Can China’s Growth Lead the World Out of the Global Economic Crisis?

Paul Bowles

The current economic malaise in the Eurozone, the fragility of the recovery in the United States, and the two-decade long slump in Japan has concentrated the global economic crisis in the advanced countries. Many now pin their hopes of a global economic recovery on so-called emerging economies, especially China and India, as the new juggernauts capable of kick-starting the global economy. A ‘ multispeed’ world, as Spence (2011) calls it, now characterizes the global economy with the engine located firmly in large developing countries. This change has led to increased interest in what Kaplinsky (2005) has termed the ‘Asian drivers’.

As evidence of the role played by one of these Asian Drivers, the OECD documents how China’s rise to the world’s second-largest economy has dramatically increased its contributions to global growth over the past 30 years. It states (OECD 2011a: 6) that

China’s contribution to global growth has been increasing exponentially, from 5% in 1980 to 12% in 2000 and 30% in 2010. Almost 1.5 percentage points of the projected growth of 4–4.5 per cent of the world economy in 2011–12 is accounted for by China. China’s economic cycle is increasingly influenced by and induces fluctuations in the rest of the world, and in OECD economies in particular.

China’s future growth path therefore holds great interest for the rest of the world, the OECD countries in particular, and will be an important factor in determining whether and how fast the global economic crisis is exited.

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Certainly, many countries’ leaders, in both the North and South, are betting on China and other large developing countries growing fast enough to pull them out of recession; this provides one reason for the increased interest in neoliberal trade policy in the post-global financial crisis period despite its evident previous failings (see the Introduction to this volume for more on the deepening of neoliberalism). An examination of the dynamics of China’s growth is therefore important.

In part, the potential for China to lead the world out of the global economic crisis depends on the rate of China’s growth. After decades of around double-digit annual growth, this has now begun to be questioned. Official pronouncements have lowered China’s targeted growth rate to 7.5 per cent for 2012 while the annual average target for 2011–15, the period of the 12th Five Year Plan, is 7 per cent (see China Daily 2012). The IMF has recently lowered its growth forecasts for China to 8.0 per cent for 2012 and 8.5 per cent for 2013 (see IMF 2012). While lower than previous planned and actual growth rates, this is still a robust growth rate which would contribute significantly to global growth. However, while official Chinese pronouncements and forecasts by international agencies continue to point to high growth for China, concerns are rising. The IMF (2012) notes that ‘in the medium term, there are tail risks of a hard landing in China, where investment spending could slow more sharply given overcapacity in a number of sectors’. For some the prospects of a hard landing are very high. For example, Michael Pettis (2012), an economist based at Peking University, has forecast that because of the fragile state of China’s banking system, China’s average annual growth rate over the next decade will barely exceed 3 per cent.

While this has focused on the level of China’s growth, another set of issues concern the type of growth that China is pursuing. In particular, much attention has been paid to whether China’s growth can be ‘rebalanced’ (see, for example, Lardy 2007). The term ‘rebalancing’ has usually been interpreted as meaning whether growth in China can rely less on exports and more on domestic demand as a driver of growth. This rebalancing is seen as both a way for China to sustain its growth over the longer term and to do so in a way which provides more benefits to its trading partners by increasing China’s imports but without relying on the continued rapid growth of Chinese exports; indeed, as I will explain further below, it is China’s pursuit of export-led growth, leading to global imbalances, that some have identified as the cause of the global financial crisis. According to this argument, to remove this cause and to permit a resumption of global economic growth requires a change in structure of the Chinese economy.

Structural and spatial changes are already occurring in the Chinese economy. In Chapter 6 of this volume Zhang offers an analysis of the ‘spatial fix’ underway in which Chinese manufacturing capacity is moving inland to take advantage of lower labour costs and local government incentive packages. However, as he points out, this reinforces China’s export