

# The Rise of the Red Dragon: China's Economic Expansion and Its Geostrategic Implications

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## Abstract:

China's remarkable economic ascent over the past few decades has not only transformed its own society but has also reverberated across the global geopolitical landscape. This paper delves into the multifaceted dimensions of China's economic expansion and analyses its profound geostrategic implications for the international community. Beginning with an examination of China's economic growth trajectory, this study highlights the key drivers behind its rise, including rapid industrialization, export-oriented policies, technological advancements, and strategic state-led initiatives such as the Belt and Road Initiative (BRI). By leveraging its vast labour force, abundant resources, and strategic infrastructure investments, China has emerged as a global economic powerhouse, challenging the dominance of Western economies and reshaping global supply chains. China's economic expansion is intricately linked with its geopolitical ambitions. The BRI, for instance, serves not only as an economic development strategy but also to extend China's influence and cultivate strategic partnerships across Asia, Africa, and Europe. This has prompted geopolitical realignments and intensified competition for influence between China and other global powers, particularly the United States. In conclusion, as China continues to ascend as an economic superpower, understanding its geostrategic implications is crucial for policymakers, businesses, and scholars alike. By comprehensively examining the nexus between China's economic expansion and its geopolitical ambitions, this study contributes to a deeper understanding of the evolving dynamics in the international arena.

## Introduction

The "Rise of the Red Dragon" is a term that vividly captures China's remarkable transformation from a closed-off agrarian society to a dynamic economic powerhouse with growing geopolitical influence. Symbolized by the Chinese flag's red field and yellow star, this metaphor signifies China's ascent as a major global player and underscores the multifaceted impact of its rise. At the heart of the "Rise of the Red Dragon" is China's unprecedented economic growth. Over the past few decades, China has experienced a staggering economic expansion, driven by a combination of market-oriented reforms, abundant labour, and strategic government interventions. Deng Xiaoping's economic reforms in the late 1970s laid the groundwork for China's transition from a centrally planned economy to a more market-oriented one, unleashing the country's entrepreneurial spirit and attracting foreign investment.

China's economic growth has been fueled by its manufacturing prowess, earning it the title of the "world's factory." With a vast population and a large labour force, China has become a manufacturing hub for a wide range of goods, from electronics and textiles to machinery and automobiles. Its competitive advantage in manufacturing has enabled China to dominate global trade and become an integral part of the global supply chain.

Moreover, China's strategic investments in infrastructure have played a crucial role in supporting its economic expansion. The Chinese government has undertaken massive infrastructure projects, including the construction of roads, railways, ports, and airports, to connect regions and facilitate trade and commerce. This extensive infrastructure network has not only boosted domestic economic development but also enhanced China's connectivity with the rest of the world.

The "Rise of the Red Dragon" is also characterized by China's growing geopolitical influence. As its economy has expanded, so too has China's assertiveness on the world stage. China's increasing economic power has translated into geopolitical clout, challenging the dominance of traditional powers and reshaping global dynamics. **China's Belt and Road Initiative (BRI), launched in 2013, is a prime example of its ambition to extend its influence beyond its borders.** The BRI aims to build infrastructure and enhance connectivity across Asia, Africa, and Europe, establishing new trade routes and strengthening China's economic ties with other countries.

However, China's rise has also raised concerns among other nations. Its assertive behaviour in territorial disputes, particularly in the South China Sea, has sparked tensions with neighbouring countries and raised fears of conflict. Moreover, China's growing military capabilities and technological advancements have led to concerns about its intentions and the implications for regional stability.

### **Economic Expansion: Drivers Behind China's Ascent**

#### • **China's Economy Prior to Reforms**

Prior to 1979, China, under the leadership of Chairman Mao Zedong, maintained a centrally planned, or command, economy. A large share of the country's economic output was directed and controlled by the state, which set production goals, controlled prices, and allocated resources throughout most of the economy. During the 1950s, all of China's individual household farms were collectivized into large communes. To support rapid industrialization, the central government undertook large-scale investments in physical and human capital during the 1960s and 1970s. As a result, by 1978 nearly three-fourths of industrial production was produced by centrally controlled, state-owned enterprises (SOEs), according to centrally planned output targets. Private enterprises and foreign-invested firms were generally barred. A central goal of the Chinese government was to make China's economy relatively self-sufficient. Foreign trade was generally limited to obtaining those goods that could not be made or obtained in China. Such policies created distortions in the economy. Since most aspects of the economy were managed and run by the central government, there were no market mechanisms to efficiently allocate resources, and thus there were few incentives for firms, workers, and farmers to become more productive or be concerned with the quality of what they produced (since they were mainly focused on production goals set by the government).

According to Chinese government statistics, China's real GDP grew at an average annual rate of 6.7% from 1953 to 1978, although the accuracy of these data has been questioned by many analysts, some of whom contend that during this period, Chinese government officials (especially at the subnational levels) often exaggerated production levels for a variety of political reasons. In addition, China's economy suffered significant economic downturns during the leadership of Chairman Mao Zedong, including during the Great Leap Forward from 1958 to 1962 (which led to a massive famine and reportedly the deaths of up to 45 million people) and the Cultural Revolution from 1966 to 1976 (which caused widespread political chaos and greatly disrupted the economy). From 1950 to 1978, China's per capita GDP on a purchasing power parity (PPP) basis, a common measurement of a country's living

standards, doubled. However, from 1958 to 1962, Chinese living standards fell by 20.3%, and from 1966 to 1968, they dropped by 9.6%. In addition, the growth in Chinese living standards paled in comparison to those in the West, such as Japan. In 1978, (shortly after the death of Chairman Mao in 1976), the Chinese government decided to break with its Soviet-style economic policies by gradually reforming the economy according to free market principles and opening up trade and investment with the West, in the hope that this would significantly increase economic growth and raise living standards. (The World Bank, 2023)

- **The Introduction of Economic Reforms**

Beginning in 1979, China launched several economic reforms. The central government-initiated price and ownership incentives for farmers, which enabled them to sell a portion of their crops on the free market. In addition, the government established four special economic zones along the coast for the purpose of attracting foreign investment, boosting exports, and importing high technology products into China. Additional reforms, which followed in stages, sought to decentralize economic policymaking in several sectors, especially trade. Economic control of various enterprises was given to provincial and local governments, which were generally allowed to operate and compete on free market principles, rather than under the direction and guidance of state planning. In addition, citizens were encouraged to start their own businesses. Additional coastal regions and cities were designated as open cities and development zones, which allowed them to experiment with free-market reforms and to offer tax and trade incentives to attract foreign investment. In addition, state price controls on a wide range of products were gradually eliminated. Trade liberalization was also a major key to China's economic success. Removing trade barriers encouraged greater competition and attracted FDI inflows. China's gradual implementation of economic reforms sought to identify which policies produced favourable economic outcomes (and which did not) so that they could be implemented in other parts of the country, a process Deng Xiaoping reportedly referred to as "crossing the river by touching the stones." (The World Bank, 2023)

- **China's Economic Growth and Reforms: 1979-the Present**

China's economic growth and reforms from 1979 to the present have been nothing short of extraordinary, reshaping China's economy and its role in the global arena. Initiated by Deng Xiaoping's historic market-oriented reforms in 1978, this period has witnessed China's transition from a centrally planned economy to the world's second-largest economy and a major player in international trade and investment. China embarked on its economic transformation in 1979 with Deng Xiaoping's bold reforms, marking the beginning of the "Reform and Opening Up" era. These reforms aimed to modernize China's economy by introducing market-oriented policies, attracting foreign investment, and encouraging entrepreneurship. Special Economic Zones (SEZs) were established to experiment with capitalist principles, spurring rapid industrialization and export-led growth.

Throughout the 1980s, China's economy experienced significant expansion, driven by Deng's pragmatic approach to economic development. Agriculture was decentralized, allowing farmers more autonomy over their land and production decisions. The introduction of the household responsibility system incentivized agricultural productivity, leading to increased food production and rural incomes.

The 1990s saw China's economic growth accelerate further, fuelled by continued reforms and globalization. Deng's Southern Tour in 1992 reaffirmed China's commitment to economic liberalization, resulting in the rapid expansion of private enterprise and foreign trade. China's accession to the World

Trade Organization (WTO) in 2001 signalled its integration into the global economy, facilitating increased foreign investment and trade opportunities.

By the 2000s, China had emerged as a global economic powerhouse, surpassing Japan to become the world's second-largest economy. Rapid urbanization and infrastructure development transformed China's cities, while its manufacturing sector became the "factory of the world." China's accession to the WTO further accelerated its economic growth, opening new markets and driving export-led expansion.

In the 2010s, China focused on economic rebalancing and technological advancement. Facing challenges such as overcapacity, income inequality, and environmental degradation, China prioritized domestic consumption, innovation, and sustainable development. Initiatives like "Made in China 2025" aimed to upgrade the country's manufacturing sector and promote technological innovation. China's technological prowess became increasingly evident, with breakthroughs in areas such as artificial intelligence, telecommunications, and renewable energy. Chinese companies like Huawei, Alibaba, and Tencent gained global prominence, challenging Western competitors and reshaping global. (The World Bank,2023)

#### • Causes of China's Economic Growth

Economists generally attribute much of China's rapid economic growth to two main factors: large-scale capital investment (financed by large domestic savings and foreign investment) and rapid productivity growth. These two factors appear to have gone together hand in hand. Economic reforms led to higher efficiency in the economy, which boosted output and increased resources for additional investment in the economy.

China has historically maintained a high rate of savings. When reforms were initiated in 1979, domestic savings as a percentage of GDP stood at 32%. However, most Chinese savings during this period were generated by the profits of SOEs, which were used by the central government for domestic investment. Economic reforms, which included the decentralization of economic production, led to substantial growth in Chinese household savings as well as corporate savings. As a result, China's gross savings as a percentage of GDP is the highest among major economies. The large level of domestic savings has enabled China to support a high level of investment. In fact, China's gross domestic savings levels far exceed its domestic investment levels, which have made China a large net global lender.

Several economists have concluded that productivity gains (i.e., increases in efficiency) have been another major factor in China's rapid economic growth. The improvements to productivity were caused largely by a reallocation of resources to more productive uses, especially in sectors that were formerly heavily controlled by the central government, such as agriculture, trade, and services. For example, agricultural reforms boosted production, freeing workers to pursue employment in the more productive manufacturing sector. China's decentralization of the economy led to the rise of non-state enterprises (such as private firms), which tended to pursue more productive activities than the centrally controlled SOEs and were more market-oriented and more efficient. Additionally, a greater share of the economy (mainly the export sector) was exposed to competitive forces. Local and provincial governments were allowed to establish and operate various enterprises without interference from the government. In addition, FDI in China brought with it new technology and processes that boosted efficiency.

However, as China's technological development begins to converge with major developed countries (i.e., through its adoption of foreign technology), its level of productivity gains, and thus, real GDP growth, could slow significantly from its historic levels unless China becomes a major centre for new technology and innovation and/or implements new comprehensive economic reforms. Several developing

economies (notably several in Asia and Latin America) experienced rapid economic development and growth during the 1960s and 1970s by implementing some of the same policies that China has utilized to date to develop its economy, such as measures to boost exports and to promote and protect certain industries. However, at some point in their development, some of these countries began to experience economic stagnation (or much slower growth compared to previous levels) over a sustained time, a phenomenon described by economists as the "middle-income trap. This means that several developing (low-income) economies were able to transition to a middle-income economy, but because they were unable to sustain high levels of productivity gains (in part, because they could not address structural inefficiencies in the economy), they were unable to transition to a high-income economy. China may be at a similar crossroads now. The World Bank classifies development levels of economies using a per capita gross national income (GNI) methodology. According to the World Bank, China went from a low-income economy to a low-middle-income economy in 1997, and in 2010, it became an upper-middle-income country. China's 2017 per capita GNI (at \$8,690) was 38.7% below the level China would need to obtain to become a high-income economy. The Chinese government projects that China can cross the high-income threshold by 2025. It hopes to achieve this largely by making innovation a major source of future economic growth. Sceptics contend that innovation growth in China will be hard to achieve, especially if it is mainly state-driven and imposes new restrictions on foreign firms.

- **Foreign Direct Investment (FDI) in China**

According to the World Investment Report 2023 published by UNCTAD, FDI inflows into China increased by 4.5% year-on-year in 2022, totalling USD 189.1 billion (above the pre-COVID level), making the country the second-largest host country in the world. Data from the Peterson Institute for International Economics and sourced from China's State Administration of Foreign Exchange (SAFE) shows FDI inflows have hit multi-year lows in 2023, totalling only USD 15 billion. Among the reasons for the decrease were escalating geopolitical tensions, as the "chip war" with the U.S. concerns foreign investors, particularly American-headquartered companies operating in China, leading to hesitancy in investing in local firms. Moreover, the closure of due diligence firms, essential for foreign investors to make informed decisions regarding Chinese companies, coupled with a new national security law targeting cross-border data flows, has discouraged significant investments. UNCTAD, FDI inflows into China increased by 4.5% year-on-year in 2022, totalling of Over the last few years, China made improvements in a wide array of subcomponents ranging from procedures for starting a business to measures to improve electricity access and get construction permits. The country demonstrated reform agendas that aim to improve the business regulatory environment. The reforms mainly focus on increasing the efficiency of business processes, such as tax cuts, trade with tariff cuts, and reduced barriers to foreign investors. In order to attract further foreign investment, the country has introduced mechanisms to improve the delivery of major foreign investment projects, reduce import tariffs, streamline customs clearance, and establish an online filing system to regulate FDI. With a wealth of employees and potential partners eager to learn and evolve, the country is a base for low-cost production, which makes it an attractive market for investors. Nevertheless, certain factors can hinder investments, such as China's lack of transparency, legal uncertainty, low level of protection of intellectual property rights, corruption or protectionist measures which favour local businesses. The revised investment screening mechanism under the Measures on Security Reviews on Foreign Investments took effect on January 18, 2021, without any public comment period or prior consultation with the business community. Foreign investors expressed dissatisfaction with China's new investment



screening rules, citing their broad scope, lack of an investment threshold triggering a review, and inclusion of greenfield investments, a departure from practices in most other countries. Additionally, concerns grew among foreign investors due to new guidance on Neutralizing Extra-Territorial Application of Unjustified Foreign Legislation Measures, a measure akin to "blocking statutes" in other markets, exacerbating worries about the legal complexities of complying with both host-country regulations and those in China. (Trading Economics,2023)

### **Strategies of the red dragon: state-led capitalism and international engagement**

The strategies of the "Red Dragon," symbolizing China's economic expansion and global influence, are characterized by two key pillars: state-led capitalism and international engagement. These strategies have been instrumental in driving China's economic growth, promoting industrial development, and enhancing its geopolitical influence on the world stage.

#### **• State-Led Capitalist**

China's economic model blends elements of state intervention with market forces, often referred to as "state-led capitalism." Unlike traditional capitalist economies where the private sector dominates, China's government maintains significant control over key industries and strategic sectors of the economy through state-owned enterprises (SOEs) and industrial policies. Under state-led capitalism, the Chinese government plays a proactive role in guiding economic development, allocating resources, and shaping industrial priorities. Through policies such as industrial planning, subsidies, and preferential treatment for domestic companies, the government aims to achieve strategic objectives, including technological advancement, industrial upgrading, and national self-sufficiency in key sectors.

State-led capitalism has been instrumental in driving China's rapid industrialization and economic growth, particularly in sectors such as telecommunications, energy, and infrastructure. By mobilizing state resources and leveraging its regulatory powers, the government has been able to allocate capital efficiently, promote innovation, and support the emergence of national champions capable of competing on the global stage.

#### **• International Engagement:**

China's international engagement strategy is characterized by active participation in global trade, investment, and diplomatic initiatives. Through initiatives such as the Belt and Road Initiative (BRI), China aims to enhance its connectivity with other countries, expand its economic influence, and promote regional integration. The Belt and Road Initiative, launched in 2013, is a massive infrastructure and economic development project aimed at reviving the ancient Silk Road trade routes. By investing in infrastructure projects such as roads, railways, ports, and energy pipelines across Asia, Africa, and Europe, China seeks to foster economic cooperation, facilitate trade, and strengthen its geopolitical influence along the routes. Furthermore, China's accession to international organizations and agreements, such as the World Trade Organization (WTO) and various regional trade pacts, underscores its commitment to global economic integration. China's active engagement in multilateral forums, including the G20 and BRICS, allows it to shape global economic governance and advocate for its interests on the international stage.

Red Dragon" - state-led capitalism and international engagement - have been instrumental in driving China's economic expansion and enhancing its global influence. By leveraging state resources, promoting industrial development, and actively participating in global trade and investment, China has

emerged as a key player in the 21st-century global economy, reshaping the dynamics of international relations and challenging the dominance of traditional powers.

### **Geo strategic implementation: Navigating the rise of the red dragon.**

China's emergence as a dominant player in the global arena is a testament to its remarkable economic transformation over the past few decades. Beginning with Deng Xiaoping's economic reforms in the late 1970s, China embarked on a path of market-oriented development, leveraging its abundant resources and vast labour force to achieve unprecedented levels of economic growth. Through strategic industrial policies, massive investments in infrastructure, and targeted support for key sectors, China has risen to become the world's second-largest economy.

Central to China's economic model is its unique blend of market reforms and state intervention, often referred to as state-led capitalism. The Chinese government maintains significant control over strategic industries through state-owned enterprises (SOEs) while simultaneously allowing market forces to operate within defined parameters. This approach has enabled China to steer its economic development while harnessing the dynamism of the market.

#### • **Challenges Posed by China's Rise:**

While China's rise presents opportunities for economic growth and cooperation, it also poses significant challenges for the global community. One key concern is the issue of fair competition and market access. China's state-led capitalism model, characterized by subsidies, industrial policies, and intellectual property infringements, has raised concerns among trading partners about a level playing field.

Additionally, China's assertive foreign policy stance and military modernization efforts have contributed to regional tensions, particularly in areas of territorial disputes such as the South China Sea. The rapid expansion of China's military capabilities and its growing assertiveness have raised questions about regional security and stability, prompting neighbouring countries to reassess their defence strategies.

Moreover, China's ambitious Belt and Road Initiative (BRI), aimed at enhancing connectivity and infrastructure development across continents, has raised concerns about debt dependency, geopolitical rivalries, and environmental sustainability. While the BRI offers opportunities for economic development and infrastructure connectivity, critics argue that it may also lead to debt traps and undermine the sovereignty of participating nations.

#### • **Opportunities Amidst China's Rise:**

Despite the challenges posed by China's ascent, there are also significant opportunities for cooperation and mutual benefit. China's economic growth has created new markets and investment opportunities for countries worldwide. Engaging with China diplomatically offers avenues for collaboration on global challenges such as climate change, public health, and sustainable development.

Furthermore, technological collaboration with China can drive innovation and contribute to global progress in areas such as renewable energy, artificial intelligence, and space exploration. By leveraging China's expertise and resources, countries can accelerate their own technological advancements and enhance their competitiveness in the global market.

#### • **Strategies for Navigating China's Rise:**

Effectively navigating the rise of the Red Dragon requires a multifaceted approach that balances engagement with vigilance and addresses both the challenges and opportunities it presents. Multilateral cooperation plays a crucial role in addressing shared challenges and promoting stability. Encouraging

dialogue and diplomacy with China can foster mutual understanding and cooperation while safeguarding national interests and values.

### **Conclusion: Navigating the challenges and opportunities ahead**

Navigating the challenges and opportunities posed by the rise of the Red Dragon, symbolizing China's ascension as a global economic and geopolitical powerhouse, demands a holistic understanding and strategic approach from nations worldwide. As China continues to exert its influence on the global stage, it presents both profound challenges and significant opportunities for the international community.

One of the foremost challenges lies in the realm of economic competition. China's state-led capitalism model, characterized by subsidies, industrial policies, and intellectual property infringements, has raised concerns among trading partners about fair competition and market access. Addressing these concerns while fostering a mutually beneficial economic relationship with China will be crucial for maintaining global economic stability and prosperity.

Additionally, China's assertive foreign policy stance and military modernization efforts have contributed to regional tensions, particularly in areas of territorial disputes such as the South China Sea. The rapid expansion of China's military capabilities and its growing assertiveness have raised questions about regional security and stability, prompting neighbouring countries to reassess their defence strategies. Managing these tensions while upholding international norms and principles will be essential to prevent escalation and promote regional peace and stability.

Furthermore, China's ambitious Belt and Road Initiative (BRI) has raised concerns about debt dependency, geopolitical rivalries, and environmental sustainability. While the BRI offers opportunities for economic development and infrastructure connectivity, critics argue that it may also lead to debt traps and undermine the sovereignty of participating nations. Balancing the benefits and risks of participating in the BRI while safeguarding national interests and sovereignty will be a significant challenge for countries considering engagement with China's flagship initiative.

Amidst these challenges, there are also significant opportunities for economic growth, cooperation, and technological advancement. China's economic growth has created new markets and investment opportunities for countries worldwide. Engaging with China diplomatically offers avenues for collaboration on global challenges such as climate change, public health, and sustainable development. By leveraging China's expertise and resources, countries can accelerate their own economic development and enhance their competitiveness in the global market.

Technological collaboration with China presents an opportunity to drive innovation and contribute to global progress in areas such as renewable energy, artificial intelligence, and space exploration. China's investments in research and development, coupled with its expertise in emerging technologies, offer avenues for collaboration and knowledge-sharing that can benefit humanity as a whole.

In conclusion, effectively navigating the challenges and opportunities presented by the rise of the Red Dragon requires a comprehensive and nuanced approach that balances engagement with vigilance. Multilateral cooperation, diplomatic engagement, and strategic partnerships will be essential in addressing shared challenges and promoting stability. By embracing opportunities for cooperation, managing challenges through collective action, and upholding core principles of transparency and accountability, nations can navigate the complexities of China's rise while promoting global stability and prosperity in the years to come.



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