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Chinese Economic Development and its Global Implications

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CHINESE ECONOMIC DEVELOPMENT AND ITS GLOBAL IMPLICATIONS

by

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ABSTRACT

While Chinese economic development is often at the forefront of conversations by scholars shaping economic policy, further investigation into the state of China's economy has left a gap in research. Through analyzing the 13th Five Year Plan (FYP) and looking specifically at the effect it will have on unemployment, international trade, overcapacity rates, and the Belt and Road Initiative, the goal of this research is to understand if China will be able to obtain sustained economic growth. In order to achieve this, this research employs a qualitative discourse analysis, focusing on pre-existing works that discuss Chinese economic development. It will also conduct a case analysis of Chinese policies that target overcapacity, unemployment, and international trade. In utilizing a secondary data analysis methodology, this research will analyze the relevant policies presented in the 13th FYP and determine if it will solve the problems currently facing the Chinese economy. Ultimately, this research concludes China may be heading towards an economic recession should the government choose to have an overreliance on the Belt and Road Initiative and not heed the warning signs present within its economy.

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INTRODUCTION

China has been growing rapidly but studies show that growth rates have been steadily declining in recent years. Literature suggests that China has encountered certain problems that will slow down their economy and economic indicators are showing warning signs of a looming recession. To combat this, China has implemented their 13th Five Year Plan to counter the effects of rampant unemployment, overcapacity, and an increasingly competitive international market. Through employing a secondary data analysis, this research will demonstrate that the aforementioned indicators will ultimately have a substantial impact on the overall health of the Chinese economy.

By focusing this research on the three indicators of economic growth listed above, it is the objective of this research to explore and analyze the 13th Five Year Plan. In doing so, this thesis will ultimately attempt to develop an understanding if the People's Republic of China (PRC) has the ability to pivot and create long-lasting, sustainable growth. If these markers are not addressed, it is an expectation that stagnant unemployment, growing overcapacity, and a diminishing global reliance in the trade sector will ultimately lead to a recession.

Contained within this research is a literature review of the Chinese market economy structure and how the implementation of modest capitalism has created an over-zealous government whose ambitions have far outweighed the reality in the late 20th and early 21st century. Following this is a discussion on international trade and unemployment, two key factors in ascertaining long-term economic viability. Following this literature review will be a discussion of the research design and hypothesis that will culminate in an analysis of the 13th Five Year Plan. Specifically looking at unemployment, overproduction, and international trade, this research will evaluate the current health of the Chinese economy and what is seen as the essence of the Plan and solution for all: The Belt and Road Initiative. Finally, this research will determine the possible future ramifications for China.

BACKGROUND

Since the fall of the Mao dynasty, China has made it a priority to not only stray away from a traditional communist system of governance, but to embrace some of the fundamental economic ideas of Adam Smith, David Ricardo, and Jean-Baptiste. However, that in itself does not explain how the People's Republic of China went from one of the poorest countries in the world to a superpower whose GDP per capita growth rates have averaged in the double digits for over ten consecutive years.

After reviewing relevant literature, two prevalent factors that have led to China's exponential growth rates in terms of GDP are the dramatic increases in international trade and a renewed commitment to a market-based economy. But with an average growth rate of 9.49% since 1989, there is a mounting debate whether the PRC has to ability to sustain its current economic trend line (Trading Economics 2019). Through its incessant overproduction, overcapacity, and staggering unemployment rates, economic indicators are beginning to show an inability for the Chinese economy to continue at its existing pace. Because of this, it is imperative that an increasing amount of research be dedicated to ascertaining if leadership in the People's Republic are aware of the dire problems in their state.

Current literature available that discusses the Belt and Road Initiative (BRI) understands its goal of generating multi-trillion-dollar trade by creating economic corridors and trade routes, complete with infrastructure that will link China to Russia, Europe and East Africa via Pakistan, and Central and Western Asia (Hallding and Zhang 2015). Additionally, it has been acknowledged by leadership within the Chinese government that overproduction is a serious problem. But solutions to this problem have varied and been largely unsuccessful. As such, the next section will be a discussion on pre-existing literature revolving around Chinese economic development will ensue and demonstrate what has led to this research.

LITERATURE REVIEW

Within current literature, two arguments are readily available and present compelling evidence. The first revolves around China's current economic state and its growth rates. Researchers Xingming Fang and H. Holly Wang have held that so long as the environment is able to withstand rapid industrialization, there is little in the way of the PRC becoming a globally dominant force in nearly every category. They continue this theory and state that, "eliminating backward production capacity and efficiency small factories will solve the problem of "triple highness" and thus, China will realize sustainable high economic growth" (Fang and Wang 46-47). However, as economic indicators continue to become increasingly available and more research is conducted on the health of China's economy, an alternative hypothesis has been presented. Contained within this alternative is a troubling future wrought with global implications. Economic indicators are beginning to show that what lies ahead is not opulence, but disparity. Leading researchers Roger Chen and Yiping Huang have extensively studied this theory and ultimately, a forthcoming recession may be in China's future. This literature review will follow in the footsteps of Chen and Huang in attempting to further understand the underlying indicators that are indicative of the future health of a state's economy.

A MARKET BASED ECONOMY

Economic development can occur in many different forms depending on a myriad of reasons such as population, geographic location, topography, and leadership structure. However, in many cases, one of the driving forces begins with a commitment to a market-based economy.

Following the collapse of the Maoist regime, a realization was made that the current socialist structure was not economically viable. As a result, major shifts in the political climate occurred, beginning with the 1988 Constitutional Amendment to include the private sector as a "complement" to the socialist economy (Brødsgaard and Ruuten 2017, 155). While this may seem like an insignificant step in transitioning to a market economy, it was in fact the driving force the spread throughout the minds of politicians. Five years following the amendment, the concept of a "socialist market economy" was brought fourth and later the Third Plenum of the 14th Central Committee adopted a decision in which the market was to play a "basic" role in the economy (Brødsgaard and Ruuten 2017). A prime example of this implementation was through the role of the labor force. Traditionally speaking, one of the most notable aspects of the Chinese socialist system was the perception of life-long employment. But as ideologies began to shift, the employee to employer relationship changed dramatically and was governed by market-based demand (Lo 2007, 204). However, given the inherent diversity in the Chinese economy from agriculture to urban development, the approach needed to be multifaceted. In its rural sector, three major steps were implemented: the contract responsibility system, concept of individual household farming, and the intersectionality with a free market (Perkins 1988). In its urban markets, China emphasized the expansion of enterprise autonomy as well as economic incentives (Tidrick and Chen 1987). In doing so, the PRC introduced a "dual price system" (Liou 2009, S29-30). As this system began to take root throughout the 1990s, the growth path was inherently capital-deepening and a result of the marketized economic system (Lo 2007, 209).

However, directly after the onset of the East Asian Economic Crisis in 1998, state leadership implemented a wide variety of economic policies that amounted to a complete reversal of previously unidirectional market reforms. It has always been the primary objective of Chinese leadership that economic growth and compensation-enhancing expansion in labor employment must both proceed smoothly, and in tandem (Lo 2007, 193-194). As such, China developed four crisis prevention policies: 1. Fiscal packages to expand investment demand that were to be financed by debt issuing, 2. Welfare state polices that included retirement and unemployment benefits, increasing public sector wages, as well as lengthening paid holidays – all of which was aimed at reversing the expansion of stagnant consumption, 3. Policy measures to re-invigorate the public sector, including setting up four state asset management companies whose task was improving the financial state of certain State Owned Enterprises (SOEs) by taking a substantial portion of non-performing loans from state banks, and 4. The reformation of external transactions, specifically, leadership's shelving the target of liberalizing the state's capital account (Lo 2007, 201).

Since the time of the crisis, the PRC has doubled down on its commitment to a laissez-faire economy through additional changes at the federal level. Most notably was in November 2013 where the verbiage was changed from the 1993 position. Under the new Constitution, markets would no longer play a "basic" role, but a decisive role in the Chinese economy. Additionally, it underlined the market's ability to determine the price of goods, including natural resources and energy (National People's Congress Observer 2018). Articles 6,7, and 12 were also updated to further align with the state's new goals. Through the establishment of a mixed ownership system, including allowing investments in publicly owned entities, a reversal of SOE subsidies for oil, electricity, and water, as well as an opening toward outside financial markets, China successfully created a potential goldmine for both the domestic and international economy.

However, legislative action only tells part of the story and it is important to understand what sectors China has gravitated towards. To answer this question, one must review the growth in wage rates following the end of an era known for its 'unlimited' supply of labor. Though this has resulted in decreased profit margins and shifting away from labor intensive markets, it has also caused a huge comparative advantage for China as it improved its technological sectors. Between 1998 and 2003, Chinese labor productivity grew substantially quicker than real wages. Because of this growth in productivity, the PRC has been able to minimize the international and domestic inflation that is commonly associated with rising labor costs (Garnaut and Huang n.d., 26). Consequently, further global restructuring was stimulated.

With this stimulation, a realization that an emphasis on invention to produce innovation was no longer needed as in years past. Instead, as the technological revolution continues to speed up, an increased reliance on the borrowing of technologies has created room for great innovation. By analyzing technological innovation against borrowing in industrial vs developing states, we begin to see the opportunity costs associated with states like the PRC in the early 1990s. As Yiping Huang noted, developing countries have the ability to borrow newly existing technological advancements from industrialized states in addition to inventing technology. Thus, developing states have the ability to benefit from the technological gap by way of licensing, imitation and so on. Ultimately, this results in a higher rate of technological innovation than that of a previously industrialized state (Garnaut and Huang n.d., 53-54). It is here that China did in fact capitalize in the decades following the collapse of the Maoist regime.

INTERNATIONAL TRADE

The most commonly identified reasons for international investment are cheap labor and domestic market potential (Garnaut and Huang n.d., 18). As part of this picture, one must also review how such borrowing of technologies has affected domestic markets as it relates to access. Because China placed an emphasis on Special Economic Zones (SEZs), technological borrowing provided opportunities to introduce foreign capital as well as rules and values (Liou 2009, S30). From the viewpoint of local governments, the most influential aspects of the open-door policy are the development of economically open coastal areas and the application of SEZs. Through these two fundamental ideas, foreign trade, foreign direct investment, and the promotion of tourism saw drastic increases (Bartik 1991). In reviewing Appendix A, note the changes in the difference between real GDP (A) and employment (B) from 1978 to 1990. Then contrast this information with the data from 1990-2006. Additionally, one should review the lack of difference between employment (B) with labor force (C). These figures represent an economy that is accelerating at a rate that is not only unsustainable, but may be dangerous for the global economy, should the country slip into a recession given its trade outputs to the rest of the world.

From January to June of 2006, though import and export growth rates fell, trade surplus expanded by 54.9 percent. Combined with a continued influx in foreign direct investment (FDI), foreign exchange reserves contributed to a US$123 billion increase. By the end of the first half of the year, China's reserves were the largest in the world at US$941 billion (Garnaut and Huang n.d., 15). According to the International Monetary Fund (IMF), in weighing countries' labor force by their export-to-GDP ratio, the effective global labor supply quadrupled between 1980 and 2005, with East Asia contributing about half of the increase. And, over this period, there was an accelerating trend of massive relocation of industry and jobs from the rest of East Asia to China. Using this same model, by the end of 2005, China became a supplier of 25% of the world's labor force (Lo 2007, 207-208).

As we apply the aforementioned statistics to ascertain the wholistic impact trade has had on Chinese economic development, in 1998, the total exports vs. US trade deficit were within roughly US$56.9 billion. But in less than ten years, that figure drastically increased, with a net difference of US$268 billion. Today, it has grown to a staggering US$375 billion. Additionally, all fifty states with the U.S. have reported trade deficits with China (Liou 2009, S33). See Appendix B.

OVERPRODUCTION AND OVERCAPACITY

Though at the surface these changes should undoubtedly result in an extremely robust economy, underlying aspects of a deeply troubled economy began to surface relatively early on in the Chinese economic explosion. In 1997, the Asian Financial Crisis absolutely devastated Asian markets and forced China to devalue its own economy with the intention of making exports more attractive to neighboring markets as well as less expensive in western markets. It is here that the overcapacity began and through the diminishing exportation of goods, an inability to fix the issue of unemployment has also resulted (Chen 1998, 31-32). As of 2017, the PRC produced more than half of the world's output of steel, aluminum, cement, and coal. However, as a result of a slowing economic growth pattern, China was unable to absorb the output of production. With an economy that is absolutely enthralled by the concept of excessive investment and lower consumption, overcapacity within the production sectors of the Chinese economy became increasingly visible.

Following an analysis of the Chinese steel and cement sectors, these fears were quantified. According to an EU–China Chamber of Commerce report (2016), in 2014, the steel sector in the PRC had a combined output capacity of 1.14 billion tons, but their utilization rate was 71%. This indicates a massive excess capacity that is equivalent to nearly the total output of Japan, India, the United States, and Russia combined. As this same approach is applied to the cement sector, an equally bleak picture is present. In just two years, between 2011 and 2013, China used more cement than the United States did in the entire 20th century. As the global leader, China produces 57% of the global output. In total, the capacity of the Chinese cement industry is a staggering 3.1 billion tons. And in the same year the PRC utilized 71% of its steel (2014), it produced 2.25 billion tons of cement: a utilization rate of 73%. Yet, these problems continue to remain largely unimproved and investment continues to be poured in (Brødsgaard and Ruuten 2017, 158).

Simultaneous to this, SOEs began to invest in the domestic real estate market as a source of revenue. But as the housing market began to decline, oversupply continued to rise, and those investments quickly turned into liabilities. As a result, some of these state-owned enterprises sank into financial ruin and local governments have been forced to assume those debts. Because of this modest economic slowdown, demand for heavy-industrial products declined, yet once again, capacity continued to rise (Brødsgaard and Ruuten 2017, 154-157). In a recent news article posted by the South China Morning Post, regional authorities have issued US$163.8 billion in debt since the start of 2019, four times that of year-earlier period (Zhou and Lee 2019). Figure 1 within Supplementary Materials illustrate this worry.

These missteps by SOEs are not exclusively a product of their own miscalculation. Because the state was pushing for continued growth in all sectors, large SOEs were allowed to merge in the areas of steel, shipping, and nuclear power in order to “compete at the global level”. This philosophy worked completely against the spirit of what the Chinese market-based economy was founded on and economic growth plummeted from 15.4% to 6.7%, the lowest since 1990 (Brødsgaard and Ruuten 2017, 157).

In 2005 as the state began to prepare for the 11th Five-Year Plan, authorities increased the effort to achieve balanced economic growth. Their goal was to increase consumption relative to investment as well as bolster domestic demand in relation to external demand. Members of the National People’s Congress (NPC) took steps to consolidate industries that were deemed ‘high risk’ for overcapacity. Additionally, they warned commercial banks of loan expansion and tightened functioning conditions in order to curb excessive investment (Garnaut and Huang n.d., 13). This plan, however, failed as overproduction and overcapacity continued to balloon.

In 2009 Chinese officials again admitted to the serious problems their economy was facing due to overcapacity and that local governments were “blindly” continuing to expand capacity. Yet despite an acute understanding of the issue and of the potential damage it may cause to domestic and international markets, no concentrated effort to curb the problem was made (Brødsgaard and

Rutten 2017, 5). Instead, the government created a substantial stimulus package worth US$586 billion that benefitted these sectors (The Economist 2008). As we look into the future or possibly the current state of Sino-American relations, if a prolonged trade war were to occur, China could become an exporter of inflation (Garnaut and Huang n.d., 23).

RESEARCH DESIGN AND HYPOTHESIS

While Chinese economic development is often at the forefront of conversations held by leading scholars shaping economic policy domestically and abroad, further investigation into the current state of China's economy has left a gap in research. Through analyzing the 13th Five Year Plan and looking specifically at the effect it will have on unemployment, international trade levels, and current overcapacity rates, this research will attempt to understand if China will be able to obtain sustained economic growth.

While the PRC does contribute a majority of the world's supply of industrial materials, there can only be so much of a state's economy dedicated to international trade. As developing states continue to industrialize, that proportion should continue to decrease in order to maintain a balanced economy. It is important to understand how or if the aforementioned reforms will alter the current employment rates and production capacity. In order to achieve this, this research will employ a qualitative discourse analysis, focusing on pre-existing works that discuss Chinese economic development. As such, this thesis will also conduct a case analysis of Chinese policies that target overcapacity, unemployment, and international trade levels. Finally, a prediction will be made about the viability of the Chinese economy. In utilizing a secondary data analysis methodology, this research will analyze the relevant policies presented in the 13th FYP and determine if they will solve the problems currently facing the Chinese economy. And ultimately will culminate in a preliminary prediction that concludes China may be heading towards a path of economic recession should the government choose not to heed the warning signs present within its economy and over rely on its trademark Belt and Road Initiative.

A PRELIMINARY ANALYSIS OF THE 13TH FIVE YEAR PLAN

Because China views its economy as invariably dynamic, Five Year Plans have become a centerpiece in combatting mounting pressure both domestically and abroad to ensure regional stability. After reviewing the 13th Five Year Plan in its entirety, it is the opinion of this research that the Belt and Road Initiative is seen as an integral piece to solving the mounting issue of overproduction and overcapacity, unemployment, and increased competition in international trade markets. Due to the scale of the project, the amount of resources required, and variety of resources needed, the BRI may hold the answers China seeks. However, to understand how this is possible, it is critical that the government within the PRC realize the factors that have contributed to the onset of the aforementioned issues.

OVERPRODUCTION AND OVERCAPACITY

China's continual growth has enabled it to firmly remain as a driving force within the world's economy. With an increase in its per capita gross domestic product (GDP) to 49,351 (US$7,924) in 2015, it has become increasingly difficult to understand how the Chinese economy can be boundlessly expanding, yet in utter turmoil (CCCPC, 7). But with any systemic issue, broad understanding of the problem is the first step in determining possible solutions. With a rich and proud history, the PRC has dealt with an inability to acknowledge systemic problems within its government in the past. However, for one of the first times, the state has recognized the inequality within its own development model and understands that if rapid change does not occur, China as it is known may cease to exist:

> “we must be soberly aware that China’s development model is inefficient; uneven, uncoordinated, and unsustainable development continues to be a prominent problem; the change of pace in economic growth, structural adjustments, and the transformation of the drivers of growth present interwoven problems; and we face a host of challenges, such as ensuring steady growth, carrying out structural adjustments, guarding against risks, and bringing benefit to the people… The foundations of agriculture are still weak, overcapacity is a serious problem in certain sectors, commodity housing inventory is high, corporate profits are sliding, and debt continues to grow. Development is uneven between rural and urban areas and between regions, spatial development is inefficient, resource constraints grow increasingly tight, and the continuing trend toward further ecological and environmental degradation is yet to be fundamentally reversed” (CCCPC, 11-12).

According to the PRC, the lack of adaptation in the fundamentals for long-term economic growth and breadth of economic development prospects have caused issues of overcapacity within their production areas of emphasis. They seem to have developed an understanding that in order to “upgrade the economy”, improvements must be made to the quality and efficiency of growth (CCCPC, 11). To implement this idea, the state believes that it must be the driving force in economic development that simultaneously is working to achieve an appropriate expansion of aggregate demand, carry out supply-side structural reform to satisfy China’s “ever growing, constantly upgrading, and increasingly individualized material, cultural, ecological, and environmental needs” (CCCPC 20-21).

To further combat this issue, the PRC is seeking to strengthen policy guidance and set up a fund to reward companies who make structural adjustments to their industry. By ensuring compliance with “the standards for the production process, technology, energy consumption, environmental protection, quality, and safety”, it is their goal to tighten industry regulations and market entry management in order to shut down outdated production facilities. Though these adjustments pertain to all manufacturing, the plan directly addresses overcapacity issues in steel and coal by applying additional restrictions, “through mergers, reorganizations, debt restructurings, bankruptcy liquidations, and better asset utilization; [the government will] proactively and prudently handle the winding up of enterprises in an organized way on the basis of classification; and ensure that employees laid off from such enterprises are properly resettled” (CCCPC, 62).

UNEMPLOYMENT

In analyzing unemployment within China, statistics show that as the state nears the completion of the five-year cycle, unemployment has remained firmly imbedded within society. Appendix C demonstrates this as the unemployment rate from 2008 to 2018 have remined virtually unchanged. According to data obtained by the World Bank and released in September 2019, unemployment has seen a negligible decrease. Using population estimates obtained by the World Bank Population Division, the PRC currently has a population estimated at roughly 1.4 billion people. Based on the data listed above, this translates to 27 million men and 33 million women that are still without work (World Bank 2019).

This information comes as employment is listed as a “major goal”. Yet even with that, it is only mentioned in their fulfillment of previous goals and is completely left off of attainment goals for the next five-year period. In reviewing Appendix D, note the lack of data publicly available within integral indicators of the “Wellbeing of the People.”

Despite this, China has presented some solutions to the income disparity levels. By improving primary income distribution, intensifying efforts to regulate income redistribution, adjusting and optimizing the pattern of national income distribution, and working to bridge income gaps throughout society, they hope to achieve zero unemployment (CCCPC, 180). However, governments with similar ambitions of the redistribution of wealth have proven that this method is grotesquely inefficient and ultimately without rigid enforcement mechanisms, not a viable solution. This discrepancy underscores the issues within the PRC. A desire to show only the positive economic indicators while subtlety leaving out major factors has continued to push them further into a false sense of economic euphoria.

This is not to say that the Chinese government should implement a flat tax system as it has one of the largest shares of the world’s billionaires, but with it being increasingly easy to hide money from publicly accessible information for the purposes of taxation, a reliance on the redistribution of wealth may not lead to the end result the government is in search of.

As a stated goal within the 13th Five Year Plan, the Chinese government has vowed to operate near full employment while simultaneously minimizing the income gap and increase the proportion of middle-income earners. “China’s current poverty line will be able to lift themselves out of poverty, all poor counties will be able to rid themselves of poverty, and poverty alleviation will be achieved in all regions" (CCCPC, 16). With elements of Marxism present, it is undoubtedly a bold plan for the future. However, what is interesting is throughout the entirety of the 13th Five Year Plan, the government makes no claims as to the cause for the systemic issue.

Regardless of this, in discussing the Developmental Environment within China, the Plan discusses the issue of "abundant human capital" and its effects on the economy (CCCPC, 11). This is especially important in the central and western regions of the country where unemployment and poverty have become such an issue, that the state has been able to provide little relief outside of subsidies. To this end, it is their goal to implement a more proactive employment policy as opposed to a reactionary system that will in turn create more job opportunities and encourage small business growth that creates high quality employment. By doing this the state hopes to work to solve the problem of "structural unemployment" (CCCPC, 178). Additionally, the PRC is implementing a database system of recent college graduates who have not found employment. Through this database, the government plans to provide guidance and internships as well as gain experience through community-level work. This coupled with vocational skill training for migrant workers and special employment needs, the government says, should produce meaningful results.

China has also begun a movement to implement the Made in China 2025 action plan. As part of this, they hope to be able to further galvanize the innovative capacity and capability of manufacturing. To achieve this, they will focus on the integration of information and manufacturing technology and promote the development of high-end, smart, green, and serviceoriented manufacturing to foster competition within manufacturing (CCCPC, 60). By integrating Chinese influence around the world through the Belt and Road Initiative, the increased accessibility to new markets in globally South countries could create increased demand of Chinese goods that could in turn play very well to the success of their action plan

INTERNATIONAL TRADE

In discussing their aspirations for international trade, the PRC considers the developing world and its consistent economic gains as they continue to become a part of the global market. On top of this, international investments and trade regulations have been restructured to allow for multilateral trading systems to advance; thus, China sees greater risk and uncertainty in its ability to further develop (CCCPC, 11). Yet even in an era of potential uncertainty and regional instability, China is continuing to pursue a capital deepening approach. To this end, they hope to balance imports and exports, work to attract foreign investment, technology and talent, and most importantly participate at a greater level in the institutions that oversee global economic governance, such as the World Bank and WTO (CCCPC, 21).

To achieve this, the government seems to want to leverage skilled labor for innovation in human resource development. As such, it is not solely material capital, but human capital that China is seeking to capitalize on as international markets continue to expand (CCCPC, 29). Given its dominance in the technological sector, it is understandable that the government would seek to optimize this control at the international level. Under their plan, there will be an increase in the use of high technology and value-added exports (CCCPC, 33). By implementing an import/

export strategy that promotes the development methods of production, China hopes to bolster a section of their economy that makes up 16% of its foreign trade. In addition to this, the PRC is attempting to further diversify its exports and develop new types to trade. In doing so, it is their hope that current trade barriers will be reduced, and ongoing disputes will be neutralized while simultaneously attempting to address the international outcry of tech dumping and flooding international markets with cheaply made products (CCCPC, 143).

As part of their effort to "open up" to the rest of the world, China continuously hints at integral components of the Belt and Road Initiative throughout the 13th Five Year Plan. As it relates to international trade, they state the need to strengthen and develop cross-border multimodal transport corridors. They will also accelerate the integration of cross-border economic cooperation zones that will not only make Beijing and Shanghai seen as an internationally influential center for scientific and technological innovation, but also support China's interior, a region that is desperate for support (CCCPC, 25). Though in order to achieve this for a prolonged period of time, China must endeavor to fix an education system whose sights have been solely fixated on leaving the country.

Historically, it was known that in order to obtain a world class education, families would send their children to a university in Europe or the United States. Though this phenomenon has changed to some degree, a vast number of students still seek to educate themselves at the collegiate level outside of China. Because of this, the government has faced an issue of getting those intellectuals to return for prolonged periods of time. In order to break this tradition, the PRC has chosen to increase the mechanisms for support for international students in China. In reviewing Appendix E, China has placed a strong emphasis on domestic scholastic achievement and describes the steps they have taken to further integrate talent into the Chinese job market. It is their hope that if these students choose not to return immediately, that they will work for international organizations. And as a result, further break down barriers inhibiting young professionals from returning to China seeking permanent positions (CCCPC, 31).

THE BELT AND ROAD INITIATIVE

Originally issued jointly in March of 2015 by The Ministry of Foreign Affairs, the National Development and Reform Commission and the Ministry of Commerce, the Belt and Road Initiative is a project of epic proportions that few could see coming (Meidan and Patey 2016, 4). But what are the driving forces behind the initiative? The primary answer to this question can be found through an analysis of Chinese infrastructure and how the government views the BRI.

In Appendix F, six distinct transportation projects were outlined in the 13th FYP that have direct implications to rural and urban China, as well as internationally through the BRI. As part of this, the PRC discusses the need to establish a comprehensive transportation thoroughfare running from east to west and from north to south that ensure unobstructed and interconnected domestic and international transportation (CCCPC, 79). In seeking to establish such routes, the government has no choice but to bolster construction that connects economic zones in eastern China with Xinjiang and Tibet. By doing so, it will encourage further development in western China, a region that is currently under-utilized and grotesquely impoverished. By increasing construction in the western region, it will also promote large scale development that directly impacts the construction of the land aspect of the BRI.

It is also apparent in the 13 FYP that remote areas of China have an extreme emphasis placed upon them. But it is not only the construction of a throughway to western Asia that is important as it pertains to these regions, it is also the agricultural component that these lands possess. Despite being much more arid than farming regions in the east, land is in abundance compared to other areas of China (CCCPC, 104). Because of this, it is the hope of the Chinese government that innovations in agricultural methods will continue to drive the Belt and Road Initiative westward and propel it into the spotlight.

In the central region of China, still minimal economic productivity occurs in comparison to the east. This discrepancy between economic zones has created challenges for the Chinese economy. To alleviate the pressure placed upon the government by the citizens, as unemployment continues to remain stagnant and overcapacity is a perpetual dark cloud looming over prosperity, the government has chosen to relocate industries from eastern China to the center (CCCPC, 106). But in order to make this happen, new factories will need to be built. Though it is only the beginning of a much larger solution, it is a start to being able to use the billions of tons of steel and cement that factories have the capability to produce.

In order to do this successfully, the PRC understands that it must take advantage of a vast landmass, unending human capital, and an industrial foundation that the Central and Western regions of China are known for. And they must focus on "city clusters along the Yangtze, around Chengdu and Chongqing, in central Henan province, around Hohhot, Baotou, Erdos and Yulin, and around Harbin and Changchun to propel regional interaction and cooperation and industrial concentration" (The State Council of the People's Republic of China 2015). By doing this, the ability to fully integrate China's vast resources beyond the financial centers in the east into the global market dramatically increases. Additionally, it is the hope of the PRC that this "opening up" will rapidly decrease economic disparity markers that are present within rural China. Specifically, they name Zhengzhou and Xi'an as cities of importance within inland China. By building airports, international land ports, and launching pilot e-commerce services for cross-border trade, the government will utilize this as a “stage 2” in their quest to fully integrate the more than half a billion people that live in those regions, both socially and economically (The State Council of the People’s Republic of China 2015). In analyzing the impact of the BRI, the connection has been made that through the development of advanced infrastructure with neighboring countries and rural lands, costs associated with transportation will be significantly reduced (Center for Strategic and International Studies n.d.). Should it work, it would prove to be a triumph for the state in areas of domestic and foreign economic development.

But these factors only help us to understand half the project. In addition to this modern-day land bridge, China is also seeking to create new maritime trade routes that may fundamentally change current shipping patterns. This project has two components: access to European markets and a strategic emphasis on access to African markets. In establishing a plan to further integrate itself in the European market, Chinese Premier Li Keqiang expressed his desire to construct the Maritime Silk Road with a deliberate importance placed on orientation towards the Association of Southeastern Nations (ASEAN) at the China-ASEAN Expo (Arase 2015, p. 25). By doing this, the Premier hopes to not only achieve influence in neighboring Asian states, but also utilize the South China Sea and South Pacific as a thoroughfare to developed Western Europe.

The other component involves the integration and arguably the exploitation of African markets. To achieve this, the Initiative states that it must focus on creating “smooth, secure and efficient transport routes connecting major sea ports along the Belt and Road” (The State Council of the People’s Republic of China 2015). In turn, this means the creation of the China-Pakistan

Economic Corridor and the Bangladesh-China-India-Myanmar Economic Corridor. As it relates to Africa, the PRC will be utilizing the China-Pakistan Economic Corridor that will connect China to the Gwadar Port in the Arabian Sea. With nearly a quarter trillion dollars already spent on the effort, Morgan Stanley has predicted Chinese expenses on the project could exceed $1.2 trillion by 2027 (Chatzky and McBride 2019).

Based on information obtained by the Mercator Institute for China Studies from the Chinese government, it is clear that while some focus will be placed on connecting Beijing to western Europe, the Maritime Silk Road will almost exclusively focus on Africa (See Figure 2 in Supplementary Materials for a map of the Belt and Road Initiative). It can be speculated that the reasoning for this is due to the scarcity of resources currently available for current port cities on the African coast. This coupled with stops in India have opened the possibility for rapid expansion of the Chinese economic system. Thus, allowing for a more economically diverse opportunity to engage in trade with previously under-utilized regions of Africa, specifically Kenya and Djibouti.

FOREIGN DIRECT INVESTMENT IN BRI FOCUS REGIONS

It has long been a political strategy for China and Africa to have immense cooperation between the two regions. However, following the turn of the century and the expansion of the Chinese economy, this political relationship has transitioned into an economically strategic partnership that is focused on South-South cooperation and an expansion of regional influence.

Originally created in 2000, the Forum on China-Africa Cooperation (FOCAC) sought to create a joint council by which state actors may conduct routine evaluations on the implementation of Sino-African Social and Economic Development (FOCAC, n.d.). Since that time, this relationship has grown tremendously in both size and relevance on the global stage. And with the announcement of the Belt and Road Initiative, this relationship has only further intensified. At the 2015 Forum on China-Africa Cooperation, an additional US$60 billion commitment was made to Africa by the Chinese government that included financing for the Addis Ababa–Djibouti railway, the Sudanese oil pipeline, and Djibouti military facility. Through commitments such as these, China began to immediately push its interests throughout the continent, and with it, its problems.

Reaching its peak in 2013, trade levels between Africa and China grew to US$ 207 Billion and as such accounts from nearly 20% of bilateral trade flow for Africa (UN Comtrade 2014, 127). Through this dramatic increase in interest in African markets by the PRC, it was not long before private Chinese companies and individuals flocked to the region in search of economic prosperity in a poverty-stricken region of the globe. With this in mind, McKesson has estimated that 10,000 Chinese companies are in operation in Africa producing a value of roughly US$500 Billion amounting to 12% of total output of African Industrial Output (Financial Times 2019). As such, it is no surprise that in only fifty years, China has gone from being a supporter of African development to providing more financial assistance than the World Bank (Herrero and Casanova 2016, 1).

Building on the concepts of investment and the Maritime Silk Road, the PRC intends to invest almost US$1 trillion on infrastructure in Africa relating to the Belt and Road Initiative (Morreale 2018, 106). However, these investments have drawn strong criticism from foreign entities primarily due to a sizable percentage of the loans used to construct the aforementioned projects are interest bearing. As David Shinn noted, China has had to restructure a countless number of African debts, but only canceling debts if loans are interest free. "That constitutes a modest amount of Africa's total debts with China. Most of China's loans to Africa are concessionary and eligible for restructuring but – as far as I can tell – not cancelling." This may be occurring for three reasons: one, China simply cannot afford to forgive such a vast amount of debts owed to the state; two, many loans have been tied to social infrastructure such as roads, airports, seaports and natural resources (Nyabiage 2019); or three, the geopolitical advantage to seizing territory in a foreign state due to default is simply too enticing. To put this in a broader context, data was compiled by the China-Africa Research Initiative at the Johns Hopkins University School of Advanced International Studies and it estimated that Beijing has advanced loans worth US$143 billion to African countries since 2000 (Nyabiage 2019). But with a statement of refusal to forgive interest bearing loans, what happens if an African state defaults on their loan?

The world got a front row view to this in 2018 when Zambia lost control of the Kenneth Kaunda International Airport over Chinese debts and again when the African Stand reported Kenya may soon have to hand over control of its largest and most developed port: Mombasa. At the time, the current debt owed to China was roughly US$10 Billion and was used to primarily create a multitude of highways connecting Mombasa and Nairobi to facilitate trade (Chaudhury 2019). But according a report completed by Kenya's Auditor-General, should the Kenya Railways

Corporation (KRC) default on its loan, the Exim Bank of China could exercise its power over the escrow account and become a principle in the Kenyan Port Authority (Nyabiage 2019). When this is viewed at the macro-regional level, at least 40% of low-income countries in the region are either in debt distress or at high risk, according to the International Monetary Fund (Madowo 2018).

Though the concept of seizing property upon default of a loan is by no means a new concept, the Chinese government has taken it to the extreme and scholars such as Yun Sun have argued that this was done intentionally. It should be noted that the PRC has yet to formally take control of the Port of Mombasa and the Kenyan President has disregarded reports as propaganda, but the fact still remains that should China have a desire to do so, it has the authority to take action. Objectively, there is no better way to assert one’s dominance than by taking control of a state’s most valuable asset and doing so legally. Thus, further entangling itself in African affairs all through the guise of foreign direct investment and aid to assist in infrastructure in the region.

CONCLUSION

China has been one of the world's most interesting case studies of the 21st century. Not only as a rising superpower throughout the 21st century, but one of the few superpowers that does not employ outright capitalism. However, this refusal to relinquish control of its enterprises has created a precarious position for the Communist Party in China that has produced unrelenting turmoil and unrest. According to the World Bank, China has not seen a single meaningful decrease in unemployment. At its statistical peak in 2009, roughly 4.7% of the population was unemployed. More startling than this is that at the same time, roughly half (53.4%) of its population was living on less than $5.50 per day (World Bank n.d.). Though the percentage of people living in extreme poverty has seen a meaningful decrease, unemployment remains at nearly 4.5% and in terms of people, has risen over the last decade.

With about 63 million citizens still without work, China has officially hit a breaking point. As the international economy continued to grow throughout the 20th and 21st century, markets across the world sought cheap materials. And with such a dire unemployment situation within China, the government saw this as the perfect opportunity to increase economic prosperity while simultaneously putting people to work. From that point of view, their assumption was correct in believing governments the world over needed their raw materials. But countries cannot continue to grow beyond their borders and, steadily, this driving force for the Chinese economy began to stall. Creation and later a reliance on State Owned Enterprises was once thought to be a solution to the economic woes. But now those drivers for hundreds of millions of people have largely failed. Factory cities across the country such as Hebei that were once booming have turned into ghost towns comparable to what was seen in the wild west of the United States.

It is because of this that the Chinese government currently finds itself in search for a new venture that will not only reinvigorate their economy again, but also eliminate structural issues. We can now see that this venture is the Belt and Road Initiative. North countries have fully industrialized. The need for such materials has become increasingly less relevant. So, in the eyes of the ruling party within China, there is no better place to turn to than Globally South countries. Those who are still in the stages of development; that do not have complex roadway systems and effective means of transportation.

It is worth noting that this project has not been seen around the world as a project that everyone needs to be involved in. In fact, many nations have expressed reluctance to involve themselves even if the land or maritime route directly include them and could bolster their export to import ratio. Some see this as a power play to spread Chinese involvement across the globe. But as it pertains to those developing nations, they simply do not have the resources to pay for it.

Yet once again, the Chinese have a solution; call it an IOU with an asterisk. The Chinese have agreed to begin construction on the Belt and Road Initiative without securing funding. However, during the construction, Chinese labor must be used to build to project. With an initiative this large cutting across vast landscapes and traversing mind-boggling terrain, the amount of materials needed to complete it would be endless. Not only will it be Chinese labor that ultimately constructs this massive throughway, it will be Chinese materials that make it possible.

And should a state not be able to service its debt, the PRC would then obtain control of that section of land. Thus, further extending its reach to other markets. In one move, President Xi Jinping and his party have not only solved the dire issue relating to a stagnant unemployment rate and overcapacity, but also the economic woes that this country is facing.

Though in theory this is the best possible outcome, political tension within the region is on the rise. Prolonged unemployment has devastated the economy and the lives of its people to the point where the citizenry no longer feels connected to the state. This can be seen through a drastic increase in the number of riots occurring throughout China as well as the present state of Hong Kong. Families that were once able to sustainably rely on an income from agriculture are no longer able to do so and thus have only made the unemployment situation worse. Because Xi Jinping has solidified his position as leader of the Chinese people, it has ultimately led to all eyes being on him to fix structural issues that have only been exacerbated during his reign. Although President Xi may be able to regain the support of the electorate, political instability may come to be the dominating feature in the region.

In 2007, Nassim Nicholas Taleb, a finance professor and former stock trader wrote a book entitled The Black Swan. The name comes from the 17th century when the world was certain only white swans existed, that is until Willem de Vlamingh found black swans in Australia (Australian Dictionary of Biography n.d.). Following the discovery, leaders across Europe instantly began to recant their statement asserting there is no reason why black swans would not exist. Taleb applied this to economics and explained that a black swan event has three characteristics: 1. It is beyond normal expectations that is so rare that even the possibility that it might occur is unknown, 2. It has a catastrophic impact when it does occur, and 3. It is explained in hindsight as if it were actually predictable.

For now, the China does have the ability to pivot and create long-lasting, sustainable growth. However, to do so would require careful planning, an increased level of objectivity in thought, and without an overreliance on any one solution. Conversely, if they choose to solely rely on the Belt and Road Initiative and it fails, it could forever be known as China's Black Swan. No state has managed to sustain economic growth at such a staggering rate for a prolonged period of time. As this project continues to get underway, it should be further studied to ascertain its economic impact to the Chinese domestic market as well as international markets to develop a clear picture on the health and longevity of Chinese economic prosperity.

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APPENDIX A

China's Real GDP, Employment, and Labor Force

	Real GDP (A)	Employment (B)	Labor Force (C)	A-B	B-C
1978	100.00	100.00	100.00	0.00	0.00
1980	116.00	105.50	105.46	10.50	0.04
1985	192.90	124.21	123.18	68.69	1.03
1990	281.70	161.26	160.57	120.44	0.69
1995	502.30	169.52	169.25	332.78	0.27
2000	759.90	179.53	181.88	580.37	-2.35
2005	1195.50	188.84	191.43	1006.66	-2.58
2006	1323.42	190.28	N/A	1133.14	N/A

Source: National Bureau of Statistics, China Statistical Yearbook 2006 ; National Bureau of Statistics, Statistical Communiqué of National Economic and Social Development in 2006

APPENDIX B

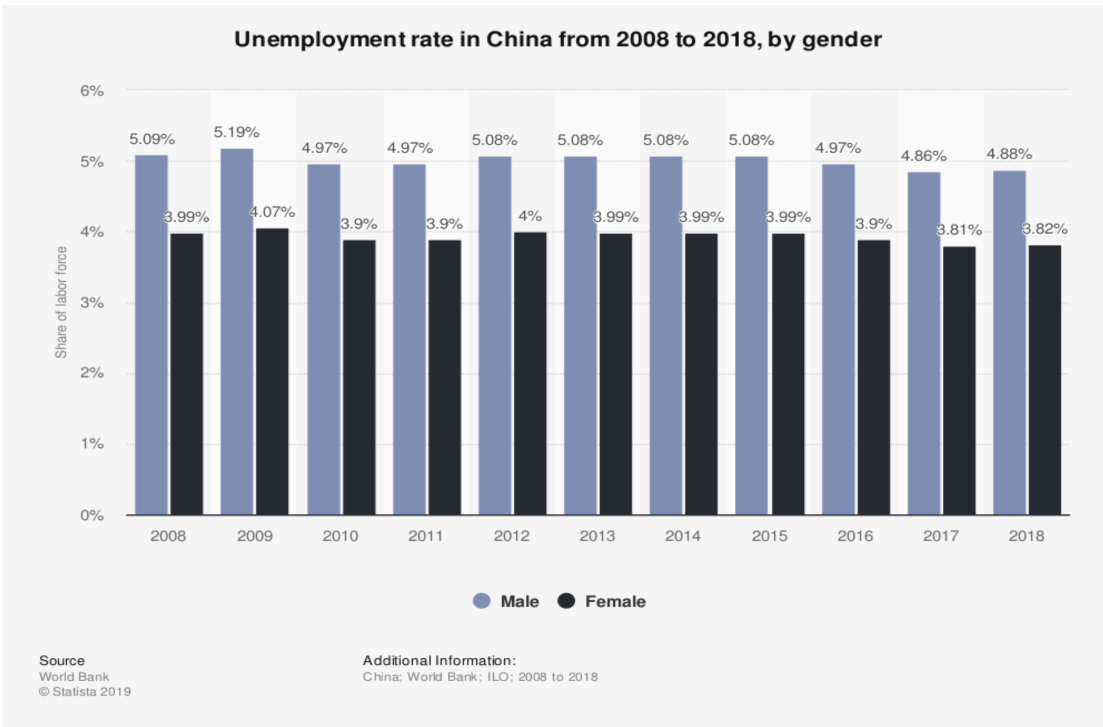
Sino-American Trade Statistics

	Trade Deficit for the United States	Chinese Total Exports
1998	US$56.9 billion	US$244 billion
2008	US$268 billion	US$1.62 trillion
2017	US$375.4 billion	US$2.41 trillion

Source: United States Census Bureau, Observatory of Economic Complexity

APPENDIX C

Unemployment Rate in China from 2008 to 2018, by Gender



APPENDIX D

Main Economic and Social Development Indicators for the 13th Five-Year Plan Period

Indicator		2015	2020	5-year average [5-year cumulative total]	Type of Indicator
• **Economic development**					
1. GDP (trillions of yuan)		67.7	>92.7	>6.5%	Anticipatory
2. Overall labor productivity (10,000 yuan per employed person)		8.7	>12	>6.6%	
3. Urbanization	Permanent urban residents (%)	56.1	60	[3.9]	
	Registered urban residents (%)	39.9	45	[5.1]	
4. Value-added of the service sector (% of GDP)		50.5	56	[5.5]	
• **Wellbeing of the people**					
9. Growth in disposable income per capita (%)		**n/a**	**n/a**	>6.5	Anticipatory
11. New urban employment (millions of people)		**n/a**	**n/a**	[>50]	Anticipatory
12. Rural population lifted out of poverty (millions of people)		**n/a**	**n/a**	[55.75]	Obligatory
14. Rebuilt housing in rundown urban areas (millions of units)		**n/a**	**n/a**	[20]	Obligatory
15. Average life expectancy (years)		**n/a**	**n/a**	[1]	Anticipatory
• **Resources and the environment**					
16. Arable land (millions of hectares)		124.3	124.3	[0]	Obligatory
17. Increase in land newly designated for construction (millions of hectares)		**n/a**	**n/a**	[<2.17]	

Source: The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China People's Republic of China. http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf, p. 17-20.

APPENDIX E

Talent Initiatives for the 13th Five-Year Plan

1. Innovator training
§ Set up scientist studios for fields where China has competitive strengths, focusing particularly on supporting and training young and middle-aged leading scientific and technological innovators;
§ Make focused efforts to support innovators and entrepreneurs working in science and technology and establish centers for others to learn from them to foster innovative talent.
2. Young talent development initiatives
§ Establish national young talent training centers for outstanding college students at quality research universities and research institutes for basic disciplines where the strengths of the respective university or institute lie;
§ Select the best talent from new senior secondary school and college graduates every year to participate in advanced training at first-class universities outside China and keep track of their progress.
3. Quality improvement programs for business executives
§ Train entrepreneurs who have a perspective on global needs, think strategically, and are innovative;
§ Train 10,000 business executives in strategic planning, capital operations, quality control, human resources management, finance, accounting, and law.
4. The Talent 1,000 Initiative and the Talent 10,000 Initiative
§ Bring in approximately 10,000 high-caliber talented individuals from overseas to make innovations or start businesses;
§ Select from within China and offer support to approximately 10,000 urgently needed, highly talented individuals.
5. Knowledge refresher programs for professional and technical personnel
§ Train one million high-caliber, urgently needed, and key professional and technical personnel each year;
§ Establish national continuing education centers, drawing on existing education institutions at universities, research institutes, and large enterprises.

Source: The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China People's Republic of China. http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf, p. 30-31.

APPENDIX F

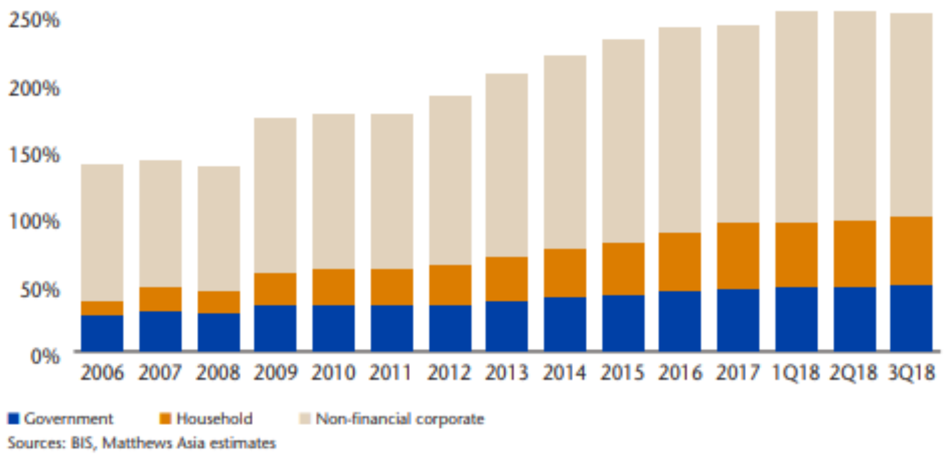
Transportation Projects

§ Basically complete construction on a coastal high-speed railway from Dandong to Fangchenggang, a coastal expressway, and a high-speed railway along the Yangtze River from Shanghai to Chengdu;
§ Speed up the construction of highways along our borders;
§ Build railways along our borders such as the Hotan-Ruoqiang Railway, the Luoguhe-Laoheishan Railway along the border in the Northeast, and the Chengdu-Lhasa Railway;
§ Press ahead with construction of transborder thoroughfares between China and neighboring countries and thoroughfares along the Belt and Road routes;
§ Build logistics platforms for international freight trains in Ürümqi, Lanzhou, and other major hub cities along the Belt and Road routes;
§ Construct the Shenzhen-Zhongshan Bridge.

Source: The 13th Five-Year Plan for Economic and Social Development of the People's Republic of China People's Republic of China. http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf, p. 17-20.

SUPPLEMENTARY MATERIALS

Figure 1: **Chinese Non-Financial Debt-to-GDP Ratio by Sector**



SUPPLEMENTARY MATERIALS

Figure 2: **Land and Sea Corridors of the Belt and Road Initiative**