The Decade of a Rising China: 10 Years After the Financial Crisis

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> It is 10 years in September since Lehman Brothers went bankrupt bringing global capitalism to the point of collapse. Although the crash did not finally lead to a total meltdown, it triggered a slump of 1930s proportions and for most economies the last decade has been a lost decade of low growth, low investment, low productivity, marked by debt and deficit, with virtually no improvement in real incomes for the 90 per cent.

The stand-out story of the period has to be the continuing rise of China. Initially, the economy was also badly hit by the crisis, but China was able to recover rapidly to emerge today as a major economic power, moving steadily closer centre stage in the global order.

Since 2009, the Chinese economy has nearly tripled in size, from $4,600 billion to over $12,000 billion in 2017, overtaking Japan by 2011 for the world number 2 position. Growth at 9-10 per cent a year was rapid up to 2011, settling down over the last 6 years to a more sustainable 'new normal'of around 7 per cent a year, still well above the world rate at 3.9 per cent.

Per capita income has grown from $3,500 in 2009 to $8,800 in 2017, a rate of between 10-15 per cent a year, putting China on course to join the ranks of the high income countries in 8 years time. The urban population has grown by some 15 million a year with China creating 8-10 million jobs annually. In 2017, there were 11 million new jobs compared to India's 1 million.

As is well known, China has, since 1978, succeeded in lifting some 800 million people out of poverty. In the last five years, extreme poverty has continued to fall from 100 million to 30 million, heading towards complete elimination in 3 years.

The five year plan (2011 – 2015) stipulated minimum wages rises of 13 per cent a year. This, together with the fall in poverty, is helping to improve income distribution and reduce inequality.

Following recovery, China has begun to change its growth pattern, shifting from reliance on low cost export manufacturing and investment, rebalancing the economy towards domestic consumption and hi-tech levels. This bold transition shifting the very basis of the economy on to new pillars of growth is now well under way. Trade has fallen from 37 per cent of GDP in 2008 to 20 per cent currently, whilst the consumption share of GDP has risen steadily every year since 2012. Now China's 400 million middle income consumers are a major force in driving the world economy.

Between 2011 and 2017, the share of the traditional economic sectors–coal, iron, steel, cement–in the economy fell from 75 to 60 per cent, with energy, technology, healthcare and entertainment sectors becoming new growth drivers. According to ILO data, labour productivity has risen 9.6 per cent a year since 2003. Government investment is generating expansion in public infrastructure, e-commerce and high value-added electronic systems. Service sector employment has risen from 33 to 45 per cent.

Today China has 109 companies in the Fortune Global 500, up from around 30 in 2008, and 10 in 2001.

China's high-speed rail network exceeds 22,000 km, and has become the largest in the world, accounting for about two-thirds of the world's high-speed rail tracks in commercial service, greatly reducing travel times across the country from days to hours. Electricity generation continued to increase annually by over 10 per cent after 2008.

Chinese industries are not only getting closer to the technological frontier in conventional areas such as electronics, machinery, automobiles, high-speed railways and aviation, but are also driving technological innovations. New technology sectors are taking off, including A.I.,the Internet of Things, autonomous vehicles, nanotechnology, biotechnology, materials science, advanced energy storage, and quantum computing. Already China is challenging the developed countries'monopoly in robotics and 3D printing. The government is investing in areas such as advanced electronic chips, aviationand aviation engines. In fact, China will soon overtake the United States as the biggest spender on R&D.

China is helping to lead the way into the new era of clean power. It mobilises more than $100 billion per year for investment in renewable energy technologies and a nation-wide smart power grid is under continuous expansion. By 2017, China had more than one third of the world's wind power capacity, a quarter of its solar power, six of the top 10 solar panel makers and four of the top ten wind turbine makers. It sold more battery-only car sales last year than the rest of the world combined.

Public social spending rose to 9 per cent of GDP in 2012, against 6 per cent in 2007. Since 2009, China has spent $480 billion on healthcare and 95 per cent of the population has been given basic health insurance. This is now being extended to cover all critical illnesses. Life expectancy rose from below 75 years in 2010 to 76.7 years in 2017. There is a minimum income standard in place for all residents, and a growing number of companies are enrolling their workers in government programs that grant industrial injury benefits, maternity leave and unemployment benefits.

Pension coverage has leapt ahead: since 2009, 89 million people have started receiving pension payments under a new rural social pension scheme. The proportion of those enrolled in a pension almost doubled between 2009 and 2012 and now around 60 per cent of those aged 60 and over, are in receipt of a monthly pension.

In terms of culture and the media, despite government controls, media content is more diversified, newspapers more various, there are numbers of current affairs and discussion programs are on air and investigative journalism is developing a certain critical edge. The film industry, which 10 years ago was nearly engulfed by fake DVDs, is experiencing a renaissance, with box office revenues close to overtaking those of the US.

On the international front, since the financial crisis, China's growth has accounted for between 30 and 50 per cent of world growth, well exceeding the contribution of the US at less than 20 percent., and has played a major role, scarcely acknowledged but the West, in mitigating the recessionary trend. It has become a major trading partner of over 120 countries, and now vies with the US as the top trading nation. It is a major driver of growth in developing countries: by 2011, its development banks were lending more to developing countries than the World Bank.

China has also begun to make its mark on the global financial architecture, moving forward step by step with the establishment of the Shanghai Cooperation Bank in 2010; the BRICS Bank and the announcement of the Belt and Road initiative in 2013; and the Asian Infrastructure Investment Bank in 2015. In 2015, the RMB accepted by IMF as the fifth reserve currency.

The list could go on.

It is certainly not intended to deny the many shortcomings, and the costs, of China's development – the pollution, the environmental degradation, the gross inequalities, the piling up of debt as a result of high spending and high investment, the all too many cases of poor standards and weak regulation, certain human rights violations and more. However China clearly has come a long way in a very short time. It is still by and large a developing country and there are great challenges ahead. Now looking to the future, the focus is on improving the quality not just increasing the quantity of growth.

The circumstances of China's advance have hardly been propitious. There was a difficult leadership transition in 2012. But the external environment has also been particularly challenging. Near recessionary conditions in the US and EU inhibited global growth for much of the decade. On top of this, erratic flows of 'hot money – speculative capital – generated by US policies of Quantitative Easing and interest rate manipulations have contributed to booms and busts in asset markets in emerging countries, China included, causing adverse fluctuations in exchange rates.

Pressure has been piled on China in particular as the target of blame for the world's economic problems with accusations that China exports too much, produces too much, saves too much, and is generally the cause of global imbalances and global deflation.

In the first years after the crisis, China came under pressure especially from the US to revalue the RMB. But China chose to keep its currency quite steady and instead to contribute to readjustment of global imbalances rather by rising wages and incomes than by a sharp currency movements.

After 2014, with the US Federal Reserve preparing to raise interest rates, the focus shifted to getting China to relax currency and capital controls, whilst fomenting a panic of capital flight. With China deliberately slowing down to a 'new normal' growth rate, and so exposed to risk of financial weakness, capital outflows could have caused the economy to implode given the massive expansion of credit from 2009 to support investment together with problems of overcapacity. Chinadid lose between $600 and $800 billion of its nearly $4 trillion foreign exchange reserves at this time as capital flowed out, and its stock market experienced severe fluctuations. Nevertheless, despite predictions by the Western financial press of a 'hard landing', a new round of currency wars, and even another Asian Financial crisis, a Chinese crash failed to materialise.

The fact that China was by and large able to manage these adverse pressures, and outwit the speculators, must to be counted as yet another of its major achievements of the decade.

Taking all this into consideration, the charges from the US anti-China lobby that this is a result of 'cheating' appear as they are, entirely cynical.

It is clearly hard for any dominant power to accept the need to adjust to a rising power and avoid the

‘Thucydides trap’, but what is all the harder is for the West – the US and its allies – to acknowledge that China’s advance, in contrast to their own sluggish performances, exposes the difference between a system which chooses to bail out the banks and one which sought to bail out the economy; between one that does all it can to boost its financial sector, and one which promoted economic stimulus to boost production; between one which squeezes those poorer in the blind pursuit of profit and one which raises up the poor, organising development in a systematic way; between one that pumps out huge amounts of ‘hot money’into the world economy to play havoc with other countries’financial systems and one that offers patient capital to help others manage their financial difficulties to avoid crises.

In the last 10 years, whilst Western economies have endlessly pumped their ‘printed’money round and round the ether of financial markets in the same exhausted circles, China has become a different country and indeed the world is becoming a different place. Yet the US remains utterly committed to blocking change to keep the world dependent on the American dollar and the American consumer even at the expense of huge trade deficits. And now comes the trade war.

China is on course to overtake the US as the world’s largest economy sometime before 2030, an event which will mark a psychological turning point. However right now, debt levels remain high and a Chinese-style crash is still possible. Can China limit, or failing this, withstand the pressures of a US trade war? In fact, the prospects for the US-economy not that great either – the Trump tax cuts bounce may be short-lived, and the ‘America first’president may have to learn that the US and China need each other.

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