

China: The new economic hegemon

March 09, 2010,

Stanly Johny

ZEENEWS.COM

<http://www.zeenews.com/news609796.html#>

When it comes to economics, the last thing the Chinese rulers will do is boasting. They usually avoid rhetoric while making key policy announcements, and set lower-than-expected targets for coming years. Prime Minister Wen Jiabao's annual speech in the Great Hall of the People Friday was not different.



"We must not interpret the economic turnaround as a fundamental improvement in the economic situation," said a cautious Wen to nearly 3,000 party-appointed members of the National People's Congress (NPC). He further set a target of 8 percent growth rate for the current year.

Many experts feel Chinese economy can grow much faster than the government projection. Contrary to what Wen told the NPC, there are fundamental improvements in the Chinese economy. The country has seen 8.7 percent growth in 2009, a rate beyond the imagination of many advanced developed countries. According to most analyses, the unique economic model of China has helped the country weather the global economic crisis effectively and it is set to become the second largest economy in 2010 surpassing the crisis-struck Japan. Its exports, after 13 straight months of fall, started growing again from December, making the country the world's second largest exporter.

Beijing Consensus

China is among a few countries that weathered the global economic meltdown. Despite embracing free market policies three decades earlier, the unconventional approach of the state towards the economy helped country decouple itself from the great collapse of the global finances. Joshua Cooper Ramo, the former editor of Time Magazine, calls this unconventional policy making "Beijing Consensus" -- a combination of mixed ownership, basic property rights, and heavy government intervention.

Will the Beijing Consensus prevail? The history of China's economic expansion shows this approach has had astonishing results. Ever since China started opening up its Socialist economy in 1978, it has grown at nearly 10 percent every year. China's per-capita GDP is now 12 times greater than it was three decades ago. It's now the world's second-largest recipient of foreign direct investment. According to Goldman Sachs, China will overtake the US as the largest economy in the world by 2027. Renowned British thinker Martin Jacques writes in his latest book, 'When China

Rules the World', China is on its way to replace the US as the world's greatest super power. Robert Fogel, recipient of the Nobel Memorial Prize for Economics in 1993, recently wrote in Foreign Policy magazine that China "goes from a poor country in 2000 to a super rich country in 2040".

It seems everybody except the Chinese leadership is busy forecasting where China would stand some 20-30 years from now. China's speedy recovery from the Great Recession even when the entire Europe is still battling has prompted many to rethink about the prospects of the Dragon. The crisis has indeed left China more powerful and relatively stronger than many other Western powers, which till the other day were considered key players in global politics. It may be ironic that China, a country ruled by Communist dictatorship, stands tall in a world where Communism's death was celebrated years ago.

Bliss is missing

But the bliss is missing in Beijing. The policy makers remain wary even when the whole world says China is rising. It's true that Chinese economy has spawned miracles, set new standards and proved many predictions wrong. But it all came with riders. The Chinese Communist Party is still suffering from a "deficit of legitimacy" in a world where liberal democracy is considered the ideal governing system. The Beijing Consensus has been under attack from within as the social balance of Mao's China was disrupted with the rise of a new super rich class in the supposedly socialist society. China is now a country with the largest rural-urban income disparities.

This is one of the utmost concerns of the government, which still claims to be Socialist. If the rich-poor divide gets widened, the very claims of socialism from which the state draws legitimacy will be in trouble. The government's efforts to spread the fruits of development to inner areas were hit by several limitations. Moreover, China's decision to keep its currency's rate fixed against US dollar – a move to help its crisis-hit exporting community -- has drawn flak from many quarters. This has prompted Paul Krugman, a severe critic of neoliberal economics, to write that "China is not behaving as a great power".

So far the coastal areas are the most developed regions in the mainland China. Many fear one of the end results of the Beijing Consensus is this widening disparity. Stratfor founder George Freedman writes in his latest book, 'The Next 100 Years', that this widening contradiction will lead to the eventual collapse of the Chinese state in 2020s.

So, there's no cakewalk for China, as many of us think, to the super power's slot. Of course the Dragon is rising, but its challenges are too.