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# China and the evolution of the world economy

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ABSTRACT

China's rapid growth and its growth model have accelerated important existing structural trends in the world economy and made them decisive characteristics of the global economy. In particular, China has ensured that this will be the era of the global market economy; the super-industrial economy; the post-industrial economy; the ecologically constrained economy; the complex economy; the highly globalized economy; the innovation economy; an economy with a new moral consciousness about the global supply chain; and an economy with an emerging new monetary system.



China's rapid growth for three decades has pushed the global economy past a number of thresholds, namely the era of the global market economy; the super-industrial economy; the post-industrial economy; the ecologically constrained economy; the complex economy; the highly globalized economy; the innovation economy; an economy with a new moral consciousness about the global supply chain; and an emerging new monetary system. In most of these cases, it accelerated trends initiated elsewhere, sometimes long under way, but it accelerated development past a tipping point for the world economy considered as a whole and ensured that the trends would continue in a way that might not have occurred if the Chinese economic takeoff in the last three to four decades had not taken place. For instance, Daniel Bell wrote in the mid-1970s about the emergent post-industrial economy in the United States,[1] but if China had not reformed under Deng Xiaoping in 1979 and if India had not had the example of Chinese reform, the world economy as a whole would not have moved decisively into the post-industrial era.

First, reformist China pushed the world over the threshold into a global *market economy*. Previously China and the Soviet Union had been autarkic non-market economies. India was decisively non-market in different ways. Much of the rest of the developing world was strongly influenced by their ideologies. Even though the market economies were already much more prosperous, anti-imperialism, dependency theory, and anti-capitalist egalitarianism converged for the majority of the world's population and the majority of the globe's land mass. In 1979–1980 the Soviet Union was believed, even in the White House, to be a very successful economy. India was not about to change direction. China had been promulgating an anti-market ideology all over the world. What broke the back of anti-market socialism was Deng Xiaoping's moves toward the market and the extraordinary success that followed from the return to family farming, the industrial responsibility system, market pricing, and the gradual opening to foreign market economies. China proceeded gradually, proclaiming the "socialist market economy" in 1994 and calling for market-dominated resource allocation in 2013, but the example of China's decisive and successful break with autarkic

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[1] Daniel Bell, **The Coming of Post-Industrial Society** (New York: Basic Books, 1973).

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socialism and the practical consequences of China's withdrawal in the early 1980s from support of revolutionary movements around the world already had a decisive impact in the 1980s.

As with the other trends, China's impact brought to earlier fruition a trend that, barring some horrific event like a nuclear war, might well have come to fruition eventually but happened much earlier and much more decisively because of China.

The most important ramification of this market reform success was to lift a couple billion people out of poverty and to lengthen their lives. From Mao-era egalitarian reforms and infrastructure building in the 1950s through the market reform era, the life expectancy of Chinese nearly doubled, from a bit above 40 years to the mid-70s today. A decade after Chinese reforms, India had a crisis, realized it needed a new economic strategy, and Chinese success inspired market reforms that lifted hundreds of millions of Indians into better lives. When I held an advisory board meeting in Delhi in 2005 for the center I ran at RAND, India's Finance Minister gave the keynote speech and emphasized that “China's success is the best thing that ever happened to India,” because it provided the desperately needed model for reform. Elsewhere in Asia, Africa and Latin America, large numbers of people have benefited from the model of gradually opening up and moving to the market. Bangladesh, long labeled a hopeless failed state, has experienced impressive growth from spillover of the Chinese model. Ethiopia, once a symbol of starvation and hopelessness, has recently been the world's fastest growing economy, based in part on advice from Justin Lin, the Chinese economist who became Chief Economist of the World Bank, and on Chinese investment.

Given its success with progress toward an open market economy, China has led us into *a super-industrial or surfeit economy*. For all of human history until the end of the 20th century humanity has lived in an economy of scarcity. Perhaps one could even say that life in general has lived in a context of scarcity. We have not had enough food, cement, clothing or toys to feed, shelter, clothe or amuse the whole human race. With the transformation of China from a society of scarcity, one where many people starved in the 20th century, one where members of “one-pants families” in Northeast China had to share a single set of clothes, and one in which, through part of the 1950s, the average person lived only a little over 40 years, into an economy of surplus, not just China but also the whole world has passed a tipping point. We now have more than enough shirts and shoes, more than enough cement, and other basic materials and more than enough toys to provide the basic needs of every human being on the planet. In 2014 China alone produced approximately 14 billion pairs of shoes and 74 billion RMB worth of toys, enough to provide almost two pairs of shoes and one or two toys to every member of the human race.

That is of course different from saying that every human being actually has what he or she needs. We still have a severe distribution problem. There are hungry people in China, hungry people in America, and huge numbers of hungry people in India and Africa. But we have moved from an era where the problem was inadequate production to an era where the problem is exclusively distribution—a crucially important problem, one that we don't know how to solve, but a different problem from the problem of scarce production. China's increased productivity and integration into the world economy have even shown that the problem of feeding the whole human race, a problem that writers like Lester Brown erroneously believed would become disastrous as a result of China's development,[2] have been resolved—also a distribution problem, not one of production.

Somewhat paradoxically, China has also helped the world into the era of the *post-industrial economy*. The super-industrial economy is so efficient that we no longer need most people to work in the industrial economy. Production keeps going up, but the number of workers needed to create that production keeps going down. All developed economies have long had more workers in services than in manufacturing. Now that China, too, has passed that threshold, as it did in 2012, the world as a whole has passed the tipping point. This transformation is fundamental. Two centuries ago most of the world population, including almost all Americans, worked in agriculture; now only about 2% of Americans work in agriculture, not because U.S. agriculture is weak, but because it is strong. Now the same thing is happening in manufacturing; Europe, the U.S. and China are all losing manufacturing jobs, not because manufacturing is weak but because it is strong—although U.S. politicians, spurred by interest groups, generally refuse to acknowledge this.

Barring catastrophe, for the rest of history the majority of Gross World Product (GWP) will come from the service economy. The majority of jobs will be in the service economy. (In China, the number of jobs in secondary industry, largely manufacturing, turned down starting in 2012. In 2015, the service economy became 50.5% of China's economy, surpassing the primary and secondary sectors combined.) The best jobs—for instance jobs in finance, law, education, accounting, government, entertainment—will be in the service economy. (In the U.S. there is a myth that service jobs are typified by serving burgers at McDonalds; while those are indeed service jobs, if they were typical then GDP would not grow as output comes increasingly from the service economy.) All wealthy large economies are predominantly service economies, and all large service economies are wealthy. (Small island tourist economies like Jamaica may sometimes be poor and also primarily services-based. Oil economies like Kuwait can be wealthy based on primary goods. But these are exceptions.) Given the Chinese transition, our global economy will be a *service economy*.

[2] Lester Brown, **Who Will Feed China?: Wake-Up Call for a Small Planet** (New York: Norton Worldwatch Books, 1995). The book was enormously influential, even though it was eviscerated in a devastating review: Robert L. Paarlberg, “Rice Bowls and Dust Bowls: Africa, Not China, Faces a Food Crisis,” **Foreign Affairs,** May/June 1996.