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## CHINESE JOKER IN THE WORLD PACK

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*In the present article forecasts of China's upcoming development are given. It is shown why China, even with all its possible future success, will be unable to take the USA's place in the World System. The merits and shortcomings of the characteristics of the modern Chinese economic development model are revealed. The conclusion is made that the Chinese economy, with all its achievements, remains generally extensive and, based on the consumption of excessive numbers of various resources and funds and with respect to the attendant investment gain, will become more and more ineffective. The author believes that it will be impossible to reconstruct the Chinese development model and GDP growth rates will slow down soon.*

**Keywords:** *Chinese model, East-Asian model, resource expenditure, growth limits, inflation, economic superpower, the World-System leader.*

### Introduction. Chinese Scenarios

Our perceptions of China do not catch up with its development. Some people admire Chinese progress, others are frightened of it. The trend to use Chinese phenomenon to corroborate various ideas and conceptions is also evident. It is also true that to write about China in an impartial manner has become rather challenging. No wonder then that there is a number of alternative and mutually exclusive scenarios for China's future (for reviews of some projections see Berger 2009: ch. 2; Zhdanova 2008; Belchuk 2005; Brodsgaard 2006).

The positive estimates proceed from the assumption that the high economic growth rate will last long, and as a result in the near future China will overtake the USA, solve its own major problems and become the modern World System's leader.<sup>1</sup> Within this forecast one can point out an apologetic variant of absolute admiration that predicts the forthcoming of China's age, and an alarming one with fear of the country's might and holding down the West. The negative prognosis, on the contrary, is based on the presupposition that economic growth rate will slow down, China will face difficulties and intensification of numerous contradictions. Against this background various scenarios from transition to democracy to China's collapse and disintegration (the secession of the western autonomous regions of Xinjiang and Tibet and even separation of the most developed eastern provinces) are predicted. Various and sometimes fantastic geopolitical scenarios are also suggested: from China's war with the USA and India to an alliance with one of them in order to give the law to the world. Apprehensions of Siberia's annexation, war for Taiwan, *etc.* are also well-known future scenarios.

However, for the present article it is significant that the alternative forecasts result not only from the authors' peculiar perception of Chinese reality and the lack of sufficient data on internal processes in China. These alternative prognoses are also connected with rather controversial tendencies in its development. It is very difficult to find

out which of these trends will finally win and the way they can metamorphose. There could be a lot of alternatives. That is why, figuratively speaking, the Chinese card in the world pack is still a joker and it can transform into any card, whatever the outcome. In this respect those who argue that China feels uncertain of what to expect from itself, are most likely to be right rather than those believing in China's elaborate plan for 50 years on (the Chinese leaders certainly have some global plans, but they are unlikely to be well-defined).

The Chinese subject, whatever dimensions of it we take into account, is interminable. The present article makes an attempt to show why China, assuming all possible future success, will be unable to take the USA position in the World System. In support of this idea I will analyze the most important features of the Chinese development model and make some forecasts of China's further development. I will show what are the strengths and the defects of modern Chinese model of economic development; whether it is possible to readjust it; why the GDP growth rate will slow down relatively soon; and, finally, why such a slowdown would be more preferable for China than the current runaway and expensive growth.

### The World System Reconfiguration and China

**The USA future loss of leadership and its consequences.** Today the USA economic role as the World System center weakens and, in a broad sense, so does the economic role of the developed state in general. So, there is no doubt that sooner or later the USA's position as the World System leader will change and its role will diminish (there are plenty of forecasts of the kind, see, *e.g.*, Todd 2003; Buchanan 2002; Inozemtsev 2008; for details see Grinin 2009a: ch. 5; Grinin and Korotayev 2010). Many people in the USA itself are worried about this fact (Mandelbaum 2005; The World... 2009). The current crisis will become the crucial point in the weakening of the present leader's position (for some aspects of the USA position in the world see also Renwick 2000; Nye 2002; Bacevich 2002).

Such a situation – no matter how one treats it – will bring about exceptional changes, most of which are unfortunately ignored. It is usually supposed that someone else will supersede the USA and China is considered the most probable candidate (see, *e.g.*, Frank 1997; Pantin and Lapkin 2006; for the analysis of such views see Wang 2010). But it is a profound mistake **as it is not just the matter of changing the leader**. There are two reasons why it is highly improbable that a new leader will be a single state. Firstly, as the USA role diminishes and globalization develops, the World System configuration will follow some other trajectories, some lines of association and integration, so the role of separate states will diminish, but that of their coalitions and alliances will grow (the same countries will simultaneously participate in many associations at that). Elsewhere I have already developed this idea (see Grinin 2009b, 2011a, 2011c, 2012; Grinin and Korotayev 2010) and I am not going to discuss it here. Secondly, in the foreseeable future the emergence of a state capable of substituting for the USA with its range of leadership functions – from military to ideological ones (*Ibid.*; see also below) – is impossible, as the United States' position in this respect is unique. For these (and many other) reasons *the decline of the USA leading role will mean a deep, rather difficult and crisis transformation of the World System itself*; and even the immediate effects are not clear (for our analysis of these consequences see Grinin and Korotayev 2010).

**Why is China not America?** Now let us consider what follows from the above statements with respect to an analysis of China's future place in the World System and in particular, why China cannot be a real candidate to take the number-one slot from the USA. The assumption that China will become such a leader, in fact, proceeds from the current rapid growth which in the next decades will enable it, first, to overtake the USA in GDP, and then to catch up with the developed states in overall production per capita. This means that with its one and a half billion population China will become incredibly powerful.

As a matter of fact such an approach is based on two quite obscure premises: the high growth rate could be sustained for a very long time; the production volume correlates with a state's position in the world system. Actually both premises are wrong. The resources for a rapid growth in China are quite limited (on this see below), and due to many reasons to have the biggest gross product in the world does not at all translate to becoming the next World System center.

One of the major factors is that today the *political, military, financial, monetary, economic, technological, innovative and ideological leadership is concentrated in the USA. This mere listing indicates that no one can take the position in the World System similar to that of the USA, as no one can simultaneously put together so many leading functions* (see also Zakaria 2009; Pei 2010). Moreover, it is quite obvious, that almost all these aspects of leadership will be inapproachable for China (for some aspects see Fisher 2011). In particular, China has huge gold and foreign currency reserves, wherewith to pressure the USA in some cases. But the undervalued yuan (renminbi) and severe regulation of many financial activities will prevent China from becoming the leading financial, not to mention currency, world center. But make the yuan freely convertible into other currencies means to revalue it and to sharply deteriorate export opportunities, *i.e.* to undermine the foundations of the Chinese growth model and to open the flood-gates to import.

China extensively modernizes its army and navy and rapidly increases its military expenditures. Its military forces can really turn into a rather huge power. There are some people as Lawrence Saez, senior lecturer at the School of Oriental and African Studies, who believe that China will overtake the U.S. as a military superpower within the next 20 years (see Shaikh 2011). But for all that and notwithstanding the fact that the Pentagon intimidates public opinion with Chinese military threat in order to shove its own defense budget, in the nearest decades China has no chances to develop military technologies equal to the American (or even Russian) ones (see Zakaria 2009). Besides, the Chinese authorities and high-ranking officers do not claim at least openly to match U.S. military power (see Shaikh 2011). Moreover, history does not provide any example of leading military power without appropriate military traditions (a certain war history, including large-scale, victorious wars in the past; military courage in society, military schools *etc.*). France, Great Britain, Germany, Russia and the USSR, Japan, the USA had or have such traditions. China does not. And a good army cannot be built without all that.

Great Britain in the 19<sup>th</sup> century, the USSR in the 20<sup>th</sup> century, and the USA up to the present day have ideologies worthy of other countries' admiration and emulation. The appeal for democracy and freedom accompanied with imposing them on countries not prepared for this should be criticized and even debunked. But this does not detract the fact that these ideas attract hundred millions of people in dozens of developing

states. The 'Arab' Spring has proved this once again. And what can China offer the world with respect to ideology? Nothing, as in China itself less people believe in socialism, but there is nothing else (see, *e.g.*, Wang 2010). On the other hand, in China the number of admirers of the Western values obviously increases. The state incapable of proposing an attractive ideology to the world and besides fearing revolution in its own country cannot be the world leader.

Finally, one more point: can the world leader be the planet's main polluter? Indeed, the Chinese economic success is based on almost gratuitous ecology. China produces about one third of all carbon emission (Meliantsev 2007: 22). Today China has surpassed the USA with respect to noxious emissions, but not in GDP. And what will happen to the environment when China equals the USA in GDP? Below (in the last section) we will also demonstrate China's inability to become the leader in a number of other dimensions: innovation behavior, labor productivity, living standards *etc.*

### The Chinese Model

Nevertheless, although China is incapable of becoming the World System's valid leader, its rapid development itself appears an influential factor in the near future of that system. The world economy and environment to a large extent depend on how long China will sustain rapid growth and what growth model it will choose (see, *e.g.*, Mikheev 2005: 638). Thus, it is necessary to analyze the main features and peculiarities of Chinese development, taking into account that China changes rapidly and that the development model remains substantially the same, but the major problems together with the state pass to a new level and continue to accompany this development.

To comprehend the Chinese model, it is worth considering several aspects: what factors generally favored such a rapid and long-lasting growth as well as the rise of Chinese economy's technological level? What reserves underlay the growth and what is their present condition? I will describe the characteristics of the Chinese model in its evolution and then analyze what will hamper the economy growth in short- and long-term perspective.

**The Chinese model: inherited features.** The Chinese model is highly debatable. Many analysts entirely disclaim its existence, while others consider it almost universal, *i.e.* suitable for many developing countries. The most relevant seems the numerous analysts' opinion which regards it as a variant of the East Asian model of economic development (see, *e.g.*, Selischev, A. S., Selischev N. A. 2004: 166–175; Popov 2002; Anderson 2008). This model originally emerged in post-war Japan, and then it was implemented in the so-called 'Asian tigers' – South Korea, Taiwan, Singapore, and Hong Kong. Later it was adopted by China and to some extent by ASEAN states (Malaysia, Thailand, Indonesia, the Philippines, and much later – by Vietnam, Kampuchea, Laos and some others); that is, this model spread through South East Asia and the Pacific Basin (so Anderson not without reason calls it simply an Asian one [2008]).

Of course, in every country this model gains rather essential peculiarities. But its fundamental features are the following: a) export-oriented economy, especially industry; b) cheap labor force; c) mobilization of foreign investments<sup>2</sup> and creation of favorable business environment, as well as active importing of technology; d) large investment ratio in GDP (very large capital share, from 30 to 40 percent and even more); e) an active (but to a different extent) state participation in economic development; f) also the creation of special economic zones in China and some other countries; g) state authoritarianism in

different versions and/or a one-party model (e.g., in Japan or in Taiwan the same party was at the helm of state for a long time). The latter brings stability to the country, which is important for attracting capital.

This model – to a larger or lesser extent in different countries – provides a high economic growth rate for a long period, and due to the attraction of capital and investments it makes possible to improve technology and enhance labor productivity. As a result the state is modernized, urbanization rapidly increases, and living standards gradually grow. Nevertheless, with GDP per capita and domestic consumption increase, the growth rate in the states of the East Asian model slows down. In particular, in Japan this rate is rather low now, in South Korea it is average (around 4–5 per cent; see, e.g., Fedorovsky 2010); Hong Kong, Taiwan and Singapore still demonstrate a considerably higher rate.<sup>3</sup> The slower development growth gives reason to some analysts to suppose that after China reaches a certain GDP per capita (no more than \$10,000), its development rate will slow down (see Eichengreen 2011; Anderson 2008).

**The Chinese model: peculiar features.** All the pointed features are intrinsic to the Chinese model. But it also has some very significant peculiar traits. The first (unique) one is the huge population. It is the population (plus large territory) that makes China a superpower. The second one is the greatest (in comparison with other countries) role of the state with the Communist party at the helm. Its role is crucial in the Chinese model, all the more so because it has made the reforms possible.<sup>4</sup> The third trait is a peculiar position of the peasants deprived of property in land and many other civil rights. This has allowed using rural resources for the purposes of state and economic growth.<sup>5</sup> The fourth one results from ethnically Chinese overseas capital<sup>6</sup> and the existence of whole states with Chinese population (Hong Kong, Macao, Taiwan and most of Singapore). No doubt, the foreign investment flow to China would have been much smaller, because a huge, sometimes most foreign investments are still channeled this way (see, e.g., Van Pai 2010: 17). Besides it should be noted that the impulse of Hong Kong and Macao integration with China administrative system in the 1990s is still perceived in the Chinese growth.

These fundamental characteristics of the Chinese model (first of all, the high role of the state together with an obedient population lacking many civil rights) combined with the peculiarities of Chinese reforms and of that period of the world development (1980–1990) when basic reforms were carried out<sup>7</sup> caused a number of additional significant features which are both the constituents of Chinese success as well as its potential weaknesses, namely:

- ‘cheap ecology’ (an insufficient concern for environmental protection);
- cheap social policy which hardly burdens the state (the government can renounce its obligation with respect to old age pensions and allowances for a large segment of the population; fee-paid education and medical service; low industrial safety rate *etc.*);
- the no growth policy which reduces expenditures on the coming generation;
- the undervalued yuan supports export. The low rate prevented China from 1997 crisis; while a number of other Southeast Asian states suffered significantly from their appreciated currencies;
- the extreme share in GDP provides the accumulation of capital which allows making solid investments and maintain high growth rate, but is only possible with such an active participation of state in economy as in China;

- a deliberate state policy with respect to low energy and raw materials tariffs and costs, creation of infrastructure, labor productivity enhancement, innovativeness, degree of state openness *etc.*

As for the last point it is worth noting the tendency to gradually increase openness for foreign investments – a sphere where China has had the most success (in comparison with its policy of promoting domestic business or developing domestic demand). All these provided the priority rates of Chinese export relative to general economic growth as well as the direct foreign investment increased tenfold.<sup>8</sup>

**Factors, sources and driving forces of Chinese development.** Speaking about factors of extraordinary economic growth, first of all one should point to the Chinese leaders' qualifications, as well as the state machine's and whole society's focus on success and growth. The growth in China has really been turned into a fetish. The aforementioned constantly broadening opportunities for foreign and (to a lesser extent) domestic enterprise development deserve attention as well as more particular factors of growth.

Permanent economic growth factors are (as mentioned above): a) extremely high investment rate (in certain years up to 50 % of GDP);<sup>9</sup> b) huge foreign capital flow; and c) labor productivity growth. Due to continuous technological modernization one observes impressive development (see, *e.g.*, Chen *et al.* 2010), yet in comparison with developed countries, labor efficiency in China remains quite low (concerning some growth factors see also Zhudzhun Din, Kovalyov, and Novik 2008: ch. 1).

The most significant sources of Chinese growth were and more or less still are: a) a large and cheap labor force and a so-called demographic dividend (connected with a low birth rate and 'young' population structure); b) rather plentiful supplies of some mineral resources (coal, iron ore, oil, rare metals *etc.*); c) 'cheap ecology'; and d) cheap social policy (because of relatively young population structure combined with opportunities to disregard social needs).

An analysis of driving forces of Chinese economy with account of their integrity and ranking is of principal importance for the comprehension of the reasons for China's rapid growth and its further development perspectives. Unfortunately, the investigations of this aspect are quite scarce (*e.g.*, see Berger 2009: ch. 4; see also: Pei 2006, 2010). Meanwhile, the analysis reveals that the impulse for booming growth is provided by those who wish to invest and expand production and their numbers are even larger than those in the Western economies (not to mention the USSR situation).

The main agents of investments and production expansions are, firstly, private entrepreneurs. But the role of local entrepreneurs in China is smaller than that in the developed countries, as they have no access to credits and are constrained by many restrictions, while foreign investments enjoy fewer restrictions. Secondly, the authorities at all levels: from the central government determining the main objectives, rates and costly projects, to the level of provinces (which, however, in terms of population surpass some large European countries), and to the prefectures, counties, and townships. So, there is a multilevel participation of the state (and party) in industrial development and investments. At the same time, at the provincial and local levels one can observe a competition for investments and high growth indicators (see, *e.g.*, Berger 2006, 2009). According to economist John Lee from Sidney these domestic investments give 40 per cent of growth while the export sector and FDI contribute about 30 per cent (see Berthelsen 2011).

To conceive what the mechanisms for development are, it is extremely important to understand that the Chinese government managed to arouse the internal forces of the local and provincial management apparatus which is very much interested in the economic growth. As a result, the local authorities' impact on the economic development is even larger than it was in the USSR and, in my opinion, is more considerable than in Japan, South Korea, and Taiwan during the previous decades, which brings China additional growth rates. Yet, if one evaluates the central governments' role in China and in the mentioned countries it appears quite similar.

Finally, the functions of a powerful growth engine are performed by large state corporations (including monopolies) aiming at investing their profits in new projects later approved and controlled by the state through credits *etc.* Anderson (2008) argues that the reason for such an active investment is that the state-owned enterprises cannot spend their profit in any other way as it is not distributed. But one may speak about a general corporate rule – to strive for extension. For China the extension means new jobs for managers and for in gathering, new resources, whose control strengthens the power. On the other hand, corporations always compete for resource access which depends on their investment activity. In such situation some quite useful projects combine in a fancy way with absolutely ineffective or quite unnecessary ones.

*Thus, China has a multilevel (in a way unique) system of growth driving forces, where, as opposed to developed states, the dominant role belongs not to native private capital, but to state corporations, local authorities and foreign business. This explains the peculiarities of Chinese investments.*

**Limitations and drawbacks of the Chinese model.** The *Chinese economy* in spite of the fact that its technology and innovative level is increasing, *remains generally extensive*, based on extremely huge resources and capitals involved. At the same time *it still remains: a) too resource-intensive; b) too energy-intensive; c) extremely polluting; and d) too much export-oriented.* The worst of it is that, though in the first decades of reforms the investments brought good returns, in the 2000s the returns went down to the bottom and even yielded negative rates (*e.g.*, see Hu Angang 2005: 38–39). So in some crucial point the Chinese model becomes inefficient and threatens crisis and growth slowdown.

The Chinese leaders are quite aware of the problems of the existing growth model. They continue setting the objectives to transform it and make efforts to do so. Nevertheless, despite a certain progress the results fall short. If one looks closely at China's success it becomes clear: the main advances occur in the spheres where it is easy to advance, *i.e.* in the sectors that should be reformed (foreign trade growth, impetuous rise of production, exceeding investments, *etc.*). In other words, the model itself remains the same, and on the contrary, it overdevelops while its constraints increase.

For example, despite the attempts to minimize energy consumption within 15–20 years (in particular, by means of directives in one- and five-year plans), the electric and other energy consumption rates annually increase by 11–14 per cent, that is faster than GDP does. The same is true for the consumption of natural resources whose production dramatically increases. When one examines Chinese statistics, some of its figures are hardly comprehensible. Just think that more than 3 billion tons of coal (almost half of world production) are extracted and burned in the PRC. More than a billion tons of iron oxide, that is over 40 per cent of world melt, is produced there; and hardly a tenth part is exported. They manufacture 1.9 billion tons of cement (over 55 per cent

of world output), which is almost entirely consumed by China. Can anyone speak about any energy efficiency and ecology?! At the same time, though the output of minerals is rapidly increasing, the number of resources previously exported but now increasingly imported is also growing. Recently China exported oil, nowadays it is the second largest world oil importer; as far back as three or four years ago the coal went for export, but now coal import grows by leaps and bounds; they import 500 billion tons of iron oxide, and lots of other raw and starting materials. The Chinese officials and businessmen feverishly search the world for new raw stuff and fuel supply sources to support their economy and diversify the supplies. That is the reason for its activities in Africa and Latin America.

Before we proceed to the next section, I should make an important remark on the hackneyed subject of unreliable of Chinese statistics (see, *e.g.*, Gelbras 2003). Since one can hardly trust it, the above-mentioned (as well as many other) figures seem hard to believe. Moreover, it is hard to imagine where one can spend such amounts of production. To avoid the mere assertions let me offer you the following puzzle to solve (I have no answer to it). The construction volume of the USA and China is equal. But China produces 1,900 million tons of cement, while the pre-crisis USA produced about 100 million tons, of which 30 million tons were imported (now it is much less). So, where do the Chinese spend over 1.5 billion tons of cement? Even assuming the difference in salaries and high cement wastage in Chinese building (but not ten as times much, indeed!), the numbers do not add up. In addition I would say that at its building peak the USSR output only 140 million tons of cement.

### Growth Limits

Within the presently existing model the constraints on China's extreme economic growth show up. Still we should take into account that this model is rather difficult to change; and even if the changes implemented succeed, they will inevitably lead to a slowdown in the growth rate. Although, objectively speaking, such a deceleration can be considered as positive for China, the Chinese government has a very different view.

**1. Scarcity of energy resources and raw materials** sharply manifests itself as China does not provide itself with energy and raw materials any more and depends heavily on import. At the same time the increasing import of fuel, mineral and other resources drives the world prices which raise the cost of Chinese export products. For example, in 2011 the rising cost of fuel made energy production unprofitable taking into account the existing low energy rates. But the government refuses to adjust tariffs as this would accelerate inflation. It comes to the government trying to save energy by means of rolling power cuts. As a response, however, enterprises attempt to produce the needed kilowatts using their own generators. Within the present unprofitable export-led model the dependence on energy and resources consumption will only increase.<sup>10</sup> *Thus, in the near future the scarcity of both Chinese and world resources will become the most severe obstacle to Chinese growth, as the resource prices will turn out to be overwhelming for China.*<sup>11</sup> As a result the cost of imports will permanently exceed exports.

**2. The coming labor shortage and its increasing cost.** Despite high unemployment rates one can observe labor shortages. This is widely discussed in the academic reading and Internet (see, *e.g.*, Berger 2009; Pei 2010). Labor shortage is supposed to increase gradually after 2013 and will be sharply perceived in the medium term. However, even now the labor scarcity in coastal provinces leads to a rise in wages which



should, as a consequence, continue to rise. It is worth mentioning that the recent (2008 *etc.*) labor laws benefit and favor the workers. With a limited labor force and consequent wage-push, it will be very difficult to maintain rapid growth.

**3. An inevitable appreciation of export production and the risk of capital inflow reduction.** Assuming that the export-led model is difficult to change, the severe restrictions like the costs of energy, raw materials, labor, and other expenditures, a probable revaluation of the yuan and rivalry of the states with cheaper labor force will be an obstacle for sustaining export growth. But once growth decelerates, the investments flow will decrease as it is mainly joint ventures with foreign capital participation that are engaged in export. Simultaneously, export capital can go up significantly, which will also lead to a slowdown in economic growth.

**4. The decline of investment return.** As stated above, a high investment rate, which now provides 40 per cent of growth, has faced the problem of investment returns falling almost to zero point. At the same time the burden of maintaining the unprofitable facilities is increasing. China has enormous number of excessive facilities almost in all spheres. It is not infrequent that the government forces closures of excessive facilities; nonetheless, their number keeps growing. This results both in unnecessary expenses and excessive competition which reduce profit. Of course, this cannot go on endlessly, and sooner or later the investments will decrease, accompanied by a lower growth rate.

**5. Environment.** By all accounts the environment degradation is critical. China takes the lead in the whole world with respect to water, air and soil pollution, acid rains, and the number of sick people suffering from pollution effects. This is not to say that the government neglects the problem, but its activity is inadequate. The solution to these problems requires huge funding which will raise the production and export values and affect the growth rate. Nevertheless, they will have to solve the problem in the medium term, or they will pay an exorbitant price for such a policy in the end; and the world will hardly tolerate this situation too long either.<sup>12</sup>

**6. The increasing social expenditures.** The growth of the state's civic responsibilities and expenditures are due to the population ageing, rising living standards, necessity to maintain social peace and to prevent the development of an extreme gap in living standards, as well as having a concern to increase domestic consumption. Every year China has to spend more for social needs; that has already had a certain impact, and in medium- and especially in long-term perspectives it will become a heavy burden.

**7. The danger of inflation, growing disproportions and the necessity to restrain the inequality development** have a severe impact on economic policy and growth rate. The growth limits are connected with the necessity to find a balance between the steady increase of domestic consumption (which in 2009–2010 was carried out through monetary easing and credit volume growth) and inflation. Inflation, especially a rapid growth of foodstuff prices, threatens social tensions in the poor country with a wide gap in incomes and absolutely contradicts the idea of 'building a harmonious society'. So it is not surprising, that in 2011 the current leaders pursued the course of decreasing the inflation rate while simultaneously tightening monetary policy. But this involves business loss.

In March, 2011, the Chinese Premier Wen Jiabao declared that the combination of inflation, corruption and income disparity between rich and poor can influence social stability and even political power strength. Thus, *the most important resource of the Chinese model – people loyalty – is challenged*. This is the very explanation of the Chinese leaders' willingness to sacrifice the growth rates for the sake of stability.<sup>13</sup> Below

we will consider the question of Chinese authorities' ability to control economic growth. Anyway, according to the plans or not, quite soon the growth rate will inevitably and considerably decrease.

### The Inevitability of Growth Slowdown

**Why is the growth model difficult to change?** The modern expensive model for growth increases the existing and officially recognized disparity in development level and living standards between the eastern and western provinces, the urban and rural population, the rich and poor Chinese.<sup>14</sup> No wonder, that the Chinese government's objective is to direct the economy towards innovative growth and to enhance the contribution of knowledge economy to the GDP growth; to develop Chinese know-how and high-technology export; to increase domestic consumption and make it (not foreign trade) the fundament for growth; to lower coefficients of energy and raw material consumption; to improve environmental conditions; to balance economy; and so on. But this new course, designated in the late 1990s appeared un-executable; and its tasks from one five-year plan to another are constantly unfulfilled.

It is easy to say 'to switch to innovative growth', but who is able to do it? The state-owned corporations are inherently incapable of this; local businessmen are too much restricted in their activities by the state (see, *e.g.*, Huan 2010), and foreign investors have no interest in introducing advanced technologies in China.

Or take, for example, the idea of energy saving. Why is it in short supply despite the production growth and certain advances in development of green, hydro and nuclear power engineering? It is because squandering is inherent in the Chinese economic model, where not profit, but the fetishism for growth and the desire to see growth achieved irrespective of constraining conditions dominate. The state-owned or quasi-state-owned enterprises are not interested in saving, they are pressed to do it. That is why the striving for saving is doomed to failure or at the best will be meager and short-lived accomplishments. The real transition to energy efficiency is feasible where profit, not growth rate drives, and where energy resources cost is not artificially undervalued. But the reduction of control over energy rates and a real transition to profit rates is extremely dangerous, it would collapse the Chinese economy, as it would immediately reveal that half of production is excessive with all the ensuing consequences: bankruptcy, unemployment increase, *etc.* That would lead to social turmoil.

In short, to change the existing growth model is difficult both due to the inertia and to the existence of influential forces interested in its conserving and high growth rates (see, *e.g.*, Berger 2009: 144). As we have stated above these are local authorities of different levels, especially those of rich provinces, and large state or quasi-state corporations. For decades they have made great progress in production expansion as well as in statistic figures manipulation. No less important factor is that Chinese bureaucratic and social system are actually unprepared to switch to a new organization. For example, how can one avoid overinvestment that creates additional excessive capacities each year, if this results from provinces rivalry for capital and rapid pace of their regions development? The only instrument is the restrictive directives. But this means to tie the provinces' hands, and, in fact, to stop the leading growth engine (although an irrational one). Moreover, if they decrease the investments and savings sector in GDP, what would they do with these funds? Should they increase allowances, salaries and pensions? But this will cause inflation boost and import growth that will only make things

worse in the country. Today China is concerned about steadily growing foreign currency reserves and it has nowhere to invest. Should they dispense more credits as they did in 2009? But as a result in 2011 the government puzzles over means to control inflation. In a word, the transition to a new model is very complicated and is hardly less dangerous than the maintenance of the current one.<sup>15</sup>

### **The Course towards the Slowdown: A Deliberate Resolution or Rhetoric?**

February 28, 2011, the Premier of the PRC Wen Jiabao proclaimed that in the next five years the country plans to decrease economy growth rates. Now China targets at 8 per cent growth in 2011 and 7 per cent in 2012–2015. Compare, in the 11<sup>th</sup> five-year plan (2006–2010) GDP annual increase averaged 11.1 per cent. The decision, as we have seen above, was precipitated by inflation and threatening social instability. Of course, the Chinese leaders realize the difficulties of maintaining the previous, destructive for society growth rate under world recession. If now the world went through the economic recovery, the plans would be different.

We can only welcome the decision to slow down the growth rate for the 12<sup>th</sup> five-year plan. And if the government manages to restrain the growth, it will be much easier to rearrange the development model after the elimination of its most severe disparities. But if the question of lower growth rate is only rhetoric, and development will follow the beaten path of artificially maintaining high growth rate, it threatens both China and the whole world with serious problems.

It is quite possible that the Chinese authorities have not given up the idea of keeping an extreme growth pace which for three decades has preoccupied the Chinese leaders of several generations. Perhaps, deep down they hope for the reoccurrence of the previous year's situation when in 2001–2005 the average annual GDP growth rate was over 9 per cent with a 7 per cent target. And in the 11<sup>th</sup> five-year plan (2006–2010) they were even better than 11 per cent against the planned 7.5 per cent. The projectors' logic seems as follows: it had better understate figures; if the situation appears worse, then we will fulfill the plan anyway; if it is better – than the overfulfilment will be our benefit.<sup>16</sup>

However, contrary to past experiences, with the account of the above-mentioned limitations, I suppose that the overfulfilment will not occur despite all the Chinese authorities' efforts; and double-digit average annual growth rate in China will not be achieved anymore. In other words, *the most possible scenario seems to be the one predicting a significant growth rate deceleration to 6–7 % in the next five years*. And further, that is after 2016, the growth rate will decrease more – to about 5–6 % (under favorable conditions). It is quite possible that China will face more serious challenges, especially amid the deteriorating economic environment in developed states and if the world demand for Chinese products will decrease (Europe and the USA are its major consumers).

### **Instead of a Conclusion.**

#### **Can a Developing State be the World System Economic Leader?**

So, let us return to the question of possible variants of China's future; that is, its presumable dominance in the World. With the slowing down of development in the near future China will remain the world's second largest economy narrowing the gap with the USA.<sup>17</sup> But even then, it is doomed to be an economic superpower. Actually, China is already a superpower; it has proved it in the recession phase when it supported world

prices and volumes as well as the debt markets. To my mind, to a certain extent the second economy position is even more favorable: firstly, there is an aim – to overtake; secondly, nobody expects China to help poor countries *etc.* Thus, China can follow the USA's lead as it has before.<sup>18</sup> Even with average growth rates China has a chance to become the world's number-one state with respect to GDP volume; though at that period China will most likely encounter serious difficulties.

But let us imagine that China will come short of the forecasts and in the 2010s display once again an extremely high growth rate and thus surpass the USA in GDP within the next decade. What does this mean for China and the world? It should be clear that to become the economic superpower (*i.e.* to have the world's largest GDP) does not mean to become the World System economic leader. Anyway, today and in the foreseeable future China has no sufficient opportunity for that. One should also keep in mind that the dynamics, power and progress of Chinese industry are still in many respects connected with other rich economies.

With the world's largest GDP China will become a prosperous state (still remaining a poor society) that can influence some global economic and financial trends, including capital export, raw materials flows, investments abroad, monetary support for needy countries. China is capable of turning into a rather mighty (though not first rate) military power, play a noticeable role in important global economic decision-making. China's significance in the Pacific Basin, especially in East and South-East Asia, will increase. All the above-mentioned is of great importance, but it is not the same as holding the World System leader position.

China qualifies itself as a developing state. And that is not mere rhetoric or an attempt to gain some benefits from the WTO. It is really so. When will the developing country become a developed one? Even according to the Chinese government plans it will happen in the far distant future. Meanwhile, an economic leader should display a high GDP per capita, a high level of productivity and incomes. It is very doubtful that in the near future China will enter the top ten with respect to these rates. Besides, it will be still subjected to criticism for human rights observance as well as for the environmental issue.

The status of an economic superpower, of course, will stimulate political and diplomatic activity to support its own position, to defend the rights, property *etc.* But for a long period of time China will focus on its complicated internal problems. It will still consider all external affairs in the light of the domestic ones, estimating whether it will provide economic growth, resources supply and so on (see, *e.g.*, Fisher 2011). In this respect the Chinese position resembles that of the USA in the late 19<sup>th</sup> – early 20<sup>th</sup> centuries with its policy of isolationism at the time of booming economic growth. Such a comparison can help answer the question if China will manage to take the USA path and become the World System leader. But the comparison reveals quite fundamental distinctions.

1. Not yet pretending for leadership, the USA in the late 19<sup>th</sup> century became the leading economic power, having gone ahead of Great Britain and Germany.

2. Labor productivity in the USA was very high, in some respects the highest one in the world (due to labor shortage – the case opposite to the Chinese one).

3. The USA was generally recognized as an innovative leader in technology and management at the beginning of the 20<sup>th</sup> century (Frederick Taylor's Principles of Scientific Management, Henry Ford's assembly line *etc.*) and even earlier in some respects. As

to China's economy, it develops on the base of non-innovative, and even outdated technologies (see, *e.g.*, Mikheev 2008: 311, 319; Lukonin and Mikheev 2010). Although today China ranks third in the world in terms of the number of patents (for the recently lagging nation this is an excellent result), there are no spheres where it takes the lead in innovations. The Chinese still persuade the USA and Europe to sell them high technologies.

4. Low wages is the fundamental aspect of the Chinese rapid growth model. Meanwhile, in the late 19<sup>th</sup> century (in fact, since its foundation) the wages in the USA were significantly higher than in Europe, which favored the flow of immigrants.

5. The USA economy has never been export-oriented (see, *e.g.*, Held *et al.* 2004: 210; except the old slavery South).

Finally, history allows drawing one more conclusion. Economic might does not automatically transform into political hegemony. In the 1930s the USA unwillingly engaged with European policy, maintaining neutrality during the civil war in Spain and ignoring the war in Japan and China, and so on. Only the Japanese attack on Pearl Harbor finally changed the situation. Of course, the West may need China's money, however, for the present we can hardly believe that in the nearest decades the world will find itself in the situation to propose the leader position to China.

### NOTES

<sup>1</sup> The World-System approach originated in the 1960–1970s due to the works by Fernand Braudel (1973), Andre Gunder Frank (1990, 1993; Frank and Gills 1993); Immanuel Wallerstein (1987), Giovanni Arrighi (Arrighi and Silver 1999), Samir Amin (Amin *et al.* 2006) devoted to the analysis of long formation of the integrated world economic system. In the notion 'world system' one should take into account both aspects: the 'world', that is spatial and time scale; and the 'system', that is special importance of internal relations and interactions (Grinin and Korotayev 2009; Grinin 2011a). For the purpose of the present article this term is approximated to the notions of 'planetary system', 'global system', 'humankind as a system'.

<sup>2</sup> There were few foreign investments in Japan, but it was Japanese capital that enriched the new generation economies.

<sup>3</sup> However, the GDP rate decreased by 4.5–6 per cent in all three.

<sup>4</sup> That is why the idea that within 15–20 years many countries will tend rather to the Chinese model of alternative development than to the Western models of political and economic development (The World... 2009: 8) gives rise to doubt. One can criticize the Western models and of course, cannot but draw attention to China's success. But it is unlikely that someone will implement a model similar to the Chinese one. The point is that in the majority of cases it is merely impossible to introduce. For a totalitarian communist party is required (to some extent it was borrowed in Vietnam and in Laos [see Belchuk 2005: 88], potentially it can be reproduced in the North Korea).

<sup>5</sup> To regulate the migration flows, to confiscate lands, to manipulate the procurement prices, to set up new industries *etc.*

<sup>6</sup> The so-called *Huáqiáo*, that is ethnic Chinese, living in other countries among which there are many businessmen (on the role of the *Huáqiáo* see, *e.g.*, Belchuk 2005: 90).

<sup>7</sup> In general, the period of the 1980–2000s can be considered favorable for economic growth in the world.

<sup>8</sup> The initiative towards establishing free trade zones with ASEAN, Taiwan, Japan and Korea is a recent important step (see Potapov 2007; 2010; Lukonin and Mikheev 2010; on the stages of opening China see, *e.g.*, Zhudzhun Din, Kovalyov, and Novik 2008: ch. 8, 9).

<sup>9</sup> This is supplemented by significant personal savings (see, *e.g.*, Rubini 2011) and it generally impedes domestic consumption enhancement as an objective declared by the Chinese leaders.

<sup>10</sup> Here one should add the rise in energy consumption in rapidly developing new constructions and an increasing demand for foodstuffs because of rising living standards.

<sup>11</sup> There is abundant literature on this (see, *e.g.*, Kulpin-Gubaidullin 2010).

<sup>12</sup> Sometimes it is stated (see, *e.g.*, Anderson 2008) that at a country's low development level the environmental pollution is inevitable (that was the case for Japan and Korea), and in the future China will solve the problem. But when someone suggests it will happen in the 2030s it raises doubt whether the world will give China a handicap of 20 years for the basic solution of environmental issues. In the 1950–1960s in Japan poor environmental conditions threatened only the Japanese, but in the 2010s the bad environmental conditions in China threatens neighboring countries and the whole planet.

<sup>13</sup> The more developed and prosperous the country becomes, the more insecure and threatened China's leaders feel themselves. Such a conclusion was made by Susan Shir (2007). That is way she characterizes China as a Fragile Superpower. Though not that much fragile as Susan Shir supposes, but nevertheless the anxiety of the Chinese administrators is justified. The more living standards grow, the more its citizens will demand from the government and dream about democracy (Shir 2007).

<sup>14</sup> The Gini coefficient (a measure of income inequality) is very high in China. It is higher than in Russia, India and the USA and yields only to South American countries (Huan 2010: 300–301; Basmanov 2011), though according to some reports it has already overtaken them and reached 0,57 (see, *e.g.*, Berthelsen 2011; on income disparities see also Hu Angang 2005).

<sup>15</sup> See, *e.g.*, Hu Angang (2005: 39) and his pessimistic forecast came true about China's attempt to alter the development model and its subsequent reset of low efficiency with high power inputs and environmental degradation.

<sup>16</sup> One should not disregard the coming change of Chinese leadership in 2012.

<sup>17</sup> Only India with its rapidly growing population in theory could overtake China but in a rather long-run perspective.

<sup>18</sup> Some analysts, *e.g.* Joseph Fischer, even speak about a future China – the USA tandem (Fisher 2011), but it seems rather improbable.

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