CHINY: SFERY DUCHA, MYŚLI I REALIÓW GOSPODARCZO-STRATEGICZNYCH CHINY

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WIN – WIN FUTURE BETWEEN CHINA AND THE REST OF THE WORLD¹

Introduction

There is a saying in China: global trends are massive, go with the trends you will prosper, go against them you are doomed. The foundation for well-being and happiness is economic development. In the present world, the Chinese economy, along with the Chinese factor behind its rapid development, is a very valuable research field. How does China integrated hands with the rest of the world to end poverty in this planet by 2013 as the Sustainable Development Goal set by UN in 2015, and then to drive the real sustainable development for the global economy? How to cooperate and eliminate the factor of uncertainty in the future global economy? This requires not only the direct coupling of the interests of the politicians, academics and experts, entrepreneurs and investors. But also increasingly related to the direct interests of every world citizen.

Since the Vuvuzela was blown aloud in the 2011 World Cup in South Africa, every one finds that international sports event has had significant links with the term “Made in China”. In the 2012 London Olympics, the Chinese language, Chinese words, Chinese restaurants and Chinese enterprises had been seen everywhere. According to statistics released by the International Olympics Committee, 65% of the franchised products sold at the London Olympics were made in China. In addition, 80% of the goods for celebration of Xmas today in the world made

¹ All data sources quoted in the paper came from the China Statistic Year Book related to the detailed time during 1979–2018, and these data have been analyzed and evaluated by the authors in this paper. This paper was supported by China National Social Fund 18VSI048.

by China. In 2017, when Mr. Trump tried his best to win the election, the business men in Yiwu, China gave their idea for presidential winner in U.S.A., much more to the point than any people in the world, only by the order of the flags and caps by Mr. Trump's advocates and supporters. Indeed, the development of the Chinese economy has become a global trend in the present world. Economic development is not only changing China, it is also influencing the world. In today's globalized world, China and other economies are doing what they each are good at, and this has created a situation in the trading industry interdependent where a pattern of each having something of other (everyone has a stake with others, 你中有我, 我中有你)". Originally this is the result of optimal allocation of resources, especially the financial resources by the Wall Street and London City, but it also created a controversy around "Made in China". This even became a good excuse for the rise of trade protectionism, and the reasons for China to change its old pattern and the path of development dependence.

1. The overview of China's Economy

1.1. The standards identified for China's economic development

By the standpoint of reason, people can take a realistic look at "Made in China", "Chinese products" and the Chinese economy. We can even look at the renaissance of China, which has gone beyond China itself to become a global issue.

China has exhibited its strength and perseverance in its systems, policies and operations. When this is in line with the global trends, the development of the Chinese economy is the inevitable outcome. The importance of the Chinese economy to China is evident. The next question is – what is the importance of China's economic growth to the world? Is the Chinese economy "good" or "bad" for China itself and the world at large from the supply side and the demand side?

The key to evaluate Chinese economy is to identify the standards or criteria. We propose the following two criteria – one is the humanistic standard. For any economic growth, if it cannot benefit the development for most of the people, this kind of economic development cannot be labeled as "good". The development of human society boils down to the development of the people. This is globally true. The other standard is based on the common interest across the world. If any economic development is beneficial only to its own country and not to other economies any more or even hurt others, this economic development is not a "good" one. In other words, economic growth as "good" needs to be winwin and mutually

benefited, either for the people in this country as well as for the most of the economies in the world.

About the first standard – the relationship between the development of the Chinese economy and the development of “people”. One approach to economic research is to start from the production factors. Production factors refer to various social resources needed for social production and operation. In general, they include land, natural resources, manpower, capital, science and technology, intellectual property, information, and the quality of the entrepreneur. Their contributions to economic growth are always discussed by economists and as the classification of the different schools of economics.

About the second standard – the relationship between China’s economic development and the economic development of the rest of the world. Looking at China’s economy from the standpoint of global interest, the development in the past three odd decades, especially in the decade or so after China’s accession to WTO, we can say that instead of the China factor impacting on the global economy, the truth is that the Chinese economy and the global economy have formed a mutually complementary beneficial cycle where both share their triumphs and defeats. China’s economic development has never aimed to achieve its own dominance. Rather, the contribution has always been to achieve mutual prosperity as it pursues its own development both in supply side and demand side².

1.2. The key factors of China’s economic development pattern and path

The development of the Chinese economy is a historical process. Since 1949 there have been two distinct stages in China’s economic development. During 1949–1977, laid the foundation for development with up and down even the crisis. Before 1978, China was a relatively closed economy, and economic development was relatively slow with planning system practiced. Then China opened itself up, and its economy enjoyed a sustainable growth, and its strength continued to increase, resulting in a steady rise in the people’s standard of living since 1978. In the meantime, China’s status in the global economy has been on the rise, meanwhile with an increasing impact on the international scene.

Indeed, December 1978 was the turning point in the Chinese economy. The 3rd plenary session of the 11th Central Committee of the Communist Party determined the national policy of reform and opening up. Then in 1979, Deng Xiaoping visited Washington DC in the States, and made a historical handshake between China

² 黄卫平, 刘一姣. 入世十年—中国改变世界格局[J]. 社会观察, 2012(1): 24–26.

and the U.S.A., Lee Kuan Yew, then Prime Minister of Singapore, said after hearing this, “China will never close its door again!”

About 10 years later, in 1999, Chinese President Jiang Zemin had a telephone meeting with then U.S. President Bill Clinton. This heralded in the resumption of talks on China’s entry into the World Trade Organization (WTO). Two years later, China officially became a member of the WTO. A year or so later, U.S. representative in the WTO negotiation with China, Charlene Barshefsky, said in a seminar: “The rise of the Chinese economy has been the greatest change in the global trade and investment arena. In fact, this is the greatest change on the international trade and commerce scene in over a century. China is changing the face of Asia, promoting growth in the global economy, and possibly changing the status of political influences at the international level.”

About a decade later, in 2008, another momentous event took place – also in Washington. Chinese President Hu Jintao attended “the Group of 20 (G20) Summit”, and held discussions with political leaders all over the world on reforming the global financial system. Shortly before this summit, former French President Jacques Chirac stressed: “Without China’s participation, we cannot possibly hold any meaningful discussion on global issues like the financial crisis, climate change, and energy resources”³.

The establishment of the new China, especially its economic development in the over three decades after the period of reform and opening up, shows that China is not just passively accepting the influences of the external world, but also actively learning from the achievements of humankind in terms of advanced productivity and advanced civilization. At the same time, China has made tremendous contributions to world prosperity and stability. Global economic affairs call on China’s participation. Global economic governing patterns need China’s rise. Global balance requires China’s power and contribution. In the eyes of the people, China with its development should be the country as the stake holder with responsibility in the world development.

1.3 The sustainability of China’s economic development

During the three decades or so since China started to implement its reform and opening up policy, the country has basically established a vibrant socialist market economy system. China has consistently maintained an economic growth rate that is higher than the global average; its GDP and per capita GDP has dramatically

³ 黄卫平, 丁凯. 2010 年世界经济形势回顾与展望[J]. 当代世界, 2011(1): 8–12.

risen, and its status in the global economy has fundamentally changed. Indeed, China has become one of the engines for the world economic growth⁴.

The national revival of China is the focus of global attention, and a challenging topic for academic research. It is also an issue that has strong political undertones.

Due to various reasons, the international community has long been ignorant of how the Chinese economy is developing and its direction and models. Different scholars have grasped certain characteristics of China's development, such as the "cheap labour theory", "foreign capital motivation theory", "export driven theory", and "authoritative government theory". However, these represent only part of the picture, but fail to provide a holistic and accurate explanation of China's economic development.

While the world enjoys the benefits brought by the sustained development of the Chinese economy, and delights in this progress, some foreign media have been invalidating the development mode of the Chinese economy, or limiting this mode to China's specific historical setting, thereby generating the theories of "China's collapse" and "China's threat" with misunderstanding, or with different perspectives.

These voices have accompanied China's economic development process over the past 30 odd years, and have made themselves heard in the international community. The Chinese who have experienced the reform and opening up of will understand this – the world needs time to understand and then may accept China's way of economic development. Indeed, China in its development process will inevitably encounter a diversity of problems and issues, and both applause and criticism will accompany the process all the way. All of these on the one hand would help China's development, and on the other hand are the test for the Chinese people's determination in holding onto their characteristic way of development, and also an exercise in their patience in winning the world's understanding. We do not pursue universal understanding of China's national rejuvenation, yet we firmly believe that China will definitely win more understanding and trust in the near future. More and more friends will join hands with China to achieve world peace and human prosperity.

In fact, China's economic development has never been marred by the "China collapse theory" or the "China threat theory". Rather, it has subtle harmony, motivation and selfencouragement, insisting on the key idea of "development being the hard truth 发展是硬道理" by Mr. Deng Xiaoping.

2. Reality of China's economic development

2.1. The critical changes of China after entering into WTO

As mentioned above, since its reform and open to the rest of the world, China has chosen to develop its own way of economic development. China follows, rather than challenges (initiated by Mr. Deng Xiaoping) the game rules of the global economy, and actively takes part in, rather than isolating itself from, the global economy.

On 11 July 1986, China officially requested to resume its membership of the General Agreement on Tariffs and Trade (GATT). From that point onward, the new China had been on the GATTresumption path for over eight years. Since 1 January 1995, with the establishment of the World Trade Organization (WTO), China spent nearly seven years on its bid to access to the WTO⁵.

The critical moment came at 7:30 pm Doha (capital of Qatar) time on 11 November 2001, or 12:30 am Beijing time on 12 November, at the Al Majlis Conference Hall at Doha Sheraton Hotel. The then China's Minister of Foreign Economic Relations and Trade, Mr Shi Guangsheng, represented China's Government, signed the official document prepared by director of Legal Affairs Division of WTO. After 30 days, China automatically and officially became the 143rd member of the WTO.

The then WTO DirectorGeneral, Mr Mike Moore, said at the signing ceremony: "We need China to play a leading role in economic development. The global economy is slackening, and a lot of employment opportunities will be lost. Hence China's accession to the WTO is not only a historic moment for China, but also for WTO and the world." If this exciting moment represents the end of a lengthy series of talks that is full of twists and turns, then it also suggests that China is starting to march towards the economic globalization with a broader vision and a stronger determination, and at an even more rapid pace.

During 2001 to 2010, China's Gross Domestic Product (GDP) grew sustainably at 10.5% a year – from US\$1,300 billion in 2001 to US\$7,500 billion in 2011 – an increase of over 5 times. In 2002, China's GDP overtook Italy and became the world's 6th largest economy. From 2005 to 2007, China got three promotions, with its GDP overtaking France, UK and Germany, to gain a place in the world's third greatest economies. In 2010, China with its economic growth of 10.4% and a total GDP of RMB 40,150 billion (equivalent to about US\$6,000 billion), became the world's second largest economy, outperforming Japan, who had occupied this position for over 40 years. Also in 2010, China's value added of industrial sector overtook U.S.A.'s, and became the largest manufacturer in the world.

In the 10 years, after accession to WTO, China's dependency on foreign trade grew from under 40% prior to WTO entry to 50%, progressively expanding its market access in agriculture and manufacturing. Meanwhile, the total tariff level dropped from 15.3% to 9.8% (7.5% in 2019, while U.S.A. is 2.5%) as the agreement signed between China and WTO. China also abandoned most of its nontariff measures regulated by WTO, such as the quota system and permits, and completely opened up its foreign trade operating rights for outside parties. For instance, the tariff for agricultural products in 2005 decreased from 23.2% before China's accession to WTO to 15.35% (15.2% in 2018), much lower than that of developing (56% in 2018) and developed countries (39% in 2018) like the U.S.A., Japan, and the European Union. In fact China is now one of the countries with the lowest tariffs on agricultural products. Due to cutting both of tariffs and export subsidies, China's growth in agricultural imports far exceeded its growth in agricultural exports. The agricultural products trade deficit first appeared in 2004, and this deficit is set to increase year by year with 13.5% growth rate for agricultural products import during 1997–2017, and China became the second largest importer of the agricultural product in the world with the tariff only 1/4 of the world average.

In 2001, China's exports in commodities trading amounted to US\$509.7 billion. This grew to US\$1,100 billion in 2004, three years after WTO entry – a twofold increase. That year, China's export growth rate set a new record of 35.4%. In 2010, exports increased to US\$2,970 billion – a 20.2% average annual growth within 10 years. In 2018, China's trade with the rest of the world was \$4.62 trillion, increased 12.6%, export reached \$2.48 trillion, increased 9.9%, import was \$2.14 trillion, increased 15.8%, trade surplus \$351.7billion, decreased 16.2%.

With accession to WTO, China optimized its foreign trade structure both in quantity and quality. Recent years, China promoted the transformation of the structure and mode of foreign trade growth, and products that suffer from high energy consumption and high emissions were under effective control, and hightech products and products with high valueadded became the new focus of growth⁶.

From the standpoint of trade method, China's foreign trade demonstrated the formation of "balance + surplus + deficit". Trade in general goods is basically balanced, but there is a trade surplus in processing goods, and a deficit in service trading. In this case, ratio of surplus of current account over GDP was less than 1%, which means balance according to the international criteria.

As the Chinese saying goes, "If you have planted phoenix trees, then you don't have to worry about the phoenixes not coming (栽得梧桐树, 自有凤凰来)". In the eyes of foreign businessmen, though sometimes they gave complains, China's openingup policy has become more stable and more transparent. In the decade in

⁶ 黄卫平, 丁凯. 对深化经济增长模式变革的再思考[J]. 学术前沿, 2012(1):32–38.

which China was in WTO, China has attracted a cumulative US\$759.5 billion from foreign investors, with an average annual growth of 10%, maintaining its top position among developing countries during the last 20 years. Even in 2009 when the impact of the international financial crisis was the most serious, foreign investments still exceeded US\$90 billion. In 2010, China actually used US\$105.74 billion in foreign capital, exceeding US\$100 billion for the first time. It reversed the falling trend in the decrease of 2.6% in 2009. On the other hand, there was an increase of 17.4% compared with the same period in the previous year, accounting for 9.4% of the world total. In 2015 the direct external investment exceeded 1 trillion dollars first time, and now China kept the second largest direct external investment country in the world. In 2018, China's FDI reached \$130 billion, increased 3% than that in 2018 ranking second globally.

Table 2.1. In the past decade China witnessed a steady increase in direct external investment in terms of stock and flow (US\$100 million)

year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Flow	688.1	746.5	878.0	1078.4	1028.95	1180.20	1961.46	1582.9	1298.3
Stock	3172.1	4247.8	5319.4	6604.8	8836.40	11612.44	13573.90	18090.4	19388.7

Source: China's Ministry of Commerce, "Statistics on China's Direct Foreign Investments".

2.2. Transformation of China's Industry

Structure of Industry is the most pillar of a country's economy. From its reform and openingup to its accession to WTO, with integration into the international arena to its rise in international competitions, China's industries have conquered numerous obstacles, and achieved enviable results. This shows that China's industrial structure has always been in a state of dynamic changes.

In 2005, the world finally recognized China's car industry. From about 100 spare parts product radio sets produced in 1985 to about 1,000 spare parts product TV sets produced in 1995, and then about 10,000 spare parts product cars are being produced. This is the realization of the dream of several Chinese generations. China is driving into the car society in two directions: the cars running on Chinese roads are all "cars made worldwide", while Chinesemade trucks and cars on other countries' roads are increasing in number. Today China produces and sales the largest number of cars in the world more than 20 million each year.

On the one hand, China's car market is a highly international one, and imported cars are developing in the long term – from 50,000 cars in 2001 to 1.14 million cars in 2018. On the other hand, cars made in China have not only withstood the impact of imported cars, but they have actually captured the international market. For Chinese national brand cars, only 180,000 were produced in 2008, but two years later – in 2010, the number increased to 3.63 million. In 2005, a surplus appeared for the first time in China's car trade. In 2001, Cherry exported 10 cars to Syria, putting an end to the era of zero export for Chinamade cars. Since then, Chinese cars have been exported to Iran, Cuba, Malaysia and the US. Following the export of 2,000 Great Wall Haval (长城哈弗) H5 to the European Union in June 2010, 593 Great Wall Haval SUV and Great Wall Wingle (长城风骏皮卡) were exported to another highend market – Australia – in September 2010. In 2018, China exported 1.15 million different motor vehicles, increased 8.3% annually (including 0.15 million new energy vehicles).

Since its accession to WTO, another important industry of China – information technology production – is also on the rise. According to statistics, from 2001 to 2010, the production of IT products was on the rapid rise. In 2010's, China's production of mobile phones, colour TV, personal computers and digital cameras crowned the world. China has enjoyed constant breakthroughs in researching into electronics and information technology. This has exemplified how this research permeates into the national economy and achieves a motivational effect. On the other hand, in 2018, China imported integrated circuit equipment (IC) 417.6 billion valued \$312 billion (ranking No.1 in China's import), while exported 217 billion, valued \$84.6 billion⁷. China could designed 6nm IC for mobile phone by Huawei, it is really a great improvement in China's high tech in information industry.

If Americans excel at creation, then the Chinese have a competitive margin in innovation. Everyone has an equal chance to apply his intelligence. In the age of online information (internet), whether it be ethnic Chinese brought up in the Western world, or professionals serving overseas enterprises in China, we can assert that in the development of various economies, Chinese applied hightech professionals have achieved superb research results. China is completely capable of autonomously developing its pool of high caliber talents. With the injection of capital, human capital and technological policy support, China is in an excellent position to rise to the very top on the global highway of information technology. China hope ride on the pulse of global scientific and economic development, and lay the foundation for the transformation from “musclelabour” economy to “intellectuallabour consolidation” and “intellectual economy” in the near future.

⁷ 黄卫平, 刘一姣. 2010: 影响中国经济的新思考[J]. 人民论坛, 2010(36):p14-17. 2018 年中国集成电路进出口情况, 《集成电路园地》2019-01-19.

China's development cannot be isolated from but supported by the world. Since the late 1970s, multinational corporations from Japan, Europe and the US have been landing in China, bringing with them capital, advanced technology and management experience. This not only played a critical part in motivating the technological progress of Chinese enterprises, but it also opened the door for China in acquiring nutrition from the global economy.

The export markets and import sources for Chinese corporations have become more diversified. On the one hand, this provided an outlet for the nearly saturated production capacity in many places, and on the other hand, it boosted the energy supply for the middle and latter stage in the process of industrialization. The absorption of Chinese export commodities in the world market has alleviated the unbalanced supplydemand in the Chinese domestic market, increasing the income for Chinese people in urban and rural areas, promoted employment, and enhanced social stability.

The integration of the regional economy has enhanced the welfare of Chinese producers and consumers. The streamlining of customs procedures and the coordination of management have lowered the transaction costs and enhanced the efficiency of trade as well as boosted the profits of export enterprises. Now, consumers are able to directly feel the benefits brought by product diversification and the convenience of choice. For instance, with the establishment of the ChinaASEAN Free Trade Area (CAFTA), Chinese people can buy from the various supermarkets a great variety of fresher tropic fruits and foods – *Garsinia mangostana* from Thailand, dried mangos from the Philippines, golden cakes from Indonesia and dried pineapples from Vietnam. In short, the special produces from ASEAN countries are now available over a short time in different parts of China.

As a largest developing country without a strong economic foundation, China definitely gained a lot from its participation in the global economy. However, economic globalization is a rapier (doubleedged swords 双刃剑) to any country, and China is no exception. For instance, as exportoriented economies rely on exports, domestic employment is more prone to the impact of changes in the economic environment. In the summer of 2012, the flux of laborers back to their home town – a phenomenon that used to appear before the Chinese New Year – already occurred. This is related not only to the control of real estate and the structural adjustments in the domestic and overseas economies, but also to the slackened demand in the traditional U.S. and European markets, the critical situation in foreign trade that caused a declined demand in labour in foreign enterprises. Indeed, as the saying goes, “water that bears the boat is the same that swallows it up 水能载舟亦能覆舟”⁸.

⁸ 黄卫平等. 看不懂的世界经济[M]. 北京: 经济日报出版社, 2008.

Another example is that a prolonged period of foreign trade surplus has not only the reason to get conflicts with trade partners but also sometime become a source of domestic inflation in China. With the increase in foreign exchange reserves, the Central Bank needs to maintain the fundamental stability of the RMB exchange rate and suppress the appreciation of the exchange rate. Hence it is obliged to issue basic money to buy in these foreign exchanges. Although the Central Bank can issue notes for hedging, yet an increase in liquidity is inevitable. And in the increase in foreign exchange reserve, a surplus in foreign trade is an important component (this is one of reasons China exported capital to other countries).

Another example is that various economies in the world are increasingly concerned about the environmental issues in China as a rising large developing country. To protect the environment while ensuring economic growth, China must on the one hand reduce the existing pollutants brought by prolonged economic development, and on the other hand control the new pollutants expected to be emitted as a result of economic development. Hence China is facing greater and greater pressure in protecting the environment in the course of its economic development. In this case, China positively participate the international movement of environmental protection such as Paris Agreement.

2.3. The China Factor in Globalization

In 2010, China and Japan each accounted for about 9% of the global economy. At the same time, the 27 countries under the European Union accounted for over one quarter, and the US alone accounted for another quarter. This is the economic share pattern in the global economy at that time. In the world today, the overall contribution of the U.S. (24%), European Union (22%) and Japan (6%) to the global economy is apparent, and China's growing contribution is irreplaceable (15%). Hence the traditional "three pillars" have become less powerful as a positive pull in the global economy.

China has become an important force contributing to the steady growth of the global economy (30% of the newly increased global GDP growth). In the modern world after World War II, there has not been any large economy that can maintain an annual growth rate of 7% for 40 years, except China.

Meanwhile, China's contribution to the absolute value of the world GDP has also been on the constant increase. It has risen from 1.7% in 1980 to 4.4% in 2002, 5.5% in 2006, and 9.3% in 2010, 15% in 2018. According to Goldman Sachs' research data, China's accumulated contribution to the global economy from 2000 to 2009 has exceeded 20%, and 30% in 2018, overtaking the United States of America.

In 2009, when the impact of the international financial crisis was at its worst, and against the background of a 12.9% decline in global trade, China's import volume still exceeded US\$1,000 billion, becoming the world's second largest importing country, and the only country among the major economies to register growth. Hence China has made significant contribution to the global economic recovery. The style of the China's role in world trade is, on the one hand China get huge trade surplus from the U.S. and EU, while on the other hand, China transfers this surplus to most of the other economies by importing intermediate goods in the rest of the world. In this case, China got balance in current account as the whole.

Today, about 35% of the GDP of the various economies in the world are directly participating in exchanges at different levels in the global economy, and essential elements in manufacturing are extensively circulating around the world. To optimize the allocation of resources like capital, information, technology and manpower in the global context, it is essential that there is deepening dependency among various economies. In terms of dependence on foreign trade, it is about 30% for the US, Japan, India and Brazil, less than 50% for France, UK, Italy and Russia, and over 30% for China, Canada and Germany. China's own economic vitality will be transmitted to other economies in the world through a variety of channels and in a diversity of methods. The world supply chain, or value chain has been established, the production is in a very closed dependency globally.

Having accessed to WTO for more than a decade, Chinese trade with the rest of the world increased rapidly. In 2000, China was the world's 7th largest exporting country and 8th largest importing country. Now, China has grown into the world's largest exporting country and second largest importing country. Indeed, China's import has in the past decade been increasing at an annual average rate more than 15%. Among China's top 10 trade partners in 2018, apart from Taiwan of China and Brazil, China's import growth rates from these trade partners were all higher than the export growth rates. The demands for China's 1.4 billion people are profound, diversified, and sustained. At present, China has become the top export market for Japan, Australia, Brazil and South Africa, the second top export market for the European Union, and the third top export market for the U.S.

With the rapid growing economy globally, China has become the world's largest consumer of natural resources. At present, China is importing almost 70% of its crude oil consumed, more than 50 % of natural gas and iron ore consumed. Take the iron and steel industry as an example. China's economy has experienced a process of rapid growth, and the huge amount of infrastructure and real estate's developments have provided China's iron and steel industry with valuable development opportunities. Accompanying the development of the iron and steel industry, the trading of iron ore has entered its phase of rapid growth. 10 years ago, China

imported only 92.3 million tons of iron ore. The volume increased to 100 million tons in 2002, 200 million tons in 2004, and 400 million tons in 2008. In 2011, the import volume reached 600 million tons, and 1 billion tons in 2018 (55.5% of total iron ore consumption). As the world's largest iron and steel manufacturing country (half of the steel production of the world), China also became the world's largest importer of iron ore which gives the positive impact on the producing countries. For example, in 2008, when prices of iron ore plunged drastically under the impact of the world economic crisis. And due to the launch of China's policies to stimulate economic growth, China's iron and steel industry became the first industry to recover. This in turn boosted the economic recovery of ore producers like Australia, Canada and Brazil.

China's demand was to a large extent influenced the supply – demand relationship and commodity pricing in the international market. Such was the case with iron ore, and such was the case with many other commodities. This kind of demand originates from the rapid development of the China economy, and it also stimulates the economic growth of commodity exporting countries. For many imported raw materials, after being processed in China, they become commodities for export to other markets around the world. Indeed, the Chinese economy and the global economy are mutually dependent and mutually beneficial in the flow and circulation of commodities.

3. “China’s effect” on both sides of supply and demand in supply chain

3.1. Manufacturing Agent: Chinese Exports Provide Convenience to the world

The rule of WTO is to encourage free market competition. From “purchasing Chinese products” to “buying and selling global commodities”, a lot of overseas businessmen have noticed the positive effects of China's accession to WTO, and hope to achieve allwin situations through “buying and selling global commodities”. In the last decade or so, consumers all over the world have gradually come to realize that “Made in China” does not mean lowering prices to boost sales, but to produce on demand, and value for money.

If you take a casual stroll in one of the shopping centers or supermarkets in the U.S., you will notice that a lot of the clothing, whether or not of international brand, is made in China. In the last decade, Chinamade products have been on the increase – like inflating a balloon. “Made in China” is like a shadow that appears in the daily life of any ordinary American – from the clothing one puts on in the morning, the briefcase for work or going on trip, the office equipment, the

electronic products for leisure use, the cooking utensils for dinner, the toys for the kids, the shoes for taking a walk, to the desk lamp and the alarm clock – are all “Made in China”.

This is especially true as Christmas approaches – no matter it is the skating shoes that the kids want, or the Christmas tree for the family, and even the great variety of gift packs – are almost without exception “Made in China”. Most Americans are very practical – they take no heed of the place of manufacturing – all they care about is whether the goods meet their needs in life, and whether they are value for money and are aligned with their income level⁹.

Facts prove that choosing “Made in China” products can save a lot of money for the Americans. Data from the US Chinese Embassy show that in the past decade Chinamade products have saved as much as US\$600 billion. The research stated that “Made in China” has given each US family US\$1,000 a year as disposable income. Since the trade dispute began in March, 2018, and put punitive tariff on Chinese goods imported, US\$1.4 billion loss per month for the American consumers, if the subsidy by the government included, the total loss reached US\$12.3 billion in 2018¹⁰.

At present, the US manufacturing industry is facing the “hollowing out phenomenon”. Apart from some hightech products and grain products, most of the manufactured commodities are being contracted out overseas for production. As “Made in U.S.A.” products have been getting fewer and fewer, some American are starting to get worried. CNBC once did a TV documentary – an elderly American lady tried her very best to support U.S.-made products. She did not mind the cost – as long as a product is “Made in U.S.A.”, she would buy it. The result was that to complete one round of daily purchase she would have to visit many places by car to buy all the things she needed. In general, most of the American are more than happy to choose the economical “Made in China” goods. After all, not everyone can afford to buy U.Smade products that are two to three times more expensive. One Harvard professor once said that “Made in China” has promoted the growth of the American economy, and made a positive impact on keeping inflation under control.

“Made in China” has brought good news to consumers – not only in developed countries, but consumers in ASEAN countries have noticed the benefits as they trade with China. For instance, residents in Kuala Lumpur, Malaysia can now buy even cheaper TV sets. In Hanoi, Vietnam, if you visit the shops, supermarkets and large shopping centers, you will find that a lot of quality Chinese products, from knitting kit to domestic electric appliances, are on the shelves. This has provided to the Vietnamese people more economical and more diversified products. In

⁹ 黄卫平, 黄剑. 以创新驱动引领中小企业发展[J]. 商学研究, 2017(4):5-10.

¹⁰ <https://cn.reuters.com/article/usa-trade-business-china-tariff-loss-101-idCNKCS1MM03E>.

Thailand, the industries of agriculture, fishery, timber, rubber and electronics have all benefited from the establishment and implementation of CAFTA. As a result, the prices of many products have fallen. In Indonesia, the people at first feared the influx of large volumes of Chinese goods. They even demanded that the Government defer the implementation of the Free Trade Zone. Now they have changed their stand and started to support the establishment of the Free Trade Zone.

Admittedly copycat mobile phones comprise a gray area, yet for some countries in Africa and the South Asia, if there are no low price copycat mobile phones, their people would have to defer their purchase of mobile phones for a considerable time. In fact, the copycat mobile phones are not just an imitation of famous brands of mobile phones. They also demonstrate their special creativity in terms of technological design, look and feel, as well as their functions.

3.2. Consumer: Chinese Market Attracts Multinational Corporations

For foreign enterprises operating in China, they have remitted a total of US\$261.7 billion from 2001 to 2010, with an average annual growth of 30%. In 2018, FDI reached \$135 billion, increased 3%. On this wonderful piece of land that is China, multinational corporations from all industries and from all countries have shown great vitality and energy.

People regard food as their prime want. The Chinese people, no matter rich or poor, all enjoy the pleasure of taste. CocaCola's popularity in China is no difference from any other place in the world. At a new product mark announcement hosted by Starbucks in March 2011, their Managing Director for China – Wang Jinlong – said that the success of Starbucks was closely tied with their development in China since 1999, and the company's development in China in the next four decades would depend on China. For KFC, their 3,000 shops are all successful and profitable. On top of this, KFC China is even painting the smile of Colonel Sandoz on the landscape of some frontier cities. This is in sharp contrast to their decline (and some of the chain restaurants have even closed down) in the US, where they came from. As the market with the fastest growth rate in terms of new restaurant openings, China has become the third largest market globally for McDonald's. The company forecast that in 2012, their investment in China would be 50% more than that of the previous year. About 250 new restaurants will be opened during the year. Meanwhile, carrestaurant "DriveThrough" will be one of the focuses of development in the project.

In the realm of garment, the spending power of the middle income group in China is rapidly on the rise. According to the Bloomberg Billionaire Index, with the

stock price of ZARA's mother company Inditex SA setting a record high at market close on 8 August 2012, the company's 76yearold founder – Amancio Ortega from Spain found his fortune gaining an extra US\$1.6 billion, to reach US\$46.6 billion, overtaking Warren Buffett, Managing Director of Berkshire Hathaway Inc. with a net fortune of US\$45.7 billion. Ortega then became the world's third richest person. Since five months after the release of the Bloomberg Billionaire Index, Buffett had all along maintained his third position. However, two months ago Ortega beat the founder of IKEA – Ingvar Kamprad, with his fortune of US\$37 billion, now the richest man in Europe.

The same scenario applies to the financial industry. Following China's accession to WTO a decade ago, China has constantly opened up its financial arena to allow more foreign capital companies to enter the China market. While foreign companies bring to the China market advanced management concepts and enriched financial services, they also benefit a lot from the rapid development of the Chinese economy.

Take the insurance industry as an example. In late 2004, the Chinese insurance industry ended its transitional period and took the lead in implementing the total openingup of the financial industry. Over the decade, the over 40 overseas insurance companies listed among the Fortune 500 have entered into China's insurance market. As one of the 10 top insurance enterprises in the US, AIA Company that was originally set up in Shanghai in 1931, reentered China in the early 1990s, and found new space for growth in the Chinese market. They were listed in Hong Kong in October 2010, becoming the greatest IPO in the history of Hong Kong.

Today, China set the Pre-Establishment National Treatment & Negative List system, and opened more than 120 items in service industry (WTO sets 160 item total in service industry). In this case, China really welcome the foreign investors to establish their firms in different industries and share equal foot with the Chinese companies.

3.3. Output agen: Chinese factor supports technology innovation

All the significant milestones in the history of mankind are invariably linked with reforms in productivity. To develop the global economy, people can rely on consumption (demand side) in the short term; but in a long run we must rely on innovation (supply side). China's export commodities are cheap and of good quality, and help to lower the cost of living for the consumers, as well as reduce the purchasing and production costs for the manufacturers all over the world. In the meantime, through greater competition they stimulate the technological advancement of the importing countries and indirectly promote innovation in the production process. On the other hand, China is on the way of establishment of system in compliance with the international IPR treaties and practices, though it is a long way to run.

The outflow of high caliber talents from China indirectly raises the competitiveness of other countries' technology and industry. Developed countries like to move their processing work to China that has an abundance of manpower, so that they will be able to invest more manpower, materials and finance to develop new industries and continue to lead the world's economic trends. Today, when various districts in the world carry out research and development, they will notice a great difference and a lot of distinctions.

The U.S. has made huge investments to conduct research into newly developed strategic industries. The focus of their innovation is on Life Science, Artificial Intelligence, New Energy, New Materials and ranked the first in the ongoing research directions globally. Europe's hightech innovation puts relatively more focus on life sciences, and overall speaking, it lags behind the US. We will always remember that in 1997 the world's first cloned sheep Dolly, born in the Roslin Institute in Edinburgh, was a milestone breakthrough that shocked the world. The world's first batch of asexually reproduced genetically engineered sheep were also born in the UK. With the commissioning of the Life Sciences Laboratory Building in Stockholm, Sweden in May 2010, DNA sequencing work on European Picea started, with an aim to detect the genetic configuration of this kind of "Christmas tree" by 2013. European Picea is an evergreen coniferous plant often used as Christmas trees. As their wood is soft and the strands are straight, they are also used for building, as well as making furniture musical instruments and boats. Sweden is using this laboratory to build the largest genetic centre in Europe, taking an unprecedented move in integrating genomics with proteomics.

Sony's walkman has been hailed as Japan's greatest contribution to the 20th century. It once took the world by storm, taking the lead in enhancing the lifestyle of the younger generation. Although Japan's technological innovation has been

criticised as “bringing the 21st century back to the 20th century”, yet their robotic technology is still leading the world. In May 2010, a “companion robot” that can play the violin made its appearance in the Shanghai World Expo. In September of the same year, Chiba Industrial University developed “Core”, a robot that can bend its knees and walk around, carrying loads of up to 96 kg. In October of the same year, the National Institute of Advanced Industrial Science and Technology and Osaka University jointly developed a robot that can simulate different facial expressions. Using a young lady as the prototype, the robot is connected to the computer camera, and after identifying the expressions of the operator, it can instruct the robot to put on the same expression. In 2016 and 2017, Alpha Go won the world Go champion, and Alpha one could serve people as the doctors with AI.

While there is no single truth, truth is everywhere to be found. The focus of innovation for the emerging markets in the Asia Pacific is the electronic information industry. Although their high technologies are not yet at the cutting edge in the world, yet they are able to ride on the products’ life cycles and gain cost advantage through large scale standardized production, or through the use of a powerful sales network as core competency to sell the products of other economies to the world. Indeed, their special core competitiveness has led the strong growth of their economy. In the US, Apple mobile phones are leading the fashion trend in electronic products. Meanwhile, Korea’s Samsung and China’s Huawei have also created their own territory in the smart mobile phone market.

3.4. Contributor: The Rise of China Motivates Its Developing Partners

To the developing countries in Asia, Africa and Latin America, China played a role of “friendly giant”. In East Asia, China is integrating into their production network, not to displace other developing economies from their opportunities for international division of work, but to promote the expansion of multinational corporations in East Asia to enhance the economic vibrancy in the region. Through the import of spare parts, China achieves supply chain cooperation, risk sharing, labourintensive production and industry transfer, thus benefiting the East Asian economies. This works against the rules of the zerosum game theory.

Take ASEAN as an example. In October 2004, at the “Chinese Business Leaders Forum” organized by Chinese Enterprises (Singapore) Association, former ASEAN secretary general Mr Wang Jingrong pointed out: “To ASEAN, the rise of China is not a threat, but a valuable opportunity for economic development... The ASEANChina Free Trade Zone is an ingenious way to enable each party to realize its own goals.”

China's need for raw materials, agricultural products, intermediate products and capital products provide ASEAN export enterprises with valuable business opportunities. In 2009, under the impact of the international financial crisis, Malaysia's exports to the U.S., European Union and Japan dropped 27%, 19% and 23% respectively. On the other hand, its exports to China grew 6%. In the same year, Thailand's exports to the U.S., European Union and Japan dropped 18%, 23% and 22% respectively, yet its exports to China dropped only 1%. In 2010, with the operation of CAFTA and benefiting from the implementation of "zero tariff", Thailand's exports to China increased about 30% over the previous year, and China can look forward to becoming Thailand's largest export market. In the wholesale markets Sampheng Lane in Bangkok, Thailand, the purchase costs for the commodities have lowered thanks to the lower tariffs, and the income for the shop owners actually increased substantially.

Through global competition on commodities and essential factors, China is encouraging trade partner countries that are also in the developing world to implement related policies that stimulate the accumulation of human capital, so as to actively carry out production innovations and various internal reforms. Brazil, the largest country in Latin America, and the world's 6th largest economy, are leading Latin America in terms of technology and innovation. In the production of ethanol petrol, and in the utilization of renewable energy, Brazil is among the top countries in the world. Multinational corporations have found that some of the products and technologies developed by Brazilians (such as cars, planes, software packages, optical fibre and electrical appliances) are rather competitive.

The *Belt and Road Initiative* refers to the Silk Road Economic Belt and 21st Century Maritime Silk Road, a significant development initiative launched by the Chinese government with the intention of promoting economic co-operation among countries along the proposed Belt and Road routes. The Initiative has been designed to enhance the orderly free-flow of economic factors and the efficient allocation of resources. It is also intended to further market integration and create a regional economic co-operation framework of benefit to all. The *Belt and Road Initiative* aims to connect Asia, Europe and Africa along five routes. The Silk Road Economic Belt focusses on: (1) linking China to Europe through Central Asia and Russia; (2) connecting China with the Middle East through Central Asia; and (3) bringing together China and Southeast Asia, South Asia and the Indian Ocean. The 21st Century Maritime Silk Road, meanwhile, focusses on using Chinese coastal ports to: (4) link China with Europe through the South China Sea and Indian Ocean; and (5) connect China with the South Pacific Ocean through the South China Sea. Focusing on the above five routes, the Belt and Road will take advantage of international transport routes as well as core cities and key ports to further strengthen

collaboration and build six international economic co-operation corridors. These have been identified as the New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, and Bangladesh-China-India-Myanmar. With this initiative, China hope to build up a win-win model in development for the world and hope to link the EU and Asia either geographically as well as economically.

China has also organized over 4,000 training courses in China for developing countries, deploying 120,000 traineesessions, including interns, managerial and technical staff, as well as officials. The over 20 types of training included economics, diplomacy, agriculture, healthcare and environmental protection. China has signed debtexemption agreements with 50 countries in Africa, Asia, Latin America, the Caribbean and Oceania. A total of 30 due debts were exempted, totaling RMB 25.58 billion.

As the largest trade partner with deficit, China has invested in over 150 agricultural projects in Africa. Chinese investors look at Ethiopia – a country with very little mineral ores but has 9 million consumers – as a land full of opportunities. In the Kenyan capital of Nairobi, a lot of infrastructure – from the airport to housing project for low income families – was constructed by China. In Mozambique, China has invested in building and maintaining industrial parks, and in setting up manufacturing centers in textiles and garments. Chinese enterprises are investing in Africa to improve the infrastructure and facilities there, and to promote the development of manufacturing departments¹¹.

China is maintaining a trade deficit with 48 of the least developed countries in the world, including Laos and Angola. Since 2008, China has been their largest export market. This not only assisted them in their economic development, but also actively contributed to the eradication of poverty in the world.

4. The key factors to China's rapid economic growth

4.1. "Flying Geese Mode" and International Industry Transfer: "Flower Drum Transfer 击鼓传花"

Since the 1960s, the economic runway of the East Asian region has been staging a relay of international industrial transfer. The participants, in chronological order, were: developed economies of Japan→newly industrialized economy (four tigers, that is Hong Kong of China, Korea, Singapore, Taiwan of China→four ASEAN countries, that is Indonesia, Malaysia, the Philippines, Thailand→developing

¹¹ 黄卫平, 胡玫. 美国次贷危机:对世界经济格局的再思考[J]. 美国研究, 2009(2):36-46+3-4.

countries that are implementing openingup strategy, such as China and Vietnam. In the “flying geese mode”, characterized by the multilayer industry transfer, the goose that spearheads the flight formation is Japan which, after the Second World War, snatched the title of “World Factory” from the U.S.A..

At the end of 1985, the Chinese Government relaxed its policy to attract foreign capital, and to encourage exportdriven foreign enterprises to come to China to invest in factory building. Then Hong Kong and other economies entered China on a large scale. On the basis of the free flow of essentials and reasonable allocation, China continued to dynamically receive dynamic transfers from the world’s advanced industries, and to realize the huge output growth. In the mid and late 1990s, Chinese citizens said goodbye to shortage, and they created unprecedented material wealth. Since the turn of the century, students of economics no longer (like their teachers) study the book *Shortage Economics* – a book on socialist economy by Hungarian economist Janos Kornai.

In 1997 and 1998, after the Asian financial crisis, China took over from Japan the role of “World Factory”. In a way, China “reluctantly” became the World Factory. The Asian Financial Crisis messed up the outskirts of global finance, but the function of the world’s financial centre – to allocate the world’s resources – has not been harmed. They are still in demand, and still growing.

As the supply chain of Southeast Asian economies have been hit hard, the orders from the U.S.A. and Europe were directed to China. But at that time, China’s production capacity was not sufficient to cope with the flood of order. So what happened? Wall Street and the City of London exercised the basic function of finance, and effectively allocated the global resources. The inflows of direct investments have brought along capital, equipment and technology. China had cheap land, labour, and environment to entice them. China had an extensive market, and in individual years the foreign capital coming to China exceeded that of the U.S.A. and was ranked No.1 in the world.

At that time, China’s orders came from the U.S. and Europe. China’s production capacity was built by foreign capital holders. The red flower in the “flower drum transfer 击鼓传花” game suddenly landed on China, and China became the new “world factory”, which henceforth became an integral part of the global supply chain. China’s newly acquired excess production capacity, the surplus of its current account, and the world’s top foreign exchange reserve, all contributed to China’s monopoly of the global allocation of capital resources.

For the development of China’s economy itself, the fact that China was made the “world factory” was both a blessing and a reason for concern. The blessing is that China has more deeply penetrated into the gushing current of the global economy, with more jobs created, more rapid economic growth, upgrading of the

industrial structure, better welfare for the producer and consumer, and the significantly higher salaries for enterprises and residents. On the other hand, what was worrying was that China's road to trade imbalance was a journey of no return, and for a prolonged period China was stuck in the low value-added, high carbon-emitting position of low to medium end production. The product piloting, the production of key spare parts, as well as sales and aftersales service were all in the hands of developed countries: the production of modular spare parts was scattered over newly industrialized economies of Korea and Taiwan of China, and the packaging task, which offers little profit margin, was transferred to China¹².

The truth behind every phenomenon is usually surprising. For an Apple iPod player assembled in China in the early 21 century, which has 451 spare parts, its retail price in the U.S.A. was US\$299, and the US local enterprises and workers reaped a maximum of US\$163 in value added. This included US\$80 for Apple Corporation, US\$75 for the distributors and retailers, and US\$8 for the spare part manufacturer. Japan reaps an added value of US\$26, and what China got only US\$4 of processing fee. For every iPod exported to the US, China's trade surplus to the U.S.A. would increase about US\$150. The Chinese workers got only US\$8 in income for every iPad computer, which was only 1.6% of the retail price. And for every iPad sold, Apple Corporation got US\$150, which is 30% of the retail price. Compared with Korea – where the main spares are produced – China's share of the profit was less than 1/4.

With China becoming the world's factory, trade between China and other economies will manifest a triangular trade pattern based on an industry chain division of labour. The production essentials, industrial structure and complementary situation have made the regional situation in the entire East Asia region a highly related system of international division of labour. In this system, apart from Hong Kong having a trade surplus, China's trade with different systems in Southeast Asia frequently experiences a trade deficit. China's trade with other economies such as the U.S.A. and European Union countries has huge amounts of surplus in the current account. On the other hand, Southeast Asian economies' trading with China and other countries are all in surplus.

In other words, although China has become the largest export market for more and more East Asian developing economies, yet a large part of the import as the intermediate goods from East Asian economies are finally assembled into the consumer products exported to the U.S.A. and European Union. It is estimated that for every US\$100 of processed products exported to the US and the European Union, about US\$35 to US\$40 is contributing to the growth of East Asian economies. The pattern of global trade has become this – the capital products, spare parts and

¹² 丁凯, 黄卫平. 次贷危机后的中国产业发展模式选择[J]. 江淮论坛, 2012(3):43-48+193.

other complex intermediary products exported by East Asian economies are processed and assembled in China into finished products which are exported to US and European markets.

4.2. “Wintelism” and the “Magnet Effect” of Global Production Network

After the modern mega industry was established in the second industrial revolution, the Western enterprises with the U.S.A. as a representative implemented the Ford production mode, pushing the global economy to a new phase of growth. Under the Ford system, there is a clear division of labour between the brain and the body, with very fine division of tasks in the assembly line. As a result, there was a drastic increase in labour productivity, making possible the large scale production of industrial products and mass consumption¹³.

In the 1960s, the Japanese manufacturing industry led by Toyota, based on Japanese cultural tradition and enterprise characteristics, underwent organic fusion with the Ford system and the flexible mode of production, creating the Toyota production mode, and motivating the modernization of the Japanese industry and the overseas expansion of enterprises. Under the Toyota system, laborers are the longterm asset of enterprises, and the designers and producers could have interchanges without barriers, making possible the optimization of the production scale based on the market situation.

Under the Ford system and the Toyota system, although many products have a multi-nodes value chain, yet enterprises compete on the total value chain. As the individual value nodes have not yet developed into independent industrial departments, a single value node will not have a significant impact on the result of the competition. Hence the two models are represented by the car industry. Before the 1990s, “Blue Giant” IBM and its competitors in Japan and Western Europe also followed the Ford system (some also encompassing the Toyota system), and the production system included hardware, software, after sales service and vertical systems such as financing and rentals.

Since the birth of the personal computer in the 1970s, the computer industry had a basis of horizontal division of labour that differs from that of the Ford system. With the softwarehardware integration of Microsoft Windows and the Intel chip, the entire computer industry quickly shifted from a vertical structure to a horizontal structure. In the latter half of the 20th century, especially after the late 1980s, a new international production mode gradually formed, under Wintelism that had

¹³ 胡玫, 黄卫平, 朱文晖. 温特制: 美国新经济与全球产业重组的微观基础[J]. 美国研究, 2004(2):7-24+3.

standards as the core. This took place against the background of the abandonment, crossing and breaking in between Ford and Toyota modes. This became a production mode that adapts to the international competition in the age of economic globalism under the conditions of high technology.

The characteristic of Wintelism is that it works around product standards against the background of effective global allocation of resources, resulting in the production and integration of product modules under the control of systems. In the entire process of completing the product value chain, the standard setters in the division of labour together with the module producer achieve a control mode based on winwin situation. Under Wintelism, the global production network uses multinational corporations as the vehicle and the horizontal mode or horizontalvertical mode in the global value chain. In an industry based on division of labour according to production phases, there is the manifestation of drastic expansion of trade within the product, and this drives the depth and breadth of economic globalization on a large scale.

Modularisation, outsourcing and mass customization are the three supreme tools in enterprise operation under Wintelism. In contrast with Fordism that only pursues scale effect and scope effect, the agglomerative effect has an important role to play in “separation and integration” on the platform of Wintelism. It is actually with modularised production, outsourcing and supply chain management and the development of the modern logistics industry that Wintelistic enterprises can achieve mass production of new products within a short period of time.

Under Wintelism, speed is king. The focus of market competition is that while it maintains product differentiation, it also guarantees the speed of hightech product introduction and industry upgrade, so as to achieve perfect integration of constant product innovation and mass production. This drastically shortens the life cycle of traditional products. Once a new product is launched in the market, it will need to depend on the multinational production system to quickly complete the expansion of the global market. If a product is not expanded to other markets by the early stages of the product life cycle, the enterprise will have difficulty achieving economy of scale, and even achieving break even of the research and development costs¹⁴.

To achieve the highest efficiency of production, accompanying the expansion of the global production network, the global FDI maintains its growth with a drastic increase in the number of multinational transactions in spare parts and semi-finished products. Since the 1990s, some developed countries have been shifting their capitaltechnologyintensive industries to developing countries, even including the higher valueadded processes in their hightech product production, such as research and development, processing manufacturing and services. This forms a new

¹⁴ 黄卫平.升值压力下对人民币汇率问题的几点思考[J].国际贸易, 2010(6):34-37.

type of outsourcing and processing. Under this pattern, while the output countries (mainly developed countries) optimize their costs, the input countries (mainly newly industrialized economies and developing countries) will enhance their level of technology and optimize their industrial structure, thus achieving a win-win situation¹⁵.

If we say that the Ford system is a product of internalization, and the Toyota mode is a product of industrialization, then Wintelism is the inevitable result of economic globalization. This new type of multinational production system reorganises the global industrial structure, and sharpens the sensitivity to scale and cost, bringing new opportunities and challenges to East Asia. In the production network of the East Asian region, the horizontal division of labour and trade have broken through the traditional “flying geese” mode and achieved rapid development. Since the mid 1990s, China has quickly become the base of original equipment manufacturing (OEM). The huge market, low costs and the large pool of talent and supporting capacities have made China the top choice in the new round of global industrial transition.

Purchasing in China has become an irreplaceable component in the global production chain. China’s cheap labour costs and the ability to achieve the required standard have benefited a large number of multinational corporations. These companies look at their supply chain built up in China as an indispensable part of their global strategy. No internationally renowned hightech company can complete their design, purchasing, production and sales without involving the Chinese market¹⁶.

China captures capital, technology, machine and equipment from Japan, Korea and Taiwan of China, and imports high end spare parts and modular spare parts. China also imports resource products as well as primary and intermediary products from Southeast Asian countries, and at the same time acquires financial, legal and trade services from Singapore and Hong Kong of China. After processing, assembling, manufacturing and packaging, China exports the products to North America and European countries, or uses these products to satisfy domestic demands.

Relying on the strong brand effect and the global setting of the sales and service networks, developed countries have reaped the largest share of the profit in the global industrial value chain. On the other hand, China finds itself in the lower value adding parts of the production process, and reaps only the benefits of processing and assembly. Although the developed countries such as US and Europe have a deficit in their current account, yet their own industrial structure determines that the deficit will not reduce their employment rate, but actually increase their employment rate in the areas of research and development, sea transport, sales and

¹⁵ 张燕生.全球经济失衡与中美的调整责任[J].当代世界, 2012(2):2-7.

¹⁶ 朱海华.路径选择成为初创企业的战略核心[N].企业家日报, 2016-6-27.

marketing and financing. Correspondingly the manufacturing industries in developed countries have, to different extents, experienced the trend of “hollowing out”¹⁷.

At present, China has in reality become the world’s product processing centre, one of the world’s largest product suppliers, and one of the world’s largest importers and exporters of goods and services. As the market vehicle for the mutual dependence of the Chinese economy and the global economy, the global production network will still achieve the bidirectional Magnet Effect. The Chinese economy cannot be separated from the world, and the global economy needs China. In short, China’s development has become an organic part of the world supply Chain and part of the global economic development¹⁸.

4.3. Large Scale at Low Cost: China’s Lore Tips in the Past

Generally speaking, the added value that an economy acquires in the division of labour is determined by its position in the supply chain, and this in turn is determined by its essential production factors endowment. In general, economies with an abundance of technical resources will focus on research and development as well as equipment, and economies with an abundance of capital resources will focus on marketing. Economies with an abundance of labour resources mostly carry out processing, while they are relatively weak in scientific research and brand operations. In international trade, processing accounts for a relatively large proportion, “put both ends of the production process (the supply of raw materials and the marketing of products) on the world market 两头在外大进大出” – China belongs to this category.

Under the principle of “of two evils choose the less”, China has been riding on its strength of labour abundance and low costs in the international division of labour. In compliance with its commitments made at its entry into the WTO, China has perfected its policies on foreign capital industries, strengthened its protection of intellectual property, optimized its foreign investment environment, and realized the integration of foreign capital, technology and domestic labour resources, to achieve the development of its own economy and a winwin situation.

There is a Chinese saying “Make good use of local resources 物尽其用”. Given China’s geographic environment and its natural endowment of resources, China’s economy and other economies in the world have different but complementary industry structures. The domestic industry structure determines the country’s trade structure. In the meantime, differences in the endowment of resources, labour,

¹⁷ 黄剑, 黄卫平. 中国经济“新常态”下的创新驱动与转型调整[J]. 江淮论坛, 2015 (6):40–47.

¹⁸ 黄志钢. 构建“经济带”: 区域经济协调发展的新格局[J]. 江西社会科学, 2016(3):37–42.

technology, market, land and environment provide the basic conditions for the complementary trade activities between China and the world.

Although China is richly endowed, and most of the resources are self sufficient, there are two resources that are lacking – petroleum and iron ore. On top of these, there is also a shortage of timber and paper. On the other hand, these are inexhaustible resources in Southeast Asia, Africa, Australia and the Middle East. Take Russia as an example, the resources of China and Russia are very much complementary. China lacks natural resources and crude oil, while Russia lacks human resources and small commodities. Hence both are huge markets that complement each other.

4.4. Low profit and larger Market share: “Market Rule” Made in China

All the enterprises in the world would pursue maximum profit. This is in line with classical economic theories and people’s common sense. However, what the Chinese industry did was to use minimal profit or even zero profit to compete for the largest share of the global market. Hence comes the saying “What is price-up when it is bought by China, what is price-down when it is sold by China”. In this case, the order and rules of the world market are being destroyed or rebuilt.

So there are now two sayings: One of them is “never teach the Chinese to produce anything”. And the other is “once the Chinese are producing, never produce the same thing by you”. To take the U.S.A. shoe industry as an example: for every 100 pairs of shoes the U.S.A imported, 65 are from China. The reason why there was not an incident similar to the “Shoes Burning Incident” in Elche City of Spain in September 2004 was because the shoe making workers in the U.S.A. turned into shoes selling (service sector). In effect, the U.S.A shoe making industry has died by euthanasia.

When countries with innovative technologies like Japan and the U.S.A. brought TV sets, video recorders, DVDs and cars to Chinese consumers (measuring 1.4 billion people), the products were already mature in their life cycle, and the market demand had already been developed by imports, and did not require Chinese enterprises to nurture it. China uses cost and scale as its weapon to create a production curve that is rising steeply. The ultimate purpose is not to acquire profit, but to achieve more market share¹⁹.

China does not have the high technology to establish new global industry. China’s natural resources compared to its enormous population size is not particularly rich²⁰. China’s financial development is not advanced. The Chinese people are

¹⁹ 裴长洪, 王宏森. 入世十年与中国对外贸易发展[N]. 中国经济时报, 2011-12-09.

²⁰ 林平凡. 创新驱动实现区域竞争优势重构的路径选择[J]. 广东社会科学, 2016(4):29–37.

not particularly noted for their labour productivity. However, despite the “good for nothing” impression that people have, China has won the market and stunned the world, and achieved the goal of industrialization. Learning and practice from other economies are indeed China’s most advantage.

Conclusion

China’s reform began from the grass foot in the village in Anhui Province while open policy issued from the central government. Today, China is enjoying a rising status in the global economy after 40-year reform and open up, and is starting to participate more deeply in the global economic governance mechanism. Striving with the most economies in the world, China is to bring the global economic governance to perfection, in order to set up a new order for the global economy which is more reasonable and just.

On the issue of global economic governance, China and the U.S.A. take different approaches. The U.S.A. is attempting to recreate a new set of game rules for the global economy in order to lead in the global economic governance structure and resume or mend the original economic growth pattern led by the locomotive of U.S.A. financial innovation, which will keep America First, forever as Mr. Trump wanted. Meanwhile, China acts from the standpoint of the wider context of developing countries and newly industrialized economies with taking the principles of co-construction and sharing. It is against using regional free trade rules to counter or replace the multilateral talks of the WTO reform, and it is committed to setting up a global economic governance mechanism that can benefit more countries and more people. The “new model of major-country relationship” between China and the U.S.A. has begun. Judging from the current state of affairs, the best result of this game is the achievement of inclusive growth in the global context. This means carrying out adjustments and reforms on the basis of the existing global economic governance mechanism, so that the developing countries will have a louder voice. It also means enabling economic globalization and the fruits of economic development to benefit all countries and all communities, so that they can achieve co-ordination in their economic and social development in the context of sustainable development. The core of “inclusive growth” is “sharing”, and the aim is to create an egalitarian environment for development for more people in the world – despite the current situation of imbalanced development and interest diversification. China will open more to the rest of the world, and will make improvement in IPR, non-tariff trade control, negative list and pre-establishment national treatment for FDI, and so on, in this case China will open much more to the rest of the world,

and make more contribution to the future world economy, and try the best to make the interdependent global economy better than before.

Summary: China has played an important role in global economy, and after decades of rapid economic growth, China is in the way of changing economic development path and model. A slow recovery is the tendency of the near future global economy, the world is undergoing profound changes unseen in a century. Adjustment will certainly be the theme for an extended period in the future. The coexistence of competition and cooperation will be the mainstream of the future world, and trade friction will be the new norm for the global economy. China will insist on deepening reform and open to the rest of the world, adjusting the pattern and path of the growth in order to get sustainable development and search for win – win future with the rest of the world.

Keywords: Win – win; economic development path and model; international industry transfer; Chinese factor

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