

CHINA: PAST, PRESENT, FUTURE

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Abstract: *This paper presents China's advancement, starting with the past, laying emphasis on the present and prefiguring the future. The Dragon is one of the principal actors of globalization, from both the financial and economic point of view, and from the military and political perspective.*

Key words: *China, history, present, future.*

1. China's History

China has a rich history of over four thousand years, and because of that the Chinese culture and civilization are considered of international reference. China played the main part in eastern Asia starting around the year 2000 before Christ, during the dynasties Xia, Shang and Zhou. During this period, the cultural and dynastic institutions were consolidated. Much later, the Han dynasty (206 – 220 BC) contributed to the expansion of the Chinese Confucianism in the area. Between the 15th and the 18th centuries, China was practically the main actor in the region, especially on the stage of the commercial exchanges in Asia.

The decline of the Chinese empire took place during the Qing dynasty (1644 - 1911). Internally, the administrative inertia did not facilitate the adoption of the reforms which could bring economic and social development, although China had the advantage of some evolutionary technical discoveries, which were thus exploited by other countries. China was faced with the external European influence of the administrators, traders or soldiers who brought into the country the western models and fashions. The critical point of

China's decline was the opium war, which took place between 1839 and 1842. From China, the European countries imported spices, tea and silk, with Europe offering less in exchange. The opium was the immediate means to counter the deficit. After this war, China lost the battle against drugs, was militarily defeated, lost the charging autonomy for the goods it produced, as well as the piece of land which would later become Hong Kong.

The autochthonous population felt humility and abandon faced with the exodus of the British, Germans, French, Russians and Japanese [4].

Synthesizing, there are three periods that can be distinguished as deciding milestones in the long history of China:

- the imperial period, which lasted more than two millennia, intermittently;
- the period of "foreign humility", during the 19th century and the beginning of the 20th century
- the first three decades of the communist regime, from 1949 until the beginning of the reforms from the end of 1978, including the first couple of years of reforms that followed.

The imperial past of China has, even today, a strong influence on the country.

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First of all, there are a lot of ambitions in China and, on the long term, China wishes to become one of the world leaders. The second Chinese inheritance is the tradition of an economic activity controlled by bureaucracy. This fact supports the principle according to which the national interests are above the economic rules, a principle which goes well with the idea of supporting the “strategic” domains and the absence of separation of powers. The judicial and legislative systems are the instruments of the executive domain.

The third seal is the persistence of the local interests which concur against each other for power and enter a conflict with the central interests. The fourth impact is the ambivalent attitude about corruption, which is allowed, although it is periodically cut down when it is considered “exaggerated”. The fifth seal is the importance of the ideological and historical legitimacy. The sixth inheritance is the fact that the success of the innovations has a limited value, if it is not combined with the ability to sustain it and apply it to the real world. Accordingly, the bureaucracy and technology have to meet somewhere in between [6]

2. G-2 or the Sino-American Binomial

China has spent annually 1% of its GDP or over 40 billion dollars to invest in SUA. This effort is considered a strategic investment which increases the USA dependence on China. On the other hand, many American companies make huge profits in China and 60% of the Chinese exports are done by American companies working in China.

The most delicate situation of the commerce with China remains the exchange rate Yuan – dollar. The reason is the following: the constant commercial surplus of China could raise the value of the Yuan, but the People’s Bank of China is the one that establishes the exchange

rate, without taking the market into account. The USA requests for the reevaluation of the exchange rate and the liberalization of the capital markets in China. As regards the second of these measures, the Chinese Government has become very cautious about allowing the capital accrued from the multinationals and the citizens’ economies to leave China, for the benefit of the external banks. The liberalization of the capital accounts would permit the repatriation of the currency by the multinationals, would force the adoption of the market regulations and could reduce the capacity of intervention and control by the state and the central bank. [4]

The People’s Bank of China rates the interest level; the Chinese Government rates the price of basic goods, the State council determines the tariffs for the basic services: utilities, medical assistance, education, transportation. The exchange rate for the dollar is strictly controlled in order to maintain the daily fluctuations at the maximum of 0.5%. The government enforces the price ceiling for the energetic sector: coal and oil derivatives.

All the corporations which operate in domains seen as essential for the Chinese economy (the financial and banking system, defence, the energetic field, telecommunications, railroads or naval network systems) are, by law, the property of state or state controlled.

3. The Economic Crisis in China

In what concerns China’s relations with the Occidental world, the surplus is on China’s side, and the deficit on the American and European side. The USA imports from China are five times more than their exports and for the European Union the ratio is of 1/3. Japan has become China’s main partner and scores a surplus from the mutual exchange.

The Chinese government was the first to react, back in 2007, by designing an anti-crisis plan of 4000 billion renminbi or 586 billion dollars, for a period of two years, the equivalent of 16% of the Chinese GDP for 2007. The plan includes entirely new expenses: 70% are apportioned to the transportation and reconstruction in Sichuan; 6% are for the construction of social houses. The plan was rounded with the reform of the health system, announced since January 2009, budgeted with 850 billion renminbi for three years. [3]

The estimated impact of the plan over the economic growth is of 1% more for the GDP. The next step of the governmental action is to prompt the private consume: with tax cuts that are not included in the initial plan and the reform of the VAT on fix capital investments.

China reacted to the crisis with an increase of the state directed credit. The state owned banks were ordered to provide line of credits and massive loans to the state enterprises, in order to determine them to hire more workers, to produce more goods, to increase the merchandise stocks and to boost their capacity. Each province of the country now encourages their banks to give unlimited credit to state companies in order to increase their production of steel, concrete, aluminum, automobiles and other heavy industry goods. But the Chinese state already has excess of capacity in those areas.

In China, consume is still blocked to a mean 36% of the GDP, comparing with the 70% of GDP of the USA. [5]

The financial crisis which started in 2008 stimulates China today to reevaluate the development and growth strategies, so that the loss occurred as a consequence of the drop in the export sales could be compensated by the increase of the internal demand and the encouragement of the internal consume. Theoretically, China could develop a very strong internal

market, with a consistent internal consume. In reality, this thing is possible only in the eastern, more developed areas, and not all over China. [4]

4. China at Present

Guanxi is a hard to translate Chinese word, a combination between guan, which means "close" and xi, which means "to be". Maybe the best approximation of this word is "special relationship". To do well in life, the Chinese create a real network of close relationships outside their family, which could be of great help in need. The Chinese businessmen place higher importance than the Westerners on creating a personal relation with their clients. Only when someone's network of guanxi is well developed, one can really enjoy life. [2]

The power of attraction of its internal market made China a powerful negotiator, an advantage neither Japan, nor the South Korea had before. The temptation of its internal market allowed China to solicit technology transfer as a condition to give admittance to the foreign investors on their market, thus forcing unprecedented concessions. In the automobile industry, foreign companies such as General Motors accepted to open research and development centres of a scale that outmatched any similar enterprise on a developing market. Today, the list of the foreign companies which opened research and development centres in China include names such as Oracle, Siemens, Lucent, IBM, Hewlett Packard.

China is the only country in the world where the autochthonous producers of automobiles are associated in mixed companies with their foreign partners and competitors, having the benefit of acquiring information about the best practices of both parties, and thus being able to gain more knowledge than any of its foreign partners. The objective is to

create strong Chinese multinationals, able to face the global economy and to reiterate the success of Toyota and Samsung in a shorter span of time.

The best universities in China act in a combative manner in order to bring their infrastructure and educational offer up to date and to actively attract the best teachers and specialists all over the world. The Chinese students represent, at the moment, the biggest number of foreign students in the United States of America. Over 64.000 students from continental China studied in the USA during 2002-2003. Other Asian countries that have a big number of students in the States are Hong Kong, with 8.000 and Taiwan, with 28.000. [6] Those who go back to their countries take with them not only academic knowledge, but also practical know-how and business experience.

In small and medium size enterprises, the proportion of the personnel working in research and development has increased from 2.6% in 1987 to 3.9% in 1998, and, within this category, the quantum of engineers has grown from 28.2% to 54.5% in 1998 (Shenkar, 2005, p. 80). Chinese producers generally start as equipment providers for foreign buyers, as well as original equipments manufacturers (OEM). The OEM company types manufacture their products according to the specifications of the foreign companies which, in their turn, distribute and sell the product on their internal market or on other markets, or incorporate it in one of their own finite products. As they acquire knowledge and experience, Chinese companies develop their projective capacities which will transform them into independent producers, which design their own products – Original Design Manufacturers – OMD). The successful Chinese OMD companies aim to develop even more and become original brand manufacturers. The OBM companies

design and manufacture their products, but, in addition, they also sell their own, original brand. Until now, a few Chinese companies (Haier and Huawei Technologies) have developed original brands which have become known on the international market. [6]

The Chinese industry has evolved from primary goods and basic manufacturing towards more sophisticated segments of the manufacturing sector. For instance, in 2002, the electronics goods made almost half of the country's total exports. China's cost advantage is more and more associated with high productivity, scales economy, auxiliary industries and advanced manufacturing technologies than mainly to the low wages. A new wave of national champions leads China's assault in the highly industrialized sector. The TLC Company merged with a unit of the French company Thomson, which will turn it into one of the greatest producers of television sets in the world. Haier has 6% of the refrigerators world market. Lenovo is highly visible as an IT and mobile phones producer; Huawei Technologies is well known in telecommunications, China Netcom in telephone services and Pearl River for their pianos – all these companies are global brands.

The importers found out that reliability, high quality, small amount of time, manufacturing capacity, range of products and versatility are among the many benefits that come together with the Chinese products, apart from the plain cost advantage. China is, after all, the second – after the United States of America – to publish scientific papers on nanotechnology. [6]

At first sight, the national currency of China – *reminbi* or *Yuan* – seems to be the most obvious follower of the American dollar. China is very much like the United States of America as they were when they become a big power: it has important

current account surplus, it has become the biggest exporter in the world and is much less in debt than other countries. China has already adopted a few subtle measures that challenge the supremacy of the dollar. For instance, it allowed the financial institutions in Hong Kong to issue their public debt to China in Yuan denomination. It also established mutual currency agreements with many countries, among which are Argentina, Brazil, Belarus and Indonesia. China convinced some of its business partners to use the Yuan for their transactions, meaning to issue their invoices in Yuan denomination. In 2009, Zhou Xiaochuan, the governor of the People's Bank of China, proposed a new, supranational currency as a competitor of the US dollar. [5]

The imports of the United States from China are bigger than their exports to China. The American workers watch as their jobs are relocated to China. China's commercial surplus gradually became a concern for the United States, which asked China to allow the appreciation of the Yuan. China argued that, if the USA wants to redress their commercial balance with China, they should remove the restrictions for their high-tech products. China appreciated its currency, nonetheless, by 20%, starting with 2005, which represents approximately two thirds of the sum considered by many experts to be needed in order to completely adjust the commercial balance with the USA. The developing countries have a single major instrument left to sustain their economic development: exchange rates. Thus, not only did a lower exchange rate encourage the export, but it also helped the countries to collect the reserves which protected them from the increased volatility of the global financial markets. China's influence has grown all over the world. In our century, China is using its economic power to secure its commercial routes and access to resources.

Disposing of reserves of 2.4 trillion dollars, China is able to get resources by using a part of these reserves for ports, mines or oil – everything it needs to keep its modern industrial motor going. [7]

The growing zonal influence of China does not come only from the hard power (the growing economic and military power), but also from the soft power. Beijing exerts its influence today in two ways:

- a) by disseminating the new security concept and the strategic partnerships, it proved that China's initiatives are very close to those of the Association of Southeast Asian Nations (ASEAN)
- b) as far as higher education is concerned, to train the future generations of intellectuals, technicians, and political elites of other countries is a subtle, but important form of soft power. In the academic year of 2003, 77628 foreign students entered the programs of Chinese universities; 80% were Asian. In the same year, there were 3693 American students. [4] It is obvious that those who studied in China are sensible to the Chinese perspective on things.

5. Strategies for the Future

In his book, *The Extreme Future*, the analyst James Canton identifies two possible scenarios: the barbarians at the city gates and the dance with the dragon. The first scenario states that China should be feared and that vigilance is required, because the Chinese will overwhelm the western civilization by number and their determined combativeness, combined with the centralized planning of their economy by their central government. This scenario is much to the taste of the pessimists and especially to those from mass-media. According to the second scenario, China is a formidable competitor, able to determine economic changes of tsunami proportions, be it under the form of a wild capitalism or

even by establishing a new target. Still, China is a nation of both consumers and capitalists, representing the largest economic market in the world, which means that there is an opportunity to sell, develop and prosper within a Chinese collaboration. The author of this paper adheres to the second scenario. [1]

According to Oded Shenkar, China could have a rough or a smooth landing. The smooth landing scenario is based on the general economic image of China as another link of the natural evolution of the international commerce. Over time, the Chinese wages will grow up to a level where the country will no longer be competitive for heavy employers, giving way to Vietnam or Bangladesh. China will channel more resources to the services sector, now underdeveloped, diminishing the internal pressure to attract a higher capacity of production. The optimistic scenario implies a gradual alteration of the exchange rate, combined with measures for opening the Chinese market and the diminution of subventions and other barriers against the foreign competitors. An efficient fight against piracy, motivated by the international pressure, as well as by China's interest to protect internal innovation, could restore the market quote of the USA and other foreign multinationals.

The rough landing scenario foresees a crisis in the relationship between China and the United States, which will culminate into a conflict with economic, politic and national security overtones. To diffuse commercial tensions, China will reevaluate the Yuan to a lower percentage, enough to silence the critics of this matter, but hardly enough to really make a difference for the most disputed ranges of products. The scenario advances to the hypothesis that China could overflow its huge reserves of dollars, causing the

dollar's collapse and the global financial collapse. [6]

My opinion is that the smooth landing scenario is more likely and I estimate the fact that China will become the main economy in the world within the next 15 – 20 years. China has enough resources to financially support its own development, as well as the development of the USA and Europe. I am convinced that China will overcome the crisis and become stronger because, unlike the USA (which looks to the near future), the Chinese leaders have long term economic and strategic objectives and they pursue them, step by step. A Chinese saying is illustrative for this situation: the drop of water penetrates the stone not by force, but by recurrence.

6. Conclusions

The Chinese president, Hu Jintao has presented a four point proposition, meant to boost the global economy in a steady, coordinated and lasting manner:

a) Building an enduring global economic model. All the countries should commit to a durable development, to consolidate the coordination of the macroeconomic politics and to make efforts to maintain the growth of the world economy.

b) Developing a global, inclusive, well structured financial system. The developed countries should work together to grant developing countries a higher quota and representation in the international financial institutions, strengthening the efficiency of the international financial system.

c) Developing a fair and equitable regime of international commerce. The member states should join forces in their fight against commercial protectionism and to support the efforts to fortify the multilateral commercial system.

d) Designing an efficient and fair system of global development. The developed countries should take sound measures that enable them to provide increased

assistance, to open new markets, the transfer of technologies to the developing countries, as well as debt relief. In their turn, the developing countries should support the capacity building [4]. China proposed a plan which showed, without doubt, that the moment of the G8 expansion has come and that the emerging economies should be taken into account when the strategy for the global economy is developed. In view of different industries, non-manufacturing purchasing manager index of service industry was 53.0 percent, up by 0.4 percentage point than that in the previous month. Of which, the indices of air transport, ecological protection, environmental control and management of public facilities, Internet, software and information technology services, renting and leasing activities, telecommunications, broadcasting, television and satellite transmission services, stayed above the threshold, and the total business volume of enterprises increased; the indices of residents service and repair, transport via road, water transportation, retail sales, and restaurants were below the threshold, and the total business volume of enterprises decreased. Non-manufacturing purchasing manager index of construction industry achieved 58.5 percent, down by 0.8 percentage point over the previous month, continued to stay above the threshold. New orders index remained the same level over the previous month. The new orders index was 50.3 percent, remained the same level over the previous month, still above the threshold. In view of different industries, the new orders index of service industry was 50.0 percent, increased 0.1 percentage points, and positioned at the threshold. Of which, the new orders indices of air transport, ecological protection, environmental control and management of public facilities, Internet, software and information technology services, renting

and leasing activities were above the threshold, and the market demands increased, while the new orders indices of residents service and repair, restaurants, transport via road, real estate were below the threshold, and the market demands decreased. The new orders index of construction industry was 51.7 percent, remained at the same level over the previous month.

Intermediate input price index continued to rise, reached 58.2 percent, up by 3.2 percentage point over last month, indicating that the rise amount of intermediate input price during the process of production and operation of non-manufacturing enterprises increased. In view of different industries, the intermediate input price index of service industry was 58.3 percent, up by 1.8 percentage points over the previous month, the intermediate input price indices of all the industries were all above the threshold, of which, the indices of transport via road, air transport, wholesale, renting and leasing activities were running in a high place which above 60 percent, the increase of operation costs of enterprises was quite large. The intermediate input price index of construction industry was 58.2 percent, an increase of 9.1 percentage points over the previous month, stayed back above the threshold with an increased production costs. [8]

The Chinese products can be found all over the world, and China's economic power is consolidated after the opportunities of the financial crisis, in Africa, the Chinese prove their pragmatism because their investments are not limited by the stipulations of the declaration of the human rights.

Over the last 30 years, China has responded to the challenges of the transition towards the market economy by an original policy, the policy of gradual reform, which is based on minimizing the

risk of social conflicts together with a gradual opening of the internal market and the typically Chinese state capitalism. China knew to wait patiently when long term facilities were offered to foreign companies in order to convince them to agree with the technological transfer to China and to train the Chinese work force. In this manner, China has evolved from a pre-industrial society to a modern economy in only three decades and it has proven its capacity to follow medium and long term objectives.

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