ATHENÆUM
Polish Political Science Studies
Polskie Studia Politologiczne

ISSN 1505-2192 vol. 40/2013 www.athenaeum.umk.pl

THE EVALUATION OF THE CHINESE ECONOMIC POLICY IN THE LIGHT OF ITS INTERNATIONAL INVESTMENTS POSITION

*Piotr Siemiątkowski**

ABSTRACT: The present paper presents the issues related to the evaluation of the economic policy of China on the international arena. The author concludes that the results of that policy are reflected in the international investment position of the Chinese economy. The analysis of available statistical reports proves that China has become the biggest creditor in the world in recent years. That, in turn, led to the change of Chinese status in the world market. Enormous external assets – while having relatively lower liabilities – caused the Chinese economy to make a renowned impact on the structure of the modern global economy as such. Thus, China also made the decisions of other major global "players" highly dependent on Chinese decisions. At the same time, China itself became dependent on the international market.

KEYWORDS: Chinese economic policy, international investment position,

INTRODUCTION

The Peoples Republic of China (PRC) is currently one of the fastest developing economies in the world. The great leap in the world rating of the achieved national gross product as well as the predictions pertaining to further growth of

* Faculty of Political Science and International Studies, Nicolaus Copernicus University in Toruń.

"the wealth of the nation" made it impossible to turn a blind eye to the newly-found economic power.

The Middle Kingdom has been persistently realizing the strategy of economic growth for years, simultaneously maintaining many a remnant of its communistic past. This governmental hybrid – with favourable demographic circumstances to boot, allowed for the achievement of a dynamic rate of growth, which seems unsurpassable when compared to the developed countries. The said hybrid has slain the Western myth saying that the centrally governed economy is doomed to failure in any case conceivable. The credit is due to the deliberate economic policy – to a large extent oriented at opening markets on the sector basis to private equity, national and especially foreign capital.

The opening of the market caused external transfers of financial and commodity flows to be multiplied in recent years. China became the "factory of the world" – the goods produced there are to be found on almost each shelf in any shop. Apart from that and to a large extent, there was initiated a process of duplicating modern technologies, which made China shift from mere copying to producing their own technological solutions.

These, in turn, successfully replace the so-far recognizable solution in the world, including militare ones, thus putting in an awkward position many manufacturers for whom the Chinese market was the primary market.

On the other hand, due to huge financial resources resulting from the permanent growth of the national gross product, the Republic of China could afford many such external operations. It accumulated huge currency resources (including USD), it willingly invests it in foreign bonds; it also finances the public debt of many Western countries (USA included) and it became the owner of the biggest gold resources in the world.

Furthermore, China pursues the intensive policy in the real sector ensuring a sufficiently large flow of raw materials necessary for the national industry (Giziński 2013: B2). The huge purchases of rights for the exploitation of natural raw resources in African countries aroused severe opposition from the international community mainly because of the fact that authorities were negotiating with the totalitarian regimes, which is not allowed for (at least nowadays) by present Western democracies.

The majority of the afore-mentioned practices is reflected in the statistics. In the light of a key and still flouring role of money in the world economy, the economic benchmark by dint of which we compare particular countries is the international investment position. This indicator shows a relation of amounts due and liabilities between residents and non-residents at a given moment (usually at the end of the year). Thus, by definition, it indicates whether a country is a net debtor or a net creditor relative to foreign countries. So, in essence the international investment position is a difference between external financial assets and liabilities (Górniewicz, Siemiątkowski 2005: 5; NBP 2008: 5).

The goal of this paper is to demonstrate the direction and the efficiency of the Chinese economic policy in the light of its international investment position. Its effect is the fact that the Chinese economy is open and internationalized to still a greater and greater degree.

THE MACROECONOMIC SITUATION OF THE PEOPLES REPUBLIC OF CHINA

The most spectacular macroeconomic parameter somehow confirming the Chinese economic achievements is the level of national gross product. That aggregate, measured in purchasing power parity, allowed China to advance to second position (close second after the USA) in the rating of the biggest economies in the world. China occupied that position, dethroning Japan and thus making it occupy third position. Before, China surpassed such economic power as Great Britain and Germany.

As indicated by the date on figure 1, the national gross product in the purchasing power parity increased considerably each successive year. In 2004, it barely amounted to 4 trillion USD just to exceed 6 trillion USD 2 years later and to approach 10 trillion USD in 2010. Finally, in the last – demonstrated in the figure – year (2011) the national gross product in the purchasing power parity amounted to the level of 11 trillion USD.

At the same time, American national gross product increased – however, dynamically only until 2007[1]. In the successive years, it oscillated around 14 trillion USD and in 2009, it conspicuously decreased. Only 2011 brought a more reliable reflection of the national gross product of the USA, which approximated 15 trillion USD. If such trends persist – and everything seems to be corroborating the said hypothesis – the International Monetary Fund predicts that in the rating

[1] Hereby presenting the macroeconomic data in the Chinese economy, it was compared to the analogous value characterizing USA as the main competitor and at the same time the main trading partner of China on the international arena.

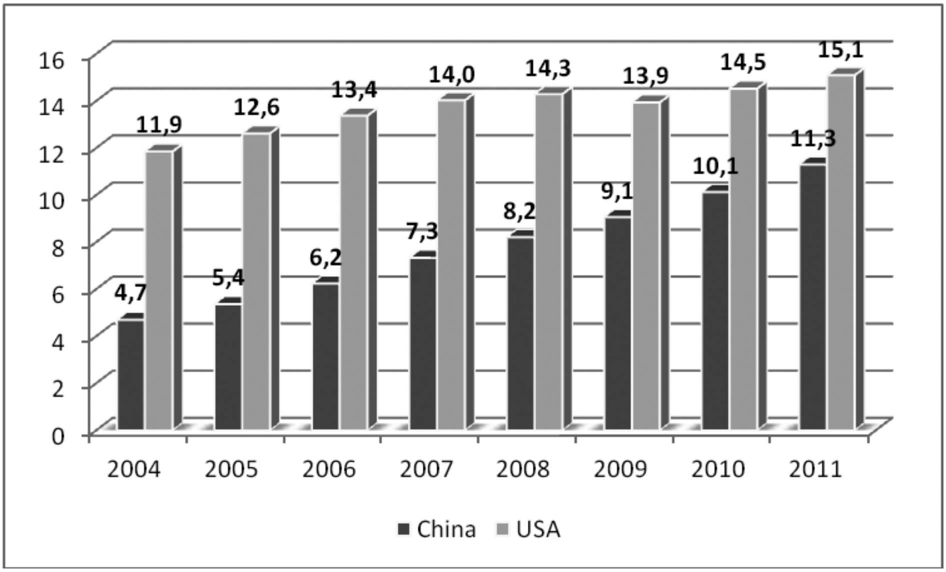

Fig 1. Gross domestic product of China and the United States in the years 2004-2011 (trillion USD)

Source: Own calculations based on: International Monetary Found, World Economic Outlook Database.

of the national gross product in the purchasing power parity, China may surpass the USA as soon as 2013 and become the greatest economic power in the world (Kowalczyk 2013: 2).

The complementation of the date from fig. 1 reflecting the considerable disproportions between the main competitors on the global market with respect to the pace of the economic development is the information related to the dynamics of the national gross product. That information testifies that China achieves on an annual basis – and in the whole area subject to research – the dynamics which is beyond reach for the remaining highly developed countries. Thanks to that, China caught up with the world elite and faces a chance to become its leader quite shortly.

In the first part of the period subject to research, that is within 2004–2007, the dynamics of the national gross product in the purchasing power parity was two-digit, at the peak in 2007, reaching its maximum, that is 14,2% (U.S.A. at that time suffered from some economic slow-down). The first strike of crisis (2008) made that dynamics decrease to 9,6% (mainly due to the problems of the key trading foreign partner, that is the USA, which was at that time burden

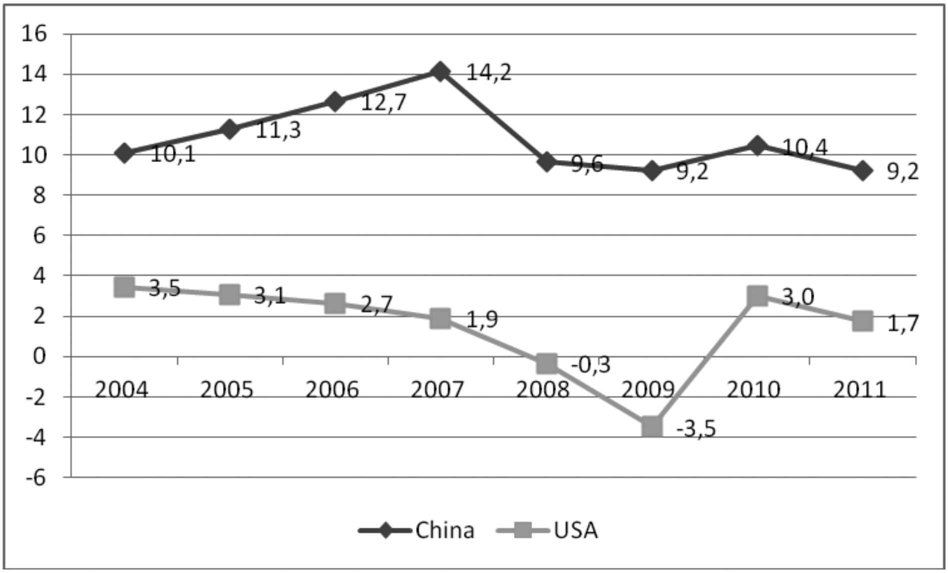

Fig 2. The rate of economic growth in China and the United States in the years 2004-2011 (%)

Source: Own calculations based on: International Monetary Found, World Economic Outlook Database.

with regular recession). Further years were promising regular growths at the level of 9–10%. At the same time, the leader of the world economy suffered from the recession; national gross product there decreased by 3,5% in 2009, and then rebounded but only to the level of 3% annually.

Tab 1. Gross domestic product per capita in China and the United States in the years 2004–2011 (USD)

	2004	2005	2006	2007	2008	2009	2010	2011	% Change 2011/2004
China	3614	4102	4746	5547	6185	6792	7550	8382	132%
USA	40401	42628	44750	46467	46900	45348	46900	48386	20%

Source: Own calculations based on: International Monetary Found, World Economic Outlook Database.

The data related to the nominal national gross product do not entirely reflect the real situation in the economy, for example not taking into consideration the capacity ofthe labour force, which –after all – partakes in the production of the national wealth as such. That's why it is an usual practice that the nominal gross product is expressed *per capita*. That indicator shows a considerable difference of the economic level of both countries. Chinese national gross product *per capita* in 2011 amounted to almost six times as little as the American one. The manifold disproportion in the labour force made all the difference. However, it is to be emphasized that China is quickly compensating for the losses in this respect too. Between 2004 and 2011 the national gross product per capita of that country increased by 132%, while at the same time the American one grew only by 20%.

It is for this reason that China is often referred to as "the factory of the world". The commodities bearing a tag "made in China" stand on shelves an over the world. All the recognizable brands capitalize on the cheap labour force. That very fact is reflected in the data related to the Chinese balance of payments. Its most vulnerable aspect is the current account. As can seen in figure 1, China has an enormous trade surplus, which means that export exceeds import. That situation persists despite the enormous import demands for raw materials and intermediate products, the demands being a result of a rapidly growing economy

In the whole period under research – 2004–2011, the current account balance in relation to the national gross product was positive (see fig. 3.). At the peak moment, that is 2007, it reached over 10%. In the successive years, there was the trend for decrease, though the indicator subject to research was positive anyway. The reasons for this phenomenon are to be found in the two following domains:

1. The decrease of demand for Chinese export due to the expansion of the global crisis,
2. The growth of *supply import* **(import meant to satisfy the current production needs)** correlated with the high dynamics of economic growth.

In the same period, the current account balance in the USA was always negative, and in a few years' amounting to almost 6% of the national gross product. Between 2009 and 2011, the deficit in the American current account decreased a little and oscillated around 3% of the national gross product. The main reason for this state of affairs was the negative trading balance with no less than China, which indicator amounted to by the end of 2012 about 315 billion USD (Department of Commerce 2013a). Apart from that, the USA also suffered from a highly negative balance in the financial accounts in the balance of its current account, resulting mainly from the fact that the major part of American treasury bonds is in the hands of foreign possessors (Department of Commerce 2013c).

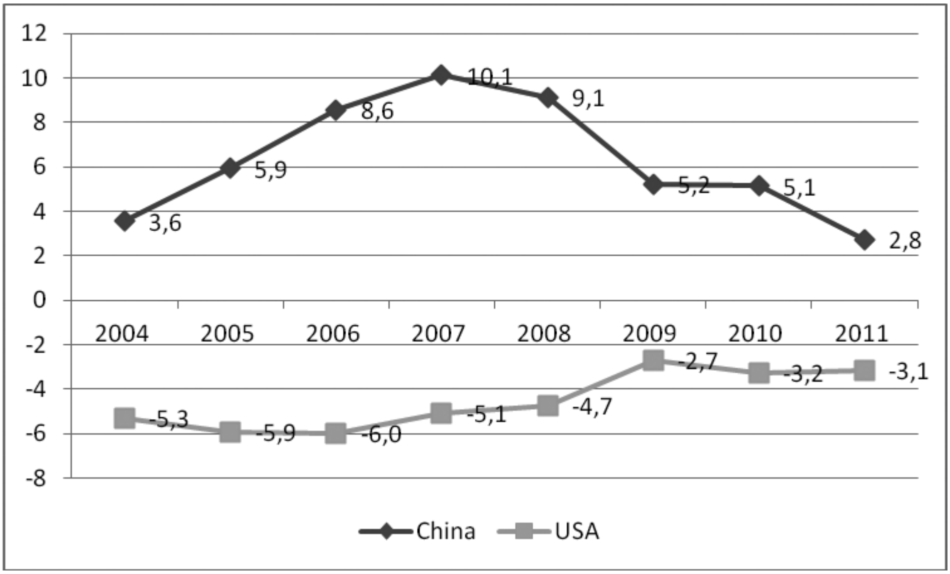

Fig 3. Current account balance in China and the United States in the years 2004–2011 (% of GDP)

Source: Own calculations based on: International Monetary Found, World Economic Outlook Database.

One of the most heated needs of many modern economies – especially after the recent economic crisis – is the public debt. The series of bankruptcies of financial institutions (which afflicted many an economy) and the desperate efforts to save them by governments led up to the situation in which the financial liabilities burden currently entire countries (for example: the USA, the United Kingdom and Greece).

The lack of budget deficits made China free of any serious liabilities related to the public debt. Its level was within acceptable limits and within the majority of the period subject to research (2004–2009), it was rather low (16–20% of the national gross product). In the last two years, which is represented in figure 4 (which can be upsetting), discernible is the growth of the level of public debt in its relation to the national gross product; in 2010 even up to 34%. Yet, in 2011, there occurred a reduction of the investigated percentage – to 26%. Therefore, it looks as though China can curb the problem of public debt successfully.

At the same time, the USA suffered from incomparably larger problems with its public debt. It can be said that at the end of the period subject to present

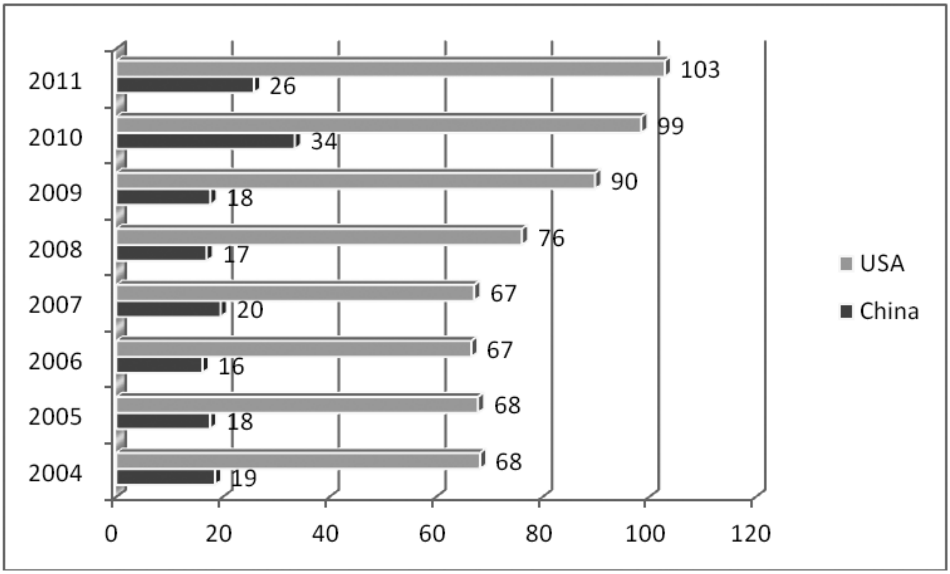

Fig 4. Public debt in China and the United States in the years 2004–2011 (% of GDP)

Source: Own calculations based on: International Monetary Found, World Economic Outlook Database.

research, the said debt was getting out of control, exceeding the amount of allegedly huge American national gross product.

Financing considerable budget deficits as well as multifarious military actions, annulling the repercussions of natural disasters and the efforts to save the financial institutions afflicted with the crisis – they together made the American public nominal debt be currently the highest in the world. What is worse, its relation to the national gross product is growing year by year.

THE CHANGES IN THE CHINESE INTERNATIONAL INVESTMENT POSITION WITHIN 2004–2011

The international investment position net of China was positive and grew dynamically in almost the entirety of the period subject to the present research. In 2004, the said indicator was at the level of about 300 billion USD and it amounted to almost five times as much until 2008. 2009 was not lenient to the Chinese economy either, though China survived the strike of the global crisis in a much better shape than the highly developed countries. Its international investment position underwent only a minor reduction (by about 3 billion USD). In the successive years, the investigated variable rose again to reach the record value of 1 trillion 775 billion USD [see fig. 5] at the end of 2011.

In the comparable period, the international investment position of the main

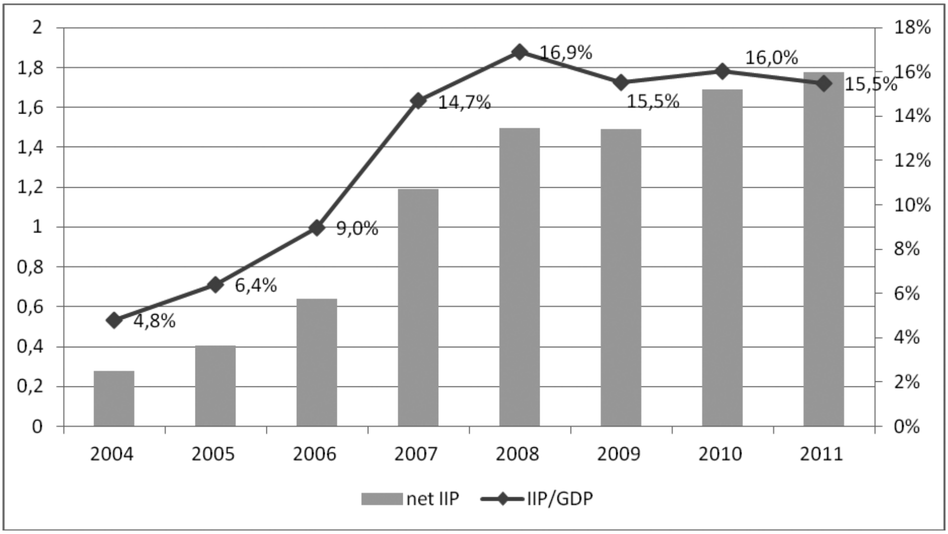

Fig 5. Net international investment position of China in the years 2004–1011 (trillion USD) and its share in GDP (%)

Source: Own calculations based on: The State Administration of Foreign Exchange, The time-series data of International Investment Position of China, Annually, http://www.safe.gov.cn, accessed on 27.03.2013; International Monetary Found, World Economic Outlook Database.

trading partner and simultaneously the competitor of the international arena – that is USA – was negative year by year, continuing to deteriorate. The indicator was at the level of – 2,25 trillion USD in 2004 to about – 4,03 trillion USD in 2011 (U.S. Department of Commerce 2013b). It amounted to –in 2001–26,7% of the American national gross product. At the same time, it is not a secret that the major part of American external liabilities (mainly bonds) are in the possession of the Chines (Barboza 2011).

Analysis the date represented in figure 6, one can notice that the share of the Chinese international investment position in its national gross product increases equally dynamically as its value. In 2004, it amounted to only 4,8% to increase up to 17% in 2008. Currently, the proportion between the international investment position and the national gross product is slightly lower and is at the level of about 15,5%.

As important as the very value of the international investment position net is its structure. It results from the relation between the external assets and liabilities of China and from the structure of both of them.

Chinese external assets grew dynamically throughout the period under investigation, though two trends are visible in this respect [see fig. 6]. Between 2005 and 2007, the yearly dynamics of growth was at the level of 32 and 43% and in the forthcoming years (probably due to the global economic wavering) it lowered to 16–20% and in 2011 it amounted to 15%.

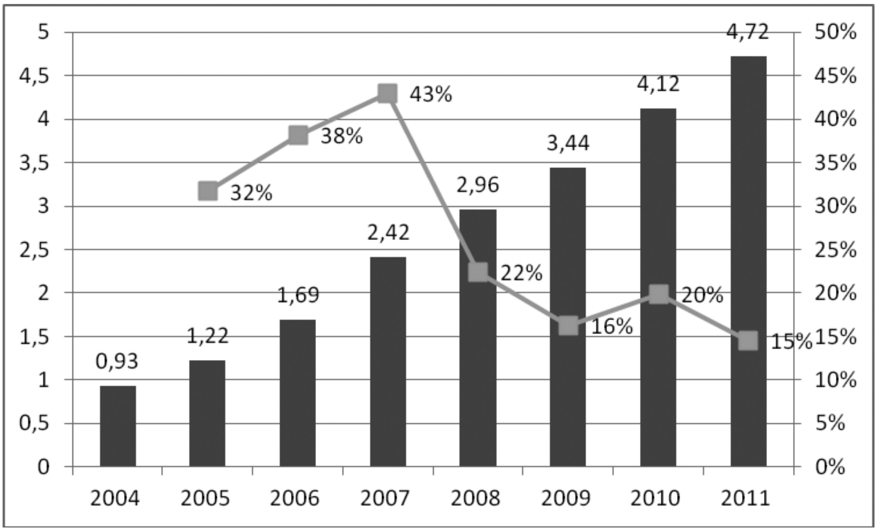

Fig 6. China's foreign assets in the years 2004–2011 (bil USD) and their changes (in%)

Source: Own calculations based on: The State Administration of Foreign Exchange, The time-series data of International Investment Position of China, Annually, http://www.safe.gov.cn, accessed on 27.03.2013.

Despite the slow-down of the annual growth of external assets, their dynamics in the recent years is bigger than in the majority of developed countries – including European Union members. It means that at the time when all the elite of the world economy constraint their enterprises on foreign markets, China is dynamically expanding into them (though not as much as in the first part of the period investigated).

The sum of Chinese external assets is also impressive. Whereas in 2004 their amount was about 930 billion USD, in 2011 it amounted to over 4,7 trillion USD. It means that China occupies third position with respect to the amount of external assets (right behind Germany and Japan). So, they have a considerable share in crediting the world economy.

The value of assets is equally important as their structure. The latter changed slightly over the analysed period. Above all, it is to be stressed that foreign direct investments (FDI) increased its share in Chinese external assets. It may be granted that the growth was not spectacular by any means when it comes to percentages, but if one takes into account nominal values the situations seems quite different.

As can be noticed in table 2, the share of direct investments in the Chinese external assets grew from 5,7% in 2004 to 7,7% in 2011. The process took place mainly at the expense of indirect foreign investments, whose share dropped from 9,9% to 5,5% over a similar period.

Tab. 2. The structure of China's foreign assets in the years 2004–2011

	2004	2005	2006	2007	2008	2009	2010	2011
FDI	5,7%	5,3%	5,4%	4,8%	6,3%	7,2%	7,7%	7,7%
FPI	9,9%	9,5%	15,7%	11,8%	8,5%	7,1%	6,2%	5,5%
Other investmet	17,8%	17,7%	15,0%	19,4%	18,7%	14,4%	15,3%	17,8%
Reserve assets	66,6%	67,5%	63,9%	64,0%	66,5%	71,4%	70,8%	69,0%

Source: Own calculations based on: The State Administration of Foreign Exchange, The time-series data of International Investment Position of China, Annually, http://www.safe.gov.cn, accessed on 27.03.2013.

Chinese direct foreign investments increased – nominally speaking – from 92 billion USD to over 364 billion USD (2004 to 2011). It means growth of about 300%. China thus became one the biggest foreign investors in the world. The growth of the share of direct foreign investments in the Chinese external assets testifies to the increased capacity of Chinese corporations on the international market. Having obtained a stable position on the internal market and having at its disposal enormous resources achieved through foreign trading, Chinese companies relentlessly realized the policy of global expansion. Systemic circumstances contribute to the regularity these are mainly corporations which are in the possession of the state; therefore, the economic interest is not the dominating factor here. Moreover, the situations recur in which through international expansion, the corporations from China realize the political interests of their owners (that is The Communist Party of China). It is sufficient to mention extensive economic contacts with the regimes in Africa (Wasilewska 2008: 240–260).

It is worth noting the structure of the assets of the remaining foreign investments. Apart from foreign-exchange reserves in the group of reserve assets and also in the remaining investments, there is cash and deposits, which amount to the major part of them (34%). The important parts of the remaining investments are commodity credits (33%) and loans (27%). The so-called remaining resources add up to about 6% of the remaning foreign investments by China (see fig. 7).

The major part of Chinese external assets are reserve assets. The are constituted mainly by currency reserves (especially USD) issued as a result of the surplus in foreign trading. They comprise almost 70% of all Chinese external assets and they are the biggest currency reserves of one particular country, at the same time amounting to over 30% of all currency reserves in the world (Stasiuk 2013).

The most fundamental conclusion resulting from the analysis of the external liabilities of China points to the fact that they are smaller than its external assets (which is self-evident when one considers the strong positive international investment position net).

However, one cannot assert that Chinese external liabilities are negligible – on the contrary – they take the proportions which are beyond the reach of other countries. Whereas in 2004, they were at the level of about 650 billion USD, in 2006 they exceeded 1 trillion USD and in 2011 they almost reached 3 trillion USD (see fig. 8).

Chinese external liabilities show a dynamics; however, the dynamics wese not as conspicuous as in the case of the assets. Apart from that, in the case of external liabilities, the two periods of intensity of growth are not as clearly delineated.

Until 2006, the dynamics grew, reaching 29% growth relative to the previous year. The successive years were characterized by a slight drop of the dynamics of the growth of Chinese external liabilities. That situation is understandable because the majority of growths in this case are dependent on the international activity of Chinese foreign trading partners. That very activity, in turn, was considerably reduced as a result of the spreading of the global financial crisis. In 2009, Chinese external liabilities underwent a record increase relative to one year

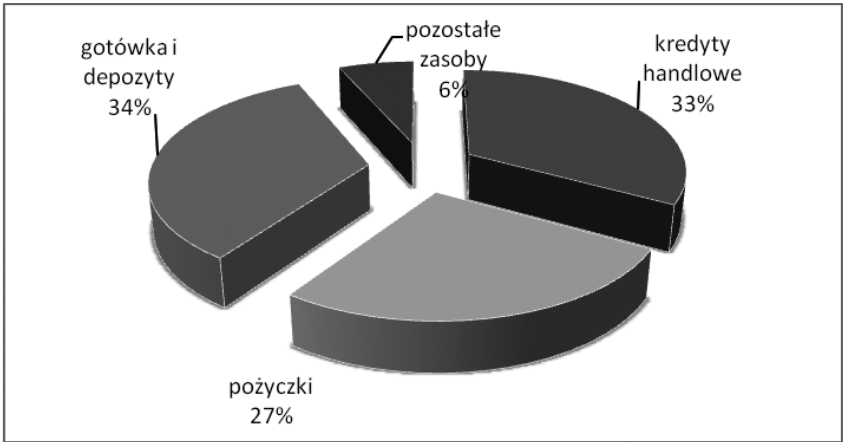

Fig 7. The structure of China's other investments in foreign assets in 2011

Source: Own calculations based on: The State Administration of Foreign Exchange, The time-series data of International Investment Position of China, Annually, http://www.safe.gov.cn, accessed on 27.03.2013.

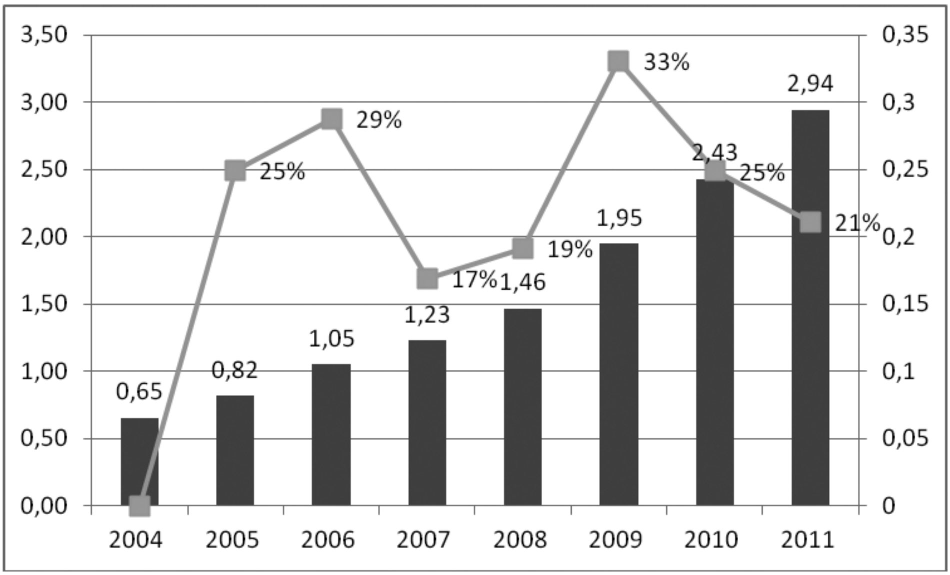

Fig. 8. Foreign liabilities of China in the period 2004–2011 (in trillion USD)

Source: Own calculations based on: The State Administration of Foreign Exchange, The time-series data of International Investment Position of China, Annually, http://www.safe.gov.cn, accessed on 27.03.2013.

earlier – that is by as much as 33%. The reason for this was allegedly a certain improvement in the global market and as a result transnational corporations started to expand their enterprises.

The natural direction of the expansion still seems to be China, which relatively safely survived the worst times of the crisis and on the other hand China is still the biggest market with prospects to boot.

In the last two years of the period investigated, the dynamics of the growth of Chinese external liabilities underwent a small reduction; though it still remained relatively high. It seems to confirm the earlier stated thesis related to the increased interest in China of foreign investors. Additionally, one should also stress the fact that in the last three years of the period investigated here, the dynamics of the growth of Chinese external liabilities was each time bigger than the dynamics of the assets, which should suggest the potential threat of the deterioration of the future international investment position net.

Tab. 3. The structure of China's foreign liabilities in the years 2004–2011

	2004	2005	2006	2007	2008	2009	2010	2011
FDI	56,5%	57,8%	58,5%	57,3%	62,6%	67,5%	64,6%	61,3%
FPI	8,7%	9,4%	11,5%	11,9%	11,5%	9,8%	9,2%	8,4%
Other investmet	34,8%	32,8%	30,0%	30,8%	25,9%	22,7%	26,2%	30,3%

Source: Own calculations based on: The State Administration of Foreign Exchange, The time-series data of International Investment Position of China, Annually, http://www.safe.gov.cn, accessed on 27.03.2013.

In the structure of Chinese external liabilities there are direct foreign investments. Their share is currently at the level of 61%. There used to be in the years (2008–2010) when their share was even bigger. Such a situation has a few fundamental reasons. First of all, China –as mentioned before – is an attractive and rapidly developing market in itself. Second of all, what we are dealing with here is a typical wrongful act which involves companies running their businesses in China registering their departments, affiliate companies in Hong-Kong and through their intermediacy "invest" in the continental part. At the same time, they take advantage of numerous privileges which still favour companies originating from Hong-Kong and starting a business on the continent (Siemiątkowski 2011: 521–522).

Foreign indirect investments in China comprise the smallest percentage of Chinese external liabilities. Their share underwent a slight wavering. It increased from 2004, when it amounted to 8,7% until 2007, when it reached its peak, that is 11,9%. Then it went straight down to the end of the period investigated here, when it was at the level of 8,4%.

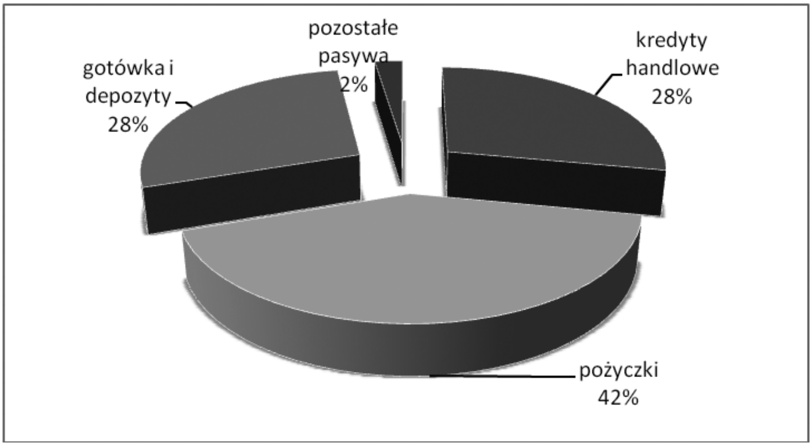

Fig. 9. The structure of other investment in China in 2011

Source: Own calculations based on: The State Administration of Foreign Exchange, The time-series data of International Investment Position of China, Annually, http://www.safe.gov.cn, accessed on 27.03.2013.

The second biggest value in the Chinese external liabilities are the remaining foreign investments. They currently amount to 30% of all the liabilities taken together. Their share was relatively stable and oscillated about 25–35% with the mere exception of 2009, when it went down to reach 22,7%.

The structure of the remaining investments in Chinese external liabilities points to the fact that their biggest share comprise loans given by external corporations to Chinese companies– 42%. Cash and deposits and commercial loans comprised 28% each of the entirety of the remaining foreign investments and in last place was the so-called remaining liabilities with a share of 2% [see fig. 9]. That structure in conjunction with the preceding information relating the wrongful act of registering affiliate companies in Hong-Kong in order to obtain certain privileges – all this allows us to draw the conclusion that the remaining investments (or at least a part of it) may be one of the channels due to which capital is transferred between the affiliate company and the investor's centre.

CONCLUSIONS

The presented analysis conclusively demonstrated that China has pursued a well deliberated and an effective foreign policy for many years now. Its positive results are confirmed by almost every economic parameter. A dynamic internal policy allows for even greater expansion. Also, it enables Chinese corporations and institutions to be more and more involved in the international trading of not only commodities but also capitals.

That situation contributed to the fact that the Republic of China shortly became one of the key players on the global market of debt, investment funds, gold reserves and direct foreign investments etc. Enormous external assets – while having relatively lower liabilities – caused the Chinese economy to make a renowned impact on the structure of the modern global economy as such. Thus, China also made the decisions of other major global "players" highly dependent on Chinese decisions. At the same time, China itself became dependent on the international market. It is to be hoped that the authorities of the Communist Party, realizing the interdependencies – will strive for the peaceful and rational co-existence and the cooperation, which should be beneficial to all the parties.

References

Barboza D. (2011), *China's Treasury Holdings Make U.S. Woes Its Own*, "The New York Times" 2011, http://www.nytimes.com/2011/07/19/business/china-largest-holder-of-us-debt-remains-tied-to-treasuries.html?pagewanted=all&_r=0, [accessed on 23.07.2013].

Giziński J. (2013), *Afryka – kolonizacja po chińsku*, „Rzeczpospolita" 73.

Górniewicz G. , Siemiątkowski P. (2005), *Międzynarodowa pozycja inwestycyjna Polski*, „Problemy Integracji Europejskiej" 3.

Kowalczyk J. (2013), *Chiny za trzy lata wyprzedzą USA*, „Puls Biznesu" 59.

Narodowy Bank Polski (2008), Międzynarodowa pozycja inwestycyjna Polski w 2007 roku, Warszawa: Departament Statystyki.

Siemiątkowski P. (2011), *Odpływ bezpośrednich inwestycji zagranicznych z Chińskiej Republiki Ludowej*, Zarządzanie wartością przedsiębiorstwa, „Zeszyty Naukowe Uniwersytetu Szczecińskiego, Finanse, Rynki Finansowe, Ubezpieczenia" 47.

Stasiuk T. (2013), *Chiny są w stanie wykupić wszystkie rezerwy złota*, „Puls Biznesu" 2013, http://www.pb.pl/3024998,60287,chiny-sa-w-stanie-wykupic-wszystkie-rezerwy-zlota, [accessed on 23.07.2013].

U.S. Department of Commerce (2013a), Trade in Goods with China, U.S. http://www.census.gov/foreign-trade/balance/c5700.html, [accessed on 23.07.2013].

U.S. Department of Commerce (2013b), Bureau of Economic Analysis, International Investment Position, http://www.bea.gov/international/xls/intinv412_t1.xls, [accessed on 27.03.2013].

U.S. Department of Commerce (2013c) Balance of Payments (International Transactions) 2012, Bureau of Economic Analysis, http://www.bea.gov/international/xls/table1.xls, [accessed on 23.07.2013].

Wasilewska A. (2008), *Polityka gospodarcza Chin wobec Afryki*, „Zeszyty Naukowe SGH" 13.