

Economic upswing of the People's Republic of China-Fact, Hype and Aspirations to attain the American Dream: An analytical framework.

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Abstract

A nation's economic health is a reflection of its overall ability to provide for its people and retain a certain fiscal strength in terms of capital gains and human resource.

The past few decades have witnessed a number of upheavals on the fiscal front. World authorities are carefully following the growth of the Chinese economy despite some of its financial sectors being in dire straits. The trade war with the U.S. has taken full blown proportions and yet the People's Republic of China is holding up a strong front. There is a decisive cooling down of the domestic market but despite the growth economic statistics are unwavering.

Being the second largest market economy of the world, the People's Republic of China or PRC has nominally greater GDP and sizeably larger purchasing power. Ever since the year 2015 PRC has been observed to be the world's fastest growing economy. The growth rate has averaged 10% across 30 years. Because of the historical as well as political facts pertaining to China's developing economy, the public sector accounts for the lion's share of PRC's national economy in spite of a rapidly growing and thriving private sector.

Keywords: Economic health, fiscal strength, capital gains, world markets, financial sectors, trade war, domestic market, growth statistics.

Introduction

Since 2015 China's economy has proven to be on a rocket of process and growth. This paper analysis the macro-economic fundamentals pertaining to world economies. Looking at the current day Chinese economy it is necessary to understand it better. After decades of strong and steady growth China has made a reputation because of its economic resilience. It is also a well known fact that the PRC continues to pile up a whopping economic debt that has been unprecedented in the history of fiscal survival all over the world.

China is the fastest growing emerging market in the entire Asian region. According to various economic and market trends analysts the PRC is currently in a position to challenge the American hegemony over the world market scenario. It is pertinent to examine how China has managed to attain such heights and achieved or reigning position. It is essential to examine what are the strategic implications of its economic growth on the economies of nations the world over.

China has gradually become a singularly important player for maintaining the economic stability of the world. China has been observed and that it appeared to surreptitiously violate several laws of economics during the past few years. It has also become increasingly apparent that the PRC has not deterred to do so even now.

One example of the laws that the PRC has defied is the Stein's law. This law holds that certain processes cannot be expected to go on forever. They have to eventually stop. China's debt flouts this law and has kept on increasing from decadal high to decadal higher capacity.

The Debt Cycle

The International Monetary Fund has analysed the fact that the Chinese corporate, the government as well as household debt have all three grown significantly. The magnitude of this combined debt has been to the tune of USD \$ 23 trillion just in the last decade itself. The ratio of China's debt to its GDP has climbed to unprecedented levels. It has gone up by around 100%

points, to reach a level of more than 250%. It is a most unprecedented high. This level has triggered off severe undercurrents of an economic crisis normally in many of the major countries. It is amazing that the People's Republic of China continues to maintain a robust economic position despite such heavy debt.

There is no disputing on the fact that China does not have any problem of large fiscal deficit and massive current account deficit. However, it should not be ignored that the massive build up of the debt is largely state owned. Another significant feature is that this equalizes the massive investment China has made been consistently making in most of its neighbouring countries. It is also an undeniable fact that this debt is mostly dollar denominated which is all the more detrimental to the economy.

Even though China is currently facing the dilemma rising from its entire debt. This is also true because most of the global investors are taking into consideration this vast state owned debt of the people's Republic of China. And yet computing the entire debt incurred by China stands beyond the imagination of several top investors because they are yet to calculate the total overall magnitude and resultant ramifications of the entire debt built and finally created by Chinese dispensations in order to expand its footprints in its eagerness to compete dynamically with the USA.

Expansion of Infrastructure and Industry

It is largely because of China's huge land surface area and even huger population strength that it can be understood why some of the Chinese debt was being used to expand its local industrial base while at the same time creating a large chunk of world class infrastructure. It is also a fact nevertheless that much of its debt volume has gone in to actually bail out and sustain numerous public enterprises alongwith an endless flow of investments in several superfluous public facilities alongwith housing of various sorts.

The summing up of PRC's domestic imbalances is yet another vital pointer towards yet another law of economics that the PRC has easily managed to break. In most countries where there is a huge build up in the inherent capacity there is a resultant slow down experienced in the economy and subsequent decline in investment. And that is sure to result in some form of financial stress. Such a situation is more often than not followed by a major fiscal crisis if all the warning signals are blatantly ignored. China, however, has had a very different kind of economic experience. The PRC's GDP slowed down but its investment stature continues to remain robust. It is indeed remarkable that there seems to be no strain on the economy.

An Analytically Plausible Explanation of the Phenomenon

Most simple explanations proffered by the Chinese government entail the following:

- (i) China has a large pool of foreign reserves.
- (ii) These reserves tally up to about USD 3 trillion.
- (iii) These reserves can be broken down and spent as and when required.
- (iv) The PRC can use these reserves for tackling any adverse situation.
- (v) China is strongly placed to bail itself out.
- (vi) The PRC is strong enough to help its financial firms in this time of crisis.
- (vii) China stands fiscally firm to address every challenge posed by any economic down turn.

Another very common explanation for the Chinese economies resiliency is the highly centralized decision making processes which actually provide the required and sufficient flexibility to:

- (i) Take any sudden decision
- (ii) Clamp down on foreign exchange outflow
- (iii) Maintain strong adherence towards the continued sustenance of strong capital control.

Thus, there is the common perception among the Chinese that they are uniquely positioned to deal with any kind of economic disruption. The infrastructure input among China's decision makers was the most ambitious plan known by the name of the Belt and road initiative (BRI). It is because of the large resources sunk into it that China is now slowly facing the heat from all directions.

This is further aggravated by the fact that these are countries which are yet in the nascent stage of development are considering Chinese investment not only as a helping hand but as an era of bringing about new colonialism. It was the massive built up of its debt that actually forced these countries to rethink upon this ambitious plan of China.

Plausibly these arguments can be rooted in fact. However, it is just the right time to cast a renewed focus on them. It is actually China's exceptionalism in the field of economics that is now being challenged. There is a need to refocus on the vital issues like:

- (i) Absolute volume and speed of domestic debt build up
- (ii) Changing geopolitical situation
- (iii) Trade war against the United States
- (iv) Push back against the now notorious BRI initiative

Huge investment by China in the African region as well as its neighbouring countries poses a very grave danger to China. This is because the entire investment is absolutely dollar denominated. The buildup of the dollar denominated debt in a globally tightening environment can be choking as interest rate are raised and subsequent strengthening of dollar tends to push China into a fiscally very tight situation.

After 2008 China made drastic and rationally incredible changes in its economic model. The PRC shifted from an export led to an internal mechanism that promoted the growth of domestic sources. However, being a part of the vicious circle this economic transition of China needed much more sinking into debt and consequently the investment then ended up creating an even greater risk of a collapse.

The Sino-US Trade War

The recent trade war going on between China and the United States has been debated upon documented and even plastered in tabloids across continents. The US no doubt has the upper hand probably because China has so much at stake. It was obvious that the PRC had a lot to lose.

The recent announcement of the US administration was to impose tariff worth \$250 billion to squeeze its trade deficit with China that had stealthily climbed up to the historic high at \$540 billion. Up till now China's response has largely been quite accommodative. The trade war between these two most powerful of countries will certainly have a severe impact on global economy. The world is already seeing the signs. The fact that trouble is brewing on PRC's economic front is quite evident. This has also had a severely negative impact across the decade on the trade and currency of Turkey's and Argentina's currency. This crisis was further aggravated with the trade war. This crisis shall for long continue to have far reaching consequences for the world's emerging markets.

All over these emerging markets there is the looming risk of contagion. The currencies of several developing nations are falling day by day and falling drastically all across the globe. In this environment of monetary tightening the dollar continues to appreciate. There is a major headwind that portends ill for countries that have been excessively relying on foreign capital because then their entire foreign debt becomes dollar denominated.

The appreciation of the dollar value has made things very difficult for all emerging markets. This is largely because the borrowing costs have gone up significantly. China has also been facing the same problem in this very same context of external investment.

Another area where China seems to have over-estimated its gains is the Belt and Road Initiative (BRI). China has been both politically and economically under serious attack from most countries. South East Asian countries from Sri Lanka to Myanmar and Malaysia are all recipients of Chinese loans and they are increasingly raising their concerns pertaining to the BRI because of the strong undercurrents of neo-imperialism. These countries were favouring the Chinese loans because of their tremendously cheap terms and conditions for the loans. However, currently they are a worried lot.

The fall out was most obvious. Seeing the rising concern on the issue Malaysia as the lead country has cancelled USD 22 billion worth projects that had been backed by China. On the other hand Sri Lanka had to bail itself out by turning to the International Monetary Fund (IMF)

because of China's excessive imports because they were putting a lot of pressure on Sri Lanka's external account.

Conclusion

The global monetary situation continues to tighten rapidly as is obviously evident from the pace at which the US Fed has been raising interest rates. This is further off set by the continued weakening of the emerging market currencies. Meanwhile capital flight from emerging markets put pressure on countries running the Current Account Deficit (CAD).

This pressure is also growing on the domestic economy of China because of the huge capital outflow from the markets that is happening due to the deteriorating macroeconomic fundamentals and the unprecedented sharp appreciation of the US dollar.

The current situation of China raises several questions about the well-being of the world economy. How does tend to China intend to cope up with this situation of rising domestic and external debt in an environment of it is global tightening. The continued extension of this situation could lead to very severe circumstances if not dealt with appropriate measures. The world has seen several fiscal upheavals in the world even one economic recession in the future depicts a very grim picture of China's economic dominance.

There are several lessons to be learnt here. The determined economic growth of China is enviable no doubt but the burgeoning debt situation is a major handicap. A strong investment balance by China is the spine that gets its economy on its feet no matter what the level of debt. This is why the Chinese fiscal thinking is unfazed.

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