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CHINA'S ECONOMIC GROWING ROLE IN THE WORLD ECONOMY

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Тен Юнван. Вплив економічного зростання Китаю на світову економіку.
В статті представлено погляд на різні аспекти участі Китаю в глобалізації господарської та політичної активності. Розглядається вплив всесвітньої взаємозалежності національних господарств, що посилюється, та суспільно-політичних процесів на якісні характеристики економічного та суспільного життя в КНР на спрямованість та динаміку їх змін. Одночасно аналізується зростаючий вплив Китаю на систему міжнародних відносин в Азійсько-Тихоокеанському регіоні та в глобальному вимірі. Описані процеси, пов'язані з перетворенням КНР в активного та впливового гравця на міжнародній арені.
Ключові слова: економічне зростання, глобалізація, міжнародна економічна взаємозалежність.
Тен Юнван. Влияние экономического роста в Китае на мировую экономику.
В работе представлен взгляд на различные аспекты участия Китая в происходящей глобализации хозяйственной и политической активности. Рассматривается воздействие усиливающейся всемирной взаимозависимости национальных хозяйств и общественно-политических процессов на качественные характеристики экономической и общественной жизни в КНР, на направленность и динамику их изменения. Одновременно анализируется возрастающее влияние Китая на систему международных отношений в Азиатско-Тихоокеанском регионе в глобальном измерении. Описаны процессы, связанные с превращением КНР в активного и влиятельного игрока на международной арене.
Ключевые слова: экономический рост, глобализация, международная экономическая взаимозависимость.
Tien Yongwang. China's growing role in the world economy.
The article includes a view on China's involvement in ongoing globalization of economic and political activities. Growing interdependence of economies and societies on a global scale directly influence important characteristics of China's economic and political life and shape its evolution. Also, authors look into China's growing impact on international relations in the Asia-Pacific region, as well as in the world at large. The paper reviews the developments related to China's becoming an active and influential actor on the international scene and their possible repercussions on the situation in the Pacific Asia.
Key words: economic growth, globalization, international economic interdependence.

Over the past three decades, China's export-led growth mode has obtained tremendous success in economic growth and export promotion. Now, China's GDP ranks second just next to US in the world, and it is the largest exporter and foreign reserve accumulator and the second largest foreign trader. In accordance with the fame of "World Factory", China is also the largest manufactured goods producer, fixed capital investor, energy and raw materials consumer and CO2 emitter in the world, which has engendered prolonged worldwide impacts on manufactures supply, commodities demand and environmental conservation.

However, until recently China still has been peripheral to the international monetary and economic system. China's voting power at the IMF and World Bank has long been disproportionately small compared to its relative weight in the world economy. Chinese firms have only a modest international presence. The Chinese currency-the RMB-is at most a regional currency and hardly circulated in outside China. With an intention of establishing a new international financial and economic order, China has reiterated its appeals to accelerate the reform of the IMF, World Bank and the Financial Stability Board, and increasing their representation of developing nations in recent years. Due to its relatively low economy development level and limited capabilities in global governance, it is clear that China is generally a rule taker rather than a rule maker in the current Bretton Woods System.

The undergoing European sovereign debt crisis and recent global financial crisis has highlighted China's increasingly growing role in global economy. In western political and academic circle, the sharp rise of China has led to considerable controversy regarding potential repercussions for the current global governance architecture. There are at least two opposing scenarios are conceivable: China's adaptation to the rules and norms system shaped by developed countries or the pursuit of a distinctive policy approach, a possibility that involves the danger of clashing regulatory policies [1]. In this context, we undertake a comprehensive investigation in the growing role of China in terms of GDP size, investment and energy and raw material consumption, international trade and direct investment, RMB internationalization, and global governance participation, and conduct a predict on China's economic prospect and its role in the world economy.

Since the application of the policy of reform and open-up in 1978, China has experienced continuous and dramatic high economic growth, and its economy scale has increased 27 times in real RMB term, the GDP size rose amazingly from 148bn USD in 1978 to 8260bn USD in 2012.

Characterizing with high savings, heavy investment and export stimulation (competitive local currency exchange rate), China's export-led economic growth mode has achieved great success over the past thirty-five years, its average real economic growth rate attaining 9.9%, the highest economic growth rate in the world. In 2010, China's GDP reached 5930bn USD in current price, overtook Japan's GDP scale of 5474bn USD and became the second largest economy in the world. If China's strong growth trend continues, China will overtake USA as the largest economy in the not so far future. According to a prediction of OECD, if calculated in constant PPP international dollar, China economy size has surpassed the eurozone and will become the largest economy in the world in around 2016.

As a result of the persistently high economic growth, the share of Chinese economy scale in the world aggregate output has risen steadily in the past decades. China's GDP share in terms of current USD, constant 2000 USD and PPP constant 2005 international dollar over the period from 1990 to 2011.

In 2011, China's GDP share in the world aggregate world GDP reached 8.34% in constant 2000 USD, 10.46% in current USD and 14.20% in PPP constant 2005 international dollar respectively, and which was 3.58, 5.44and 3.09 times higher than the level of 1990 correspondingly.

It is worthy of noting that China is basically a relative poor developing country although it has made substantial progress in economic development and poverty alleviation. The level of GDP per capita in China has increased for 5.74 times over the period between 1990 and 2011, sharply rising from 392 in 1990 to 2640 in constant USA dollars or from 1100 in 1990 to 7417 in 2011 in constant purchasing power parity international dollars. However, China's GDP per capita is still far lower than world average level, meaning that current China is poor country even though its aggregate GDP ranks only next to USA as second largest economy. In 2011, the ratio of China's GDP per capita to world average GDP per capita equaled to 0.43 in constant 2000 US dollars and 0.74 in constant PPP 2005 international dollars respectively.

Due to large economic size and rapid economic growth, China has always made a substantial contribution to world economic growth. China had recorded large and positive economic growth contribution rate to world economy in most of years since 1991.

Over the period between 1991 and 2011 expect 2009, the average economic growth contribution rate of China attained 15.3% in constant 2000 US dollars and 23.2% in PPP terms (constant 2005 international dollar) respectively. If calculated in current US dollars, China's average growth contribution rate was 10.1% during the years of positive contribution. Comparing to current and constant US dollars, the growth contribution rates in purchasing power parity terms are much higher, which may be due to substantially larger size of Chinese economy calculated in PPP constant 2005 international dollars. It is worthy of noting that China had recorded large and minus growth contribution rates in some years particularly in 2009 should be owing to worldwide economy recession not China's negative contribution to world economy. In reality, China always plays a dominant stabilizing role in the world economy particularly when uncertainty risks substantially rise in worldwide economy.

A typical feature of China's economic growth mode is heavy investment. Since entrance into WTO in 2001, China rapidly became "world factory" and a main export platform in the world, and which strongly stimulates China's fixed capital investment in the areas of manufacture industries and infrastructures. As The size of fixed capital investment in China has experienced persistent and substantial growth in the past two decades, rising sharply from 92bn USD in 1990 to 3330bn USD, and whose share in global aggregate investment also climbed significantly from 1.8% in 1990 to 21.4% in 2011. In a sharp comparison to China, US fixed investment has decreased steadily in terms of not only the share in the world aggregate investment since 2000 but also the absolute size since the recent global financial crisis in 2007. In 2009, China surpassed USA and became the largest nation in fixed capital investment. Considering into Chinese features of high savings and investment, it is sure that China will maintain the status of largest investment economy in the foreseeable future.

Now, China ranks second only to USA as the largest nation in electricity production and 1 electric power consumption. China's electricity production and electric power consumption had increased steadily in the past decades. In 2010, the amount of China's electricity production and electric power consumption attained 4208bn KWH and 3938bn KWH respectively, much larger than the level of 580bn KWH and 621bn KWH in 1990, and whose share in world electricity production and consumption was 19.6% and 20.0% correspondingly.

A natural consequence of China's economy highly depended on large fixed capital investment and massive consumption of energy and electric power is heavy CO_2 emission. The scale of China's CO_2 emission has experienced rapid growth in the past decades, rising substantially from 2.46bn tons in 1990 to 7.69bn tons in 2009, and the share of China's CO_2 emission in the world aggregate emission correspondingly climbed from 11.0% in 1990 to 24.0% in 2009. China surpassed USA as the biggest emitter in 2006 and the emission margin between China and USA has continually enlarged since then, which partly explains China's worsening air pollutions in recent years.

In the past two decades particularly since entrance into WTO in 2001 except the global financial crisis year of 2009, China's exports and imports has always maintained continuously and dramatically growth momentum. China's export-led strategy has achieved unbelievable success and became the world factory. China sequentially overtook Japan as the third largest foreign trader in 2004, Germany as second largest trader in 2010 and USA as the largest exporter in 2011. The amount of China's imports and exports of goods and services in 2012 reached 1818bn USD and 2049bn USD respectively, and which is correspondingly 13.7 times and 7.70 times as much as those of 2001. In accordance with the strong growth momentum in absolute term, the shares of China's exports and imports in world trade have also increased steadily in the past decades, considerably rising from 1.43% and 1.21% in 1990, then to 3.43% and 2.09% in 1995, and finally to 8.49% and 8.00% in 2011 respectively.

In terms of global imbalance, China and USA are two key opponents. China is an excessive saver and exporter, while USA is an extravagant consumer and importer. Since 2005, China's trade surplus has increased sharply and replaced capital transactions surplus as the most important contributing factor to rapid accumulation in foreign exchange reserves. China had obtained moderate trade surplus between 1994 and 2004. However, China's trade surplus increased dramatically in 2005, and the scale of surplus reached 134 billion USD, which is 1.3 times more than that of 2004. This strong growth trend in trade surplus had maintained till 2008, and it then declined steadily due to the global financial crisis and China's economic structure adjustment. The share of China's trade surplus in GDP has experienced large fluctuation in the past decade, first rising dramatically from 1.66% in 2004 to 7.57% in 2008, and then steady falling to 2.80% in 2012.

It is rather difficult to explain the sharp expansion of trade surplus in the perspective of China's structural changes like drastic enhancement of enterprises' competitive capabilities, macroeconomic factors, such as, economic downturn. Although the rapid expansion in trade surplus should be highly related to the establishment of China's status as "world factory" and the flourish of export processing industries in recent years, the arbitraged capital inflows to obtain potential profits may be another important factor. With liberalization of current transactions, there are potential channels that unwanted capital movements occur via current accounts, particularly when the authority imposed strict restrictions on capital flows. Anecdotal evidences show that a frequent way for unwanted capital to evade capital movement restrictions is over-invoicing exports and under-invoicing imports. Owing to importance of foreign funded enterprises in Chinese import and export, with a share of 55% in 2008, it is easy for them to evade capital regulations through international transfer prices.

When China's foreign funded firms carry out goods trade with their parent companies, they receive high prices for exports while pay imports at low prices. Therefore, these multinational companies can obtain sure profits from the RMB revaluation through transfer prices. Due to the freedom in remittance of outward investment income payments by foreign investors, so the amount of unwanted capital inflows that disguised as export revenue depends on effectiveness of government's supervision on international transfer prices and potential revaluation range of the RMB.

The unwanted capital inflows associated with international transfer prices could produce substantial impacts on China's trade surplus. For example, the scale of import and export of China's foreign funded firms in 2008 is around 1410 billion USD, a ±5% departure from market price will cause 141 billion unwanted capital flows into China, and whose share in total trade surplus of 2008 is about 40%. Thus, the one-way anticipation of RMB revaluation and strict controls on capital inflows provide much incentive for multinational firms in China to circumvent capital mobility restrictions through international transfer prices.

Regarding cross-border capital movement, China adopts a discriminating regime of Capital Controls, and its approach to liberalization through selective easing of regulations. Some observers think that China's sudden drastic increase in trade surplus since 2005 seems attributed to two factors: one is the business cyclical factor, the economy slowed down due to the government's contracted policy; the other is Chinese export-led mode dominated by processing trade was finally established and China became the export platform of multinational firms [8].

A former head of National Administration of Statistics once claimed that one third of China's trade surplus in 2006 was hot money [8] been quite free. China implements a principle of general prohibition in capital transactions, with exceptions of freedom. Under this regime, capital transactions are extensively regulated and authorization is awarded individually. China's regulatory system discriminates among different kind of cross-border capital movements. Encouraging foreign direct investment (FDI) is China's long-held policy. With strong pressure of growing foreign exchange reserves, China has changed fundamentally the outward investment policy recently, and the authorization procedures of outward investment have been simplified substantially, and this will provide scope for capital movements in the future.

In attracting FDI inflow, China is new comer, hence its share of stock is substantially lower than that of flow, with the average share of stock and flow FDI reaching 6.97% and 2.64% respectively over the period between 2000 and 2012. Hence, China is a main and popular destination for foreign direct investment capital in terms of FDI flow.

In 2001, China began to implement the policy of encouraging Chinese companies to carry out direct investment. In June 2006, Chinese authority had delimited restrictions on foreign exchange quotas for outward investment, simplified approval and annual review processes, allowed all profits to be reinvested abroad and improved access to offshore guarantees issued by Chinese banks. In March 2009, the Ministry of Commerce of China(MOC) transferred most of authorization powers to the provincial branches and simplified substantially procedures of authorization of outward investments.

This policy shift intends to increase capital outflows to reduce external surplus, acquire oversea natural resources and advanced technology, establish market distributional channels for Chinese products, and enhance investment revenues of China's huge foreign assets. During the period from 1992 to 2004, China's outward investment was in stagnancy, and average amount of this category outflows was 2.6bn USD. However, under the background of large and persistent trade surplus and FDI inflow, and resultant rapid accumulation of foreign exchange reserves, China's outward investment has accelerated substantially since 2005. The flow and stock of China's outward direct investment rose from 12.3bn USD and 57.2bn USD in 2005 to 77.2bn USD and 502.0bn USD respectively, and the average growth rate the ODI flow and stock is up to 45.4% and 35.9% correspondingly over the period between 2005 and 2012. The share of China's ODI flow and stock in the world aggregate ODI flow and stock has experienced dramatic growth since 2005, sharply rising from 1.3% and 0.5% in 2005 to 5.9% and 2.3% in 2012 respectively. The share of ODI flow substantially higher than that of stock reflects China's late comer status in the field of ODI.

It is worthy of noting that the impacts of the outward investment encouragement policy on China's capital account will be much broader than the direct investment itself. With an expanded overseas presence, Chinese firms should manage their financial and currency exposure with large scale transactions spanning both onshore and offshore operations. Such abilities to engage in cross-border arbitrage could weaken the effectiveness of controls on capital transactions, such as trade credit and covered forward trading (Ma and McCauley, 2007). Therefore, China's authority should be aware of the potential for restricted transactions to occur within the intra-corporate accounts of Chinese-based multinationals.

Since joined in WTO in 2001, China has undergone large and persistent trade surplus and FDI and speculative capital inflow, and hence China's foreign exchange reserve has maintained dramatically strong growth trend. As seen in Figure 13, the amount of China's foreign exchange reserves skyrocketed at 3.31tn USD in 2012, and was around 2.6 times as much as that of Japan, the traditionally largest foreign reserves holder. In accordance with the strong growth in absolute term, the share of China's international reserves in world total reserves and China's GDP also has increased substantially, rising from 10.4% and 16.0% in 2001 and 30.5% (at the end of third quarter) and 40.1% in 2012 respectively. In recent two years, the growth of China's foreign exchange reserves lost momentum due to increasing flexibility of RMB exchange rate, encouragement of ODI and reduce in trade surplus.

It is well known that foreign exchange reserve can play a vitally important role in reducing the risks of external debt and local currency crises, and mitigating the negative shocks of a sudden reduction of capital inflow or capital flight when a financial crisis occurs. With lessons from Asian financial crisis, large foreign reserves are also tend to be viewed as an indicator of "strong fundamentals", hence leads to an upgrade of the country's credit ratings. Adequate foreign exchange reserves can provide monetary authorities broad space to adjust macroeconomic policy and enhance investors' confidence in the ability of a country to meet external obligations [4]. Owing to the buffer of huge foreign exchange reserves, China's cross-border capital movements have been quite stable during the US financial crisis and European debt crisis. Chinese experience highlights the importance of a foreign reserve buffer for those countries that suffer persistent current deficits, lack international capital market access, or are burdened with large short-term external debt.

However, holding huge foreign exchange reserve is costly particularly in China's case. Currently, China's foreign exchange reserves are mainly invested in US, European and Japanese long-term government and agency debt securities. The international financial and sovereign debt crises have accelerated the diversification of China's foreign exchange reserves, with a substantial decline in US agency securities holdings and a significant increase in purchases of Japanese government bonds. Although the PBOC's sterilization costs are generally in control at the price of financial repression and economic structure distortion, it has become an increasingly difficult task for the central bank to realize a break even on the costs and benefits of holding foreign reserves since the financial crisis began, due to the historically low international interest rates originating from quantitative easing monetary policies in advanced countries intended to address global economic recession, and also exchange rate movements.

Since the vast majority of China's foreign reserve assets are high-rated government debt securities, the financial crisis and European sovereign debt crisis have not caused large capital losses. In fact, China has gained some short-run unforeseen profits from its massive investments in US government debt, resulting from the significant rise in market prices of US Treasury securities. During the sovereign debt crisis, China has recorded some losses on its investment in euro assets owing to the depreciation of the euro, but the impacts of the default on euro debt securities and even the restructuring of Greek debt have been limited to private holders and have not affected the Chinese government. However, when the global economy, financial system and government fiscal positions return to normal, the mismatch in the risk and return on China's foreign reserves will deteriorate, with long-term fixed income securities as the main investment targets. At present, China's foreign exchange reserves face three potential risks: default risk on US agency bonds and government debt securities in some euro zone peripheral members; inflation and interest rate risk originating from the quantitative easing monetary policies in the US; foreign exchange rate risk owing to the long-term depreciation of the US dollar [2].

As China's economy has continued remarkable expansion and gained an increasingly important role in the world economy, the regime shift and internationalization of the RMB, Chinese local currency, has also captured growing attention around the world. In terms of RMB regime and accumulation of huge foreign exchange reserves, China is the biggest supporter of current Bretton Woods System and the privilege status of US dollar, through RMB rate queasily pegged at the USD and international reserves heavily invested in US treasury and agency bonds. The RMB regime reform and internationalization indicates that China wants to become a player which is commensurate to its economic size but a passive accepter in the global economic governance.

On July 21, 2005, China implemented currency reform and introduced a new exchange rate system called "Managed Floating Exchange Rate" based on BBC (Band, Basket, and Crawling), and allowed RMB for a small and first revaluation from 8.28 to 8.11 RMB per US dollar. Before that, the Chinese authorities pegged the RMB price of the US dollar within a very narrow range. Regarding the band, the authority officially limited the daily range of fluctuation of the RMB verses US dollar to±0.3%, and which was widened to±0.5% later, but the actual fluctuation range of the RMB is much narrower. On the basket, the regime of RMB exchange rate was shifted from strictly pegged at US dollar to a basket of main currencies, such as, dollar, euro and yen. Regarding the crawling, the authority allowed the RMB appreciate gradually against the dollar, and Chinese authority had to intervene massively in foreign exchange market to keep the RMB from rising fast.

Under the one way option of stable appreciation of the RMB, large speculative capital flowed into China and induced commodities and assets bubble, to address increasing pressure on inflation and foreign reserves, the pace of appreciation of the RMB accelerated in 2007. In the late half of 2008, with unfolding of the global financial crisis and strong appreciation of US dollar, the RMB temporarily stopped appreciation against dollar and actually returned back to peg at US dollar. The flexibility regime of the RMB against the dollar was reintroduced in June 2010 and the fluctuation range of the RMB versus the dollar was further enlarged to one percent on April 16th, 2012. Since the regime shift in 2005, the RMB has appreciated around 30% against the dollar. As a result of strict constraint regime in capital account transactions, China's stance toward internationalization of the RMB had always been negative and reluctant to allow the RMB to act as a transaction medium in foreign trade. Due to the anxiety on the exchange risk and sterilization cost of huge foreign reserves, China's stance towards internationalization of the RMB has changed fundamentally since the U.S financial crisis.

A small step forward to the RMB internationalization is currency swap. China has signed currency swap agreements with some economies, such as, South Korea, Hong Kong, Malaysia, Belarus, Indonesia, Argentina, Iceland, New Zealand, Kazakhstan, Mongolia, Thailand, Pakistan, The United Arab Emirates, Turkey, Australia and Brazil, and total amount of the currency swap reaches around 1.4tn RMB. This will help the RMB to play the role of trade settlement currency between China and above economies, and foreign reserve currency in these countries at some degree. Although currency swap can possibly raise international status of the RMB, the exchange risk of holding such soft currencies for China is higher than that of the dollar. Therefore, as an urgent measures to overcome shortage in foreign exchange assets, the currency swap should not implement largely and continuously.

A much important step to internationalization of the RMB is its initial experimental application as a settlement currency in the trade between China and adjacent economies in July 2009, such as, Hong Kong, Macao, and ASEAN countries. Shanghai, Guangzhou, Shenzhen, Zhuhai and Dongguan are chose as experimental sites for cross-borders trade settlements denominated in the RMB. In terms of the RMB as settlement currency in cross-border trade, domestic experimental sites were extended to 20 provinces and municipalities, and abroad ones were broadened to the whole world in June 2010. In August 2011, domestic pilot sites were further extended to the whole country.

China also has made significant progress in RMB internationalization in the following aspects: first, the RMB has become a settlement currency in China's FDI and ODI capital movement; second, RMB offshore centers, such as Hong Kong, London and Singapore, have experienced rapid development, and the amount of RMB deposits in Hong Kong reached 603bn RMB in December 2012; third, the channels of oversea RMB flow back have been significantly broadened, with the allowance of Chinese firms issuing bonds denominated in RMB in offshore RMB market, the increasing quota of RMB qualified foreign institutional investors (RQFII) up to 70bn RMB in January 2013, and the start of RMB loan flowing from Hong Kong to Qianhai, Shenzhen; finally, the RMB has become a regional currency and is accepted as reserve currency in some countries, such as, Nigeria and Thailand.

The internationalization of a currency depends on many factors – the size of the country's economy and its relative share in the world output, its growth performance, its openness to external trade and investment, the state of developments of its financial markets, the degree of convertibility, and the credibility of macroeconomic policies [2]. Considering into the current state of China's financial development, capital transaction constraints and economic efficiency, it still has a long way to go for Chinese currency joining the U.S. dollar, the euro, and the Japanese yen as one of the leading global currencies.

The undergoing European sovereign debt crisis and recent global financial crisis has highlighted China's increasingly rising role in global economy. As financial institutions in the US and Eurozone collapsed under the weight of subprime loans and sovereign debts, and the developed countries and even the world fell into worst economic depression in 2009 since the Great Depression, China has remained one of the few islands of stability. The relative robustness of Chinese financial system and economy at the time of international financial crisis and global economic recession has seriously undermined the hegemony of advanced nations in the global governance [7]. The current global architecture has been reshaped by the international financial crisis, and developed countries no longer can solve challenges by themselves alone without rest on emerging economies.

Through insistent call for more representation of the developing world in global governance, China has taken advantage of the recent international financial crisis to enhance the interests and influences of developing countries, and pushed forward the establishment of a new world economic order that is just, equitable, sound, and stable. Four main points have been developed thus far.

The first is to make use of the G20 and BRICS as the main platforms for global governance. Since the global financial crisis, China has actively participated international coordination involving the developing countries, such as the G-20, which includes the major industrialized countries and the largest developing countries. Currently, the G-20 has replaced the G-7/G-8, the club of seven wealthiest nations plus Russia, as the most important forum for global governance, discussing how to cope with new global challenges and reform global architecture. Now, the BRICS group- Brazil, Russia, India, China and South Africa-has emerged as a main mechanism for main emerging market economies to cooperate and coordinate. The BRICS has made significant progress in stances coordination on worldwide challenges and issues, macroeconomic policies coordination, financial cooperation, and trade and investment facilitation.

The second is to enhance the status and voice of China and emerging countries in existing international financial organizations and monetary architecture. As Table 1 shows, China's voting power at the IMF and World Bank has long been disproportionately small compared to its relative weight in the world economy. The recent global financial crisis accelerated the governance and quota reform in the International Monetary Fund and World Bank. If the quota reforms are both implemented, the voting share of China in the IMF and World Bank will rise significantly from 3.65% and 2.78% to 6.7% and 4.42% respectively, and China will become the third largest voter next to USA and Japan in the above two international financial institutions. However, the post-reform voting share of China is still substantially lower than its weight of GDP in 2011, with the GDP share in world output reaching 10.46% in current dollars, 8.34% in constant dollars and 14.20% in PPP terms. And the share of BRICS in the IMF and World will also change moderately from 10.45% and 14.14% to 11.26% and 13.10%, while that G7 will decline significantly from 44.39% and 42.85% to 41.20% and 39.26% respectively. It is worthy of noting that the reform pace of the IMF is quite slow, and the quota reform has not yet been implemented.

In the Joint Statement of the Fifth BRICS Summit in Durban in April 2013, the BRICS leaders expressed their close concerns with the slow pace of the reform of the IMF and called for the reform of International Financial Institutions to make them more representative and to reflect the growing weight of BRICS and other developing countries, through supporting the reform and improvement of the international monetary system, with abroad-based international reserve currency system providing stability and certainty, welcoming the discussion about the role of the SDR in the existing international monetary system including the composition of SDR's basket of currencies, and proposing that the leadership selection of IFIs should be through an open, transparent and merit-based process and truly open to candidates from the emerging market economies and developing countries.

Table 1. G7 Group and BRICS Group's Voting Share in IMF and World Bank (in percent)

	GDP Share			IMF Voting Share		World Bank Voting Share	
	Current USD	Constant USD	Constant PPP	Pre- reform	Post- reform	Pre- reform	Post- reform
G7	48.02	57.02	38.26	44.39	41.20	42.85	39.26
USA	21.42	27.59	18.85	16.74	16.48	16.36	15.85
Japan	8.38	11.89	5.58	6.01	6.14	7.85	6.84
Germany	5.15	5.03	4.03	5.87	5.31	4.48	4.00
France	3.96	3.54	2.78	4.85	4.02	4.30	3.75
UK	3.49	4.16	2.93	4.85	4.02	4.30	3.75
Italy	3.14	2.70	2.34	3.19	3.02	2.78	2.64
Canada	2.48	2.10	1.75	2.88	2.21	2.78	2.43
BRICS	**19.88**	**14.47**	**26.43**	**10.45**	**14.14**	**11.26**	**13.10**
China	**10.46**	**8.34**	**14.20**	**3.65**	**6.07**	**2.78**	**4.42**
India	2.64	2.44	5.66	1.88	2.63	2.78	2.91
Brazil	3.54	2.22	2.88	1.38	2.22	2.07	2.24
Russia	2.65	1.02	3.00	2.69	2.59	2.78	2.77
S. Africa	0.58	0.45	0.70	0.85	0.63	0.85	0.76

Due to close concerns over the safety of its large holding of dollar assets, the governor of the PBOC, Zhou Xiaochuan, in an essay published on the website of the Chinese central bank, severely criticized the dollar-dominant monetary system and proposed to create an international reserve currency disconnected from individual countries to escape the inherent deficiencies caused by using credit-based national currencies. As a reflection of the orientation, China has accelerated the RMB internationalization in the areas of currency swap, trade, investment and loans since then.

The third point is to encourage China's foreign trade and cross-border investment by the bilateral and multilateral trade and investment system. As a main trader and FDI receiver and emerging outward investor in the world, China has a great stake in an open, just and non-discriminatory bilateral and multilateral trade and investment system. With fledgling bilateral and regional free trade agreements (FTAs), China mainly relies on the multilateral trade system to promote its trade. The early conclusion of the Doha round negotiations has been in China's interest.

There is concern, however, at the attempts by developed countries to limit market access due to social and/or environmental standards (Sun, 2011). As the stakes are so high for China, it will it take a more active role in the Doha negotiation.

In the areas of international investment, there existed no similarly powerful multilateral institution as the WTO in the world trade system, and hence China heavily depends on bilateral investment treaties (BITs) as the most important legal instrument for the governance of global foreign direct investment flows. China has been a committed signatory of BITs since the early 1980s (120 treaties up to 2007). It is thus the second most active contracting party to BITs worldwide, surpassed only by Germany. With the shift from a one-way FDI capital receiver to a two-way importer and exporter of foreign direct investment capital, China's attitude towards BITs has changed substantially. Before the end of 1990s, the traditional Chinese BIT approach has only cautiously supported the legal protection of FDI. As a mere capital-importer, China concluded BITs that contained serious reservations and safeguards intended to preserve policy spaces for the regulation of incoming investments. Starting at the end of the 1990s and the beginning of 2000s, China has initiated a decisive policy shift towards a liberal BIT approach characterized by high levels of substantive and procedural investment protection (Berger, 2008).

The fourth point is to enhance regional economic integration. Regional integration can not only help China sustain its long-term strong growth momentum by sharing the prosperity of Asian economy, but also provide a mechanism to minimize risks of potential conflicts among countries in the region through increased interdependency. China has taken an active and realistic position in pushing forward regional integration. Currently, The economic cooperation among China, Japan and Korea, and their cooperation with ASEAN, such as, the Platform of "10+1" and "10+3", have constituted a solid foundation for regional integration in Asia. The Shanghai Cooperation Organization (SCO) is another platform that China uses to strengthen its cooperation with Central Asia and Russia. The SCO has played an important role in stabilizing the security situation in the region. It is expected that the SCO will go beyond security issues and expand into the economic field in the future (Sun, 2011).

Although China has obtained tremendous achievements in economic development in the past three decades, such as, the second largest economy, the biggest exporter and foreign reserves accumulator, and the fame of world factory, China is still a poor country, whose income per capita was just 7.0% and17.5% of that of USA in constant dollars and17.5% in PPP terms respectively in 2011. The huge income gap between US and China is evidence that there existed large technology gap between China and industrial countries. Hence, China still can continue to enjoy the backwardness before closing the gap.

According to an optimistic prediction by Lin, China can continue to enjoy the advantage of backwardness before closing the gap and has the potential to grow dynamically for another 20 years. By 2030, China's income per head (measured in purchasing power parity) may reach about 50% of that in the United States. By then, China's economic size (in purchasing power parity terms) may be twice as large as the US; and measured at market exchange rates, China may be at least the same size as the US two decades from now [3].

However, it is impossible that China's rise process will be gone smoothly without a setback. China will encounter some serious challenges in the coming years. These challenges are as follows: First, European sovereign debt crisis and resultant gloomy global economy could dampen hopes for moderate world growth over the next several years, and which has caused the resurgence of trade and investment protectionism in the world so that some countries have set up many non-tariff barriers against Chinese firms, such as, anti-subsidy, anti-dumping and product standards. This has constituted a serious strike on the sustainability of China's export-led growth mode.

Second, the application of the principle of neutral competition will make Chinese firms particularly SOEs experience many obstacles in carrying out outward direct investments, such as, investment motives investigation, state security examine, market monopoly investigation, and industrial entrance barriers.

Third, the reindustrialization plan of US will constitute a serious threat to the competitive capability of Chinese firms. Comparing to Chinese firms, US manufacturing enterprises have substantial advantages in capital financing cost, energy cost and technology. With an intention to enhance the competitive and export capabilities of manufacturing goods, reduce trade deficits and make the core economy return back to manufacturing industries, the US government plans to provide tax subsidy and R&D fund support to high end core industries like new energy and new equipment.

Fourth, due to low entrance barriers, standardized technology and low value-added ability, Chinese firms have undergone fierce competitions in the world and their temporary competitive advantages in international production chains can easily lose.

Fifth, China's current economic growth mode has faced increasingly serious constraints in labour, land, resources, energy and environment. China has faced the potential threats of social instability, such as, disparity in urban and rural areas, income gaps in different stratums, social emergent incidents, corruption, environment pollution, real estate bubble, and unjust in education, health care and endowment insurance.

To copy with the above five main challenges, China should firmly push forward economic reform and structural rebalance. First, China economic growth mode should shift from over-reliance on exports to consumption driven, with a balance between consumption and investment, the latter is critical industrial upgrading, raising incomes, and developing "green economy" sectors [3].

Second, China should give new impetus to accelerate structural transformation to reduce income disparities, with alarming income inequality approaching the level of Latin American countries.

Third, China should improve its market economy framework, equally treating to private firms and SOEs, and establish institutional environment favorable for technology innovation. Fourth, China should seek balance between environmental protection and economic growth, shifting its stance towards short-term growth and long-term environmental sustainability.

If China's strong growth momentum continued and economic restructuring gone smoothly in the next ten years, China will become a critical important economy and can make manifold contribution to global economy. For advanced countries, China will become an actual main market for their capital goods, intermediate goods and high end consumption goods. For countries rich in agricultural and natural resources, China's huge demand on commodities will continue to support commodity prices and theirs export sectors. In addition, China's capital control measures will be loosed substantially, and China will become a main capital exporter in portfolio and direct investments in the world. It is sure that Chinese firms will be actively involved in international production and management, not only investing in advanced countries for marketing channels, technology and product brands, but also providing funds for natural resource and infrastructure investment in emerging markets and low-income countries. This is already happening, and it will continue in increasingly larger scales.

It is certain that the growing relative strength of China will inevitably lead to the reshape of global governance. As a stakeholder in the current international economic system, China will be play an active role in reforming global governance to defend its expanding national interests and to enhance its status in the world, through addressing the unreasonable and unjust components in the existing world economic order [6]. Considering into the national interests and limited abilities in global governance, it is clear that China will adapt to the current rules and norms system shaped by developed countries and won't aspire to create an alternative global governance system. In sum, China will generally be a supporter not challenger of current international order, and it will enhance its voice through a complementary rather than a competitive approach in the field of global governance.

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