the 'emerging economies' face an investment glut. Current trends in world economy and global politics provide evidence that the China and other Global South countries has now arrived at 'normal' capitalism at last, bringing with it new patterns of uneven development, inequality and injustice. Its newly confident elites, now fully engaged in global circuits of trade, investment and finance, and in global governance too, appear to have left behind their previous colonial role. It is clear that the China and other Global South countries, or in elite-speak the 'emerging economies', has suffered less and recovered more quickly than the advanced capitalist heartland. In addition, it now seems that the patterns of political impact – not in the sense of immediate crisis measures but of long-term 'tectonic' shifts – may be equally significant and unexpected. While political elites in the USA, European Union and Japan struggle to find paths of recovery that are acceptable to their confused and divided electorates, remarkable changes of various kinds are observable across China and other 'emerging economies' from Asia, Africa and Latin America.

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