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China changes the development model

Abstract

The last decades of the twentieth century fundamentally changed the situation in the global economy. China's spectacular economic success has increased an interest in this country. The short time in which China moved on from the a poor agricultural country into a global economic power is admirable. China's model combines conflicted elements of different economic systems: the bureaucratic planning, island-capitalism, simple goods production and natural economy. The current development and transformation of the economy have brought about spectacular achievements and successes. However, the "the world's manufacturer" produces goods designed in other countries. In contrast, the modern idea is to build a modern and independent Chinese industry. The possibilities of the current model of economic development based on simple reserves and large state-driven infrastructure projects, which no longer drive the economy to the extent they previously did, dried out. Thus, the "Middle Kingdom" will have to compete against the rest of the world on quality and innovation. Therefore the development of the new model is a prerequisite to ensure progress in the future.

Discussion on further development has been expedited in 2011, when it became abundantly clear that the Chinese economy would share the experience of the effects of the global crisis. The Chinese look at the challenges that the economy is facing realistically in thinking about the modern technology which begins to dominate the country. China is determined to become the leading technological superpower of the world. Today, many developing countries are looking towards China watching the development model implemented there with the hope of its adaptation in their economies. However, China is a unique entity. Therefore, it may be that adaptation of the Chinese model of development in other countries is not possible.

Keywords: China, model of development, modernization, globalization.

JEL Classification: F00.

Introduction

The first decade of the twenty-first century ended with the deep crisis of the global economy. However, not every country has responded to this situation in the same way. This is particularly important with regards to the most powerful economies that affect the global formation of trends. One of these is the Chinese economy with all specifics of the development model pursued by the country. To quote the famous adage says: "Let China sleep, as when they wake up, they will shake up the whole world" (Zakaria 2009). "In the last two hundred years, China has complied with this saying remaining asleep. Their role was reduced to something similar to the arena where other great empires pursued their ambitions" (Zakaria 2009). Indeed, one of the oldest civilizations is now subject of many changes, which leads to arising of the new empire.

Therefore, it can be argued, that the change we are experiencing nowadays on the global arena, makes the world to enter an era of many different paths of development. Various societies shall create their own development paths guided by their own tradition (Szymański 2004). In these conditions economists' and politicians' concern of transformation of the Chinese economy, a model of economic development pursued by this country and its evolution grows.

Analyzing the last decades of the twentieth century it may be noted that the second half of the 70s the breakthrough from the point of view of today's global conditions. This is when China has begun the transformation of their economy. That time probably no one imagined that the socialist modernization, which began after the death of Mao Zedong, will bring great economic transformation of China over the next 30 years (Góralczyk 2009).

Implementing the transformation of their economy, Chinese has listened to many global economists recommending the introduction of a model based on the strong market, limited state role, rapid privatization and liberalization of trade, capital flows and financial resources. However, they decided to act in a different way: the state has to continue to be strong, the invisible hand of the market can do its job, but when it is needed, it has to be led by the visible hand of the state. This concept resulted, inter alia, in the use of the collective Chinese wisdom which says that the window shall be wide open, but you cannot forget about hanging the net against unwanted mosquitoes. As you can see, "Beijing's approach differs from solutions propounded by many free market oriented economists, who propose a program of simultaneous reforms on all fronts called the Washington Consensus" (Zakaria 2009). China builds a model of development, which is known in the literature as the Beijing Consensus as the Chinese authorities are convinced that their model of state capitalism (by Chinese leaders so called socialism with Chinese specific) works better than the Western free market system.

It must be admitted and Chinese communists are the most effective ruling party in the world since the end of World War II. They succeed in the incredible way in changing the Third World country into the global empire. China's society is autocratic and in foreseeable future it will not transform into a democracy. Moreover, despite of lack of democratic system, Chinese state is much more competent than many democratic governments of the West. Thus, it seems that communist party will keep the power and still conduct the transformation. Moreover, it looks like the sudden collapse of existing political system would be the worst scenario for the country. In such situation the country would enter a long era of chaos which stops all modernization processes of the economy.

Implementing a model of economic transformation, China, since the early 90s posed at the opening to the world and globalization. This was reflected in their consistent pursuit of membership in the WTO successfully completed in December of 2001. It was in the late 90s you should look for sources of today's Chinese success on the world's stage. The Chinese approach to globalization is often called "controlled globalization". J. Stiglitz defines this approach as managed globalization, which allows avoiding periods of boom and bust. He believes that the model of involvement in the processes of globalization with a strong state intervention has brought impressive results and proved to be much more effective than the neoliberal model (Liberska 2010). By becoming involved the processes of globalization China has opened the market with one hand and, on the other hand, they reached into their own rich traditions, too. These traditions enjoin not to lecture others but to learn from others and not to forget that what is owned by the China will be essential, and what comes from abroad will be helpful or complementary only.

1. China as the factory of the world

The short time in which China passed from the status of a poor agricultural country into a global economic power is admirable. Over the past 30 years the Chinese economy has grown 18-fold. In carrying out these transformations and creating its own, specific economy model, China has used a lot from the so-called Asian model of development pursued by Japan and the New Tigers – economic growth driven by large investments and export-driven growth strategy (Liberska 2010). Chinese model of economy development, which is the result of compilation other countries experiences and elements recommended by Chinese politicians and economists, can be defined by several characteristics, which includes:

1. Active role of the state in the economy – strong state controls in the processes of development.

2. Neo-authoritarianism based on Confucianism adapted to modern conditions.
3. Pragmatic and gradual approach to the necessary changes and reforms.
4. Small steps in reforms, with the possibility of withdrawal, very often preceded by experiments in selected regions (special economic zones). This is consistent with the old proverb: “to go across the river, feeling the stones under the feet”.
5. Sober assessment of their abilities and opportunities (Góralczyk 2012).

Without understanding these initial conditions meaning, it is impossible to understand the phenomenon of Chinese reforms of Deng Xiaoping and his successors (politicians who ruled the country in the last two decades, so called fifth and sixth generation), today known as the “Chinese economy model”.

“Describing the development model of the Chinese economy we can share the view with T. Kowalik who called it a hybrid political system combining conflicted elements of different economic systems: the bureaucratic planning, island-capitalism, simple goods production and natural economy” (Luberska 2010). On the eve of the reforms carried out in China, the concept of four modernizations was born. The state ought to reform in the following order: agriculture, industry, national defense, science and education. The Chinese had strong pillars allowing for the implementation of that strategy, in particular:

1. Vast territory.
2. Huge resources of cheap labor.
3. Lack of care for the environment.
4. Development supported (in large part) by the huge state investments made by state subsidies.
5. A long historical tradition, distinct and strongly established civilization.

Pursuing transformational reforms, Chinese authorities decided to allow the foreign capital and technology in, without which rapid development would be impossible. However, they have been doing this following the rule “use the corporations, but do not get used”. So it can be said that the foreign direct investment stands behind the initial success of the Chinese economy, without which an expansion of “made in China” products on global markets would be impossible. Thanks to opening to the world, China (especially after its accession to the WTO) began to change into the “global assembly line”.

The current development and transformation of the economy have brought about spectacular achievements and successes. It is expressed by the investments that amaze the world with their flourish and size. Amongst them the Beijing-Lhasa railway, the Three Gorges Dam, the Pearl Tower in Shanghai, Lupu Bridge in Shanghai, the Beijing airport, or the Olympic Stadium in Beijing.

However, the “factory of the world” produces goods designed and implemented in other countries because the factories in China are often branches of

foreign companies or joint ventures. In contrast, the nowadays idea, is to build a modern and independent, purely Chinese industry, which uses modern technology. The possibilities of the current model of economic development based on simple reserves and large state-driven infrastructure projects, what no longer pull the economy as much as before, dried out. According to World Bank's experts further economic development in China is also blocked by favoring state-owned companies against privately-owned ones, especially in the energetic or financial sectors. Moreover, China ceases to be the cheapest country. Today the workforce is cheaper, for example, in Bangladesh and Vietnam. Thus, the "Middle Kingdom" will have to compete against them on quality and innovation. While in big cities of the east coast industry operates basing on the latest achievements of science, but a significant part of the economy is still underdeveloped and runs on primitive technology. In addition, China, as a result of the current reforms, is socially and economically stratified and fragmented, very diverse in terms of social modernization. The further deepening of social stratification continues, natural environment pays higher and higher price, and restriction of human rights begins to have repercussions on international contacts. Under these conditions, China became a boiling pot, threatening with social explosion. Perhaps the loss of the "world's production line" status does not threaten them in the nearest future, but the problem becomes more and more crucial because as it can be seen, for the impressive pace of development China is paying a high price in economic and social fields.

Analyzing the future of the Chinese economy Nobel laureate in Economics P. Krugman, announced that rapid economic growth based on the existing foundation has already reached the ceiling. It is believed that the development of the Chinese economy depended on the manufacturing sector and infrastructure investment for far too long. In this situation the structural reform, which will be able to move the center of gravity of further growth in the sectors associated with modern technologies, is necessary. Environmental protection and development of the inner consumption as an important factor in development.

Preparation of the new model solutions for the Chinese economy is a prerequisite for ensuring the dynamic development in the future. The "remaining of high economic growth is the foundation of the communist regime legitimacy and guarantees its social peace" (Liberska 2010). The authorities in Beijing came to deal with the problems that have accumulated over the last few dozen of years as the result of the concept of development adopted by the communist government in the early 80s of the twentieth century. At that time it was assumed that the most important thing was the development itself and less important are means of achieving it. Today, it turns out, however, that the details on how to modernize the economy are very important and necessity of introducing the new priorities

is obvious. Already in the beginning of the past decade, Chinese leaders put the task of building the so-called “harmonious society”, whose goal is a peaceful growth (*heping jueqi*) and scientific development (*kexue fazhan*). The freedom of discussion on economic issues has been significantly expanded; there are various options and schools of thought. Discussion on further development path has got an extraordinary dynamism in 2011, when it became clear that the Chinese economy would experience the effects of the global crisis.

Chinese leaders look at the challenges that the economy is facing with a big realism, thus in thinking of the country development, modern technology begins to dominate. China is determined to become the leading technological superpower of the world, so it provides huge investments that ought to make the country the second world power in the field of advanced technologies, just after the USA, by 2020 (Seitz 2008). This goal seems achievable because of changes planned to be added to the development model are related to several very important areas needed for building a modern economy. Particularly, actions aimed at following goals can be mentioned:

- 1) increased funds on research and development of national research facilities,
- 2) increased funds for the development of human capital, education at secondary and academic level,
- 3) creating and implementing their own innovations and modern technologies,
- 4) reducing the dependency on global demand by increasing domestic consumption,
- 5) increasing the role of the service sector in the economy,
- 6) timing to the more sustainable development and protection of natural environment (Liberska, 2010),
- 7) Wider and more dynamic inclusion of the huge Chinese market into the processes of globalization and increasing of global mechanisms usage for the realization of their interests.

It was also pointed out that an important part of a new development model should be coherent and effective social security system and measures to reduce income inequalities.

Providing further economic development seems to be possible because so far, Chinese leaders (especially the ones of fifth and sixth generations) showed pragmatism in pursuing appropriate economic policies. Today, party leaders admit that the model of development based on manufacturing and exports may not provide the desired rate of growth in the future. Therefore, the need of the hour is to move the strong point of the economic policy to the internal consumption, high technology and environmental protection.

President Hu Jintao, who belongs to the fifth generation leaders, said on the eighteenth congress of the CCP in 2012, that in the last 10 Years China achieved

a significant progress and noted that the country is facing serious problems of natural environment pollutions, growing and deepening corruption the social stratification. Therefore, to specify targets for the coming years he has announced that due to the deepening economic reforms and implementation of a new development model, China until 2020 can become moderately prosperous society. The new model assumes a stronger stimulation of domestic demand, which leads to independence from export and the huge state investments. President Hu for the first time in the history of the transformation of China, strongly emphasized the need for sustainable development considering the priority of ecology. Caring for the environment for the first time appeared in the context of economic model building. This is a new quality because never before Chinese leaders publicly defined their economic goals.

The Prime Minister, Li Keqiang, is a supporter of a sudden reform of the Chinese economy, too. He stated that the need for a paradigm shift is a result of the completion stage of economic transformation based on exports and cheap labor. The global crisis and the changes in the Chinese economy resulted in the depletion of this model. In addition, the side effects in the form of enfranchisement nomenclature, corruption, huge differences in income and living standards, and environmental degradation can become a barrier to the implementation of a new development model. Thus, the Chinese must begin to count the money and cease investments in projects that have no chance of profitability because development is no longer enough for China. The changes which are needed are the same that will allow for "the smart development". Li Keqiang's ideas on reforming the economy are so significant that in 2012 he has been invited to the highest leadership of the party, and then in March 2013 he became a prime minister. Thus, he has been included into the sixth generation of leaders, who are considered as prudent reformers.

There have been some specific actions that can be seen as preparation for the implementation of the new strategy. State administration eased the control of the banks, and experts welcomed the decision of the Central Bank which allows the commercial banks to determine the level of interest rates on loans, except mortgages, more freely than before. Also the decision on the settling of the free trade zone was made to enable the city of Shanghai to compete in Asia against Hong Kong and Singapore. Its future importance is compared to the success of Shenzhen. Efforts to adapt the development model to new rules and challenges arising from the global competitive conditions are likely to succeed as "the idea that developing countries such as China, possessing appropriate number of scientists and engineers can skip the intermediate stage of industrial society and jump from agricultural society directly to the knowledge one" (Seitz 2008).

Analyzing the proposed amendments put forward by Chinese economists, B. Góralczyk notes that China may, in the evolution of the development model, aim to meet the Singapore model, involving the construction of a modern economy in the absence of democracy, or continue to carefully experiment with the implementation of the free market and certain elements of democracy (Góralczyk 2012). Many things indicate that the Chinese leaders want to continue the liberalization of the market. However, according to some experts, it may be more difficult than the reform implemented three decades earlier. Then reformers acted with the total support of the society. Now, instead, continuous growth and development of the country depends on a number of sensitive economic and social factors that may significantly impede reforms and slow down further development. Such factors may include the danger of speculative bubbles in real estate and insurance sectors. Significant threat may also come from increasing social problems relating to unemployment or the need for development of massive numbers of people moving from rural areas to towns and cities and development of the rural areas themselves (Liberska 2010). Although Chinese leaders are aware of the need for economic reforms and the implementation of a new development model, this will be difficult because these reforms will encounter strong resistance from various interest groups such as large state-owned companies' top management, private business owners, "mandarins" of communist party or administrative officials who have their influence in Beijing. They all took advantages of the existing order and way of economic development and will strongly oppose any changes because the market-based equalization of opportunities deprive their former privileges and limit their personal interests. Therefore, China will grow more slowly in the coming years because the government will be restructured and changes in the conditions of a development model will be more difficult than it was in the past.

Then, it should be noted that growing group of new China's experts believe that the Chinese model of development is effective and bodes well for the future. They believe that the program of reforms will allow for further development because the economy has the potential to regain the momentum for development if the new model of economic growth will shift to domestic demand and market-oriented transformation. Although, as of now, the predictions and debates started by Chinese economists paint a picture of a new economic model of the "Middle Kingdom" which is not quite clear and transparent. So far, the process of changes, which undeniably has already begun, still brings more prospects than decisive moves. It is clear that it takes time to bring the noticeable and desired results of new wave reforms. And both Chinese and Western experts admit that the Western model of economic liberalization in China is still impossible for cultural

reasons but also because of the size of the country. It can therefore be argued that the marriage of free market and the central control in China will continue in the new model of development.

Whatever way the China's economic issues go, it will not remain without influence on the course of international affairs. The power of this country makes its influence extend far beyond its borders. "Rightly, the legendary head of General Electric warns in his biography, *Jack Straight from the Gut*, saying that Chinese companies which you've never heard of, will appear in the next ten years in the role of giant corporations and threaten the existence of your business. China is much more than just a market. It rapidly becomes a serious competitor" (Seitz 2008). Indeed, "[...] regardless of the further growth of the Chinese economy certainly its existing size and status seriously orders to take into account the place and importance of the country in plotting of plans for the future of the world (Zwoliński 2007).

China, of course, is not the only country whose economy is undergoing a transformation. It can be even referred to the situation of Poland and other Central and Eastern Europe countries, which for twenty five years are building market economies in the context of system transformation. However, the importance of these countries and the whole region to the global economy is not comparable to China. Therefore, the interest of economists and political changes in the Chinese economy is disproportionately higher than for many other countries and regions of the world.

2. China in 21st century: partnership or hegemony

Today's "[...] globalised world faces a new situation. The current hegemonic superpower – America and the growing power – China are rivals, but at the same time are bound to each other through common interests. Both forces are involved in a network of mutual economic links" (Seitz 2008). At the moment it is still valid to say that "[...] if you turn off the light in the United States, it will be dark all over the world" (Seitz 2008). However, the global reality and the processes of change taking place in it justifies the question of how long that statement will be true. Will the United States, if the changing realities of the global scene continue, be willing and able to act as a hegemony, or the shift of global leadership will occur.

Opened to the world China is investing overseas and create its own global corporations, as it previously did Japan and South Korea. An important aspect of their current foreign policy is the expansion of the Chinese economy on the African continent. The "Middle Kingdom" endeavors to make numerous economic connection with the countries of that continent. It dynamically increases aid to

African countries, establishes investment funds and remits the debt of African states to China and invests in its infrastructure. Doing this China does not feel constrained by any international regulations. The evidence of such activities may be establishing contacts with the Government of Sudan in order to seek new natural resources for the Chinese economy. This is a result of the strategy declared by Beijing – “no interference in the internal affairs of African countries” (Seitz 2008). This allows them to invest in countries ruled by dictatorial regimes. In this way, Africa is becoming an important area of Chinese expansion. F. Zakaria rightly asks the question: “What could be wrong with building such contacts?” (Zakaria 2009). The answer is surprisingly simple: nothing, except that China is rapidly encroaching to Africa and taking over the economic and political space formerly occupied by European economic powers and the United States. The presence of China, through a number of economic investments, is clear not only in Africa, but also in South America and Australia. Of course, the Chinese foreign investment is an important component of the country's integration into the global economy. On the other hand, it is also a strategy which reinforces the position of the new superpower.

Today, many developing countries are looking towards China closely watching the development model, and its evolution, implemented there with the hope of its adaptation to their economies. However, China is a unique organism, because of size of the country, economy and historical background. Therefore, it may be that the adaptation of the Chinese model of development elsewhere is essentially impossible because the Chinese recognition of history, economy and globalization means that the local capitalism has its own specificity. On the other hand, we must admit that it is desirable not only for China, but also other countries and the global economy. Institutional diversity today is very important for the functioning of the global society. The world's economy will become stronger if it is not limited to the one model of economic development.

China could, in the near future become the largest economy in the world. Today, it is still impossible to predict if it achieves the position of the strongest player of the global scene. Will China want to take on the role of the global hegemony, or agree to a simple partnership and co-operation with the strongest economies. In this case, you can refer to the various concepts such as *Chindia*, *Chimerica* or BRIC.

In 2005, the Indian politician Jaram Ramesh popularized the term *Chindia*, which emphasizes the complementarity of the economies of China and India opening many opportunities for cooperation. China as a “world's manufacturer” produces almost everything. India became an important center for global services and IT technologies. Under these conditions, the vision of the connection

of the Chinese hardware with Indian software into a single, powerful economic block is very tempting. Both countries have also started cooperation at regional and international levels within the BRIC. The two oldest civilizations could provide a counterweight to the political and economic powers of the West in the system of global relations in the twenty-first century. But today, the conditions on the global scene have changed and weakened the attractiveness of such a proposal. United States is no longer such a threat to the emerging empires. Moreover, in recent years all attempts to solve important problems visible in Sino-Indian relations have failed, and the list of them is getting longer rather than shorter. China and India trample on each other's feet in the whole of Asia, which leads to the situation of more competition rather than cooperation.

The term *Chimerica* was invented several years ago by Niella Ferguson and Moritz Schularick to describe the strange symbiosis between China and the United States. Today, this concept has become a symbol of a new global order in which two superpowers will rule the world – China and the United States. The changing global circumstances can indeed make China a “responsible shareholder”, but a lot of will depend on the actions and positions of Western powers. It seems that China would rather propose to the world the noble leadership (*wang dao*) which means no recourse to force, but soft impact using their rich historical civilization patterns.

In summary, it is clear that the current model of the development of China as well as changes implemented in this area is a transition period, the next stage of transformation and evolution phase of the economy of this country. With this in mind, a study of the current state can only indicate possible trends and their possible results. But the future effects on the economy of China cannot be defined as well as the issue of the future world hegemony.

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