

Part 5

China rising

Superpower, again?

China is very much the country of the moment. A strong case could be made for viewing China as the world's most important nation as it takes the number one spot in 2009 by several measures:

- the world's most populous country, with over 1.3 billion people
- the world's biggest emitter of greenhouse gases
- the world's largest army, at 2.3 million soldiers
- the world's largest number of landlines, mobile phones and internet users
- the world's largest manufacturing production

To students of Chinese economic history these superlatives might seem to mark a return to superpower status. Prior to 1600, China and India were the world's largest economies. During the Qing dynasty, some estimates suggest China's economy accounted for one-third of global economic activity. China's star began to dim in the nineteenth century with the rise of Britain as an industrial and imperial power. China's economic and political history up to the late 1970s is briefly outlined in Table 5.1.

Table 5.1
China's economic and political history

Date	Politics	Economics
1839–42 and 1856–60 Anglo-Chinese opium wars	Conflict over trade rights led to two wars with Britain both of which China lost; Britain becomes the hegemonic power in SE Asia	China is forced to open up to European trade, including trade in the drug opium
1851–1873 Internal rebellion	A series of civil wars, related to religion and clan rivalries undermined the power of dynastic rule and led to millions of deaths	The opium trade, and the effects of the drug on people, crime and trade increased China's reliance on foreign powers
1894–95 Sino-Japanese war	War between Japan and China, which contributed to Japan's status as the regional power	China lost control of Korea and Taiwan
1899–1901 Boxer Rebellion	Boxers were anti-foreign, anti-Christian rebels who attempted to drive the Western powers out of China; they were defeated, but China was forced to pay reparations to Japan, Russia, the UK, USA and the other countries that put down the rebellion	China was almost colonised during this period; China becomes heavily reliant on imported European goods
1911 Revolution	Qing dynasty overthrown leading to the formation of a republic. This was a highly unstable period	Economic stagnation, famine and hyperinflation
1937 Invasion	Japanese invade China and rule it until 1945	The economy of China virtually grinds to a standstill under Japanese rule
1945–1949 Civil war	Communists under Mao Zedong and the Nationalist Kuomintang under Chang Kai-Shek fight a devastating civil war	By 1949, the Chinese economy had been 'at war' for over 12 years

In 1949, the Communists were victorious and founded the People's Republic of China (PRC). Chinese nationalists fled to Taiwan. To this day 'China' is a divided nation. The People's Republic of China (mainland) and the Republic of China (Taiwan) maintain a strained relationship. No major power (or the UN) officially recognises Taiwan as a 'country' because the PRC refuses to have any diplomatic relations with any country that does. However, Taiwan is economically and politically supported by the West.

China (PRC) remained an insular, isolated nation throughout the 1950s and 1960s. China and the USSR, another communist nation and seemingly natural ally, did not cooperate with each other. The two countries had very different forms of communism because China was a rural nation and the USSR was increasingly urban and industrial. Modern China, and the origins of the economic powerhouse of today, can be dated to economic reforms instigated by Premier Deng Xiaoping in 1978.

WHY CHINA?

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Since China's economic reforms its progress has been remarkable (Figure 5.1). Purchasing power GDP per capita has seen uninterrupted growth from \$250 to nearly \$6000 in less than 30 years. The proportion of Chinese in poverty (living on less than \$1.25 per day) has fallen from over 60% to under 10%. In a generation China has been transformed from a rural agricultural country to an urban industrial one. Some estimates suggest that in 2008 there were upwards of 800 000 millionaires in China.

China's economic growth results from a number of interrelated factors:

- Economic reforms begun in 1978 — most importantly an 'open door' policy towards foreign direct investment (FDI) which encouraged TNCs to locate manufacturing plants in China.
- Setting up of special economic zones (free trade, or export processing, zones) beginning with Shenzhen on the Pearl River Delta in 1980. There are now dozens of these. All have various forms of low taxes, open import–export systems, an export orientation, and limited regulations on labour, e.g. non-union or no-strike agreements.

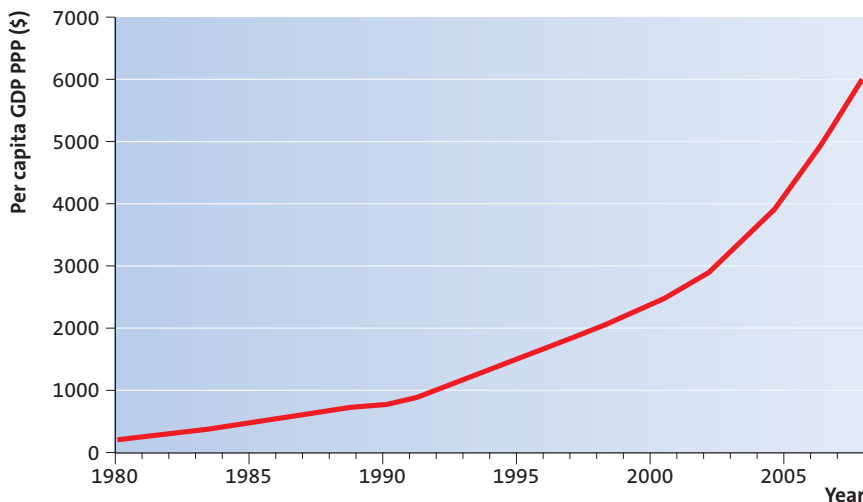


Figure 5.1
Chinese per capita
GDP growth since
1980

- the size of the local market in China has become increasingly important since 2000 as the Chinese themselves have become consumers, reducing the reliance on exports. In addition, geographical proximity to large Asian markets has helped exports.
- a huge pool of low-wage but highly skilled and motivated labour. Chinese education is the country's trump card. The literacy rate in 2008 was 92%. Around 20% of students go on to higher education whereas only 1% did in 1978. There are more undergraduates in China than there are people in Australia.
- a focus on exports that undercut MEDC prices. In some cases, this has involved direct copying of foreign products and ideas; in others, joint ventures with Western TNCs have filled technology gaps.
- huge investment in infrastructure (ports, roads, airports, telecommunications and energy) by the PRC government — for instance, \$250 billion were invested in roads between 1990 and 2005, with plans to build 80 000 km of motorways in the next 20 years.

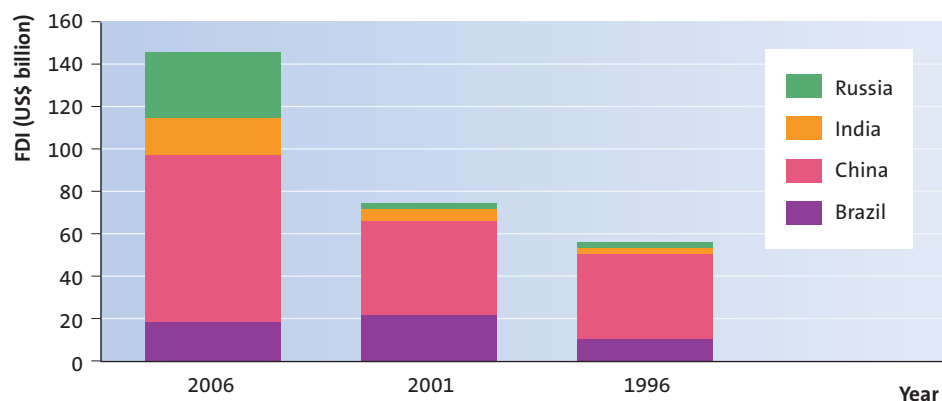
China has also been lucky enough to grow in an era of globalisation. Internet and satellite communications have increasingly 'shrunk' the perceived distance to China from Europe and North America and allowed TNCs to keep in touch with far-flung factories. Transport costs, especially air travel and container shipping, have fallen in the last two decades. This has benefited China's export-oriented economy.

FDI explains much of China's economic growth. Until recently, 70% of this was in the manufacturing sector. In 2003, over 40 000 firms invested in China, with companies from Taiwan, USA, Japan, South Korea and Europe all big investors. As Figure 5.2 shows, China has taken by far the largest FDI slice of any of the BRIC nations. FDI is not all good news. While foreign-owned factories provide jobs, few taxes are paid in free trade zones and profits leak out of China back to the home countries of the TNCs. Local suppliers benefit from contracts, but technology is not transferred.

For China to become a global player it needs to develop its own industries and own innovation. The car industry illustrates how China is attempting to do this. In 2008, China made more cars than any other country — just over 9 million (2 million in 2000). Can you name a Chinese car company? Probably not, but several, for example Geely, Chery, SAIC and Dongfeng are growing rapidly. China's car industry has gone through a number of stages:

- **Joint ventures** — between 1980 and 2000 most cars made in China, such as Shanghai GM, Tianjin Toyota and FAW-VW, were joint ventures between Chinese companies and Western TNCs. These companies usually produced old models from the West.

Figure 5.2
FDI in the BRICs



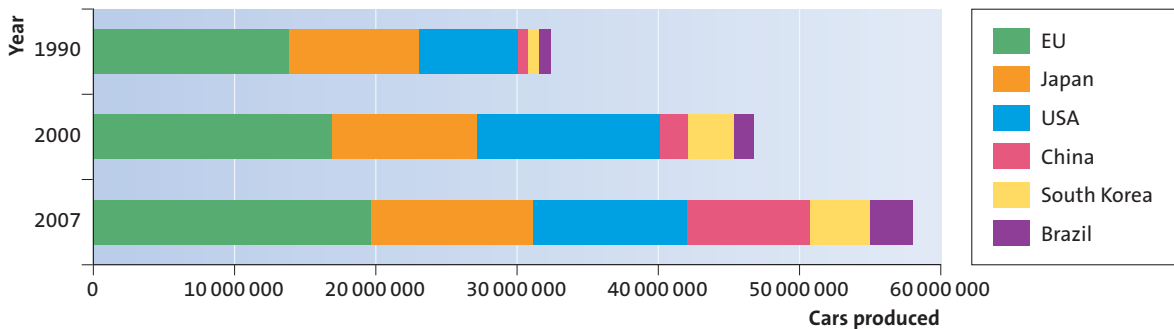


Figure 5.3
Changing car
production,
1990–2007

Shanghai Volkswagen Automotive still produces the Santana based on a VW Passat first sold in Europe in 1981. Virtually all technology was imported to China.

- **Indigenous producers** — in the late 1990s local companies began to build cars on their own. Geely produced its first car in 1998 and Chery in 1999. Chery were sued in 2004 by GM for copying the Daewoo Matiz. This fairly blatant ‘borrowing’ of Western design and technology has been common but has allowed rapid commercial development of models.
- **Innovation** — from around 2005, Chinese companies began developing their own designs and products, evidence that the industry is maturing and eyeing export markets. At the Shanghai Auto Show in 2009 numerous Chinese manufacturers exhibited concept cars.

The stunning rise of China’s car industry can be seen in Figure 5.3. Between 2000 and 2007, car production in the EU, USA and Japan remained relatively stable; in the emerging countries of South Korea and Brazil it doubled. In China, production quadrupled in 7 years, whereas in the USA it fell by around 20%.

Dramatic changes in car production have led to dramatic rises in car ownership in China, creating a more mobile, consumer society. China’s citizens have grabbed onto some technologies with both hands. By 2008 there were 220 million internet users, more than in the USA. Mobile phone numbers grew from 87 million in 2000 to 430 million in 2008.

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Using case studies

Question

- Outline the reasons for China’s recent rapid economic growth.
- How important has FDI been to China’s recent success?

Guidance

- These reasons might usefully be grouped. First, there are the political and economic reforms of the late 1970s and increased openness to the rest of the world. Human resources — a well-educated, low-wage workforce of seemingly limitless size — have allowed industry to grow. Government policies such as infrastructure investment and free trade zones have played an important role, and been copied in other countries. The increasing wealth of the Chinese has created an internal market that has recently become a crucial source of continued growth.
- FDI has been vital — it was the reason that growth in jobs and exports began. However, you should consider whether it is as important now, given the growth in Chinese TNCs and home-grown industrial development and markets.

The urban rich and the rural poor

Income inequality has grown significantly in China. By 2007, the richest 10% enjoyed 45% of all the income whereas the poorest 10% shared only 1.4%. The majority of the rich, including around 60 billionaires in 2007 (according to *Forbes* magazine), are urban. Rampant urbanisation has created a new, consumerist middle class — particularly in the service sector, as demand for lawyers, accountants and PR people has grown. However, China's Gini coefficient of inequality rose from 0.31 to 0.44 over the 1980–2001 period as inequality grew.

Most of the poor in China are rural, but they are rarer than they were. Globalisation and the economic miracle have reduced poverty levels in a way that most countries envy. The total number of rural poor (living on under \$1 per day) has fallen from around 250 million in 1978 to around 30 million in 2006. Despite this huge achievement, there is little in the way of trickle-down to rural areas — most young rural people simply migrate to urban areas, creating a growing problem of rural ageing. There are still some 700 million rural farm workers in China. This has created a stark divide between coastal urban wealth and interior rural poverty (Figures 5.4 and 5.5). One significant problem is rural land-grabbing, by the state and private companies, for infrastructure, suburban homes and new factories. A total of 6.5 million hectares of farmland have been lost in the last 20 years. Rural people whose land is taken often do not receive compensation. It is important to recognise that not everyone has benefited from China's growth and it is very much a country of 'haves' and 'have nots'.

Figure 5.4
Many Chinese people struggle to make a living





Figure 5.5
Income inequality in China

The environmental payback

A significant threat to China's continued growth is the health of its environment. Three days before the opening ceremony of the 2008 Beijing Olympics the city's Air Pollution Index was measured at 91. By World Health Organization standards a reading of 50+ is considered 'high' and 100+ as unsafe. Beijing's dirty air came close to derailing the Olympic dream. This was despite huge efforts to clean up Beijing before the athletes arrived:

- 1300 petrol stations were upgraded to sell cleaner fuels
- vehicles failing to meet strict new emissions standards were banned from Beijing
- 50% of the city's 3.3 million cars were banned from driving every day
- some factories were forced to shut during the Olympics

Beijing did succeed, but nine of the ten most polluted cities in the world are in China. Acid precipitation falls on 30% of the country. According to the World Bank, air pollution costs the Chinese economy \$25 billion a year in health costs and lost productivity. A World Health Organization Report in 2007 found that urban air pollution kills 656 000 Chinese every year and polluted water kills a further 95 000. Ninety per cent of urban waterways and lakes are severely polluted and major pollution incidents are becoming more common. In 2005, an explosion at a petrochemical factory in Jilin city released nitrobenzene into the Songhua River forcing the shutdown of the water supply to Harbin, a city with a population of 3.8 million at the time. In

2008, tributaries of the Han River in Hubei province turned red due to pollution, cutting water supplies to 200 000 people.

More worrying still is evidence that the dash for growth and quick profits puts consumers at direct risk. The 2008 Chinese milk scandal involved the chemical melamine being added to milk to increase its protein content. This was sold to consumers in a number of baby-milk and other milk products. The polluted milk caused six child deaths, and may have made over 300 000 people ill.

Incidents like these show that public health and the health of the wider environment are at risk as Chinese economic growth rushes on, but regulatory frameworks lag behind.

Green means growth?

China's environmental track record is worrying. However, it is likely to see environmental concern as much as an opportunity as a threat. Investing in green, clean technology can create jobs and exports. In 2009, China was the world's largest producer of solar panels, with 25% of global production, up from 8% in 2005. Chinese companies like Suntech have scaled up production, and exports, and at the same time reduced the cost of solar photovoltaic panels by around 50% between 2007 and 2009. Suntech exported 98% of its solar panels in 2008, undercutting producers in North America and Europe.

China's dependency on coal is well known. In 2006, it added around 70 000 MW of new coal-fired electricity generating capacity. Increasingly, these new coal plants are using clean coal technology to extract a greater useful percentage of power from coal, reducing the increase in overall emissions. China is rapidly becoming the world leader in clean coal technology.

China doubled its installed wind power capacity every year between 2004 and 2008. Should wind power growth continue at this rate, China will meet its target of 30 000 MW of wind power by 2020 10 years early.

Uniquely, China seems able to harness its vast industrial capacity to meet targets and undertake seismic policy shifts. It seems likely that emerging green technologies will be rapidly perfected by Chinese manufacturers and exported to the world, creating jobs and profits for China and perhaps more environmentally sustainable solutions for the planet.

Is the strain beginning to show?

There are pressures inside China that could yet derail its dash for superpower status. When the first economic reforms were made in 1978 only 170 million Chinese were urban. By 2008, that number had grown to 570 million. This has placed huge strain on cities to house new residents, most of whom are migrants. There are other pressures:

- **Energy** — just keeping pace with energy demand, to power the factories, meant that China had to open two new coal-fired power stations every 10 days between 2005 and 2008; coal demand doubled from 1990 to 2007.
- **Water** — northern China is dry, but increasingly urban and industrial. Around 60% of China's cities, including Beijing, are short of water. Two-thirds of water comes from groundwater aquifers, most of which are over-pumped.
- **Ageing** — China faces a dramatically ageing future. The success of its one-child policy in controlling birth rate has created a greying population with 17% of Chinese expected to be over 60 by 2020. This will increase healthcare, pensions and housing costs. It also reduces the availability of young, innovative workers and could create skills shortages.
- **Freedom** — political freedom is limited by the Chinese Communist Party. Free elections, free speech and other rights do not exist in China. Demands for these rights reached crisis point in Tiananmen Square, Beijing in 1989 when student protests were met with a brutal clampdown by the army and police. Estimates suggest somewhere between 200 and 3000 people died. A re-run of this type of protest could destabilise China.
- **Economy** — the global recession of 2007–09 showed that China was vulnerable. Exports in May 2009 were 26% lower than the year before and thousands of factories closed and perhaps 20 million factory workers lost their jobs.

The Chinese government introduced a \$600 billion economic stimulus plan to keep the economy growing at 6% per year — the figure economists estimated was necessary to prevent social unrest.

China's strengths as a growing economy are not in doubt, but it does have a number of weaknesses that it will need to overcome before it rises to the number one spot so many people seem to anticipate.

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Using case studies

Question

Assess the costs of the Chinese economic miracle, for both human and ecosystem wellbeing.

Guidance

Your answer should consider human health and pollution, inequality and poverty and the degree to which industrialisation has sacrificed other aspects of Chinese lifestyle. Pollution and ecosystem degradation are also serious issues that need careful consideration. Move towards a conclusion by asking yourself if the costs have been worth it for the majority of Chinese.

CHINA'S AFRICAN ADVENTURE

Case study 14

Since 2000, China has changed direction and begun investing abroad. This is especially the case in Africa (Figure 5.6). China is seeking to secure resources, oil primarily, but also minerals, ores and timber. FDI from China to Africa rose dramatically from \$75 million in 2003 to \$400 million by 2005. By 2007, total investment had ballooned to \$30 billion. Trade has followed the same pattern, rising by 45% between 2007 and

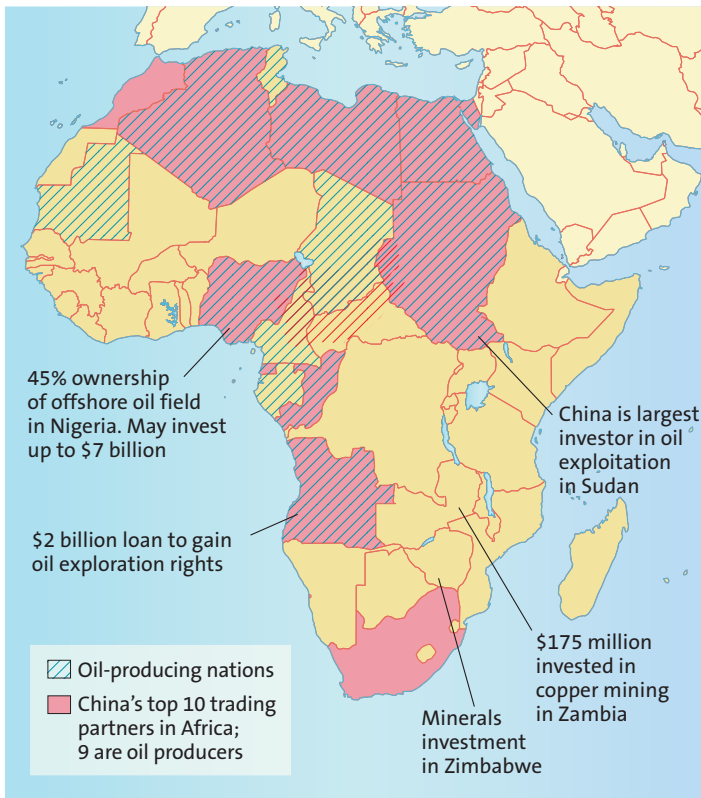


Figure 5.6
China in Africa

2008 to \$109 billion. Chinese exports to Africa accounted for \$51 billion, and imports to China reached \$58 billion. In the next few years, China is set to top the USA as Africa's biggest trading partner.

Around 30% of all oil used in China comes from Africa. Critics argue that all China wants from Africa is its resources, and that it has no interest in African development. Most investment money either goes to African governments, TNCs and Chinese companies, not to ordinary Africans. China has been accused of overlooking human rights issues. In many cases, large Chinese-funded infrastructure projects are built by Chinese workers, not local labour. There were an estimated 750 000 Chinese working in Africa in 2008, and over 900 Chinese companies.

China's involvement in Sudan has been the subject of intense debate. The Greater Nile Oil Pipeline, opened in 1999 and stretching nearly 1000 miles from

the southern Sudan oil fields to Port Sudan, is 40% owned by China National Petroleum Corporation (CNPC). The oil refinery at Port Sudan is 50% owned by CNPC. Some 60–80% of Sudan's 500 000–700 000 barrels per day oil production is thought to go to China in a deal worth perhaps \$2 billion per year to Sudan.

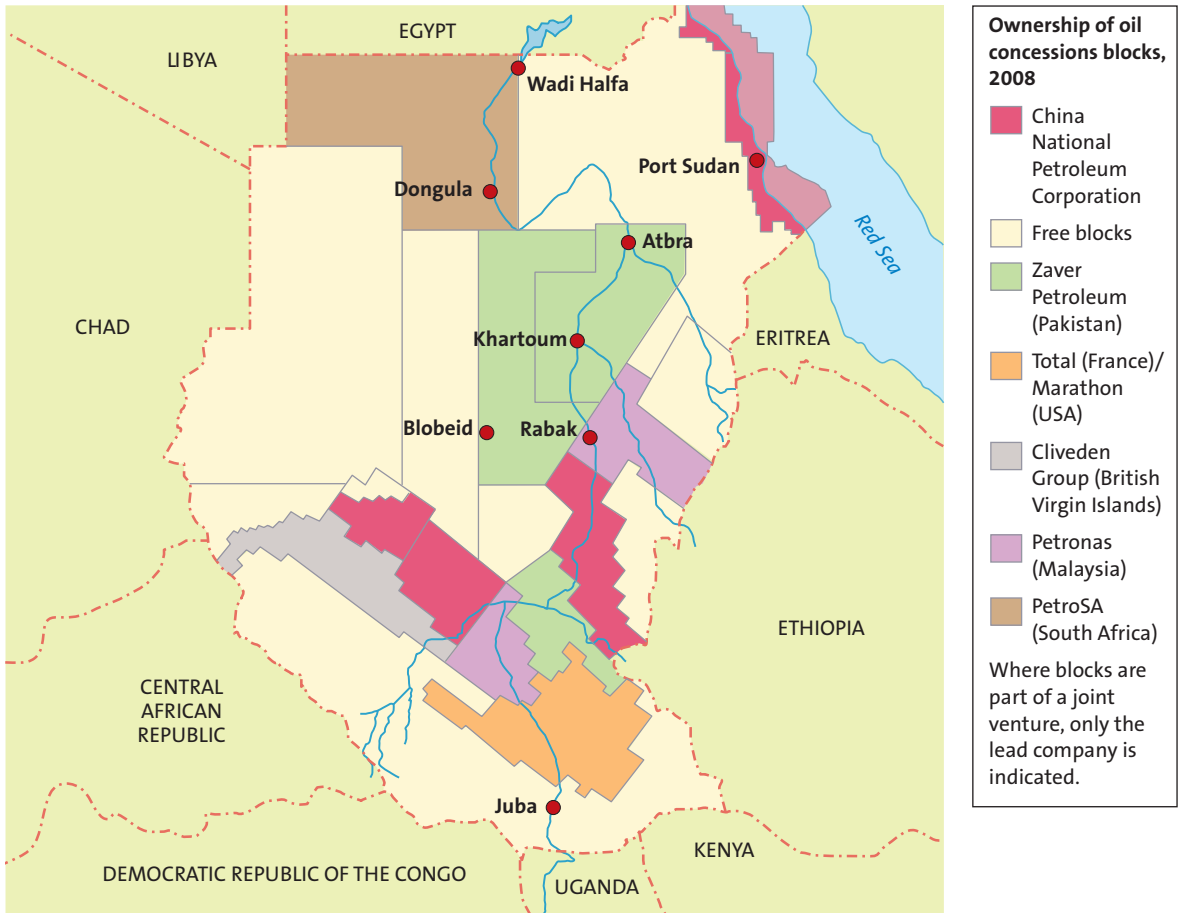
Figure 5.7 shows how oil concessions (the rights to explore, drill and extract) have been carved up in Sudan, and the dominance of Chinese companies.

China has essentially filled a vacuum left when increasing violence in Darfur, western Sudan, drove some Western countries away. Some have argued that an unstable Sudan protects China's interests by keeping competitors out. In the run up to the 2008 Beijing Olympics, there were protests against China's economic support for Sudan — Steven Spielberg and Mia Farrow protested at what they called China's support for Sudan's genocide in Darfur. China has done deals elsewhere in Africa:

- In Angola in 2004, China secured future oil supplies with \$2 billion in loans and aid, which included money for Chinese companies to build hospitals, bridges, schools, roads, and lay a telephone network, as well as train Angolan workers to maintain it.
- NCFA, a Chinese company, has invested in several Zambian copper mines, including Chambishi and Luanshya. Copper is a key industrial metal.

These investments bring both costs and benefits to the countries concerned, as is summarised in Table 5.2.

In 2007, the *Guardian* reported on Chinese Premier Hu Jintao's eight-nation tour of Africa. Hu cancelled his plans to visit a new Chinese-funded copper smelter in Zambia because workers were protesting over working conditions. He would also have faced



Ownership of oil concessions blocks, 2008

- China National Petroleum Corporation
- Free blocks
- Zaver Petroleum (Pakistan)
- Total (France)/Marathon (USA)
- Cliveden Group (British Virgin Islands)
- Petronas (Malaysia)
- PetroSA (South Africa)

Where blocks are part of a joint venture, only the lead company is indicated.

demonstrations from redundant workers from the Mulungushi textile mill in Kabwe, which closed in 2007 as imported Chinese textiles undercut its prices. Ironically the 1000-worker factory was opened in 1983 with around £11 million of Chinese money. The Chinese invested more money and technical assistance in 1997–98 and took a 66% ownership stake in the textile factory. The factory may reopen if new investment can be found but it would need to be able to compete on both price and quality.

It remains to be seen whether the financial benefits of such investment help some of Africa’s least developed countries out of poverty. Critics argue that China is simply creating dependency, and interfering in much the same way that Europe and North

Figure 5.7
Oil concessions in Sudan, 2008 (based on Sudanese Petroleum Corporation data)

Benefits	Costs
Jobs are created in major infrastructure projects funded by Chinese investment	The skilled jobs, and even some unskilled, are actually filled by imported Chinese labour
China provides Africa with much needed aid as part of investment deals	Much of the aid is tied: it is spent on Chinese equipment made by Chinese companies
Chinese factories bring modern working practices to Africa	Chinese factories undercut indigenous firms on cost, forcing them to close
China has modernised resource extraction and increased productivity and exports	Raw material exports still dominate and these are prone to price fluctuations

Table 5.2
Costs and benefits of Chinese investment in Africa

America have for decades. For all the talk of China's increasing role in Africa, it is only one player among many:

- Most FDI in Africa originates from Europe, especially France, the Netherlands and the UK. South Africa is a major investor in other African economies, as is the USA. These countries still account for over 50% of FDI to Africa. According to the OECD, in 2008 China accounted for less than 1% of the total stock of FDI in Africa, although flows of FDI are rising rapidly.
- FDI goes to a small number of African countries — it is not evenly spread. The top six recipients in 2007 were Nigeria, Egypt, South Africa, Morocco, Libya and Sudan.
- China has invested relatively small sums in Africa compared with its investments elsewhere. FDI into the USA, Russia, South Korea and Australia are all larger than to any African nation.

In general, mining, quarrying and forestry bring few skilled jobs and pay low wages. The age-old problem of Africa's resources leaving the continent as cheap raw materials rather than as expensive manufactured goods is likely to continue.

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Using case studies

Question

- (a) On balance, is Chinese investment good or bad for Sudan?
- (b) To what extent should China be considered a superpower today?

Guidance

- (a) You should approach this question by examining the positive and negative aspects of the Sudan–China relationship. Sudan is getting a lot of investment but is the involvement purely economic? To what degree is Sudan handing over its resources to another country too cheaply? China's role has been compared with that of a colonial power, but is this really fair?
- (b) Return to Figure 1.1 and Table 2.1. These provide a structure for your answer. Consider the four pillars in Figure 1.1 and the extent to which China has these. Table 2.1 should be used in combination with other information from the China chapter to make a judgement about China's current status. There is no doubt that China is the strongest BRIC, but has it moved beyond this grouping?