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The last decade has seen the effects of China’s domestic boom ripple beyond its own economy into the global sphere. China’s growing outward trade and investment has deepened economic interdependencies with the developed economies of America and Western Europe and is increasingly making an impact in the developing world, as China’s domestic economic expansion has also spurred demand for natural resources from economies in Africa and Latin America, and as Chinese firms and capital have sought to invest in emerging markets. In this timely context, *China and the World Economy* brings together scholars from both Chinese and Western institutions to discuss the challenges of China’s domestic economic transition, amidst a changing global economic context. The book is a collaboration between researchers at the Development Research Centre (DRC), which sits under China’s State Council, and the Centre of Development Studies at Cambridge University; the two editors represent their respective institutions.

The book is grouped into six sections, each focused on a different aspect: macroeconomy—which outlines China’s transition in the post-crisis global context; trade and investment, which addresses the changes in China’s export-led development strategy; industries and services, which examines China’s multinational enterprises (MNEs) and global value chains; finance and reform; innovation and economic restructuring; and finally, energy and environmental challenges. As an edited volume, the book is an eclectic mix of essays, research papers, and think pieces from both western and Chinese authors. Some are extracts of longer research pieces, giving insight into the research projects going on at the DRC. The themes of the book can be loosely grouped into two major goals: the first of which is to understand the domestic challenges of China’s economic growth, in a period during which the boom of the last few decades has slowed, portending a more difficult era of transition; the second of which concerns the challenges of globalization in which China must navigate its transition. China forms a paradigmatic case of what economic growth can achieve in terms of development, and its experience has implications for other parts of the developing world as a model of what could be achieved—particularly in the context of China’s rising global ambitions, in the form of the Belt and Road Initiative (“One Belt, One Road”). This is alluded to in the first essay by Li Wei, president of the DRC and former director in the office of Zhu Rongji, which argues for China’s potential role in fostering the structural upgrading of other countries, even as it moves up the value chain itself.

As China grows, it also faces a series of domestic challenges, including the daunting prospect of the middle-income trap. Among these challenges is the need to modernize the financial sector, to transform its traditional industrial sectors in order to move up the technological value chain, and to deal with its domestic overcapacity. The emphasis on innovation in the volume and how to promote it is a key focus that resonates with the current policy priorities of Chinese leaders. This innovation and capacity building will also depend on external sources, which entails China’s continued interdependence with and commitment to an open global economy.

This emphasis on innovation and how to promote it ties into the second theme of the volume—outlined by Peter Nolan in his chapter—which concerns the challenges of globalization. While globalization has brought undoubted benefits to China, China’s current transition occurs in a context of a post-crisis global economy. The global financial crisis has had a decimating effect on western economies, which were the bulwark of consumption demand for China’s export growth. Nolan argues that the post-crisis context also creates a more challenging environment for China’s rise and economic transition as it deals with its
own set of internal challenges. This raises both the issue of how China will be affected by these external trends and, in turn, how China might shape the future course of globalization.

Martin Wolf also addresses this in his chapter on the global financial crisis, in which he discusses the zero-lower bound\(^2\) and the “contained depression” that western economies have experienced (p. 20). Wolf raises provocative questions on the factors behind the crisis, speculating about the extent to which such factors may be endemic to the current structure of the liberal market economy; he poses the question of what this means for China as a rising power, and one seeking to internationalize the RMB as a reserve currency.

There is a grander theme that the book makes contribution to, on the implications of China as an economic powerhouse for other countries. Zhao and Zhao (Chapter 4) highlight China’s role as a provider of global public goods and a force for stabilization in the global economy, and as a consumer market for global goods and services, which portends it taking on some of the hegemonic responsibilities that the US has historically filled. However, this global shift is likely to be contentious. As rising wages begin to minimize China’s comparative advantage in labor-intensive exports, Luo Guoqiang (Chapter 7) predicts more intensive competition with developed countries in higher-tech product markets. This will depend on sufficient technological upgrading and innovation within China’s industrial sectors.

As a volume, the chapters vary stylistically in their perspective and treatment of topics, and show an eclectic range in the research frameworks and disciplines of the authors. A few chapters provide valuable contributions to issues that are understudied elsewhere in the field: The chapter by Zhang on China’s financial sector going out stands out as an insightful treatment of the role of China’s private bank sector in supporting China’s overseas foreign direct investment. These syndicated loans are not part of China’s concessional and official overseas finance, and Zhang’s collected statistical evidence highlights the growing role of players such as ICBC in overseas lending. However, the converse has not taken place; foreign banks in China still face limitations in their market share, partly due to the lack of openness in China’s own domestic financial sector.

Later chapters on energy and environmental issues in China are also excellent, though there is very limited discussion on the actual environmental challenges that China’s domestic economic growth has caused and that its future transition must address, both domestically and on the global stage. A timely policy-oriented discussion over energy sector reform in China is presented by Guo and Gao (Chapter 19), which outlines the current technical and economic problems and offers policy recommendations in terms of reforms to the market structure and pricing. The chapter also also touches upon the need to build capacity in legal institutions.

One major thread that is often missing in the book, is its limited discussion of politics and bureaucracy. Only a few chapters, such as Fransman’s (Chapter 20), explicitly address the players and actors at work in China’s bureaucratic structures. Fransman addresses this in his discussion of urban governance and green city transport, highlighting the interplay between key decision-makers in this issue area. In general, however, the chapters by Chinese authors tend to focus on China’s domestic economic challenges in more abstract technical terms, both in terms of the problems of innovation, and the technical solutions to these problems, while chapters by Western authors tend to highlight wider global trends. Between these themes, what would be valuable is more discussion of the mechanisms and obstacles of these internal problems, and how the reforms the authors propose as necessary would be implemented. Which state or local institutions will lead or implement these reforms, and what and where are the political and social challenges to these policies? There is little analysis of the bureaucratic conditions and potential hurdles that accompany the challenges that the scholars identify, as well as the hurdles to the solutions they propose. Ultimately, the feasibility of reform and transition—whether it pertains to China’s multinationals, energy
sector, or the international ambitions of the Renminbi—will depend not only on overcoming economic challenges but also the challenges of the political process.

Notes

1 The Belt and Road Initiative was first announced in 2013 and has since become a lynchpin of China’s foreign economic policy under the presidency of Xi Jinping. The Initiative involves a series of massive infrastructure investments across the Eurasian continent and maritime corridors between Asia and Europe, supported by Chinese firms and capital, with the goal of promoting mutual development through trade and infrastructure connectivity.

2 The zero lower-bound refers to the constraint on the use of interest rates and monetary policy as a means to stimulate demand. Central Banks across the developed world lowered interest rates to effectively zero, at which point the strategy is no longer viable. This is a problem if other policy instruments (i.e. fiscal spending) are also constrained.

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