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China to consolidate its claim for global leadership post COVID-19 crisis

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"The white cat or black cat, it doesn't matter as long as it catches the mice" – Deng Xioping

The then premier of China Deng Xioping, the chief architect of the economic reforms was very clear in his mind and vision when he came out with the above quote on what he wanted.

Countries need not bother about any 'ism' as long as it brings in economic prosperity and increases the standards of livings of its people.

True to his vision and words, the economic reforms which the dragon economy introduced in 1979 are believed to have pulled around 800 million people out of poverty.

According to world bank estimates, Chinese GDP consistently registered an average growth rate of 9.5 percent per annum from the year 1979–2018, which is miraculous as no other large economy in the world has consistently recorded and sustained such high growth. Large capital investments driven by substantial domestic savings and high productivity levels of its masses paved the way for its sustained growth.

In fact, when reforms were introduced, savings to GDP ratio in China was 32 percent. As most of these savings were from the profits of state-owned enterprises, there was no difficulty for the government in reinvesting them for productive use.

As new investments produced desired results, they boosted the household savings enormously and the introduction of economic decentralisation as part of reforms tremendously increased private corporate savings too.

This rapid growth in savings eventually made China the net lender to the world.

This metamorphosis from a closed-door socialist economy to economic superpower has eventually increased its clout in international affairs.

Its relations with world superpowers like the USA strengthened thereby, boosting the trade. As a result, China emerged as a third-largest export market for the USA.

In turn with substantial forex reserves in its kitty, China emerged as the largest investor in US treasuries and indirectly finances the budget deficit of the latter. It is estimated that China invested over \$1 trillion in US treasuries by 2019.

With huge growth rates, China over a period of time emerged as a favourite destination for FDI flows. Such flows have been a major source of rapid economic expansion.

Reportedly there were 4,45,244 registered foreign-invested enterprises in China by employing 55.2 million workers, or 16 percent of urban workforce, by the year 2010.

Moreover, these enterprises were responsible for 41.7 percent of exports and 43.7 percent of imports by the year 2018.

In 2018 itself, China attracted around \$139 billion which is the second-largest FDI investment after the United States.

With a massive growth rate, it amassed a foreign exchange reserve of \$3 trillion and slowly started changing its strategy from being an attractive destination for FDI to 'go global' in the year 2000 with the intention of producing global brands and MNCs from China.

This is also regarded as a preferred route for acquiring, IPRs, innovative technology and managerial skills.

It encouraged state-owned enterprises to spread its wings beyond China by making overseas investments.

This was done not only to diversify their huge dollar reserves but also to make more profits rather than investing them in low yielding assets like US treasuries.

For this purpose, it promoted China Investment Corporation in September 2007 with a corpus of \$200 billion which is regarded as the world's largest sovereign wealth fund. Post-2005, FDI outflows (overseas investment by China) accelerated and by the year 2015 its FDI outflows exceeded FDI inflows and peaked with an investment outflow of \$196 billion in the year 2016.

Now it emerged as the second-largest source of FDI outflows to the world after Japan. Remarkable progress from being a capital-starved economy in the 1980s to be the largest source of FDI investor to the world.

It is also important to note that China hugely bought US treasury bonds specifically issued to buy troubled assets to stem the global financial crisis of 2008. It also invested in sovereign debts of European countries to stabilise their economies in 2012.

Weeks back when President Trump refused to fund WHO over differences in tackling the COVID-19 crisis China jumped in and seized the opportunity by announcing a donation of \$30 million dollars.

How is India placed

India and China were almost at the same place on their economic journey until the dragon economy embraced economic reforms with the pragmatic approach in 1979.

While China was dreaming big by introducing reforms in the 1980s India was struggling with its 'Hindu rate of growth'.

Moreover, in the 1980s it was trying to tame MNC's by curtailing their ownership rights and with other severe economic restrictions.

This showed the exit door for some MNCs like Coco-Cola and IBM sending wrong signals to the rest of the world. However, the economic crisis of 1991 paved the way for big bang reforms which not only pulled out the economy from the crisis but also paved the way for a high growth rate.

India rightly capitalised on the IT boom and emerged as one of the key players in the world economy. But somehow India failed to grow at a rapid pace and attract enough FDI flows on par with China.

While China emerged as the world's largest manufacturer with around 29 percent of its GDP by the year 2016 India completely neglected the manufacturing sector which is essential to provide mass employment opportunities to its vast semi-skilled or unskilled/uneducated population.

Despite the grand announcement of 'Make in India' it failed to take off. In the year 2018 Indian Manufacturing attracted an FDI of \$28 billion up from \$4 billion of 2014.

Critics still highlight the need for land and labor reforms which seems to be discouraging the overseas investors.

Moreover, policy uncertainty of recent times with self goals like demonetisation and GST, deep bureaucratic hurdles at grass route levels, retrospective tax clauses also appears to be discouraging MNCs from looking at India.

At this juncture It is noteworthy to look at Vietnam, Philippines and Indonesia which appears to be emerging as winners out of the US-China Trade war as some of the production are shifting to those countries from China but not to India.

So, if someone is of the view that the COVID-19 crisis will automatically redirect Chinese manufacturers or businesses into India that will not happen unless India makes efforts to improve its business climate, infrastructure and regulatory framework as they will get better terms elsewhere in the world.

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