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A CHINESE RENAISSANCE IN AN UNREMITTINGLY INTEGRATING GLOBAL ECONOMY

DILIP K. DAS*

*China's rapid economic growth has had
a great impact on the global economy,
but this is not a "zero-sum" game
some worry about.
Joseph E. Stiglitz (2006)*

China and the global economy: A fundamental repositioning

The role of China in the global economy has radically expanded since 1978. Its emergence as a powerhouse economy is unprecedented in its ramifications for the global economy. During the early reform phase, China's resolve to globalize appeared feeble. However, with the passage of time the political leadership recognized the invaluable contribution that globalization could make to their economy. Realization of China's potential impact on the global economy also dawned on them. This self-reinforcing two-way process is likely to continue in the foreseeable future. In the initial years of the 21st century, the global economy was on the cusp of a defining historic transformation. It was evident that gradual, albeit tangible, tectonic changes were underway in the global economy. By the end of 2007, after the post-sub-prime mortgage crisis in the US economy, it seemed increasingly obvious that global economic prowess was in the process of making a secular shift from the industrial economies to China and the major emerging-market economies (EMEs).

China's economic presence in several geographical sub-regions steadily increased. Africa, the Caribbean, Latin America, Middle East and South and Central Asia used to be the regions with which China did not have close economic and political relations. However, in the recent past, China has cultivated countries in these sub-regions, essentially for ensuring reliable supplies of industrial raw materials and energy as well as developing trade. Business leaders in China tended to target those regions that were resource-rich but neglected by other major

economies for political or other reasons. China's heavy investment in the oil industry of Angola, Nigeria, Sudan and the mining sector in Congo, Zambia and Zimbabwe are some cases in point. China has been assiduously developing these and other African economies as trade partners. Consequently, China's trade with Africa has grown at a rapid pace.

China's re-emergence and economic status is often compared to the growth performance of "miracle" Asian economies that came into their own during the post-War era and carved a niche for themselves in the global economy.¹ While there are many commonalities, this comparison is not entirely correct because, unlike them, China's economic ascent – as it is progressing – is going to be to the status of an economic superpower. It has more in common with the ascent of the US economy a trifle over a century ago and the United Kingdom, where the industrial revolution started during 1760 to 1830. Hence, an appropriate comparison should instead be made to the US economy instead of China's modern Asian predecessors.

The fact that China's present growth performance is comparable to that of the US and the UK is confirmed by the historical growth statistics for these two economies and post-1978 China. In Table 1 below, mainly drawing on Maddison (2003), the growth differential of China has been compared to the UK and the US during the 18th and the 19th centuries. This reveals that neither economy administered such a large shock to the global economy as has China (Winters and Yusuf 2007). Based on the World Development Indicators (WDI), column 1 shows that China started with 2.9 percent of the world's income; for 26 years its average annual growth rate was 6.6 percent higher than that of the global economy. Data compiled by Maddison (2003) in column 2 shows that China had an initial world income share of 4.9 percent and for 25 years its growth differential was 4.4 percent. In comparison to this, historical growth rates of the UK and the US were much lower in terms of the growth differential. Only the US economy came close to China's performance during the period of 1820 to 1870, when its growth differential was 3.3 percent for five decades.

Three decades of macroeconomic reforms, sustained growth and global integration have turned China

* Kitchener, Canada.

¹ See Das (2005) for a detailed exposition on this issue.

Table 1

**Comparative industrialization
(GDP at PPP)**

Factor for comparison	China		UK		US	
	WDI 1978–2004	Maddison 1978–2003	Maddison 1700–1820	Maddison 1820–1870	Maddison 1820–1870	Maddison 1870–1913
	1	2	3	4	5	6
Industrializer's initial share (%)	2.9	4.9	2.9	5.2	1.8	8.8
Industrializer's annual growth (%)	13.3	7.5	1.0	2.1	4.2	3.9
Global annual growth rate (%)	6.8	3.1	0.5	0.9	0.9	2.1
Growth differential	6.6	4.4	0.5	1.2	3.3	1.8
Number of years	26	25	120	50	50	43

Source: Computed by Winters and Yusuf (2007) from Maddison (2003) and World Development Indicators, various volumes.

into a future economic power of global magnitude, with unmatched breadth of resources and a robust manufacturing sector. The political leadership of China is committed to world-class economic achievements and to becoming an economic power to be reckoned with. Barring a major domestic or global economic crisis, the economy has an enormous potential to becoming one in the foreseeable future. Numerous macroeconomic projections have been made regarding the point in time when the size of China's GDP will achieve parity with that of the US, or surpass it. Goldman Sachs (2003 and 2004) projected that China could be the largest economy in the world in 2041, if appropriate macroeconomic policies are followed. However, some analysts disagree and argue that China can get there sooner (Shenkar 2006).

Even before reaching that status, China's surging economy is affecting the lives of people around the globe. Such rapid growth in an open economy cannot possibly take place in isolation. Not only China's exports have gained significant market shares in global markets but also its rapidly increasing imports have supported strong growth performance in many countries. It has been having a notable impact on national economies, global businesses as well as employment and consumption patterns. China has been affecting inflation rates, interest rates, wages, corporate profits, real estate prices in many countries and commodity and petroleum prices in the world markets. In pervasive ways, China has been driving economic trends that many countries assume

to be domestically determined (The Economist 2005). As China continues to grow, and even if this growth occurs at a more moderate pace, its global economic impact will continue to ratchet up. Economies and firms in a large part of the world will need to devise their strategies to cope with the impact of China's rapid growth.

Can this be termed "dislocation", caused by China's rapid growth? The answer will have to be in the negative because it is not a cyclical or transitory change that China's growth is causing, after which circumstances will be back to normal. Our perspective needs to change. It is a fundamental structural change. Both China's increasing economic weight and escalating integration into the global economy have been rebalancing the global economy. To be sure, some national economies will face significant adjustment problems. China's rapid on-going growth calls for a fundamental repositioning in both macro- and micro-economic terms. That is, essential adjustments that are required will need imaginative strategies from both public policy makers and managers of business firms. Even households are and will continue to be influenced by China's brisk growth, which has been changing relative prices and incomes. The new global economic and business milieu that is being engendered by China's rapid growth will call for new ground rules for competing successfully. The positive supply-side shock that it has given to the global economy has far-reaching implications. Both global employment and consumption patterns have been changing accordingly and will continue to

change. Economies, firms and households will need to prepare for these basic transformations in the global economic structure.

An unprejudiced assessment

China's rapid growth of the preceding three decades has made it an economic force to reckon with, not only regionally but also globally. A tangible outcome of this brisk growth is an increase in the country's global shares of production, investment and trade. A lesson of economic history of the last two-and-a-half centuries is that whenever an economy starts growing rapidly, it inevitably causes some disruptions, displacement and imbalances in the prevailing *status quo* in the global economy. This happens more during the initial phases of rapid growth of an economy than in the latter. When the initial phases end, the economy has attained a more significant global position. In Britain the industrial revolution began in 1760 and was followed by several episodes of such economic expansion. In each case the rapidly growing economy succeeded in locating a new niche in the old global economic order. The rise of a united Germany in the early 19th century and the US in the late 19th and early 20th centuries are two cases in point.

The rapid growth and global integration episodes of Japan, the newly-industrialized Asian economies (NIEs) and subsequently the ASEAN-4 during the post-1955 period are some of the recent illustrations of successfully growing economies making a new niche for themselves in the global economy. What China is doing now is identical to what several other Asian high-performing economies (AHP)² did in the preceding half century. During their comparable rapid-growth periods Japan, the NIEs, and the ASEAN-4 economies also had a similar impact on the global economy. They initially caused some disruptions and even consternation. In case of the ASEAN-4 this disruption was minor, but eventually their emergence benefited the global economy. It led to all the boats rising due to their tidal influence.

The Chinese economy is presently in the throes of its initial phase of growth, expansion and global inte-

gration. Its pace has been remarkable, comparable to those of the other AHP economies. While it has faced resentment and antipathy from some quarters, a lesson of history is that antagonism is hardly warranted. A realistic and dispassionate estimate of the impact of China's economic emergence and global integration is that, while some short- or medium-term problems are expected, the impact on the global economy is likely to be positive on balance after the initial phase of disruptions is over. However, the outcome of this problem phase will be far from uniform and its impact will necessarily vary across countries, industrial sectors and socio-economic groups. An economy's trade structure and its trade and investment relations with China will determine the nature and magnitude of this so-called China-effect on it. In this article we shall explore which countries and sectors will reap the largest opportunities and which may have to bear the heaviest adjustment burdens.

As China grew to be the fourth largest economy in the world (in 2005) in a short time span of three decades, should the other countries be apprehensive of a rapidly growing Chinese economy completely dominating the global economy and thereby inflicting harm on their economies? Let us take one prominent eye-catching variable, trade. In 1977, China was a marginal trading economy and its share in world merchandise exports was 0.6 percent (Lardy 1998). In 2005, China accounted for 7.3 percent of total multilateral exports and 6.3 percent of total imports (WTO 2006). China had become the third largest global trader. Some startled non-economists often construe that China will manufacture and export everything soon and the other economies of the world will have nothing left to trade. This is an inappropriate, simplistic, extrapolation of the past developments to reach an illogical conclusion. In accordance with the classical principle of comparative advantage, China's rapid growth will change the global division of labor, and it will produce goods in which it has a comparative advantage, which will be determined by its factor and organizational endowments and will import those in which it does not have a comparative advantage. As China's status as an exporter has grown, so has its status as an importer. Economies, large and small, trade on the basis of their comparative advantage, which in turn is a dynamic concept. Therefore, this apprehension is basically futile. However, what concerned public policy makers or business decision makers need to know is where

² The ten Asian high-performing (AHP) economies that turned Asia into the rapidest growing region of the recent past comprised China, Hong Kong SAR, Indonesia, Japan, Republic of Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. This dynamic group of Asian economies was led by Japan. China is the latest entrant to this group of dynamic economies.

China is going to fit in this changing global division of labor.

Modest role in the global economic fora

The influential G-7 was established in 1985 to facilitate global economic and financial cooperation among the largest seven industrial nations. The annual summit meetings of the member nations, Canada, France, Germany, Great Britain, Italy, Japan, and the United States, had begun earlier in 1975. The G-7 has been the dominant forum for deliberations and discussions on economic, financial and commercial matters of its members and works to assist the economies of other nations. In 1998, Russia was officially included to form the G-8.

The United States, Japan and Germany are the three largest global economies, in terms of GDP. Although in 2005 China was the fourth largest economy, it was on course to overtake Germany in 2007. If adjustment is made for China's relatively low cost of living and if nominal GDP is measured in purchasing power adjusted currencies, China became the second largest economy in the world in 2004, after the United States. As such it has provided significant impulses to global growth. Its impact on the global economy has been pronounced and growing. According to the 2004 statistical data, China is also the third largest trading economy in the world after Germany and the United States. Surging economic growth is moving the Chinese economy towards the center of the global stage, adversely affecting the hitherto overbearing authority of the Quad (Canada, the EU, Japan and the United States). In an increasingly multi-polar world business and political leaders will need to have an authentically global collaborative mindset.

As the realization of China's global economic significance grew, it was invited to the G-7 deputies' meeting in 2003 and to the G-7 meeting in 2004. However, China – the fourth largest economy and the third largest trader – is still not a formal member of the G-7 or G-8. A G-7 without China cannot rationally be regarded as the true representative of the global economy. It does not reflect the present division of economic and financial powers. To rectify this, the proposal was made (Wolf 2007) to replace the G-7 by the G-4 consisting of China, the Euro Zone, Japan and the United States, so that a global dialogue

among the leading economic players can better take place.

Realization of the fact that the G-7 was losing its relevance gave rise to the concept of the Group-of-Twenty (G-20) during the G-7 summit of June 1999. The leaders of the G-7 industrial economies declared their intention to work together to establish an informal mechanism for dialogue among important countries within the framework of the Bretton Woods institutional system. The intention of the G-7 leaders was to broaden the dialogue on the crucial economic and financial issues related to the global economy. The objective was to promote cooperation to achieve stable and sustainable global economic growth that benefits all. The G-20 was formally created at the September 1999 meeting of the G-7 Ministers. It was launched with fanfare in December 1999 in Berlin. Over the years the G-20 emerged as a valuable piece of global architecture, although some of its members are more active than others (Sobel and Stedman 2006).

A different Group-of-Twenty (G-20) was born before the Cancún Ministerial Conference of the WTO in 2003. This G-20 coalition included some developing country members of the Cairns Group (Argentina, Brazil and Thailand) which were interested in improving market access for their agricultural exports. It also included other developing countries (India, Mexico, Bolivia and Ecuador) which were concerned with defending their domestic markets from import surges. The leadership of the G-20 was collegial; it was jointly led by Brazil, China, India and South Africa. China is the larger trader among the G-20. It not only played a meaningful role in the Cancún Ministerial Conference but also at the 2004 WTO meeting in Geneva, which put together the July Framework Agreement reviving the moribund Doha Round.³ For the members of the G-20, one lesson learned at Cancún was that, to avoid later frustrations, they needed to approach future ministerial conferences, multilateral trade negotiations (MTNs) and other important WTO meetings with well beefed-up teams of trade economists and better preparations in terms of research for negotiations (Das 2007). As a G-20 member, China could influence the formulation of multilateral trade rules more than it has done so far. However, Brazil and India

³ At the time of writing, the G-20 has the following 21 members: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela. The role of collegial leaders of G-20 was played by Brazil, China, India and South Africa.

consistently remained more active than China during the Doha Round of MTNs.

Established in 1989 by Australia and Japan, the Asia-Pacific Economic Cooperation (APEC) has emerged as one of the most important regional groupings. This 21-member group spans four continents, home to almost 2.7 billion people. The member countries represent 57 percent of global GDP and 46 percent of multilateral trade (APEC 2007). In 2005, its members committed to achieving the Bogor Goals of free trade and investment in the Asia-Pacific region by 2010 for the developed members and 2020 for the developing country members. A member since 1991, China has been an active participant in this trade enhancing group and is a signatory of the Bogor agreement.

Although its economy is growing and importance and participation in the global policy arena has been increasing, China has so far played a modest role relative to its economic weight and heightened status. To be sure, China has abandoned its previous aversion to multilateral organizations. During the Deng Xiaoping (1978 to 1994) period, they were believed to constrain China and it was therefore considered best either to keep a distance from them or be a passive member (Medeiros and Fravel 2003). As China is a member of virtually all the important supranational institutions now, the general expectation of the global community is that it should play a role that is compatible with its global economic status. So far China has lagged behind and has projected an image of a reluctant leader. In addition, the principal global economic powers expect China to assume its global responsibilities, get engaged and play an active role in ensuring continued health of the global economic system (USTR 2006). However, these large economic powers are negligent of not inviting China as a full-fledged member to the G-7 table, although China has participated in the G-7 finance minister and central banker's meetings.

In the late 1980s, China began its drive to expand its bilateral relationships. It normalized and established diplomatic ties with 18 countries, including the Russian Federation. In the post-Deng Xiaoping era China's worldview began to change. The next step forward was to develop various levels of "partnerships" to facilitate economic and security coordination. A crowning achievement of this new approach was the signing of the Treaty of Good-Neighborhood and Friendly Cooperation with Russia in

2001. In bilateral relations, in multilateral organizations and in security issues, China began to adopt an unforeseen flexibility and finesse. This change in comportment and approach reflects an attempt by China's recent leaders to break out of their post-Tiananmen isolation, rebuild their image, and protect and promote Chinese economic interests (Medeiros and Fravel 2003).

China as a source of global growth

The latter half of the 20th century belonged to the US economy playing the role of the principal locomotive of the global economy. It was a domineering, trend-setting economy, having deterministic influence over the majority of economic trends. As China has evolved into a large-size economy, growing at a rapid pace and steadily globalizing, it has begun influencing the global economic growth trajectory. As an important link in the production chain, a large exporter of numerous manufactured products, an important destination (and lately source) of FDI, importer of sizeable quantities of consumer goods, energy, raw materials, commodities like aluminum, steel, copper, coal and technology, China will significantly affect both, the supply and demand sides of the equation in the global economy. International commodity prices can no longer be regarded as exogenous for China. It has been influencing them in a discernible manner. In the future, they will become increasingly responsive to China's growth prospects. This will not only be limited to raw materials and commodities but also to high-priced, high-technology products. In 2007, China was the second largest market for commercial airliners after the United States. Thus viewed, while its positive supply-side shock to the global economy has been conspicuous, its large array of demands also carries great weight in the global economy.

Evidence of China's influence on contemporary global economic growth is easy to see. During 1986 to 2006 China added \$2 trillion to global GDP and created 120 million jobs (Aziz and Dunaway 2007). These impressive statistics amount to annually adding an economy of the size of Portugal to the global economy and annually creating jobs equal to the total number of people employed in Australia. An oft-cited proof of China's influence on the global economy was its impact during 2000 to 2001. When the so-called IT-bubble burst in the US and the global economy went into a modest recession, China's

contribution to the global recovery was significant. Without China's robust growth, this global recession could have been severe and long-lingering because at this point both the other two large economies, the EU and Japan, suffered from weakness.

Since the beginning of this decade, China has been regarded as a secondary engine of growth after the United States. Between 2000 and 2005, China's contribution to global GDP growth in terms of purchasing power parity (PPP) was more than half as big as the combined contribution of India, Brazil and Russia, the three next largest emerging-market economies (The Economist 2006). China's large and increasing demand for imports for meeting domestic demand has become an important source of growth for the global economy. In the first half of 2007 China made the largest contribution to global growth evaluated at both market and PPP exchange rates, counterbalancing the moderation of growth in the United States (IMF 2007).

Broad measures like GDP growth rates tend to conceal important trends in global production. When the US economy grows at a steady pace, it increases its per capita income by 2 percent per annum. Although it appears modest, 2 percent of \$33,000 is \$660 worth of goods and services produced per capita. Conversely, when the Chinese economy grows at, say, 9 percent per annum, it increases goods and services worth around \$320 per capita. Over the 1990 to 2005 period, the era of rapid globalization, China and the United States were able to add greatly to per capita goods and services production in the global economy. Taking their respective GDP growth rates, Dollar (2007) computed that China accounted for 28 percent increase in global GDP during the period under consideration, while the United States for 19 percent. Together they generated almost half of all global GDP growth in the period 1990 to 2005. Over the years 2006 to 2020, China is likely to account for an even greater share of the increase in global GDP. If China's annual GDP growth averages 7 percent over the 2006 to 2020 period and the rest of the economies of the world continue to perform at the same pace as they did during 1990 to 2005 period, China will account for 37 percent of global GDP growth during 2006 to 2020. In this scenario, the United States will be responsible for merely 16 percent of global GDP growth (Dollar 2007).

Although China's GDP is still one-fourth of the US level at market exchange rates, its growth rate has

constantly been much higher. Therefore, China's contribution to the global GDP growth rate may be higher than that of the US. According to the World Bank (2007), China's growth contribution may reach 16 percent at market exchange rates in 2007. When considered at PPP exchange rates, which are a better indicator, its contribution was found to be even higher.

To be sure, the US economy will continue to be an important engine of global growth. However, if the current growth trends in the global economy persist, China will be another principal source of future global growth, which is an indisputably wholesome development. As noted above, under certain assumptions China may even start playing a relatively larger role than the United States. Given the subprime mortgage crisis that started in September 2007, a recession in the United States has become highly probable.⁴ The need for a second engine of growth for the global economy has become more important. Towards the end of the 2007, China was beginning to be seen as this kind of force for stabilization of the global economy.

A second related plausible scenario is that as the Chinese economy becomes well integrated with its dynamic neighbors, it may, in partnership with the other AHP economies, well emerge as the principal growth pole of the global economy in the future. China's influence will certainly be felt during the rest of the 21st century in shaping the contours of the global economy. It will not be far-fetched to believe that the global economic environment will then depend more upon how well the Chinese economy performs than on how the US economy does.

Outward FDI and the "going global" strategy

During the mid-1980s, Chinese firms began investing in other industrial and developing countries and the EMEs, with its largest investments going to neighboring Asian economies, Australia, the United States and two Caribbean islands that are prominent financial centers. At a later stage, FDI in the Latin American and African economies followed. FDI outflows increased from a measly \$100 million a year

⁴ In a BBC interview on October 1, 2007, Alan Greenspan notes, "The most credible worst case scenario is a recession in the US, driven by further fall in US house prices as people feel less wealthy and spend less money". Even in the best case, "a substantial slowdown in the US, with repercussions across the globe" cannot be ruled out. Available on BBC News on the Internet at <http://news.bbc.co.uk/1/hi/business/7022117.stn>.

in the mid-1980s to \$12.3 billion in 2005. The outward stock of FDI at this point amounted to \$57.2 billion, which was 2.6 percent of Chinese GDP. Being a new outward investor, China accounted for merely 0.5 percent of the global outward FDI stock (UNCTAD 2007). With the adoption of a “going global” strategy and present forex reserves of \$1,400 billion,⁵ China is vying to become one of the largest FDI source countries in the foreseeable future.

Chinese firms began with small investments in neighboring Hong Kong and Macao in the mid-1980s. At this point, they not only lacked the knowledge and experience needed for investment abroad but also suffered from a shortage of foreign exchange reserves. The government exercised stringent control over foreign exchange outflows. In the late 1980s the government promoted flexible arrangements to promote outward FDI. Chinese firms invested abroad by providing production equipment, technological know-how and raw and processed materials. Until 1990 all FDI projects were small, only a handful exceeded \$5 million. A dramatic increase occurred after this point, both in terms of the number of projects and the value of investment. By 2000, Chinese firms had invested in 6,296 projects in 140 countries. In terms of the stock of FDI, Hong Kong was the largest destination country in 2005, followed by the Cayman Islands and the British Virgin Islands. Korea, the United States, Macau and Australia followed in terms of the volume of stock (UNCTAD 2007). Neighboring Asian economies, in particular Hong Kong, remained the favorite host region for the Chinese firms. Latin America stood second and until recently Africa was marginal.

Whether FDI projects were chosen with proper business acumen or not is revealed by the fact that one third of them yielded a positive rate of return, while another third managed to break even. FDI outflows are not only a mode of Chinese firms’ operating and competing in the global markets but also an integral part of China’s increasingly global economic role. Driven by objectives of market and asset expansion and resource seeking, Chinese firms have started taking far greater interest in investing abroad. In that, they were being encouraged and supported by the strategy of “going global” that was adopted in the late 1990s. It was a thoroughgoing strategy that included the provision of preferential bank loans for

the investing firms, streamlined border procedures, preferential tax policies and special trade laws. In 2004, numerous laws were promulgated to encourage outward investment. In addition, both the National Development Reform Commission (NDRC) and the Export-Import Bank of China (EIBC) jointly began promoting outward FDI (see UNCTAD 2007).

Chinese authorities were aware that their enormous foreign exchange reserves could be used in lucrative and productive outward investment. After investing heavily in low-yielding liquid assets like US Treasury securities, they were looking for avenues to higher returns on their global investments. High profile transactions like the acquisition of IBM’s personal computer business for \$1.25 billion by Lenovo in 2004 are examples of China’s ambitions for better returns as well as to improve its global stature by acquiring high-value, if ostentatious and glitzy, assets. In 2005, another large global investment was made by the China National Petroleum Corporation in Canadian-listed PetroKazakhstan; worth \$4.18 billion. In mid-2007, the government-run China Development Bank (CDB) announced taking a stake in Barclays Bank, Britain’s third largest bank (The Economist 2007). CDB’s total investment in this venture amounted to 9.8 billion, making it China’s biggest overseas investment. Under the deal, the CDB took an initial 3.1 percent stake in Barclays for 2.2 billion. Its total stake was expected to be extended further.

Summary and conclusions

Over the last three decades China’s significance has radically increased and it has traversed from the periphery of the global economy to the core. For all appearances, this progress is likely to continue in the foreseeable future. Three decades of macroeconomic reforms, sustained growth and global integration have turned China into a future economic power of global magnitude, with unmatched breadth of resources and a robust manufacturing sector. Its re-emergence and economic status is often compared to the growth performance of “miracle” Asian economies that came into their own during the post-War era finding a niche in the global economy. A more appropriate simile for China is the US economic rise over a century ago. That China’s growth performance is comparable to that of the US and the UK is confirmed by the historical

⁵ At the end of August 2007.

growth statistics for these two economies and post-1978 China. One tangible outcome of its brisk growth is the rise in the global shares of production, investment and trade.

China has grown to be the fourth largest economy in the world and the third largest trader in the short time span of three decades. It is endeavoring to make a new position for itself in the global economy as well as formulate a new role. This cannot be termed dislocation or displacement but is a fundamental structural change in the global economy brought about by China's vertiginous growth. Both China's increasing economic weight and escalating integration in the global economy have been rebalancing the global economy. China's potential catching up with the United States may be considered a tectonic geo-economic and geo-political occurrence.

Although its economy has been growing and its importance and participation in the global policy arena has been increasing, China has so far played a modest role relative to its economic weight and heightened status. To be sure, China has abandoned its previous aversion to multilateral organizations. Yet, its eagerness to assume a leadership role is conspicuous by its absence.

For some time now, China has become a source of global growth. Evidence of China's influence on contemporary global economic growth is easy to see. It is being regarded as the second engine of growth after the United States. While it will not replace the United States as the leading economic power, China, in partnership with the other AHP economies, may well emerge as the principal growth pole of the global economy in the future. The influence of this growth pole, led by China, will certainly be felt during the rest of the 21st century in shaping the contours of the global economy.

In their endeavor to go global, Chinese firms began investing in other industrial and developing countries and the EMEs, with its largest investments going to neighboring Asian economies, Australia, the United States and two Caribbean islands that are prominent financial centers. At a later stage, FDI in the Latin American and African economies followed. Chinese firms also have been making high profile acquisitions of world-class assets. Several modeling exercises were undertaken to assess the outcome of China's global integration. This article presents their conclusions.

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