The Rise of China Reoriented:
The Fragility of China’s Economic Power

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Introduction

China’s rise is probably one of the most important issues in our time. It has sustained a rapid growth of gross domestic products (GDP) for over thirty years, significantly narrowed its gap with the United States, and changed the basic distribution of power in international relations (IR). But how should we make sense of China’s rise? As an officially claimed socialist country, Chinese SOEs have occupied high positions in various firm ranking lists like those of Forbes or Financial Times. But China has also voluntarily inserted itself into the increasingly globalized world market, attracted a huge volume of foreign direct investments (FDI). It is natural to ask how do the historical and contextual factors influence the rise of China, which we’ve taken so granted in IR? With this question in mind, this paper tries to answer how China’s historical legacy and the new wave of globalization mean for China’s economic power. Or put it in another way, should we understand economic power itself in a whole new way?

A basic assumption of this paper is that the rising phenomenon is not essentially determined, or corresponding to a specific historical trajectory which is almost doomed to repeat itself. Rather, it is socially constrained and historically bounded. In China’s case, I will argue that its parallel rise with the neoliberalization of world economy has fundamentally differentiate China’s rise with other previous rising cases. In addition, the socialist legacy of a strong state and state-owned enterprises (SOEs) has converged with the neoliberal agenda, forming a unique development model, as dubbed by David Harvey (2005) as “neoliberalism with Chinese characteristics”. These structural and historical conditions have, on the one hand, contributed to China’s economic growth, but also trapped Chinese firms generally at the low ladder of global production hierarchy, thus limited China’s economic power.

In the following, I will first review the current debate on the rise of China, and criticize the tendency to understand power in a non-structural and state-centric way. Then I will analyze how China’s economy has been penetrated by globalized production and capital, with a particular attention to the problem of “who gets what” (Strange 1982), and argue how this status quo is hard to break, due to the vested interests that China’s development model has given rise to.
**Literature Review**

The rise of China has given rise to a number of related debates in academia. One arena of the debates is whether China will continue its peaceful rise or not. Pessimistic scholar Mearsheimer (2006, 2014) stuck to his theory of offensive realism and predicted that conflicts are inevitable between a rising power and the old hegemony. Whereas optimistic realist Glaser (2011) argued that the security dilemma between China and the United States (US) can be mild by careful management between two countries, since the US enjoys the sense of safety because of the vast expanse of the Pacific Ocean and its nuclear deterrence. For scholars who emphasize ideational factors, Buzan (2010) and Qin (2010) debated whether China is a status quo or a revisionist power in international systems, which directly concerns whether China can continue its peaceful rise as it did in the last thirty years. In Friedberg’s research (2005), he extracted various factors, which have played roles in shaping the future Sino-US relationships, from three IR theoretical mainstays, namely realist, liberal and constructivist approaches, and argued that whether there will be conflicts along with China’s rise depends upon how those factors evolve in the future. In addition to the above “peace-conflict” debate, scholars have also been occupied by the question of what the world order will, or they wish to, look like in the future. Ikenberry (2008) and Walt (2011), from different approaches, both claimed the inevitable end of unipolarity in the near future and discussed how the US should act upon it. And more boldly, Buzan (2011: 3) predicted that the future world order will be one of “decentered globalism, in which there will be no superpowers.”

Above debates about prediction and management of the power transition have been theoretically rigorous and practically policy concerned. Despite their different concerns, what they have in common is that their arguments, explicitly or not, all hinge on a certain presupposition of the actual distribution of power among nations at the present — a dispute that is far from settled. Oddly enough, most scholars have not given adequate attention to the concept of power when they actually analyze the possible power transition between China and the US. I thus identify two shortcomings of power analysis in the debate on the rise of China in IR, which are the tendencies to be non-structural and state-centric, and then propose to examine economic power through exploring what Susan Strange (1996) called “who gets what”.

The first shortcomings is the non-structural view of power, which is rooted in the basic ontology of rationalist tradition of theorizing, as pointed out by some constructivists (Guzzini 1993, Barnett and Duvall 2005) and critical scholars (Ashley 1984, Gill and Law 1989). The emphasis of state capacity at the agential level is good at identifying the basic resources a country can potentially mobilize. And the basic distribution of resources among nations will determine the configuration of world order. From this rationalist, and primarily realist worldview, factors at the structural level should be reduced to the agential level. In other words, there are no internal logic by structure
itself beyond the control of actors. Typical examples are scholars’ examination of gross domestic products (GDP) or trade to assess economic power (Gilpin 1981, Mearsheimer 2001). And it seems that some of them (Walt 2011, Acharya 2014) are particularly concerned with the exact time when China may eventually overtake the US in terms of GDP. Indeed, the vast amount of GDP means more than just a figure. It represents the basic scale of a country’s economy, how much economic influence it may have on the rest of the world, how much economic resource it can mobilize, etc. But this approach tells us little, if there is any, about the hegemony of the US dollar in international currency system, the central role played by transnational corporations in global production systems and how those structural factors influence the asymmetrical interdependency among nations. These structural factors have grown more significant with the globalization of production and capital. The integration of world economies has led to the geographically fragmented global value chains (GVC), which have resulted in a tremendous increase of trade of intermediate goods. Lead firms with core technologies or management skills focus on high value added segments of production, and maintain a privileged power status vis a vis other firms along the value chains (Gereffi, Humphrey and Sturgeon 2005).

Although some liberal scholars rightly emphasized importance of international system, they (Keohane 2005, Ikenberry 2011) nonetheless based their understanding of power at the agential level, leaving structural factors as constraining background, thus failed to take into account the indirect power residing at the structural level, which have been understood well among critical scholars. Thus in China’s case, except for examining its economic power through GDP and trade, more work need to be done to investigate how much value added can be captured by Chinese economic actors, what the basic status of Chinese economy is at the hierarchical ladder of GVC, and whether China has enhanced its structural power along with its growth of GDP.

The second limit of current power transition debate is its state-centric view of power, which is another example of the dogmatic view of national power. The overemphasis on macroeconomic data, primarily GDP and trade, assumes that state is the primary actor on international stage, which is still likely to be true. Nonetheless, the power relations between market and state is not simply one-sidedly dominated by states. The diffusion of power from states to other actors, as illustrated by Strange (1996) and Nye (2011), have made power relations far more complex than before. In China, SOEs have formed strong political influences in the decision making process of Chinese Communist Party (CCP). In supposedly democratic government of the US, the state has been more captured by big banks and corporate elites (Harvey 2008, Brown 2015, Fukuyama 2014), in the form of electoral financial corruption and interest convergence between political and economic elites, to the extent that the US government functions more like a oligarch than democracy (Gilens and Page 2014). Thus the traditional bias of state-centric view of power hinders scholars to consider the actual sources of power when analyzing international affairs, and leads to the incomplete story of great power politics.
Considering the growing power of transnational Corporations (TNCs), Starrs (2013) argued that American TNCs have extended US economic interests around the world, which are beyond the national economic statistics. And Starrs’ examination of TNCs have provided a new picture of the distribution of economic power among nations, which showed that the decline of the US hegemony is largely a myth. And this paper will try to put Chinese firms into the context of neoliberalization of the world economy since the late 1970s, which can be examined through GVC and the influence of international capital in China. In this way, China’s economic power can be examined from both a structural and non-state-centric perspective.

Scholars from political science tend to be more interested in the essential core of the concept of power, which can detected from the separation of power-as-relation camp (Dahl 1957, Baldwin 1979, 2012) and power-as-capacity camp (Morriss 2002), and also a more eclectic and pragmatic approach adopted by Nye (2011). Limited efforts have been made to analyze how power can be different within specific space and time. This absolutist tendency is especially problematic in China’s case, given its relatively distinctive domestic economic system, and the fast changing structure of global economy. Thus it is necessary to both contextualize and localize the examination of China’s economic power. And this paper will not try to define power in any essentialist view, which in my view is doomed to be endless, instead I will focus on a more concrete question which is “who gets what”, as an indicator to reveal power relations.

**Made in China, Owned by Foreigners**

The capitalist turn of China’s economy since the late 1970s coincided with the neoliberal turn of the capitalist world. Although China’s economy is far from the ideal principles of neoliberal economic policies, which are the deregulation of financial institutions, privatization of public sectors, tax reductions, full competition etc. But its basic principles have successfully influenced China’s direction of economic reform, resulted in a large scale of privatization of SOEs in the 1990s by then premier Zhu Rongji, the opening of domestic markets to foreign capital especially since 1990s, and the integration of China’s economy into the world which culminated in 2001 with China’s entry into the World Trade Organization (WTO). The parallel advances of China’s economic reform and the spread of neoliberal agenda have made China’s economic rise fundamentally different from the previous rises of great powers and also other East Asian newly industrialized economies (NIEs). In a more globalized world economy, production has become fragmented and capital has become more fluid. In this specific historical context, I will try to reveal how much value added along GVC has been produced within China on the one hand, and how foreign capital has played role in this process on the other.

According to a report issued by WTO in 2015, the degree of China’s participation in GVC has increased 18.6% in average per year from 1995 to 2011, which is higher than
both developed economies and other developing countries. Corresponding to China’s insertion into GVC, its trade volume has exploded and firmly maintains the status as the largest trading country. By making good use of its low-cost labor force and improving infrastructures for doing business, China has become the world factory, an important nodal point in the networks of GVC. In Layne’s words (2012: 205), “China displaced the United States as the world’s leading manufacturing nation — a crown the United States had held for a century.” But the value of that “crown” has been largely overestimated. Because in today’s global production networks, manufacturing is just one part of the whole process of production, and it is certainly not the most vital and lucrative part. So Layne’s claim (2012: 204) of “the unprecedented shift in the center of global economic power from the Euro-Atlantic area to Asia” actually mistook the location of production for the location of economic power.

An examination of GVC will disprove Layne’s typical argument. In order to do so, we have to identify China’s relative status in GVC, to reveal how much value added are actually created in China and how this trend has changed over time. In order to show this, I apply the indicator of domestic value added share (DVAS) in exports. The advantage of DVAS is to avoid the sheer consideration of export volume, and to reveal exactly how much value added has been actually produced within the country that exports. By drawing upon WTO-OECD database, we can compare the DVAS of major economic powers. In Figure 1, I compare the DVAS in gross exports among the US, Japan, Germany, UK, and China. For China, its DVAS has slightly increased about 1 percent from 1995 to 2011, and reached 67.84 percent in 2011. And other economic powers basically have experienced decline in their DVAS over the same period. Despite this narrowing gap, these developed countries have still maintained their relative advantage over China and all of them were above 70 percent in 2011. Figure 2 is the comparison of DVAS in exports of computer, electronic and optical equipment, which is one of the top exporting industries in China. In this category of industries, China shows a dramatic increase of DVAS from 26.26 percent to 43.19 percent from 1995 to 2008. But its momentum has largely slowed down since 2008 and stagnated around 45 percent. While other economic powers’ DVAS have been stable over the whole period, and all of their DVAS are well above 60 percent. Unlike other developed countries, the DVAS of the US has increased about 7 percent in the whole period and reached 87.06 percent in 2011. Therefore, Figure 1 and 2 both reveal a clear increase of China’s DVAS, but the relative stratification among those economic powers has remained largely stable. However, in Figure 3, China’s DVAS in exports of transport equipment has overtaken Germany and UK, and became almost as the same as the US in 2011. This means that China’s export of transport equipment has decreased its dependence on the import of intermediate goods with high value added, and more value added has been produced within China.
Figure 1. Domestic Value Added Share in Gross Exports

Unit: Percent

<table>
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<tr>
<th>Year</th>
<th>US</th>
<th>Japan</th>
<th>Germany</th>
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<td>76.95</td>
<td>74.46</td>
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Figure 2. Domestic Value Added Share in Exports of Computer, Electronic and optical equipment

Unit: Percent

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Figure 3. Domestic Value Added Share in Exports of Transport Equipment

Unit: Percent

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Taking these three figures together, we can notice some obvious features. First, concerned with the overall trend, China’s relative position in the world has not changed obviously. So the production activities occurred in China still show a severer dependence on foreign high value added products than other economic powers. Second, when we examine high-tech industries, like computer, electronic and optical equipment and transport equipment, China has experienced a fast growth of DVAS. Just as some scholars (Gereffi 2014, Yang 2014) argued, the global productions have a tendency to shift from North to South. And some scholars in the field of economics (Rodrik 2006) claim that China’s export has shown relatively high degree of sophistication compared to those with around the same GDP per capita as China. But this view is still misleading to some extent, because the sheer calculation of DVAS or export sophistication disguises another feature of globalization, which is the huge influence of FDI.

China’s reliance on FDI was comprehensively introduced by Huang Yasheng (2003, 2008). But on the other hand, if we examine the statistics from National Bureau of Statistics of China (NBS), the share of gross export sales contributed by FIEs has steadily declined from 58.3% in 2005 to 45.8% in 2014. Some Chinese media, like Sina, and even official institutions, like the general administration of customs of the People’s Republic of China, hereby claimed that China has lessened its reliance on FIEs and FDI. If we simply examine the overall share, then it is true that the reliance on FIEs has declined, but it is another thing that Chinese enterprises have enhanced their competitiveness at the expense of FIEs. Instead, examining high-end industries can reveal whether Chinese enterprises, both state-owned enterprises (SOEs) and other forms of enterprises, have also made the progress as they did in gross trade. The reason why high-end industries are more important is that these industries can more or less represent a country’s technological capacity, long-term competitiveness and bargaining power in GVC. And these reasons are precisely why these industries are called “high-end” on the hierarchy of global productions.

By drawing on NBS database, I combined the data of several relatively high-end industries\(^1\) and calculated the share of export sales created by FIEs and Chinese enterprises. As shown by Figure 4, FIEs’ advantage has been tightly maintained from 2003 to 2014, and their share of export sales in high-end industries has been over 80\% throughout the whole period. Thus in high-end industries, Chinese enterprises have made no progress relative to FIEs at all and have remained marginal. From Figure 2 and 3 we can recognize that value added created within China has relatively enhanced in industries of automobile, computer, and electronic equipment. But who has contributed to this progress, FIEs or Chinese enterprises? In Figure 5 and 6, we can

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\(^1\) The high-end industries here are comprised of several different industries classified by NBS, including manufactures of general and special purpose machinery; automobiles; electronic machinery and equipment; communication equipment, computers and other electronic equipment; and measuring instruments and machinery for cultural activity and office work.
compare the share of export sales created by FIEs and Chinese enterprises in industries of automobile and computers and other electronic equipment. The results show that FIEs have obviously increased their share of export sales in automobile industry from 2003 to 2014 by about 14%. While in industry of computers and other electronic equipment, FIEs have maintained their absolute advantage over Chinese enterprises. These results indicate that Chinese enterprises may lessen their reliance on FIEs in some medium- or low- industries, but the dominance of FIEs in high-end industries within China has well persisted.
Interestingly, if we compare the results from GVC and FIEs, we can discover a consistent relation between them. Above figures show that in high-end industries, DVAS has increased more rapidly compared to its trivial increase of DVAS in gross export. And also in high-end industries, FIEs have maintained their absolute advantages in terms of share of export sales, and even increased dramatically in automobile industry, but have declined in gross export sales relatively. In other words, those high-end industries with more share of export sales created by FIEs have increased their relative status in GVC, which means that China’s progress in GVC is largely a result of the penetration of foreign enterprises, or to say foreign TNCs. These results echo with the phenomenon of the separation of production locations and economic power. As the world workshop, China has experienced a boost of economic scale, which directly reflects on various macro-economic statistics. However, traditional major economic powers like US, Japan, Germany not only produce more DVAS of export within their own national border than China does, but also actively participate in the production of value added within China through FDI. This situation was adroitly described by Nolan (2012) as “we (the West) are inside them (China), but they are not inside us”.

The consequences brought by China’s integration into the world economy are never symmetrical, and have always changed the power relations and bargaining leverages among countries. Hung (2009) argued that China’s integration into world economy has resulted in a Sino-centric production network in East Asia which is highly dependent on the US. Some scholars (Yoshida and Ito 2006, Haddad 2007, Athukorala 2009) discussed the “triangular trade” formed by China, other East Asian countries and the US, in which China functions as the final assembling center for world productions. China’s upstream dependence on developed economies’ technology and downstream dependence on their markets have made its economy susceptible and vulnerable to other countries’ economic fluctuations. Although at the beginning of the latest financial crisis, scholars (Cammack 2012) tended to hail the seemingly rise of the rest, their prospects in mid- and long-terms seem to be more complex and even
pessimistic. A number of structural problems in emerging economies, like soaring government debt, decreasing external demand, and falling prices of commodities, have challenged their government elites’ statecraft. Conversely, the US economic situation has been relatively better off than other developed and emerging economies, despite the existence of its chronical problems, like the soaring government debt.

**The Way Ahead**

Can China change its low status of competiveness in the near future? One thing for sure is that the enhancement of competiveness is not going to occur by itself. From a historical perspective, NIEs in East Asia have enjoyed the favorable international environment in which the US endured the transfer of technology from the west to these countries, and the access to its market without opening their owns (Beeson 2004, Harvey 2005). And the strong government intervention in NIEs have given domestic firms advantageous positions compared to their foreign peers (Chang 2002). As Chang (2008) pointed out, competitive firms have to be nurtured by deliberate national policies. While for China, although being depicted as highly interventionist, the ability of Chinese government to nurture globally competitive firms is more constrained compared to NIEs. Domestically, the problem of social instability has been a political priority for CCP leaders. And accordingly, large amount of resources have been used for the maintenances of social order. Even in solely economic spheres, the reform of SOEs seems to be more important for government concerns. Since SOEs have not only played significant roles in employment, but are also the main bearers of investment for short-term economic stimulus. Internationally, the ever neoliberalized world market and international institutions have forced Chinese government to follow suit. Thus it is highly unlikely that Chinese firms, especially for private ones, can have the policy advantages that their peers in NIEs had during their take-off.

In China’s domestic economic system, SOEs have benefited hugely from the growth of China’s economy. Quite ironic, various sources of data show that SOEs have lagged behind the private firms in terms of both productivity and its growth. Although SOEs as a whole has steadily declined over the last three decades, the growth of major SOEs, which have been recognized as concerning national interests, has been astonishing. Their growth can be best reflected in their stride in *Forbes Global 2000* and once stirred the fear of China buying the world (Nolan 2012). Despite their overall retreat in terms of the share in GDP and trade, their grip on key industries have been ever tighter, according to a research from Unirule Institute of Economics (2011), a Chinese think tank. Although the reform of SOEs has always been on agenda of government leaders, the vested interests of SOEs have been more entrenched, thus the barrier to reform has been even stronger. The enhanced influence of SOEs can be clearly detected through recent government projects. The stimulus plan by Chinese government in reaction to financial crisis has primarily benefited SOEs. According to the final distribution of the four trillion investment, which were explained by officials of National Development and Reform Commission, one and a half trillion yuan had
been used to invest into infrastructure projects. One more trillion yuan had been distributed to support rebuilding of the post-earthquake Sichuan province, which were still mainly infrastructure projects. In addition, the recent establishment of Asian Infrastructure Investment Bank (AIIB) and the economic policy of One Belt, One Road have still primarily concerned with the investment of infrastructure construction, which will help to extend the influence of SOEs beyond the national border, while has trivial, if any, effects on the enhancement of competitiveness.

This is not to claim that SOEs are inherently less efficient, or privatization is the right way to go. But in China’s case, the contradiction between the low efficiency and the ever expanding power has dragged down China’s competitiveness as a whole. It is not only because of SOEs’ low efficiency, but also due to the dislocation of resources that can be mobilized by government interventions. And it is unrealistic to expect Chinese SOEs to compete with foreign firms in the future. Because contrary to private sectors that usually compete with foreign firms head on, powerful SOEs have relatively limited conflicts of interests with foreign firms. Most SOEs have occupied key industries concerning “national interests”, while the biggest foreign invested firms dominated the high-end industries. In this way, neoliberal penetration of capital has converged with “socialist” government and SOEs. For foreign firms, except for their own pursuits of profit, their investment has boosted China’s trade and economic growth, created a large amount of employments, and cooperated with SOEs in several industries, as obviously showed in automobile industries.

Nonetheless, it is also misleading to claim that China’s future is destined to be dark. There are indeed some cleavages in this development model left for competitive private firms to flourish. The internet in China has been screened by the great fire wall, which has led China’s internet to be highly internally oriented. Without powerful competitors from the west, like Google, Facebook and Twitter, Chinese private firms have dominated the market, resulted in the big three conglomerates as “BAT”, namely Baidu, Alibaba and Tencent. At current, from a purely technical perspective, most internet companies have been still less innovative and followed the strategy of “copy to China” (C2C). But the rapid accumulation of capital and gradual upgrade of technology have narrowed their gaps with their international peers. Other firms, like Lenovo, Huawei, have built the international reputations, and were ranked as Top 50 most innovative companies in the world in 2015 by BCG Global Innovation Survey. Though there are signs, as shown above, that more Chinese firms have risen to compete globally, their present situation is nowhere near their Japanese predecessors in 1980s as a result of their economic rise of nearly thirty years. The heyday of Japanese economic power formed serious challenges to US TNCs internationally, and built extraordinary social solidarity through relatively equal distribution of income.

The way ahead are full of uncertainties, one thing for sure is that China’s development model, which served it so well in terms of economic growth in the past, has limited its persistent economic rise due to the unique relations formed among economic actors.
China’s economic power has been both structurally dependent on the US-centered international economic system, and been dragged down by its own distorted relations between market and state. Those constraints are historically formed and hard to break.
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