Introduction

The phenomenal growth of China's economy has changed both the economic and political landscape of the world. China has become such an integral part of the global economy that global financial markets are affected by every important economic event or news about China's economy. This book aims to document the historical rise of China's economy in the last four decades and its profound impact on East Asian trade, and China's growing 'soft' power and its growing importance as an alternative source of development assistance to developing nations.

J. Lim's paper discusses the causes and roots of the meteoric rise of China during the three decades from 1978 to 2007, before the Great Recession of 2008-09. China's transition to a market economy and its opening up to the global economy were important changes that permanently changed China's growth path and economic structure as well as Chinese society and the people themselves. The provision of market and profit incentives to peasants and state-owned enterprise and the exposure of state-owned enterprises to market competition resulted in the tremendous rise of productivity in both the agricultural and manufacturing/industrial sectors. China's opening up to the global economy, especially after it joined the WTO in the 1990s, demonstrated that China's exports were very competitive, initially using cheap labor in low-end products like garments, footwear and house decorations and, later on, in higher-end technologically sophisticated products like electrical appliances and electronic products. With foreign investments pouring in and bringing with them more and more sophisticated technologies, and the large trade surpluses derived from global trade, China became the largest holder of international reserves in the world. It became the top exporting country in the world in 2009, and the top trading country (combining exports and imports) in 2013. China became the second largest economy in the world (after the US) in 2013.[1] According to the IMF and Joseph Stiglitz, China's economy, measured by purchasing power parity PPP, is going to be the biggest in the world starting 2015.

The phenomenal growth of China, however, was not without cost. Though poverty was greatly reduced and human development indices improved considerably, these largely benefited coastal areas, metropolitan cities and special economic zones. The hinterlands and inner provinces—many of which are home to indigenous peoples—did not benefit as much from the Chinese 'miracle.' Income inequality worsened and often brought resentment among the indigenous peoples, not only because of income inequality but also because Han businesspeople and skilled workers entered their provinces and slowly took control of their provinces' economies. The Great Recession of 2008-2009 also exposed China's vulnerability to the wild vagaries and dangers of a globalized world economy.

The paper also discusses the vulnerabilities now facing China. Since 2012, the Chinese economy has considerably slowed down, with growth dipping below 8% in 2013 and 2014. Furthermore, the low-interest rate policy and large fiscal inflows led to a highly leveraged economy involving both the formal banking and the non-banking (including informal) sectors. The non-banking sectors are called 'shadow banking' sectors. Local governments, unstable corporations and state-owned enterprises became large debtors with a very high potential for default. This forced the People's Bank of China to clamp down on these activities. Many China analysts openly worry about the growing probability of a debt default crisis. Furthermore, China is still struggling to make the important shift from an investment-led to a consumption-led economy. Its much higher wages now have made China's products more expensive in the global market, and have challenged the authorities to effect the upgrading of production to higher-tech and more skills-oriented products to retain China's competitiveness. The transition from an industrial to a service economy also poses enormous challenges in shifting the skills of the

[1] See World Bank website http://data.worldbank.org/data-catalog/gdp-ranking-table.

workforce, and initially lowers the country's growth rates. But these transformations are required to sustain the economic development of China in order to push it to a higher stage.

Palanca's paper shows how the growing economy and trade of China changed the trade arrangements and trade networks in East Asia. China's external trade grew at spectacular rates after its entry to the World Trade Organization, especially between 1992 and 2007, averaging an annual rate of over 20% which even accelerated in 2002-2007. This led to large trade surpluses and contributed to China's having now the largest international reserves.

China's trade surpluses came mainly from its trade with Western countries, particularly the United States, while China's trade with East Asia was in a growing deficit. During this period trade integration in East Asia intensified as China's rapid industrialization created trade effects on the countries/economies in the region. These countries supplied inputs for China's industrial activities—from primary inputs such as minerals and petroleum to sophisticated machines and equipment to "parts and components." Exchanges were inter-industrial as well as intra-industrial.

Two factors were behind such trade patterns. One was the flying geese phenomenon wherein industrial specialization of trade was based on the hierarchy of the development level of the countries/economies in the region. China and the second-tier NIEs imported heavy capital goods from Japan and the first-tier NIEs (Taiwan, S. Korea, Singapore and Hong Kong). The second factor was the global production network wherein there was vertical integration in the supply of inputs among economies in the region. Behind such networks were Western transnational companies. China, being the labor-abundant country in the region, became the assembly hub for the office and equipment products being manufactured by the FDIs fueling the networks.

China's insatiable demand for industrial inputs put its trade balance with the East Asian countries in a negative position. From 2002 to 2007 China had a trade deficit with all the countries in East Asia except the low-income countries of ASEAN (Cambodia, Laos, Myanmar, and Vietnam). These latter countries relied heavily on China's inexpensive manufactured goods but their industrial capacity was not mature enough to allow them to participate in the intra-industry trade created by the production networks in the region.

China had a trade deficit with Japan, Korea, and Taiwan essentially because of its massive importation of technologically advanced capital goods and intermediate goods which it needed for its rapid industrialization, particularly the development of the advanced industries. However, during this period of rapid industrialization, China's importation of certain intermediate goods such as iron and steel and semi-manufactures declined, a reflection of its increasing capability to produce these inputs. The global production networks for office and telecommunications equipment, i.e., "parts and components," made up a large percentage of China's trade with the northeast Asian countries as well as with the ASEAN4 countries (Indonesia, Malaysia, Philippines and Thailand). For ASEAN4 such products made up 54% of China's imports from them in 2007. In addition to office and telecommunication equipment, resource-rich countries Malaysia and Indonesia also supplied fuels and minerals. The increase in much of the intra-regional trading in ASEAN-plus-Three (China, Japan, S. Korea) was in large part due to China, as production trade networks flourished in the region despite the global economic tremors. However, China's growth slowdown and the difficult structural changes it is going through have created concern among East and Southeast Asian countries. They fear that a 'hard landing' might occur in China and this would impact negatively on their own economies.

With the onset of the Great Recession and the global financial and economic crisis in 2008-9, the direct hit and decline in China's global exports alerted China to the need to rebalance its growth pattern from a more net export or trade-surplus driven growth to a more domestic demand driven growth without of course giving up its global trade power. This made more urgent the shifting of domestic demand from a more investment-driven growth to a more consumption-based growth. This of course did not mean that China should sacrifice its investments in technology and other productive activities.

The gradual recovery of the world economy effected some improvements in China's exports. However its trade surplus had dwindled a little with growth of imports outpacing growth of exports. It is interesting to note that China now has a deficit in its trade in ordinary (non-processing) products because of its rising demand for energy, raw materials and capital goods. On the other hand, China has a trade surplus in its processing trade products, indicating its growing exports of higher value-added products. This is a healthy trend especially as China shifts its comparative advantage from cheap labor to technologically more sophisticated goods. Another interesting trend that East Asia should pay attention to is China's shift in its importation of intermediate inputs in the global value-chain production network from East Asian countries to Latin American and African countries.

With its rise as a global economic superpower, China's role in global economic affairs grew as a matter of course. China is actively participating in the setting up of the BRICS (Brazil, Russia, India, China, South Africa) Bank or the New Development Bank which is envisioned as an alternative to the World Bank/IMF tandem to assist developing countries achieve economic stability and fulfil their needs for development funds. Recently, China initiated the setting up of the Asian Infrastructure Investment Bank (AIIB) to which even the United Kingdom and France agreed to infuse capital, over the objections of the United States. The AIIB could become a rival or an alternative to the Asian Development Bank (ADB). The US, in particular, has expressed wariness at China's growing economic and political power, and denounces China's supposed 'mercantilist' policies and aggressiveness in the political and military arenas. Many East Asian countries (especially the Philippines, Japan and Vietnam) are also strongly voicing their concerns about China's alleged use of military and brute force in disputes over territory. They (especially the Philippines) point to its rejection of multilateral solutions in these disputes.

B. Lim's paper is sure to stir controversy for it presents a more positive view of China in its global role, its foreign policy and its provision of development assistance to the Third World. The paper contrasts China's record with a critical view of the US record at gaining world hegemony.

Specifically, B. Lim's paper discusses China's development assistance policy or 'soft power,' including its management, evaluation and financing by China's EXIM Bank. It identifies the main drivers of China's foreign assistance programs with emphasis on historical process, past and changes of policies.

B. Lim notes that much of Chinese aid is focused primarily on the Third World and in strengthening South-South cooperation. It is accompanied by trade and commercial benefits with no strings attached. A new thrust in China's development assistance program has been the promotion of Chinese enterprises or outward-bound companies to the Third World. Third World countries, which have become the sources of raw material and markets of their former European colonizers and US multinational corporations, are now being strategically targeted to be more economically linked with China through trade and joint ventures.

B. Lim asserts that China is following a peaceful coexistence path with its neighbors and other countries and superpowers. It respects national sovereignty and does not interfere in the internal affairs of other countries. Being the country with the world's largest international reserves, China has now become an important alternative source of development assistance to many developing countries.

Unlike the traditional channels of multilateral and bilateral assistance, China's development assistance comes with no conditionalities, economic or political, and it is this aspect of China's aid that developed countries as well as multilateral institutions have criticized as either encouraging developing countries to adopt wrong economic policies or supporting dictatorial and undemocratic regimes that violate human rights.

From China's perspective, according to B. Lim, it is just respecting the national sovereignty of countries. This also follows China's heterodox belief that there is no one-size-fit-all economic development strategy for all developing countries.

While China's development assistance consists partly of 'tied aid' requiring the participation of Chinese companies (usually state-owned) as well as Chinese technicians and skilled personnel, B. Lim believes that China is providing alternative development assistance to the Third World that is more flexible and less stringent.

In conclusion, the meteoric rise of China as an economic superpower has made it a major player in the global economy. China has become a key trading partner of most countries, especially the East Asian and ASEAN economies. It has become a major lender and donor of the world economy, thereby increasing its strength as a global superpower. China's policies on trade and development assistance have significant impact on Third World economies.

On the other hand, China's opening up to the market and global economy, and its acceptance of the bigger and wider role of the private sector in the economy—while contributing to China's economic successes—has exposed it to problems of widening income disparities, dangers of over-leveraging and debt defaults, and vulnerabilities to uncontrollable global economic crises and global recessions that will in turn adversely affect its economy and the welfare of its citizens if not managed well.

We hope this book will give insights and knowledge on these important global trends and issues.