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CHINA: THE AWAKENING OF THE  
RED DRAGON

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## CHINA: THE AWAKENING OF THE RED DRAGON

### Abstract:

During the first decades of the century, China has positioned itself as the number one economic power in terms of GDP measured by purchasing power parity. China's economic model and its unique and individual qualities caused the meteoric economic rise of the country. President Xi Jinping is transforming the country through a comprehensive reform program. China's commitment to long-term structural change and it's the main economic objective of moving its economy from one led by investment and exports to one driven by consumption. Many experts and analysts predict that during the current century, China will alter the balance of world order and create a new world order.

### Keywords:

XXI century, China, Chinese economic model, world number one economic, five-year plan for national economic and social development, renminbi, global economic balance, new world order international economic system.

**\*NOTA:** Las ideas contenidas en los **Documentos Marco** son de responsabilidad de sus autores, sin que reflejen, necesariamente, el pensamiento del IEEE o del Ministerio de Defensa.

## INTRODUCTION

### China's Brief Historical Past

Both the theory and the mentality of international relations in general are experiencing a transition from the old hardcore Classical and Structural political Realism to Pluralism. In the practice of international relations, those changes can be seen reflected in the systemic (international system) re-structuring that is taking place, due to the progressive transformation of the rigid bipolar world order dynamised and governed by Realism, to a new international multipolar Pluralist and interdependent system. The new international multipolar system is formed by international and regional organisations representing the political, economic, social and cultural interests of different communities of states.<sup>1</sup> The United Nations (UN), World Bank (WB), International Monetary Fund (IMF), World Trade Organisation (WTO), Inter-American Development Bank (IDB), European Union (EU), North Atlantic Treaty Organisation (NATO) and Association of Southeast Asian Nations (ASEAN), constitute prominent examples of that pattern of representative dispersal within the international system. In consequence, at the same time, the forces and strong tides of globalism and the growing flow of pluralist-interdependent interests, have both intensified and increased the positive interaction between the international, regional and national public and private sectors, as well generated across the whole world, especially in such important regions for international political, economic and social equilibrium, like Latin America (LA), Africa, Eastern Europe, the Middle East and Asia, the gradual emergence of integration processes into the international system.

Within that setting of world transformation and in Asia, China is re-emerging with extreme regional and international prowess. Until today, every century has had an empire, country or individual who has enjoyed absolute hegemony over the rest. Whilst the most notable ones are the Greek and Roman Empires, the Mongol and Chinese Empires, the Ottoman Empire, Charlemagne, the French, Portuguese, Spanish, Dutch, Austrian, Great British and German Empires, during the 20<sup>th</sup> Century, the United States of America (USA) has enjoyed complete world supremacy.

Nevertheless, the 21<sup>st</sup> Century is going to be very different. Of all the given examples only one country has enjoyed different periods of superiority and after a centuries-long period of hibernation, is awakening once again with much impetus...The 'Asian Giant' or the 'Red Dragon': China. For the 'Red Dragon', history is repeating itself very pronouncedly, especially in terms of economic dominance.

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<sup>1</sup> VIOTTI, P.R. and KAUPPI, M.V. (eds). *"International Relations Theory- Realism, Pluralism, Globalism"*.

Since the beginning of the 21<sup>st</sup> Century, China's economic performance has been absolutely impressive. It has been the fastest growing economy in the world. In 2000, China's output had quadrupled; in 2010 China became the world's number one exporter; in 2011 China overtook Japan as the world's second economy and in October 2014, it overtook the USA and became the world's number one economic power.<sup>2</sup>

China has astounded the world and achieved the world number one economic position, where it will remain for a very long time, if not during the whole of the 21<sup>st</sup> Century. It has regained a position it has maintained throughout most of human history.

It has to be bared in mind, that compared to the West and in the East, Oriental Asia and China especially, have a totally different historical-past and an extremely dissimilar and unrelated civilization. The Chinese civilisation is the oldest in the world. An absolutely different and much stricter structured set of principles, values, morals, ethics, beliefs and faith, also encapsulates an extremely different rationale. Their religious and spiritual beliefs differ widely too, based primarily on animism and the influence of spirits in their way of life. During many centuries, China stood as a leading civilisation outpacing the rest of the world economically, culturally, scientifically and militarily.<sup>3</sup> Until the beginning of the 20<sup>th</sup> Century, China has been ruled by different Imperial Dynasties or Families and has enjoyed different periods of splendour.

Most notably, in 221 BC and under the first Emperor of China Qin Shi Huang, China achieved unification. Emperor Qin set forth many reforms, particularly the forced standardisation of the Chinese language, currency, measurements and the length of cart axles. The Qin Dynasty lasted 15 years.<sup>4</sup>

From 206 BC until 220 AC, China was governed by the Han Dynasty. The Han Dynasty created a cultural identity among its populace that has endured until today.<sup>5</sup> It also expanded the Chinese Imperial territory with its military campaigns in Central Asia, Korea, Vietnam and Mongolia, as well as established the 'Silk Road' in Central Asia. The Han Dynasty adopted Confucianism as the official State Ideology, a philosophy developed during the Spring and Autumn periods.<sup>6</sup> Under the Han Dynasty, China gradually became the biggest economy of the ancient world.<sup>7</sup>

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<sup>2</sup> Global Sherpa. "China's Path to 2030".

<http://www.globalsherpa.org/china-2030-world-bank>

<sup>3</sup> Central Intelligence Agency- The World Factbook. "China".

<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

<sup>4</sup> BODDE, D. "The Cambridge History of China", pg.39.

LEWIS, M.E. "The Early Chinese Empires: Qin and Han", pg 75.

<sup>5</sup> Ibid.

<sup>6</sup> GOUCHER, C.; WALTON, L. "World History: Journeys from Past to Present- Volume 1: From Human Origins to 1500 CE", pgs 107-109.

Following the fall of the Han Dynasty and from 220-280, a period of disunion known as the Three Kingdoms established itself in China. In 581, China was reunited by the Sui Dynasty, which lasted until 618. After that and under the succeeding Tang and Song Dynasties, China's culture and technology reached its golden époque. Whereas the Tang Dynasty remained in power until mid-VIII Century, the Song Dynasty was the first government in history to print currency notes and establish a permanent standing army policy. Between the X and XI Centuries, China's population also doubled to 100 million people. During the Song reign, philosophy and the arts flourished, and Confucianism re-emerged too.<sup>8</sup>

From 1368 until 1644, under the Ming Dynasty China experienced another golden period. It developed one of the most powerful armies in the world and a thriving, rich and prosperous economy, which promoted the flourishing of culture and the arts. During the first years of the Ming Dynasty, China's capital was moved from Nanjing to Peking and philosophers like Wang Yangming analysed and expanded Neo-Confucianism with concepts like individualism and innate morality.<sup>9</sup>

There followed some ill-tempered centuries for China, which included the loss of two Opium Wars and the ceding of Hong-Kong to the British, the ending of the traditional Imperial Family Dynasties with the replacement of the Qing Dynasty in 1912 for the Republic of China, the establishment of the People's Republic of China in 1949 and the Communist leadership of Mao Zedong with his detrimental *cultural revolution*.

However, after Mao's death in 1976, China's new President, Deng Xiaoping, implemented a series of benchmarking political and economic reforms that changed China. Whereas politically, the Communist Party stopped exercising so much governmental control over the personal lives of citizens, economically, the communes were broken up in favour of private land leases. Those events marked China's economic system transition, from a planned economic system to a mixed economic system with an increasingly open market

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Confucius was one of the most renowned philosophers of Chinese history's Spring and Autumn periods, as well as a politician, teacher and editor. His philosophy emphasised mainly on personal and governmental morality, correctness of social relationships, justice and sincerity. Confucius's principles were based primarily on common Chinese tradition and belief, favouring strong family loyalty, ancestor worship and respect of children to their elders and of wives to their husbands. His ideal form of government had the family as a basis. He also adopted the well-known principle 'do not do to others what you do not want done to yourself', which was an early version of the Golden Rule.

Wikipedia- The Free Encyclopedia. "Confucius".

<http://en.wikipedia.org/wiki/Confucius>

<sup>7</sup> The World Bank. World Bank Publications. DAHLMANN, C.J.; AUBERT, J-E. "China and the Knowledge Economy: Seizing the 21st Century".

<sup>8</sup> City University of Hong Kong. "China: Five Thousand Years of History and Civilisation", pgs 407-561.

<sup>9</sup> Ibid, pgs 615-637.

environment. An extremely successful, state-driven, market-orientated and market friendly economic model. *"Socialism with Chinese characteristics"*. In December 1982, The People's Republic of China adopted its actual Constitution.<sup>10</sup>

Since then, other successful Presidents like Jiang Zemin, Hu Jintao and Wen Jiabao have carried on improving China's economic performance. The high index of economic growth brought 150 million peasants out of poverty and maintained an average annual gross domestic product growth rate of 11.2%.<sup>11</sup>

In March 2013, Xi Jinping was elected as President of China and Li Keqiang as Premier. President Xi Jinping has begun materialising his *'China Dream'*, which aims to transform China through major widespread political, economic, societal, cultural and environmental reforms. Although China still has a lot to accomplish, especially regarding human rights, the country has continued with its rapid progress, living standards have improved dramatically for much of the population and the room for personal choice has expanded.<sup>12</sup>

Under the light of such facts, the first part of the present article, 'The Political Situation', will expose the framework of the 'Decision on Certain Major Issues Concerning the Comprehensive Deepening of Reform' and its '60-point Plan'. In political terms, an anti-corruption campaign has been generated, the *hukou* system of household registration is being ameliorated and the social security net has been widened.<sup>13</sup> The second part, 'The Economic Situation', will describe how in economic terms, the '60-point Plan' reflects China's commitment to long-term structural change and although it allows the state to retain significant control of the economy, it bolsters the role of the market. China has improved the investment regime promoting *"reform by opening up"*. The main economic objective is to transition China's economy from an investment and export-led economy to a consumption-led economy.<sup>14</sup>

More importantly, whilst China's economy has developed in parallel with the evolution of its "Five-Year Plans" of Economic and Social Development, between the 26<sup>th</sup> and 29<sup>th</sup> October, 2015, the Fifth Plenary Session of the 18th Communist Party of China (CPC) Central

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<sup>10</sup> New World Encyclopedia. *"Deng Xiaoping"*.

[http://www.newworldencyclopedia.org/entry/Deng\\_Xiaoping](http://www.newworldencyclopedia.org/entry/Deng_Xiaoping)

Also see HUTCHINGS, G. *"Modern China: A Guide to a Century of Change"*.

<sup>11</sup> Brookings Institution. *"CCP's Collective Leadership and Power Succession: Constants and Variables"*.

[www.brookings.edu/~.../0124\\_china\\_zhongnanhai\\_li\\_en.pdf](http://www.brookings.edu/~.../0124_china_zhongnanhai_li_en.pdf)

<sup>12</sup> Central Intelligence Agency- The World Factbook. *"China"*.

<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

<sup>13</sup> Brookings Institution. China-US Focus. *"Xi's Reform Agenda: Promises and Risks"*.

<http://www.brookings.edu/research/opinions/2014/03/06-xi-reform-agenda-promises-risks-li>

<sup>14</sup> The Capital Group. *"China at a Crossroads. Recently Announced Reforms should Accelerate China's Transition to a Consumer-Led Economy"*, pg 6.

[https://server.capgroup.com/capgroup/.../Capitals.../II\\_12\\_2013\\_China\\_at\\_a\\_Crossroads\\_CG.pdf](https://server.capgroup.com/capgroup/.../Capitals.../II_12_2013_China_at_a_Crossroads_CG.pdf)

Committee was held. An official document of 'Proposals for China's 13th Five-Year Plan 2016-2020' was approved, with guidelines for China's 13th Economic and Social Development Five-Year Plan (2016-2020). Those guidelines assure China's continued annual economic growth rate of 7%. More transcendently, is the new independent role given to the Yuan-Renmimbi, which at the end of November 2015, the IMF announced as the fifth international reserve currency.

Across time and throughout history there have been many tectonic shifts in global economic power. Whereas from the early 1500s until the early 1800s China was the world's largest economy, by 1820 it rose once again to one-fifth as big as Europe's and accounted for one-third of the world GDP.<sup>15</sup> When in the aftermath of the Napoleonic Wars Great Britain (GB) emerged as the world's dominant power, its empire spanned a quarter of the globe. Its currency, the pound sterling, became the global reserve currency - "*as sound as gold*". Subsequently, in 1872, the USA overtook GB and has been the world's economic hegemon ever since, with the US dollar as the world's top dog currency.<sup>16</sup> It is predicted that during the 21<sup>st</sup> Century, the Yuan-Renmimbi will become the first and main international reserve currency.

The third and last part, 'Perceptions on China's Re-emergence', describes the main perceptions surrounding China's ascension as a new superpower and its possible repercussions vis-à-vis the rest of the world.

## THE POLITICAL SITUATION

The People's Republic of China's (PRC) political national system is Communist-Authoritarian. Its Constitution was most recently promulgated on the 4<sup>th</sup> December 1982 and in accordance with political and economic reforms, it was amended in 1988, 1993, 1999 and 2004. The National People's Congress appoints the State Council. The National People's Congress also elects the country's Chief of State, the President, for five-year terms (eligible for second terms). The country is governed by the Communist Party of China (CPC), whose power is consecrated in the Constitution. On the 14<sup>th</sup> March 2013, XI Jinping was elected President with 2.952 votes and LI Yuanchao Vice-President with 2.940 votes. The President nominates the Head of Government, the Premier, who is confirmed by the National People's

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<sup>15</sup> World Bank. "*China 2030: Building a Modern, Harmonious, and Creative Society*", pg 3.

<http://documents.worldbank.org/curated/en/2013/03/17494829/china-2030-building-modern-harmonious-creative-society>

<sup>16</sup> Vanity Fair. STIGLITZ, J. "*The Chinese Century*".

<http://www.vanityfair.com/business/2015/01/china-worlds-largest-economy>

Congress. Since the 16<sup>th</sup> March 2013, the Premier is LI Keqiang and the Executive Vice-Premier is ZHANG Gaoli. There are three Vice-Premiers. Since the 16<sup>th</sup> March 2013, they are: Vice-Premier LIU Yandong, Vice-Premier MA Kai and Vice-Premier WANG Yang.<sup>17</sup>

The PRC is one of the few remaining socialist states in the world. Its form of government has been described as both communist and socialist and authoritarian and corporatist. Its leaders have categorised the political system as 'socialism with Chinese characteristics' - Marxism-Leninism adapted to Chinese circumstances.<sup>18</sup> The actual President Xi Jinping has also adhered to that classification.<sup>19</sup> Although China upholds the 'Leninist' principle of "centralised Democracy", the National People's Congress has been described as an organ with considerable *de iure* power, but with little *de facto* power.<sup>20</sup>

The political system is decentralised, wherein provincial and sub-provincial leaders enjoy a high level of autonomy. There are other political parties, known in China as 'democratic parties', who participate in the National People's Congress and in the Chinese People's Political Consultative Conference. There have been steps taken towards political liberalisation by holding open elections in cities and towns, although due to the CCP's effective control over government appointments and the absence of meaningful opposition, the CCP wins by default the majority of votes.<sup>21</sup>

In addition and probably representing China's worst political handicaps, the ideological debate is strictly limited by the state; universal rights like freedom of expression, association, religion, internet usage and the press are extremely restricted, concerns persist over the rights of individuals in a number of regions and there is still a wide gap between rich and poor people. Theoretically, China publicly supports the Universal Declaration of Human Rights and in 1998 it signed the International Covenant on Civil and Political Rights, for which there is a lot of international pressure on China to ratify. However, despite that and in practice, respect for human rights in regard to both political and civil rights is well below international standards. Nevertheless, compared to any other period in the 20<sup>th</sup> Century,

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<sup>17</sup> Central Intelligence Agency. The World Factbook. "China".

<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

<sup>18</sup> HUTCHINGS, G. "Modern China: A Guide to a Century of Change".

KEITH, R. "China from the Inside Out- Fitting the People's Republic into the World".

<sup>19</sup> XINHUA. "Xi Reiterates Adherence to Socialism with Chinese Characteristics". [news.xinhuanet.com/english/china/2013-01/05/c\\_132082389.htm](http://news.xinhuanet.com/english/china/2013-01/05/c_132082389.htm)

<sup>20</sup> "China's Political System. The Constitutional System".

<http://www.china.org.cn/english/Political/26143.htm>

<sup>21</sup> "China's Political System. The System of Multi-Party Cooperation and Political Consultation".

<http://www.china.org.cn/english/Political/29034.htm>

most people in China's opportunities and possibilities in society have increased in many ways and they enjoy a lot more freedom.<sup>22</sup>

Since his coming to power, President Xi Jinping has dismissed notions of Western-style reforms and revealed himself as a transformative leader with a personal and ambitious 'China Dream'. On the 15<sup>th</sup> November 2013, following the Third Plenum of China's 18<sup>th</sup> Communist Party Congress, the Government released the 'Decision on Certain Major Issues Concerning the Comprehensive Deepening of Reform'. A '60-point Plan' with a set of widening and deepening reforms, which is envisaged to be accomplished by 2020. It forms the basis of President Xi Jinping's 'China Dream' rationale. The '60-point Plan' shows that the Government is very intent on transforming China through major reforms in the political, economic, societal, cultural and environmental realms. The reforms will "allow the market to play a decisive role in allocating resources and to give better play to the role of the government".<sup>23</sup> The changes are a series of long-term structural reforms aimed at paving the way for China's transition from an investment and export-led economy to a consumer powered economy.<sup>24</sup>

President Xi Jinping has consolidated and centralised power and underscored the importance of one-party rule. In relation to China's direction, he has stated that "party cadres must uphold and improve the system of Democratic centralism and principles and form strong governance to prevent internal strife".<sup>25</sup> The new President has tightened the 'power grab' for China, the CPC and for himself. Within a newly tightened centralised political system, he has rejected the communist tradition of collective leadership and established himself as the paramount leader. His proposed economic reforms, also allow the state to retain significant control, although they bolster the role of the market. He has also established a Central Leading Group for the "overall design of reforms, unified planning, and coordination, pushing forward as a whole, and implementation supervision".<sup>26</sup> His overall

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<sup>22</sup> European Commission. "China Strategy Paper- 2007-2013", pg 11.

[http://eeas.europa.eu/china/csp/07\\_13\\_en.pdf](http://eeas.europa.eu/china/csp/07_13_en.pdf)

<sup>23</sup> US-China Economic and Security Review Commission. "Third Plenum Economic Reform Proposals: A Scorecard", pg 2.

<http://www.uscc.gov/Research/third-plenum-economic-reform-proposals-scorecard>

<sup>24</sup> Ibid.

<sup>25</sup> South China Morning Post. "Xi Jinping Rules out Western-Style Political Reform for China".

<http://www.scmp.com/news/china/article/1586307/xi-jinping-rules-out-western-style-political-reform-china?page=all>

Foreign Affairs. ECONOMY, E.C. "China's Imperial President- Xi Jinping Tightens his Grip".  
<http://www.foreignaffairs.com/articles/142201/elizabeth-c-economy/chinas-imperial-president>

<sup>26</sup> US-China Economic and Security Review Commission. "Third Plenum Economic Reform Proposals: A Scorecard", pg 2.

<http://www.uscc.gov/Research/third-plenum-economic-reform-proposals-scorecard>



vision implicitly believes “that an open door to Western political and economic ideas will undermine the power of the Chinese state”.<sup>27</sup>

In relation with the main political reforms, President Xi Jinping has elaborated an agenda of very needed reforms. Mainly and most notably, a bold widespread anti-corruption campaign has been launched, the one-child policy has been relaxed, the *hukou* system of household registration is being improved and the social safety net has been expanded. The new President has to carry out a delicate balancing act between his political and economic reforms. Other political reforms much needed in the country, include increasing political openness and the role of civil society – without which China will never become an innovation driven economy.<sup>28</sup> Nonetheless and on another hand, the recent Hong-Kong Protests and ‘Umbrella Movement’ clearly indicate Chinese citizen’s urge for Western-style democratic change - for democratic elections.

When President Xi Jinping came to power, the CCP lacked a compelling ideology, was plagued by corruption and had lost credibility among the public, causing social unrest to uprise. During his first year in office, President Xi Jinping has cracked down on corruption relentlessly, supressing the demise of ‘*tigers and flies*’ (his term for high-level and low-level officials). The campaign has resulted in the arrest of about 20 ministerial level and provincial level senior officials, including leaders within interest groups of the oil industry. It has also transformed the behaviour of Chinese officials in different levels as well as greatly enhanced the public’s confidence in their new leader.<sup>29</sup> The campaign is also gradually blasting through the private sector as well, specially the banking sector.

The one-child policy has been relaxed so that a couple can have a second child if one of the parents is a single child, or ‘singleton’. The new policy should primarily benefit urban middle-class couples.<sup>30</sup>

The amelioration of the household registration *hukou* system has also been very positive for China, especially considering the recent demographic rise and migration increase from rural to urban areas. Until recently, people who migrated from rural to urban areas where often treated as second-class citizens by the *hukou* system, limiting their freedom of movement to cities as well as their access to social services in urban areas. Property rights were often

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<sup>27</sup> Foreign Affairs. ECONOMY, E.C. “China’s Imperial President- Xi Jinping Tightens his Grip”. <http://www.foreignaffairs.com/articles/142201/elizabeth-c-economy/chinas-imperial-president>

<sup>28</sup> Brookings Institution. China-US Focus. “Xi’s Reform Agenda: Promises and Risks”.

<http://www.brookings.edu/research/opinions/2014/03/06-xi-reform-agenda-promises-risks-li>

<sup>29</sup> Ibid.

<sup>30</sup> The Capital Group. “China at a Crossroads. Recently Announced Reforms should Accelerate China’s Transition to a Consumer-Led Economy”, pg 4.

[https://server.capgroup.com/capgroup/.../Capitals.../II\\_12\\_2013\\_China\\_at\\_a\\_Crossroads\\_CG.pdf](https://server.capgroup.com/capgroup/.../Capitals.../II_12_2013_China_at_a_Crossroads_CG.pdf)

protected very poorly and the disproportionate taxes affected the poorest citizens. The reform has proposed to relax migrant's ability to obtain urban residence permits.<sup>31</sup> To "open up the restrictions on settlement in organizational towns [jianzhi zhen] and small cities, open up in orderly fashion the restrictions on settlement in medium-sized cities, rationally set the conditions for settlement in large cities, and strictly control the population scale in very large cities".<sup>32</sup> It also provides rural migrants with access to the urban social safety net, thus facilitating labour force mobility. It will also further spur more urbanisation, which will consequently also boost consumption.<sup>33</sup>

The '60-point Plan' has also pledged to "establish a more fair and sustainable social security system and deepen medical and health system reforms".<sup>34</sup> It is expected that such improvements to health care, pension, education, and unemployment benefits will be an incentive to consumer spending.<sup>35</sup>

## THE ECONOMIC SITUATION

The Chinese Economic Model, although by nature not democratic, is one of the most successful economic models in the world. For a long time, its influential role in the global economy has been re-shaping the world economic landscape and re-structuring the international economic system. It is a Socialist Market Economic Model. A state-driven, market-orientated, economic system with market-friendly virtues. Time will tell, whether or not the 'Beijing Consensus' will end up being attractive for its possible application in other countries or regions<sup>36</sup> or whether its authoritarian nature will end up being in conflict with the consolidation of democracy.

China's internal, regional and worldwide economic success and meteoric rise is outstandingly impressive. Since the introduction of the 1978 economic reforms and China's shift from a centrally planned economy to a market-based economy, China has had the fastest growing economy in the world. Whereas in 2000, China's output had quadrupled, in 2010, China became the world's number one exporter, in 2011, China overtook Japan as the

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<sup>31</sup> Ibid, pg 5.

<sup>32</sup> US-China Economic and Security Review Commission. "Third Plenum Economic Reform Proposals: A Scorecard", pg 4.

<http://www.uscc.gov/Research/third-plenum-economic-reform-proposals-scorecard>

<sup>33</sup> The Capital Group. "China at a Crossroads. Recently Announced Reforms should Accelerate China's Transition to a Consumer-Led Economy", pg 5.

[https://server.capgroup.com/capgroup/.../Capitals.../II\\_12\\_2013\\_China\\_at\\_a\\_Crossroads\\_CG.pdf](https://server.capgroup.com/capgroup/.../Capitals.../II_12_2013_China_at_a_Crossroads_CG.pdf)

<sup>34</sup> Ibid, pg 4.

<sup>35</sup> Ibid.

<sup>36</sup> Considering past Latin American economic models that have failed, the Chinese economic model, successful worldwide, is actually being considered for its future possible application in the region.

world's second economy and in October 2014, China overtook the USA and became the new world economic number one in terms of Gross Domestic Product (GDP), measured in terms of Purchasing Power Parity (PPP). It also maintained its position as the world's number two economic power in terms of nominal total GDP.<sup>37</sup>

China is also the world's number one industrial power, the world's biggest exporter and importer of goods<sup>38</sup> and the world's number one consumer of luxury products.<sup>39</sup>

Considering reforms begun in 1978, throughout the last three decades and based on an investment and export led economy, the country has experienced an extremely impressive period of rapid growth. During that time, China has grown at an average rate of about 9.7% per year. According to the IMF, whereas from 2001-2010, China's economy grew at an annual average of 10.5%, from 2003-2007, it averaged an exceptional 11% annual growth rate!<sup>40</sup> Between 2007 and 2011, China's growth rate summed the equivalent of all the G7 countries growth rates combined!<sup>41</sup>

China's relatively good infrastructure, high productivity and low labour costs have made it a global leader in manufacturing too. Since 2001, China is a member of the WTO and is the world's largest trading power, with a 2012 total international trade value of US\$3.87 trillion. By the end of 2010, [its foreign exchange reserves](#) reached US\$2.85 trillion, making its reserves the world's largest by far. Since 2009, China owns an estimated \$1.6 trillion of US [securities](#). China is also the largest foreign holder of [US public debt](#) holding over US\$1.16 trillion in US [Treasury bonds](#). In 2012, China was the world's largest recipient of inward [foreign direct investment](#) (FDI), attracting \$253 billion. China also invests abroad, with a total 2012 outward FDI of \$62.4 billion.<sup>42</sup>

The Industrial and Commercial Bank of China (ICBC) is the world's largest bank by total assets (US\$ billion) and the China Construction Bank Corporation is the world's third largest. The Agricultural Bank of China and the Bank of China are also in the world's largest top ten.<sup>43</sup>

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<sup>37</sup> International Monetary Fund. "Data and Statistics".

<http://www.imf.org/external/data.htm>

<sup>38</sup> Ibid.

<sup>39</sup> Central Intelligence Agency. The World Factbook. "China".

<https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

<sup>40</sup> World Bank. "China Overview".

<http://www.worldbank.org/en/country/china/overview>

<sup>41</sup> International Monetary Fund. "Data and Statistics".

<http://www.imf.org/external/data.htm>

<sup>42</sup> Ibid.

<sup>43</sup> "Top Banks in the World 2014".

<http://www.relbanks.com/worlds-top-banks/assets>

In 2011, 61 Chinese companies were listed in the [Fortune Global 500](#) and in terms of total revenues, three of the world's top ten most valuable companies were Chinese, including fifth-ranked [Sinopec Group](#), sixth-ranked [China National Petroleum](#) and seventh-ranked [State Grid](#) (the world's largest electric utilities company).<sup>44</sup>

In accordance with the [Hurun Report](#), in October 2015, the number of US dollar billionaires in China increased to 596, overtaking the USA and making China the world's first country with the highest number of billionaires. In 2012, China's domestic retail market was worth over US\$3.2 trillion and as of 2013, is growing at over 12% per annum. The country's luxury goods market has also expanded immensely, with 27.5% of the global share.<sup>45</sup>

Notwithstanding however, with a per capita gross national income in 2010 of US\$4,260 more or less, China falls into the middle-income country category with complex development needs. For China, poverty reduction remains a fundamental challenge, as after India, it has the second largest number of consumption-poor in the world. China's rapid economic ascension has also brought on many other challenges like external imbalances, high inequality, rapid urbanisation, demographic issues related to an ageing population and the internal migration of labour, and finally, challenges to environmental sustainability.<sup>46</sup>

### **President Xi Jinping's Transformative Economic Reform Plan**

Within that setting, President Xi Jinping's '60-point Plan' and its economic reforms and changes reflect his commitment to long-term economic structural change.<sup>47</sup>

*"The policies announced during the Third Plenum seem very coherent and comprehensive. They aim to transform China's economy in a gradual, yet significant way. If policymakers are able to implement the majority of these policies within the stated timelines, the effects on China's economy will be very positive."*<sup>48</sup>

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<sup>44</sup> World Bank. "China 2030 : Building a Modern, Harmonious, and Creative Society", pg 4.

<http://documents.worldbank.org/curated/en/2013/03/17494829/china-2030-building-modern-harmonious-creative-society>

Wikipedia- The Free Encyclopedia. "China".

<http://en.wikipedia.org/wiki/China>

<sup>45</sup> Hurun Report. "Hurun Global Rich List 2015".

<http://www.hurun.net/en/ArticleShow.aspx?nid=9607>

<sup>46</sup> The World Bank. "China Overview".

<http://www.worldbank.org/en/country/china/overview>

<sup>47</sup> The Capital Group. "China at a Crossroads. Recently Announced Reforms should Accelerate China's Transition to a Consumer-Led Economy", pg 6.

[https://server.capgroup.com/capgroup/.../Capitals.../II\\_12\\_2013\\_China\\_at\\_a\\_Crossroads\\_CG.pdf](https://server.capgroup.com/capgroup/.../Capitals.../II_12_2013_China_at_a_Crossroads_CG.pdf)

<sup>48</sup> Ibid.

Allowing the state to retain significant control, bolstering the role of the market and improving China's investment regime, both for foreign firms investing in China and for Chinese firms investing abroad, promote *"reform by opening up"*. They will accelerate the transition of China's economy from one driven mainly by investment and exports to one fuelled by domestic consumption.<sup>49</sup>

*"The elevation of the market from its 'basic' role in allocating resources to a 'decisive' role by 2020, greater access for private sector firms, and market-driven prices are all important. These are all things that will drive productivity growth, which, in an environment of deteriorating labour demographics, is going to be quite important for sustaining China's GDP."*<sup>50</sup>

China finds itself at a crossroads and the reforms set forth will clearly direct its *transformation* towards more efficient, equitable and sustainable growth.<sup>51</sup>

*"When we look at the plenum 10 years hence, I believe we will see that this was one of those significant turning points for China. China has been tossing around the concept of marketization of its economy for a couple of decades now, but this is the first time that we're going to see what I think will be real efforts. And there is a lot of political will at the senior levels to try to make this happen."*<sup>52</sup>

President Xi Jinping's main economic reforms established by the '60-point Plan', revolve around State-Owned Enterprises (SOEs) and the Private Sector, the Financial System, Fiscal Policy and Tax reforms, Market Access and Foreign Investment and Rural Land reform.<sup>53</sup>

In relation to SOEs and the Private Sector, several sets of reform proposals have been outlined to reform SOEs, encourage private enterprises and equalise the playing field and the interplay between the public and the non-public sectors.<sup>54</sup>

In connection with the Financial System, several liberalisation reforms have been programmed, which include *"permitting private capital to establish small and medium-sized banks; a market-based exit mechanism for financial institutions; a deposit insurance system to protect depositors against bank defaults; a multi-tier capital market; and permission for*

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<sup>49</sup> Ibid.

<sup>50</sup> Ibid, pg 3.

<sup>51</sup> Ibid.

<sup>52</sup> Ibid, pg 2.

<sup>53</sup> US-China Economic and Security Review Commission. *"Third Plenum Economic Reform Proposals: A Scorecard"*, pgs 3-5.

<http://www.uscc.gov/Research/third-plenum-economic-reform-proposals-scorecard>

<sup>54</sup> Ibid, pg 3.

companies to launch IPOs without official approval (“share issuance registration system”).<sup>55</sup> References were also made to the liberalisation of the Renminbi (RMB) exchange rate<sup>56</sup>, capital account and deposit interest rates. In relation to monetary policy, the section related to “government functions” puts emphasis on the need for a macro-prudential monetary policy to guard against volatile business cycles.<sup>57</sup>

In accordance with the Fiscal and Tax reforms, on the 30<sup>th</sup> of June 2014, the new government endorsed a very impressive, pro-active and ambitious reform program for budgeting practices, centre-local fiscal relations and the tax system. Fiscal practices will be formalised and legalised. The main idea is based on the fact that:

*“Public finance is the foundation and a critical pillar for state governance. A scientifically designed fiscal and tax regime is the institution that guarantees resource allocation optimization, market unification, social equality, and long-lasting security and peace for a nation.”<sup>58</sup>*

Building such a modern fiscal system involves institutional innovation and systemic restructuring. Containing political economy and economics, the comprehensive reform responds to the changes in the economy. It is directed towards the main elements of the fiscal system and aims to enhance overall state governance, redefine the roles and functions of central and local governments and improve bureaucratic efficiency.<sup>59</sup> It is expected that by 2016, the main reform tasks concerning the fiscal and tax system will be completed, and that by 2020, a modern fiscal system will be completed.<sup>60</sup> The reforms will be achieved by fulfilling three main objectives: improvements in the budget management system, improvements in the tax system and building a system that matches an appropriate allocation of governmental functions and spending responsibilities.<sup>61</sup>

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<sup>55</sup> Ibid, pgs 3-4.

<sup>56</sup> The Renminbi is the official currency of the PRC. Literally, the name means "people's currency". Whereas the Yuan is the basic unit of the Renminbi, it is also used to refer to the Chinese currency in general terms, especially in international contexts. The distinction between the terms "Renminbi" and "Yuan" is similar to that between sterling and pound, which refer to the British currency and its primary unit respectively. The currency is abbreviated as RMB.

Wikipedia. The Free Encyclopedia. “Renmimbi”.

<http://en.wikipedia.org/wiki/Renminbi>

<sup>57</sup> US-China Economic and Security Review Commission. “Third Plenum Economic Reform Proposals: A Scorecard”, pgs 3-4.

<http://www.uscc.gov/Research/third-plenum-economic-reform-proposals-scorecard>

<sup>58</sup> World Bank. World Bank Office, Beijing. “China Economic Update. Special Topic: An Update of China’s Fiscal and Tax Reforms. October 2014”, pg 24.

<http://www.worldbank.org/en/country/china/publication/china-economic-update-october-2014>

<sup>59</sup> Ibid, pgs 24-25.

<sup>60</sup> Ibid, pg 24.

<sup>61</sup> Ibid, pg 25.

The Tax System reforms emphasise on strengthening the role of the market in resource allocation. China is concentrating on six tax categories as major reform targets: Value-added tax (VAT), excise tax, resources tax, environmental protection tax, property tax and individual income tax.<sup>62</sup>

In correlation to building a system that matches an appropriate allocation of governmental functions and spending responsibilities, *“the rationale behind this principle is to explicitly carve out the allocation of functions between the central and subnational governments. This will improve clarity in the system and move the responsibility of functions to governments with the best comparative advantages in delivering the function. Expenditure responsibility for defense, foreign affairs, national security, and market rules and management should be the function of the central government. Part of social security, and the construction and maintenance of projects with cross-regional benefits should be the shared functions of the central and subnational governments. The provision of regional public services should be a local government responsibility. Any financing shortfalls for delivering assigned responsibilities can be covered by intergovernmental transfers. Meanwhile, in general, the current revenue assignment structure should remain stable and should improve the revenue assignment between the central and local government”*.<sup>63</sup>

In conjunction with Market Access and Foreign Investment, they have both been expanded. That will provide a greater openness to inbound and outbound foreign investments, together with relaxed market entry requirements. The expansion calls for *“orderly opening up of service fields such as finance, education, culture, and medical care, ease the restrictions on foreign fund access in service fields such as nurseries, care for the elderly, building design, accountancy and auditing, commerce and trade circulation, and ecommerce, and further open up ordinary manufacturing industries”*.<sup>64</sup>

Finally and in tandem with the Rural Land Reform, it envisages expanding land use rights for farmers and unifying construction markets. Farmers' property rights will be strengthened through better litigation and documentation, in order to avoid coercive expropriation. It also provides for letting farmers lease and mortgage land to third parties for use of their land for non-farming purposes, including giving farmers the right to generate *“property-style income”*. Farmers will also be allowed to become shareholders in industrial operations, more private investment in rural areas will be permitted, equalization of urban and rural basic

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<sup>62</sup> Ibid, pg 27.

<sup>63</sup> Ibid, pgs 27-28.

<sup>64</sup> US-China Economic and Security Review Commission. *“Third Plenum Economic Reform Proposals: A Scorecard”*, pgs 4-5.

<http://www.uscc.gov/Research/third-plenum-economic-reform-proposals-scorecard>

public services will be promoted, and most importantly, a “unified urban and rural construction land market” will be established.<sup>65</sup>

### **China as the New World Economic Number 1**

Since the beginning of the 21<sup>st</sup> Century, China has been provoking yet another tectonic shift in global economic power. Most recently, in October 2014, it realigned the international economic landscape and changed the economic system’s structure. Even though after the financial crisis of 1997-98, the East Asian miracle may have lost some of its lustre, China’s economic performance continues to flabbergast. China, within the threshold of general transmutation, economic restructuring and financial alterations, has refuted most predictions and forecasts regarding its world economic ascendancy.

In retrospect and on one hand, in 2011 Yao Yang, an expert at Peking University, stated that “assuming that the Chinese and U.S. economies grow, respectively, by 8% and 3% in real terms, that China’s inflation rate is 3.6% and America’s is 2% (the averages of the last decade), and that the renminbi appreciates against the dollar by 3% per year (the average of the last six years), China will become the world’s largest economy by 2021. By that time, both countries’ GDP will be about \$24 trillion”.<sup>66</sup> In 2012, the economist Arvind Subramanian argued that by 2020 China would direct the world’s financial system and that in 10-15 years the Chinese Renmimbi would supplant the US dollar as the world’s reserve currency.<sup>67</sup> On another hand, in 2009, Martin Jacques, in his book “When China Rules the World”, believed that in 2025 China would still be the world’s number two economic power, and other estimates, predicted that by 2027 China would overtake the United States as the world’s largest economy.<sup>68</sup>

Albeit that and much sooner than expected, on the 8<sup>th</sup> October 2014, the IMF announced that China had become the new world economic number one in terms of Gross Domestic Product (GDP), measured in terms of Purchasing Power Parity (PPP).<sup>69</sup> According to the IMF’s PPP exchange rate methodology, at the end of 2014 China had 16.48% of the world’s GDP PPP (\$17.632 trillion) and the USA had 16.28% (\$17.416 trillion). China has therefore become

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<sup>65</sup> Ibid, pg 4.

<sup>66</sup> Wikipedia. The Free Encyclopedia. “Potential Superpowers”.

[http://en.wikipedia.org/wiki/Potential\\_superpowers](http://en.wikipedia.org/wiki/Potential_superpowers)

<sup>67</sup> WIRED. GREENWALD, T. “Taming the Dragon- One Scholar’s Plan to Soften Chinese Dominance”.

[http://www.wired.com/2012/02/st\\_subramanianga/](http://www.wired.com/2012/02/st_subramanianga/)

<sup>68</sup> JACQUES M. “When China Rules the World”, pgs 2-3.

<sup>69</sup> Business Insider. “China just Overtook the US as the World’s Largest Economy”.

<http://www.businessinsider.com/china-overtakes-us-as-worlds-largest-economy-2014-10>

Expansión. “China ya ha Desbancado a EEUU como la Primera Potencia Mundial”.

[www.coleconomistes.cat/ASP/.../Expansion09102014\\_1.pdf](http://www.coleconomistes.cat/ASP/.../Expansion09102014_1.pdf)



the world's economic number one. Nonetheless, in terms of raw market value, market exchange rate GDP or nominal total GDP, it is still lagging \$6.5 trillion behind the USA.<sup>70</sup>

**The Fifth Plenary Session of the 18th CPC Central Committee and the Economic and Social Development Five-Year Plan 2016-2020**

Since the turn of the century, the Government of China has been following different sets of so-called Five Year Plans of Economic and Social Development, which have directed the course of China's economic and social progress. Whilst under the 2006-2010, 11<sup>th</sup> Five Year Plan, considerable progresses were made, the 2011-2015, 12<sup>th</sup> Five Year Plan, has provided good direction for reform.<sup>71</sup> Although China has experienced a moderation of growth during since 2013 and the 2015-2016 forecasts indicated the same kind of slowdown due to the international crisis, new structural adjustments and the implementation of reforms by the new government, it still has the highest growth rate predictions in the world.

On one hand, with the 11<sup>th</sup> Five Year Plan, the Government of China aimed to achieve a "harmonious society" that balanced economic growth with distributional and ecological concern. It therefore generated a "people-centred" strategy, which, despite structural issues remaining under the strong momentum of China's traditional pattern of growth, made significant progresses in the improvement of basic public services in social protection, education and health.<sup>72</sup>

On another hand, the 12<sup>th</sup> Five Year Plan, called for an urgent need to re-balance towards a more domestic demand-led, service-sector orientated pattern of growth.<sup>73</sup> During 2011-2015, China's economic growth, with the macroeconomic stance moving towards normalisation, remained resilient. Contributions towards the normalisation were made by sound fiscal and monetary policies. Although in 2011 consumption growth relented, overall domestic demand stood its ground, strongly supported by still strong investment growth. Whilst real estate investment maintained its robustness in view of new measures to contain housing prices, the reduction of inflation was another policy priority. An absolutely normalised macro policy stance was a key factor for tackling the macroeconomic risks related to inflation and the housing market.<sup>74</sup>

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<sup>70</sup> Business Insider. "China just Overtook the US as the World's Largest Economy".

<http://www.businessinsider.com/china-overtakes-us-as-worlds-largest-economy-2014-10>

<sup>71</sup> The World Bank. "China Overview".

<http://www.worldbank.org/en/country/china/overview>

<sup>72</sup> Ibid.

<sup>73</sup> Ibid.

<sup>74</sup> World Bank. "China Quarterly Update. April 2011", pgs, 1-6.

[http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/04/29/000356161\\_20110429003758/Rendered/PDF/614000Replacem1Quarterly1April2011.pdf](http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2011/04/29/000356161_20110429003758/Rendered/PDF/614000Replacem1Quarterly1April2011.pdf)

In divergence, during more recent periods and reflecting China's new policy measures to put economic growth on a more sustainable path, growth in China has continued to slow down. Whereas in 2013 China had a 7.7 growth rate, in 2014 China's growth rate was 7.4. Although short-term growth has been reduced, the reform measures will generate a realignment of growth in the medium-term. During 2014, policy efforts were accelerated to harden budget constraints of local governments, tighten credit growth, reduce excess capacity and internalise the cost of industrial pollution.<sup>75</sup>

While growth slowdown has been limited by targeted support measures and the recovery of external demand, pressures from the weak housing market still represent a significant strain on domestic economic activity. During recent years, an important motor of growth has been the real estate sector, which continues to adjust to policies for tightening credit and reducing supply mismatches.<sup>76</sup>

Whereas, in 2015 China's growth-rate was 6.9%, the lowest in 25 years, it is still within reasonable range and achieved the government's target of "around 7%". For the first time in history, the service industry has contributed to more than half of the total GDP growth with 50.5%, which indicates a deepened restructuring of the growth pattern. Whilst export and industry, especially heavy industry are no longer the main engines driving the nation's growth, the new leaders of the economy are government-led investment in public infrastructure, manufacturing of more highly value-added electronic systems, and e-commerce.<sup>77</sup>

Between the 26<sup>th</sup> and 29<sup>th</sup> October 2015, the Fifth Plenary Session of the 18th CPC Central Committee was held in Beijing. An official document of 'Proposals for China's 13th Economic and Social Development Five-Year Plan 2016-2020' was approved. (Proposals Document for the 2016-2020 ESDP-YP). The preliminary document has laid down a series of courses of action and proposals, (the majority of them economic-financial), on which the 13<sup>th</sup> Five-Year Plan 2016-2020 will be based. The latter will be officially established and made public at the end of March 2016. In general, the CPC assures a continued annual growth rate until 2020 of "around 7%". The highest growth rate in the world.

Likewise and one of the most transcendental proposals set forth, is the independent role given to the Yuan-Renmimbi, which has already been declared by the IMF as the fifth

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<sup>75</sup> World Bank. World Bank Office, Beijing. "China Economic Update. Special Topic: An Update of China's Fiscal and Tax Reforms. October 2014", pg 1.

<http://www.worldbank.org/en/country/china/publication/china-economic-update-october-2014>

<sup>76</sup> Ibid.

<sup>77</sup> CHINADAILY.com.cn. "China's Growth Slows to 6.9% but within 'Reasonable' Range".

[http://www.chinadaily.com.cn/business/chinadata/2016-01/19/content\\_23145317.htm](http://www.chinadaily.com.cn/business/chinadata/2016-01/19/content_23145317.htm)

international reserve currency. It is predicted that during the 21<sup>st</sup> Century, it will gradually become the international reserve currency number one.

*"The next five-year period was described as crucial for building a moderately prosperous society by 2020;*

*China aims to double by 2020 its gross domestic product (GDP) and per capita income of both urban and rural residents compared to 2010 levels;*

*Ensure a "moderately prosperous society" by 2020 requires a medium to high growth, higher living standards and better quality environment, the proposals indicate;*

*... Calls for continued family planning as a basic state policy, and allow all couples to have two children, while improving public services for reproductive health, maternal and child health, nurseries and kindergartens;*

*The document promises to increase the achievements in the campaign to fight corruption and strengthen the supervision and review of power, in addition to defining an effective mechanism to eliminate corruption".<sup>78</sup>*

Amongst the main ideological, political and governance proposals of the Proposals Document for the 2016-2020 ESDF-YP,<sup>79</sup> the following stand out:

- *"Strengthen ideological and cultural initiatives online. Cultivate a positive culture on the Internet and "cleanse" its environment".<sup>80</sup>*
- *"Several systems will be improved over the next five years. The capacity of national governance will be improved through modernization, and basic systems will be installed in each industry. The nation will be more democratic and the rule of law and judicial credibility will be implemented and highlighted. Human rights and property rights will be protected effectively.*

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<sup>78</sup> XINHUA Español. "Enfoque de China: China Presenta Propuesta para Formular XIII Plan Quinquenal". [http://spanish.xinhuanet.com/2015-11/04/c\\_134780467.htm](http://spanish.xinhuanet.com/2015-11/04/c_134780467.htm)

<sup>79</sup> The Official Document of eight chapters includes many other cultural, educational, health, social security, energy and military and environmental reforms proposals. However, considering the economic and financial character and focus of the present study, the most politically and economically transcendental ones are detailed.

<sup>80</sup> South China Morning Post. "How the next Five-Year Plan will change China: Blueprint for Nation's Development Explained". <http://www.scmp.com/news/china/policies-politics/article/1875271/snapshot-chinas-next-five-year-plan>

- *The knowledge structure of leadership will become more professional. The reform of human resources will be deepened.*
- *Increased investment by the central and provincial governments to integrate multiple channels of poverty alleviation. More financial channels to combat poverty will be explored.*
- *The full implementation of the fertility policy is advocated, allowing all couples to have two children. Improvements are also proposed in reproductive health, the health of women and children and nursing”.<sup>81</sup>*

Amid the main economic and financial proposals, the following predominate:

- *"International coordination of macroeconomic policy will be strengthened. The formulation of norms will play a very active role in new fields such as the Internet, the high seas, the polar areas and outer space.*
- *The cyber economy will be expanded and the Internet Plus plan will be implemented. The network speed will increase and prices will drop, along with supporting innovation in cyberspace and related industries, business methods and supply chains and logistics.*
- *Competition to be further improved in national monopoly sectors, such as electricity, telecommunications, transportation, oil, natural gas and public services.*
- *Fiscal reform to be strengthened. Responsibilities of the central government and other authorities to be moderately strengthened to approve the allocation of their income.*
- *Financial reform will be accelerated and the way in which it supports China's economy will be improved. An open, transparent and healthy capitals market will be developed. The issuance and trading system of stocks and bonds to be improved.*
- *Financial markets to be opened further. Renminbi's inclusion in the IMF's special drawing rights basket to be promoted to achieve convertible capital account.*
- *New-Style professional farmers to be nurtured. Reform of the rural land to deepen and the orderly transition of land operational rights promoted.*

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<sup>81</sup> XINHUA. Fifth Plenary Session of 18th CPC Central Committee. "Highlights of Proposals for China's 13th Five-Year Plan".

[http://news.xinhuanet.com/english/photo/2015-11/04/c\\_134783513.htm](http://news.xinhuanet.com/english/photo/2015-11/04/c_134783513.htm)

- *Legal land use rights of farmers to be insured, including those who work in cities. Renovation of shantytowns in cities to be speeded up*".<sup>82</sup>

Regarding the re-emphasized independent role that has been given to RMB, it has to be noted that as early as August 2015, the Government of China consciously devalued the RMB against the US dollar to precisely start granting it an independent and prosperous role. With the devaluation of the RMB, Chinese goods became cheaper, and therefore, domestic consumption began to be encouraged.

Merely one month after the Fifth Plenary Session of the XVIII CPC Central Committee and the submission of the Proposals Document for the 2016-2020 ESDF-YP, the IMF announced its decision to include the RMB in its basket of international reserve currencies as the fifth international reserve currency. Another impressively quick achievement for China, which is showing signs of the global impact the RMB is already having. The event is expected to trigger three waves of capital inflows into the Chinese currency.

*"In the first wave, the yuan's inclusion would cause a re-weighting of the SDR basket, which is valued at \$280 billion. Currently, it is dominated by the US dollar (42 percent) and the euro (38 percent), followed by the British pound (11 percent), and Japanese yen (9 percent).*

*The initial weight of the yuan is likely to be about 10-14 percent – as reflected by China's share in global exports (13 percent), foreign exchange reserves (30 percent) and the use of its currency in global capital flows (1-3 percent). That could mean a shift of \$40 billion into the yuan's assets starting in October 2016, probably gradually over half a decade.*

*As long as the deceleration of China's economic growth does not result in a hard landing and financial reforms continue, the IMF endorsement could trigger another wave of larger capital inflows by central banks, reserve managers and sovereign wealth funds.*

*Today, the allocated part of the global foreign exchange reserves – which the IMF calls the Currency Composition of Official Foreign Exchange Reserves, or COFER – amounts to \$6.3 trillion. The US dollar still accounts for nearly two-thirds of the total, against a fourth by the euro, while the pound and the yen are smaller (less than 5 percent each). Assuming that China's current share of global reserves is about 1 percent, the IMF's decision could cause a significant capital inflow (4 percent) into the yuan assets, which would translate to some \$350 billion by 2020.*

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<sup>82</sup> Ibid. As it can be perceived, many of the proposals were already included in the '60-Point Plan', and in fact, many of them are already being implemented. However, the emphasis put on all of them and the deepening of many of them, reflects China's determination on change, development and progress.

*A third capital inflow is likely to ensue as private institutional and individual investors follow in the footsteps of the IMF and public investors. If these allocations rise to just 1 percent, they could unleash about \$200 billion into the yuan assets by 2020".<sup>83</sup>*

## CONCLUSION

### Perceptions on China's Re-Emergence

*"Historically, the birth of new economic superpowers has caused great global instability - and conflict, more often than not. Much ink has been spilled on how China's role will affect the global balance of power".<sup>84</sup>*

Following a long absence of two centuries, China has returned to the centre of the stage of the global economic theatre interpreting the lead role once again. Domestic reforms and integration into global markets have induced thirty years of unprecedented growth and made China the world's number one economic power and leading creditor. China's integration into the world economy has been extremely beneficial for China and for the whole world. For China, it has reduced poverty dramatically and boosted employment opportunities for hundreds of millions of people. A significant influx of FDI has helped China propel productivity in domestic firms with new technologies, on the job training and much intensified competition. China has also imported foreign practices for a wide range of areas like banking regulation and product standards. For the rest of the world, manufactured goods have become more affordable, FDI flows into China have created new investment opportunities for foreign firms and it has made the efficiency of global production networks sharply uprise.<sup>85</sup>

China has been advancing steadfastly through an incredibly prosperous economic path and now stands at a crossroads with many challenges lying ahead. The actual direction China will take now, depends greatly on whether it is able surpass the "middle-income" country threshold and become a "high-income" country soon. By becoming the world's economic number one power in 2014 in terms of GDP-PPP, China has more than proven to have the potential to reach the "high-income" country status and within the next two decades, become the world's largest economy in terms of nominal total GDP. It is predicted that even

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<sup>83</sup>VALUEWALK. "Renmimbi as the Fifth International Reserve Currency".  
<http://www.valuewalk.com/2015/11/renminbi-as-the-fifth-international-reserve-currency/>

<sup>84</sup> BBC News. FLANDERS, S. "Questions for the New Number 2".  
[http://www.bbc.co.uk/blogs/thereporters/stephanieflanders/2011/02/questions\\_for\\_the\\_new\\_number\\_2.html](http://www.bbc.co.uk/blogs/thereporters/stephanieflanders/2011/02/questions_for_the_new_number_2.html)

<sup>85</sup> World Bank. "China 2030: Building a Modern, Harmonious, and Creative Society", pg 361.  
<http://documents.worldbank.org/curated/en/2013/03/17494829/china-2030-building-modern-harmonious-creative-society>

if China continues to grow a third as slowly in the future compared to its past (6.6% per year on average compared to 9.9% over the past 30 years), by 2030 it will become a “high-income” country and overtake the USA in economic size. Once China achieves that landmark, it will have avoided the “*middle-income trap*” and have traversed the quasi-impossible chasm between “low-income” and “high-income” rank within a decade and a half – an extremely impressive achievement for any country, especially one as big as China.<sup>86</sup>

The next twenty years will differ radically for China from the previous thirty years as it transitions successfully to a “high-income” status. China also has to change and adapt the policies that have served it so well in the past to tackle very different challenges for a very different future. Most particularly, policies related to the impact of decelerating growth, the substitution of FDI inflows for FDI outflows, the promotion of the Chinese currency, and finally, the provision of global public goods as well as a more active participation for China in global governance issues.<sup>87</sup>

In the first place, China will have to be wary about the impact of decelerating growth. Whilst in recent decades growth has been incredibly high and driven mainly by the manufacturing sectors, in the coming decades growth will be significantly lower and more dependable on the services sectors. The past concerns about the impact of sustained high growth, focusing on bottlenecks in the soaring export-orientated manufacturing sectors, limitations in the availability of necessary natural resources, adverse environmental impacts and slow growing foreign markets, will not disappear. Whatsoever, decelerating growth could have other negative exacerbating effects. The slowdown of growth will expose China’s financial sector to tensions and imbalances.<sup>88</sup>

In the second place, large global Chinese companies are a prerequisite for a successful transition to a “high-income” country. Whereas in recent decades FDI inflows have been crucial for China to access global markets and global technologies, in coming decades the globalisation of Chinese firms (FDI outflows) will be the providers of further access to global markets and global technologies. By investing abroad, globalising Chinese companies can also take advantage of economies of scale as well as move production up the values chain.<sup>89</sup>

Another key issue is the Chinese currency, the RMB. While in recent decades China’s presence in global financial markets has been limited, in coming decades China will have to adopt a more dominant role. In the past, China protected itself from volatility in international financial markets through the restriction of capital account transactions,

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<sup>86</sup> Ibid, pg 3.

<sup>87</sup> Ibid, pgs 361-362.

<sup>88</sup> Ibid, pg 361.

<sup>89</sup> Ibid, pgs 361-362.

through the pegging the RMB to the dollar and through the accumulation of large foreign exchange reserves. In the future, that tactic will not be as effective and equilibrium will be provided by the more international and independent role the Chinese currency has already begun exercising.<sup>90</sup>

Finally, China's past approaches to international policy debates from a domestic perspective should also be substituted in the future for a more proactive attitude in proposing solutions to global governance problems as well as for the provision of global public goods.<sup>91</sup>

China's objective of becoming a modern, harmonious, creative and high-income society is, despite the challenges lying ahead, soon to be accomplished. The realignment of the international economic landscape and changing of the economic system's structure it has caused through its domestic reforms and opening up to the global economy has been nothing short of a miracle. During the next decades China could easily carry out another miracle, by which its economic, social and cultural factors would benefit its own people and contribute to global prosperity and stability. It is up to the Chinese leadership to press ahead with much wisdom, strength and determination.<sup>92</sup>

In great contrast and on another hand, other more negative views on China's rise also exist. For example and most predominantly, the USA's National Security Council's *"Global Trends 2030: Alternative Worlds"* report, projects that in a near future China could also become a potential 'black swan' that would have a great disruptive impact in the world, especially within the context of a democratic or a collapsed China.<sup>93</sup>

*"China is slated to pass the threshold of US\$15,000 per capita purchasing power parity (PPP) in the next five years or so—a level that is often a trigger for democratization. Chinese "soft" power could be dramatically boosted, setting off a wave of democratic movements. Alternatively, many experts believe a democratic China could also become more nationalistic. An economically collapsed China would trigger political unrest and shock the global economy".<sup>94</sup>*

In addition and running in parallel to Jacques's and other lines of thought outlined in the previous Part IV, there is also a wide sphere of academic thought and predictions regarding the negative flow through the system of pluralist cultural, social, economic and political transnational forces, which are giving rise to visions of further conflicts uprising from below.

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<sup>90</sup> Ibid, pg 362.

<sup>91</sup> Ibid.

<sup>92</sup> Ibid.

<sup>93</sup> USA. National Security Council. *"Global Trends 2030: Alternative Worlds"*, pg xi.

<https://globaltrends2030.files.wordpress.com/.../global-trends-2030-november2012.pdf>

<sup>94</sup> Ibid.



Most particularly and running in parallel to most future negative perspectives on China, Samuel Huntington, in his article *"The Clash of Civilisations"*, does not view a future convergence along pluralist lines, but instead, sees the emergence of civilizational faultlines due to the need of returning to the "roots", felt by those uprooted by the dynamism of socio-political and economic changes.<sup>95</sup> He believes that those civilizational cleavages have replaced the ideological cleavages that characterised much conflict in the 20<sup>th</sup> Century, and thus envisages a future "clash of civilisations".<sup>96</sup> Huntington projects that the 21<sup>st</sup> Century risks being marked by conflicts between civilisations, in particular between the West and the Islamic and Confucian civilisations. He also points to the emergence of identity politics within and between states as evidence of cultural and civilizational forces in international relations. For Huntington, in contrast to Pluralism, culture is divisive, operating as a centrifugal force rather than as a centripetal force.<sup>97</sup>

Notwithstanding and in conclusion, despite the vast array of theoretical perceptions and projections on China, their diverging formulae rationale and hypothetical futuristic scenarios, it can be clearly perceived that China's rise, resurfacing and emergence as a global power, has itself spurred the creation of a new world order, the future shape of which still remains unclear.<sup>98</sup> China's diplomatic rationale and true objectives may still be unclear, but irreversibly and starting from East Asia, China began debunking Japan as the world's second economic power, continued to become the *de facto* epicentre of the region and most recently the world's economic number one power in terms of GDP-PPP. It has also become an increasingly *sine qua non* market for every country, subsequently become the key driver of most economic arrangements presently taking place, and most importantly and above all...it has become indispensable to every single country, more and more so obliged to not only take account of, but also accommodate the *awakening dragon*. So far, the changes brought about by China's ascendance have not disturbed the calm of global waters very much, although their speed and enormity suggest that we are entering an era of deep and powerful rough tides.

In the 21<sup>st</sup> Century, the rise and scope of China's economic and political influence has been and will be for a long time extremely impressive. Undoubtedly, China's ascendance as an economic superpower will not only alter the Asian balance of power, but will also affect the overall world ethnic, political, social and cultural equilibrium, unseat the West and create a whole new world order. According to projections by Goldman Sachs, by 2050 the G8 of today will be totally re shuffled and the three largest economies in the world will be China, followed closely by the United States and India, and then Brazil, Mexico, Russia and

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<sup>95</sup> HUNTINGTON, S. *"The Clash of Civilisations"*, pgs 22-49.

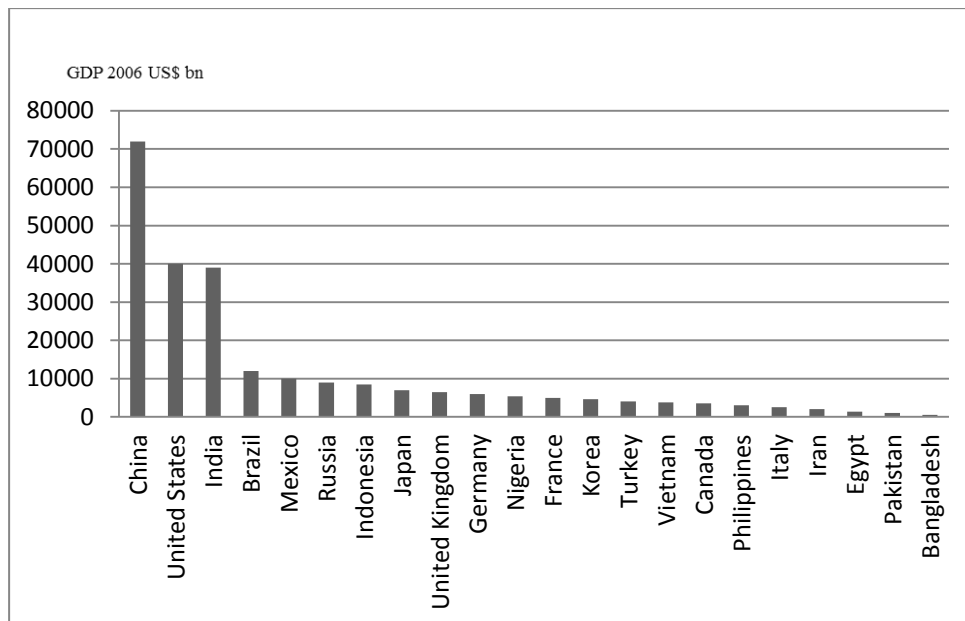
<sup>96</sup> Ibid.

<sup>97</sup> Ibid.

<sup>98</sup> JACQUES, M. *"When China Rules the World"*, pgs 318-320.

Indonesia. Of the present G8, only four would appear in the top ten and out of the European countries, only the UK and Germany would feature within those top ten (in ninth and tenth place respectively)! (Please see Figure 9 below). In a similar fashion, PricewaterhouseCoopers predict that by 2050 the Brazilian economy could be larger than Japan's and that the Russian, Mexican and Indonesian economies could also outgrow the German, French and UK economies.<sup>99</sup>

**Figure 9**  
**The World in 2050**



Source: Jacques, M. "When China Rules the World"

Alfonso Zurita Borbón\*  
Political Science-University Sussex  
Master International Relations and Economics - Johns Hopkins University

<sup>99</sup> Ibid, pgs 1-23.

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