

China's Rapid Economic Growth and Its Impact on Southeast Asia

Lt.Cdr.Papaporn Klomsiri, Wrtn.

Introduction

Since the introduction of economic reforms in 1979, China has increasingly developed its economy and become the fast-growing economy in the world. China's rapid economic growth over the past 28 years (1979 – 2007), makes China at present the world's second largest economy and a major economic power. Economists forecast that China will become the largest power within a decade. However, some of them believe the rise of China as an economic power and its continuing economic development has shifted the China-ASEAN political and economic relationship, as well as posed some worries and challenges the Southeast Asia. This essay explores economic aspects of China, in term of China's economic development, China-ASEAN economic development, and the impact of China's economic growth on Southeast Asia. It is also an insight into how China's rapid economic growth creates both opportunities and threats in Asia.

China's economic development

How China has successfully developed the country's economy rapidly is of interest to many leaders of countries, as well as economists. To acquire an insight into this, an analysis of China's economic conditions before the initiation of economic reforms in 1979 (Morrison, 2006 and 2007) and the country's economic growth after reforms should be discussed.

Before China's economic reforms

According to Morrison (2006 & 2007), China began to reform the country's economy in 1979. Before this period, China's economy was centralized and governed by the state government. The country's resource distribution, price controls, and establishment of production goals were under Chinese government control. The Chinese government's objective was to create a self-reliant economy. There was also restriction of foreign investment in Chinese industrialization. Consequently, the Chinese economy was sluggish and inefficient, due to hardly any profit stimulus, lack of competition, and controls of price and production. Moreover,



standards of living in China were lower than other developing countries. These things were the results of Chinese government's policy and the country's centralized economic system (ibid).

China's economic growth after reforms

Morrison (2007) claims that the objectives of the Chinese government in reforming the country's economy were to increase economic development and to raise standards of living. In 1979 China initiated economic reforms, for example, the government allowed farmers to sell some of their crops on the free market; set up four special economic zones to draw foreign investment, and increased exports and imports for high-tech goods. As a result, China changed the country's economy from government control to the use of free market principles. Furthermore, the goal of Chinese economic reforms was to decentralize the Chinese economy, particularly in the area of trade. These measures have been successful in developing the Chinese economy.

The outcome of China's economic reforms since 1979 to 2007 indicates that the Chinese economy has developed more rapidly than the past. China's average annual real GDP was 9.7% in 1979. The figure increased to 11.5% in 2007 (Morrison 2007, p.4). Regarding this, economists identify two main reasons for China's economic growth. Firstly, China has huge capital investment because of domestic savings and foreign investment. Secondly, China had rapid increase in productivity growth (i.e. low wages, technology, large population, maker for goods). China is a major trading power. For example, China had a trade deficit balance of \$2 billion in 1979, which consisted of export value of \$14 billion and import value of \$16 billion. However, the Chinese trade balance in 2007 was a surplus of \$254.5 billion, which is calculated from export value of \$1,299.5 billion and import value of \$975 billion (Morrison, 2007). It can be implied that the Chinese economic reforms lead to the country's fast economic growth and the Chinese government's policies added more economic value to the country. This means today China is a major economic power.

Chinese-ASEAN economic development

Glosny (2006) asserts that Chinese's long-term grand strategic objectives and international policy for economic modernization is to keep friendly and constant relations with Southeast Asia, in order to make China become a rich and powerful country. There are two



aspects of China-ASEAN economic development; China's economic policy towards Southeast Asia and China-ASEAN relations.

China's economic policy towards Southeast Asia

Vaughn and Morrison (2006) suggest that China's grand strategy and foreign policy, which aims to modernize the Chinese economy, are the factors that help China maintain good relations with Southeast Asia. Moreover, China-ASEAN economic development seeks to strengthen the country's economic power and to stabilize its people's standards of living (Vaughn and Morrison, 2006 and Lampton, 2007). As China focuses on economic growth, the Chinese government implements its economic Win-Win policies (the policies that offer economic advantages for both China and Southeast Asia) to rely on bilateral, multilateral, and cooperative approaches. The examples of China-ASEAN economic development are ASEAN plus 3, China-ASEAN Free Trade Area, and APEC (China Institute of Contemporary Relations, 2002, Vaughn and Morrison, 2006 and Lampton, 2007). As a result, China's fast economic development had significantly changed economic and political relations between China and Southeast Asia. This relationship is likely to create more mutual aid and collaboration in trade that will enhance China's economy.

Chinese-ASEAN economic relations

China's economic relationship with ASEAN is becoming closer and more growing. According to Glosny (2006), one of China's economic concerns is to assist ASEAN attain growth in the 21st century. The Chinese government is applying a Win-Win economic policy with ASEAN. This policy aims to reduce ASEAN's fears of China as a threatening nation. Furthermore, the policy enhances China-ASEAN economic relations for China's economic growth and wealth in Southeast Asia. Additionally, the China-ASEAN economic relationship has led to the fast development of bilateral and multilateral economic and trade collaboration, which is necessary for China's economic development in the region. As a result, ASEAN has become one of the major trade partners with China (China Institute of Contemporary International Relations, 2002, Glosny, 2006, and Vaughn and Morrison, 2006).



Impact of China's economic growth on ASEAN

China's economic growth and its rise as a major power creates both threats to and opportunities for ASEAN. There are numerous threats; China is a more competitive trader than ASEAN, because of its labour incentives, low cost production, more foreign directed investments, and subsidies on Chinese agricultural products (Glosny, 2006 and Morrison, 2006). These are factors that worry ASEAN. The ASEAN nations cannot compete with China, and so are constantly losing markets to China (Morrison, 2006). In contrast, there are also economic opportunities. ASEAN can expand trade with investment from China because China has not only purchasing power for raw materials but also funds for foreign investment (Morrison, 2007). Therefore, ASEAN should be aware of this and figure out how to benefit from their economic relationship with China.

Conclusion

The rise of China as a major economic power reflects how the Chinese government has successfully reformed and is developing the country's economy. As a result, China's economy has changed from central state control into a more decentralized economy under free trade market principles. This makes China the fast-growing economy in the world (Morrison 2006 & 2007). To purchase a long-term grand strategy, China has established China-ASEAN economic development. The Chinese government expects that this development will assist China build an economic foundation, which is essential for becoming a rich and powerful nation. Hence, China has maintained friendly and stable relations with ASEAN. China's economic policy focuses on a Win-Win policy, which allows more economic collaboration among China and Southeast Asia nations (Glosny 2006, and Vaughn and Morrison, 2006). The size of China's economy indicates that China is likely to obtain more economic benefits than ASEAN. However, China's economic growth creates both opportunities and threats in Southeast Asia.



References

- China Institute of Contemporary International Relations, 2002, 'An Analysis of China-ASEAN Relations', *Contemporary International Relations*, vol. 12, no.11, viewed 16 January 2008, Proquest.
- Glosny, A.M.2006, Heading toward a Win-Win future? Recent development in China's policy toward Southeast Asia" *Asian Security*, vol.2, no.1, pp.-24-57 viewed 15 January 2008, Proquest.
- Lampton, M.D.2007, 'The Faces of China Power', *Foreign Affairs*, viewed 17 January 2008, Proquest.
- Morrison, M.W. 2006, *China's economic conditions*, Congressional Research Service, The Library of Congress, viewed 15 January 2008.
- Morrison, M.W.2007, *China's economic conditions*, Congressional Research Service, The Library of Congress, viewed 18 January 2008.
- Vaughn, B. & Morrison, M.W.2006, *China-Southeast Asia relations: trends issues, and Implications for the United States*, Congressional Research Service, The Library of Congress, viewed 18 January 2008.