An Overview of the New Emerging Balance of Forces- 'the BRICS, G 20 and G 7' Response to the Global Financial Crisis

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Abstract

The USA and the EU economies have just been through a severe recession marked by financial turmoil, large-scale destruction of wealth, and declines in industrial production and global trade. As the result of reduction in the demand of products in the global market, continued falling prices due to lack of demand of their products. The USA economy is not competitive now. The current international financial crisis was an explosion that was the ultimate result of the accumulation of a number of unbalanced, inconsistent and unsustainable factors in the world economy. It is a reflection of the limitations of the liberal capitalist development concept of Western countries. It also shows the dangers of blindly copying the Western development model. The BRICS countries (Brazil, Russia, India, China and South Africa) and the G 20 replacing the G-7 in the wake of the economic crisis, as the premier global forum to deal with the crisis, reflected a relative decline in the power of the US and other advanced capitalist countries. The BRICS can represent the interests of all the developing countries. The BRICS countries are not only the emerging largest economies but its growing strong economic and political relationship with the African, Latin American and Asian countries; it may change in the international economic order through using common currency in trade, sharing their own science and technology to improve and transform in agriculture, energy, and industrial sectors, and establishing a new military block so they can provide security from the imperialist aggression. Of course, China would be as backbone of the BRICS.

Introduction

The global financial crisis, which was ignited by the subprime mortgage crisis in the United States, has rapidly spread a world-wide problem, from developed countries to newly emerging markets and developing countries, and from the financial industry to the real economy, and the scope, depth and impact are unprecedented. The global economy has been in serious trouble for some time now, with negative growth and recession in major advanced economies. International financial markets have been experiencing great fluctuations and the financial systems of the US and Europe have been performing extremely poorly and experiencing shortages in liquidity. Some newly emerging markets and developing countries have been suffering from large capital outflows, causing serious worsening of their economies. Protectionism is again emerging worldwide, intensifying international competition and friction in the areas of trade, capital and technology. An analysis of this crisis shows that on the surface, the problem began with the widespread occurrence of defaults in subprime mortgage loans and an explosion of financial derivatives in the United States. The more direct cause was the inappropriate macro-economic policies of developed capitalist countries, over-expansion of the virtual economy and ineffective government regulation in addition to a pattern of long-term consumption on credit that could not be sustained. Looking at the inherent cause, the crisis has revealed the intrinsic shortcomings of an absolutely free market economy, deep rooted structural problems in economic globalization and serious defects of the irrational international economic order and international financial system in particular. The crisis has grown into a profound global economic recession, further revealing the damage caused by the theory and practice of the neo-liberalism characterized by privatization, marketisation and liberalization.

The IMF estimates that global recessions seem to occur over a cycle lasting between 8 and 10 years. During what the IMF terms the past three global recessions of the last three decades, global per capita output growth was zero or negative. More than 1.14 billion people estimated in 2011[1] to be living below the international poverty line of 1.25 dollars a day. Close to two million children could die in the next five years if the crisis persists. Some of the poorest nations in the world (especially those in Sub-Saharan Africa) seem to have been left behind and marginalized by globalization, and they are poorer today (i.e., their average real per capita income is lower today) than they were two or three decades ago. Dominique Strauss-Kahn, the managing director of the International Monetary Fund (IMF), told reporters in Hong Kong recently: "2010 is going to be a crucial year – the first year after the crisis when countries can lift their eyes to the longer-term horizon." He added that this will be "a year of transformation for the world."[2]

An estimated 925 million people in the world were undernourished in 2010, of which 906 million lived in developing countries. Women make up, on average, 43% of the agricultural labour force in developing countries, ranging from 20% in Latin America to almost 50% in East and South East Asia and sub-Saharan Africa. The FAO's 2010-11 edition of "The State of Food and Agriculture" makes "Closing the Gender Gap in Agriculture," a top issue. Almost one billion people are hunger in the world today, according to FAO. Some three quarters of the world's extreme poor live in rural areas, and a majority of them are involved in agricultural activities. Africa is the only region where overall food security and livelihood are deteriorating.

The World Bank president Robert Joylaki warns in the meeting of G-20[3] that "*due to unemployment problems, high petroleum prices, inflation especially increased price hike in food items, the current global economic crisis, and the Middle-east and North African political crisis could push 100 million people more into extreme poverty worldwide in 2011.*"[4]

[1] Source: BBC Hindi News on 17th April, 2011.

[2] International Monetary Fund (2010), *World Economic Outlook*

[3] Source: BBC Hindi News on 17th April, 2011.

The International Monetary Fund estimates that the global economy contracted by 0.6 per cent in 2009[1]and the implications of this have been severe for many. Economic growth in developing countries was only 1.7 per cent in 2009 compared with 8.1 per cent in 2007[2]. However, if China and India are excluded, the economies of developing countries actually contracted by 1.8 per cent[3]. The World Bank estimates that developing economies will expand by 6.2 per cent and 6.0 per cent in 2010 and 2011 respectively.[5]

Table: 1. GDP Growth Estimates & Projections: IMF and World Bank

	2008	2009	2010	2011
World Output	2.8	-0.6	4.8	4.2
Developed Countries	0.2	-3.2	2.7	2.2
Developing Countries	6.0	2.5	7.1	6.4

Source: IMF World Economic Outlook, October 2010

Table: 2. World Bank Global Economic Prospects, June 2010

	2008	2009	2010	2011
World Output	1.7	-2.1	3.3	3.3
Developed Countries	0.4	-3.3	2.3	2.4
Developing Countries	5.7	1.7	6.2	6.0

Source: Note: Figures for 2008 and 2009 are estimates, while that for 2010 and 2011 are forecasts

The Impact of Financial Crisis on Developing Countries

Almost, all regions of the developing world have been affected except Eastern and Central Europe, which were the "beneficiaries" of large amounts of inflows of speculative finance capital ('hot money) that created domestic bubbles not unlike the larger and more dramatic one in the USA to varying degrees by this particular crisis. The extent of impact depends not only on the degree of export dependence of developing countries but also – and often more crucially – on the

[4] World Bank (2010), *Global Economic Prospects: Fiscal Headwinds and Recovery*

dependence on capital flows, including portfolio investment, bank lending, foreign direct investment (FDI) and also foreign aid.[5] Before the crisis many mainstream economists argued that developing Asia would be relatively immune from the adverse effects. Although it is the most globally integrated region of the world economy in terms of trade and capital flows, most countries in the region have also been the most careful to avoid large fiscal deficits, have run surpluses on the current account of the balance of payments and have tried to base their growth on exports rather than speculative bubbles. (India is somewhat of an exception to this.) But even this region has been quite badly affected, with some countries in East and Southeast Asia, like Indonesia and the Philippines, showing declines in total output. Among developing countries, China and India were supposed to be especially different, and it was argued that their economies are now "decoupled" or delinked from the west and now have their own autonomous growth trajectories. It was even believed that this could make than an alternative growth pole in the world economy. But thus far even China and India have shown similar trends of sharply declining growth rates of GDP, even though they have not turned negative, although it is likely that the Chinese economy may recover more rapidly because of the impact of the fiscal stimulus and other recovery measures that have been instituted. This sharp and almost immediate transmission of recessionary tendencies is strongly related to the various forms of economic integration that have been generally induced by policy changes across the world, in both developed and developing countries. As a result, there is now several transmission mechanisms operating to spread the crisis from developed to less developed economies and from one geographical region to all others. These transmission mechanisms include exports of goods and services; capital flows; patterns of migration and remittances; sharp changes in world trade prices of important essential items like oil and food. It is important to remember that while these do operate significantly upon developing economies, their impact can be mitigated by domestic policy measures, especially in countries with potentially large domestic markets like India.

World Trade Decline

The World Trade Organization predicted that exports will fall by more than 15 per cent in 2009.[6] Despite all the recent changes in global trade patterns, the United States as well as the European Union to some extent has remained the most significant sources of external demand for all other countries. In the boom period, the US economy has been the engine of growth for the rest of the world, because its own bubble generated high rates of private spending that involved huge and growing (but ultimately unsustainable) demand for imports from the rest of the world. It was inevitable that this would have to come to an end and the US would have to wind down its external deficits. But since this is happening through the crisis, the collapse in demand for US imports has been particularly sharp. Since most developing countries are now more dependent upon export markets than they were even a decade ago, this sharp decline obviously has dramatic effects upon their domestic economies.

The Role of G- 20

The share of these major developing economies in world output has risen steadily in recent times compared to the G-7 countries. Given the relatively higher growth rates being witnessed by the developing countries, the share of the developing countries in the total GDP of G- 20 is projected to increase from 35% in 2008 to 50% by 2020.[7] A Policy Brief of the Carnegie Endowment titled *The World Order in 2050* goes even further to argue:

The economy of the G-20 is expected to grow at an average annual rate of 3.5 percent, rising from $38.3 trillion in 2009 to $160.0 trillion in 2050 in real dollar terms. Over 60 percent of this $121 trillion dollar expansion will come from six countries: Brazil, Russia, India, China, Indonesia (the traditional "Big Five" economies), and Mexico. U.S. dollar GDP in these six economies will grow at an average rate of 6 percent per year; their share of G20 GDP will rise from 19.6 percent in 2009 to 50.6 percent in 2050. By contrast, GDP in the G7 will

[5] Jayati Ghosh, *'The Global Financial Crisis and the Developing World',* The Marxist, XXV 1–2, January–June 2009, New Delhi.

[6] Source: WTO report, 2009.

[7] Prasenjit Bose, '*Global Economy in Crisis,'* The Marxist, XXVI 3, July–September 2010, New Delhi.

grow by less than 2.1 percent annually, and their share of G20 GDP will decline from 72.3 percent to 40.5 percent.

Recently, the G-20 announced, will provide $35 billion[8] a loan to the Middle-east and North African countries for creating a new job opportunity, to control price hike, security, justice and food security etc. where the most governments are facing a deepen political crisis due to price hike (especially in food items) and unemployment problems. The successful popular uprising triggered in the Arab World, which started from Tunisia (which is wealthier than many of the Asian and African countries but where the majority of the population lives below the poverty line) to Egypt, Libya, Bahrain, Morocco, Jordan, Yemen, Syria, Algeria, and Sudan.

BRICS Emerging as the Alternative Balance of Force

BRICS countries are taking a new shape. These countries are closely aligned with the ASEAN, African and Latin American countries, emerging as the alternative engine of growth for the world economy. BRICS summit was held on April 13-14, 2011 in China where (members countries -- Brazil, Russia, India, China and South Africa) the heads of BRICS countries have attended the summit and unanimously announced the joint declaration for the future action. BRICS countries are expected to contribute one-third of the world's GDP increment in 2015, by which time their total economy will surpass America. Estimated on the basis of current market exchange rates, the BRICS (Brazil, Russia, Indian, China and South Africa) grouping would make up about 22 per cent of the world economy.[9] BRIC formally became BRICS this year with the admission of South Africa into its fold. The report predicted that the BRICS (Brazil, Russia, Indian, China, and South Africa) countries would have a stable and fairly rapid growth momentum in the next 15 years due to a favourable external environment brought on by the steady growth in major developed economies.

The BRICS are both the fastest growing and largest emerging markets economies. They account for almost three billion people, or just under half of the total population of the world. In recent times, the BRICS have also contributed to the majority of world GDP growth. According to various economists' projections, it is only a matter of time before China becomes the biggest economy in the world - sometime between 2030 and 2050 seems the consensus. In fact, Goldman Sachs believes that by 2050 these will be *the* most important economies, relegating the US to fifth place. By 2020, all of the BRICS should be in the top 10 largest economies of the world. The undisputed heavyweight, though, will be China, also the largest the creditor in the world.

Apart from their growth characteristics, the BRICS countries frankly have little in common. They are primarily an investment category now, although there may some political and economic alliances that develop from that grouping. In 2008, the BRIC countries had a summit and analysts believed that they were seeking to 'convert their growing economic clout into political power'. These analysts believe that by working together, the BRIC countries can carve out the future economic order between themselves. They believe that China can dominate in manufactured goods, India in services, and Russia and Brazil in raw material supplies. By working together, they can effectively counter the entrenched interests and organizational structures of the west. In reality, right now, relations with the US, the EU and bilaterally are more important, but it is worth watching developments between BRIC nations to see if these notions start to become entrenched in active co-operation.

The BRICS countries (Brazil, Russia, India, China and South Africa) replacing the G-7 in the wake of the economic crisis, as the premier global forum to deal with the crisis, reflected a relative decline in the power of the US and other advanced capitalist countries. The US is not the world's most competitive economy, that the dollar has for long not been backed by gold, and that there are just too many dollars circulating globally and too much wealth invested in dollar denominated assets to ensure confidence in the currency. Yet, there is no other currency that

8 Source: BBC Hindi News, 17th April, 2011.

9 Source: The Annual Report of Social-Economic Development (2011) on BRICS, a blue book released on Thursday 14th April, 2011 by the Social Sciences Academic Press of China.

appears likely to emerge as an alternative in the foreseeable future. India-ASEAN trade have reached USD 47 billion which is India's 4th ranked with electronics, chemicals, machinery and textiles almost it's covering 80 percent of the total (489 items excluding agricultural products). China-ASEAN Free Trade Treaty is effective from 1st January 2010. Its 4th trade partner of China will share at least 10 percent of total Chinese trade. It is expected to reach more than USD 200 billion trades between China-ASEAN among the 1.9 billion populations. It is 3rd largest trade area after NAFTA and EU. Even China is trying to sign with South Korea. However, Thailand will get biggest Chinese market for their cheapest jewelry and other cosmetics commodities. In 2009, both regions did sign on investment. India-China has already signed an agreement on trade treaty in 2010. Trade between India and China has reached $48 billion in 2009-10; and both countries are committed to reach $100 billion in 2011-12.

An Overview of the BRICS Economies

Brazil's economy is the largest in South America and the country boasts well developed agriculture, mining, manufacturing, and service sectors. Since 2003, Brazil has improved its macroeconomic stability, built foreign reserves, reduced debt, kept inflation rates under control and committed to fiscal responsibilities. After witnessing unprecedented economic growth in 2007 and 2008, the global financial crisis finally hit Brazil. Brazil's currency and stock market saw huge fluctuations as foreign investments dwindled, demand for commodity exports dried up and external credit increased. However, Brazil was one of the first emerging markets to stage a recovery, with GDP growth returning to positive levels. The Central Bank predicts growth of 5% in 2010. The economy of Brazil is the world's 8th largest by nominal GDP and 9th largest by purchasing power parity. Brazil has moderately free markets and an inward-oriented economy. Its economy is the largest in Latin American nations and the 2nd largest in the western hemisphere. Brazil is one of the faster growing major economies in the world with an average annual GDP growth rate of over 5 percent. In Brazil, its GDP was estimated at R$ 3.143 trillion in 2009. The Brazilian economy has been predicted to become one of the five largest economies in the world in the decades to come. Brazil is traditionally considered a leader of the developing world.

Russia's GDP using the Purchasing Power Parity (PPP) method was US$ 2,218.76 Billion in 2010. It is the sixth largest economy in the world. Its GDP grew 3.966% over 2009, making it the 87th fastest growing economy in the world. This follows a near-catastrophic drop in 2009 GDP of -7.90%. 2011 performance is expected to further improve, with the IMF forecasting 4.34% growth to domestic product.

The **Indian economy** is one of the fastest growing economies and is the 12th largest in terms of the market exchange rate at $1,430.02 billion (2010 India's GDP). In terms of purchasing power parity, the Indian economy ranks the fourth largest in the world. However, poverty still remains a major concern besides disparity in income. In 2010, India's PPP Gross Domestic Product stood at over $4 trillion, and was the fourth largest economy by volume. In India, the dollar billionaires whose number had increased from 26 to 52. In 2011, their numbers had further increased to 69. Their asset values are now more than 30 per cent of the country's GDP. But the nearly 80 per cent of the Indians who are surviving on less than 50 cents a day. This growth of inequalities has now become a universal phenomenon, with growing inequalities witnessed both between the countries and within the countries.

South Africa compares well to other emerging markets on affordability and availability of capital, financial market sophistication, business tax rates and infrastructure, but fares poorly on the cost and availability of labour, education, and the use of technology and innovation. In a 2010 survey, South Africa was found to have the second most sophisticated financial market and the second-lowest effective business tax rate (business taxes as a percentage of company profits), out of 14 surveyed countries. The country was also ranked fourth for ease of accessing capital, fourth for cost of capital, sixth for its transport infrastructure (considered better than that of China, India, Mexico, Brazil and Poland, but behind that of Korea and Chile), and seventh for FDI as a percentage of GDP: in 2008 it was over 3% of the GDP.

Of course, **China** would be as backbone of the BRICS. China is a US$ 6 trillion economy is about 41% of US's economy. But China is still growing fast and Chinese currency is still appreciating fast. China can catch up US in about 10 years in US$ in economy size. They Contribute 40% of World Population. Chinese growth, which has pulled along many other Asian developing countries in a production chain, has been largely export-led. The USA, EU and Japan together account for more than half of China's exports, and their economic crisis was bound to affect both exports and economic activity in China. It is true that China's policy makers have responded by shifting to an emphasis on the domestic economy through expansionary fiscal policy, and moved to some diversification of trade to other countries. But this is unlikely to generate levels of international demand that will come anywhere near to the meeting the shortfall created by recession in the developed countries. China's share of global imports (at less than 4 per cent) is still too small for it to serve as a growth engine on the same scale as the US, which was absorbing around 25 per cent of world imports. Over the past twenty and more years great achievements have been scored in China's reform, opening-up and modernization drive, profound changes have taken place in the society and economy and overall national strength has been considerably enhanced. China began its march towards the third of the strategic goals: full-fledged modernization and a per capita income at the level of moderately developed countries by the middle of the 21st century.[10] A market-oriented reform was initiated as early as 1979 and, following many years of investigation in theory and practice, China decided in 1992 that the goal is to develop a socialist market economy. After more than twenty years of reform, a socialist market economy has now been basically instituted in China, as shown by the following:

Firstly, the economic system and operating mechanism of the countryside have seen radical change. The rural people's communes set up on the basis of "a larger size and a higher degree of public ownership" and "the integration of government administration and commune management" were disintegrated in the early 1980s. In their place were introduced a two-tier management system based on the household contract system and a combination of unified management with independent operation, which is more compatible with a market economy and gives the peasants more autonomy in production and management, and the right to free migration.

Secondly, the ownership structure has been readjusted and reformed, and the principle was formulated of keeping public ownership in a dominant position, while developing diversified economic sectors side by side. The proportion of state ownership in the national economy dropped from 78% in 1978 to 40% in 1999 while the proportion of non-state ownership rose from 22% to 60% during the same period. Of the latter, the collectively owned sector was 35% and private economy was 25% (only 0.9% in 1978). The first two sectors constituted 75% of the national economy, which indicates the dominance of public sectors of the economy. The readjustments of ownership structure have facilitated the development of productive forces.

Thirdly, the reform of the state-owned economy has made breakthroughs and the state enterprises have shifted from administrative appendages to agents in the market that are independent and responsible for their own profits and losses. Most of the state-owned enterprises have been transformed into companies with limited liabilities and some have become listed companies, going in for the modern enterprise system as entities with diversified equity. A large number of small state-owned enterprises have been turned into enterprises with multiple property rights through joint stock partnerships, auction and capital-pooling, and some have changes their operating forms through leasing and contract operation.

Fourthly, China has successfully reformed the price system and constructed a mechanism for setting prices mainly through the market. The twisted relationships among the prices of basic industry products, manufactured products, and industrial goods and of farm produce deriving from the planned economy have been basically corrected and streamlined. Except for a few vital commodities and services that have a close bearing on the national economy and the well-being of the people, prices of more than 95% of commodities and services are determined by the

[10] Li Tieying, Opportunities and Challenges for the Chinese Economy in the 21st Century, The Marxist July-Sept. 2003, New Delhi.

market. The market determination of prices now serves as the main lever to regulate supply and demand and achieve a rational allocation of resources. Initial success has been made in setting up factors markets, especially a capital market.

Fifthly, China reformed the government functions, and a basic change from direct to indirect control has taken place in governmental regulation and control of the economy. China has pushed the reform in the macroscopic control system in the following five ways:

a. Reform of the planning system. The planning departments of the government have shifted their emphasis from issuing production and circulation quotas to formulating long-term plans of national economic development and coordinating relations between various economic sectors.

b. Reform of the investment system. The enterprises of all economic sectors are becoming real investment entities and they are encouraged to get their funds directly from the capital market.

c. Reform of the financial system. A tax-sharing system was introduced in 1994 whereby the central and local governments split the taxes and each collects its own.

d. Reform of the monetary system. An initial system of macro-control and supervision by the central bank has been set up, non-commercial banking has been separated from commercial banking and specialized banks like the Industrial and Commercial Bank, the Agricultural Bank, China Bank and the Construction Bank are being gradually turned into commercial banks.

e. Reform of the government's mode of economic management. We have made great effort to separate the functions of the government from those of enterprises and cancelled the specialized departments of economic management. The government no longer directly administers the internal affairs and business operations of the enterprises, but guides them and standardizes their production and operating activities by economic and legal means.

Sixthly, the policy of opening to the outside world has scored considerable achievements and a radical change from a closed to an open economy has taken place in foreign economic relations. In the early 1980s China set up four special economic zones -- Shenzhen, Zhuhai, Shantou and Xiamen. In the middle of the 1980s China opened fourteen coastal cities from Dalian in Northeast China to Beihai in Guangxi Autonomous Region. Later China established the Hainan Special Economic Region and the Pudong New Area in Shanghai. Since the early 1990s China has pursued an omni-directional open policy and now a pattern of multilevel, multifarious, wide-ranging and unidirectional opening up is already in its place. Structural reform in foreign trade has been continuously deepened and the mandatory planning reduced.

The policy of opening to the outside world has brought about great changes in China's economy: foreign capital and advanced technology have been introduced into China, accelerating the upgrading and renewing of products and the expansion of imports and exports. Along with these also come the advanced management techniques and the operating mechanisms compatible with the market economy.

The main reason for the great success in China's post-1978 reforms is that after summing up their historical experiences and lessons, corrected their pre1978 mistakes, and have upheld the principle of emancipating the mind and seeking truth from facts. During the process of reform and opening up China proceed from the actual conditions in China, respect the initiative of the people, learn and refer to overseas experience and judge everything by the fundamental criteria of the "three favorables," namely, whether it is favorable for promoting the growth of the productive forces in a socialist society, for increasing the overall strength of the socialist state and for raising the people's living standards. China has thus blazed a road of building socialism with Chinese characteristics under the guidance of Deng Xiaoping theory.

Challenges to the Development of Chinese Economy in the 21st Century

China is rich in resources; per capita shares in them are rather low, below the average level of the world in many items. For example, the total volume of fresh water in China is 2.8 trillion cubic meters, making it the sixth largest fresh water country in the world. But in terms of per capita shares China takes up the 109th place among the counties in the world, with only 2,400 cubic meters per capita or a quarter of the world average. The forest area is 134 million hectares and the forest cover rate is 13.92%, while the per capita volume of wood storage is only 13% of the world average. The total area of land under cultivation is 95 million hectares, with only 0.07 hectare per head, less than a third of the world average. Soil erosion and desertification threaten to further reduce the arable land. Moreover, some important resources like fine quality energy deposits are also in serious shortage. All these impose severe restraints on sustainable development.

Next, the steady growth of total population and the aging of population bring about more difficulties for employment and social pension security. The total population will be still on the increase during the first half of the 21st century due to a large population base and a grim situation will loom for employment. Meanwhile, the age structure of Chinese population is undergoing a rapid change and the pace of its aging is accelerating. By 2010 the number of people over 65 years old will reach 113.78 million, making up 8.2% of the total population. With a low level of economic development too large a proportion of the aged will bring about more difficulties for employment and exert unfavorable influence over the economic growth and the improvement of the people's living standard.

Thirdly, the unreasonable economic structure is an acute problem in China as manifested by the following: The position of agriculture as the foundation of the economy is not stable, agricultural productivity is low, there is no outlet for surplus labor in rural areas to be channeled to other sectors, and the income of farmers is growing very slowly. In the industrial setup technology and knowledge intensive high-tech industries account for a small percentage while general processing industries with low added value have a relatively surplus capacity and the supply exceeds demand. With regard to the organizational structure of enterprises, diseconomy of scale is a general phenomenon and there are no large enterprises that can compete with big transnational corporations. The output value of tertiary industry constitutes a rather small percentage of the GNP, and the number of employees in these industries is not large enough.

Fourthly, development is unbalanced between urban and rural areas and between different regions; the gap between them is quite considerable. China remains a developing country and has a typical dualistic economy. On the one hand, it has established a huge industrial system and the output of secondary industry makes up 50% of the GDP; on the other hand, urbanization remains at a low level, 70% of its population makes a living on traditional agriculture and a wide gap exists between town and country. The average income ratio of urban to rural residents is 3:1. At the same time, the gap finds its expression between eastern China and western China. The eastern coastal regions are more developed economically than the western regions, the per capita GDP ratio being three or four to one.

Fifthly, China has initially set up a socialist market economy, but the task of economic restructuring is far from being accomplished and, in particular, the reform in the state-owned enterprises is confronted with many difficulties. It is still to be solved how the state as owner will effectively encourage and restrain the management of the state-owned enterprises after these enterprises become the independently operating entities. A modern enterprise system according both with market principles and with the actual conditions in China has yet to be formulated. The high rate of debts and high proportion of redundant personnel in the state-owned enterprises hinders their competitiveness. Monetary institutional reform must be further deepened and how to solve and prevent financial risks waits for a better answer. There are also problems to be solved in the markets for factors such as capital and labor, not to mention the investment and social security systems.

Sixthly, corruption is a historical phenomenon prevalent in all countries. During the period of transition towards the socialist economy the traditional highly concentrated administrative restraints have gradually been weakened while new systems, mechanisms and legal institutions have yet to be perfected, giving rise to many loopholes. As a result, corruption cases of trading power for money and abusing power for personal gain are rather numerous, doing great harm to the relations between the government and the broad masses of the people and negatively impacting on the reform, opening up and economic construction.

Seventhly, following the return of Hong Kong and Macao the complete reunification of the motherland is an important historical task confronting the Chinese people. The Chinese government has reiterated once and again their adherence to the principle of "peaceful reunification and one country, two systems." However, with the connivance of and support from international anti-China forces the Taiwanese authorities have deliberately avoided and refused to acknowledge the principle of "one China" and continue to stick to the stance of an independent Taiwan. They have been engaging in arms expansion in a vain attempt to obstruct the reunification of Taiwan and the mainland. In international terms, China also faces rigorous tests with the approach of the new century. First, the process of globalization will hasten its pace, the Chinese economy will be more closely related to the world market; transnational corporations will appear on the market in China as fierce competitors, thus making the domestic economy an arena of international competition. The entry of China into the WTO will drive forward the reform, opening up and economic development of China, but it will also place pressure on the economy, especially on agriculture, technology intensive industries and the banking and insurance industries, in which China lags behind the developed countries.

Second, China will face competition from the developed countries in science and technology. In the 21st century, scientific and technological advance will be the primary force driving human society forward. The outcome of economic competition between nations hinges on scientific and technological innovation and the capability to transform science and technology into productive forces. Whoever has the highest technical level and the most powerful transforming capability will occupy the dominant position in the increasingly fierce international competition. For historical and institutional reasons, although China has greatly improved its capacity for innovation since the reform and opening up, it is still week in this field. Achievements in scientific research cannot smoothly be turned into real productive forces; scientific and technological advances make far less contribution to economic growth in China than in developed countries. China still has a long way to go to catch up with the advanced countries in science and technology. On top of that, China must face up to hegemony and power politics. The mainstream will remain unchanged in the 21st century, but, in the wake of the cold war, a few superpowers continue to pursue hegemony and power politics and continue to keep to cold war thinking. They invent every excuse to interfere in the internal affairs of other countries, using force or the threat of it against other states and violating their sovereignty. They hate to see a powerful and prosperous China and therefore try every means to contain China and check its advance.

Tasks and Opportunities for the Development of Chinese Economy

China will face severe challenges in its economic development, but it also has many favorable factors. China began to implement the tenth Five-year Plan in 2001. The goal is for the average annual growth rate of GDP to be 7% in the next ten years, and the present GDP to be doubled by the end of 2010. The present relatively comfortable life of the people will be further improved, the economic structure will be optimized and the national aggregate economic strength will be greatly enhanced.

After the cold war, the world is still full of contradictions and local conflicts have broken out here and there. However, peace, development, social progress and a prosperous economy are what the people all over the world want: they are the main themes of the 21st century and striving for their realization is an unstoppable trend of history. China will continue to pursue an independent and peaceful foreign policy and strive for a relatively long period of peace in the international environment so that it can concentrate its efforts on economic construction. China is still in the throes of industrialization and fan from completing this task. The per capita GDP falls short of 1,000 US dollars, belonging to the lower-middle category. China's advantages as a newcomer to modernization have not been given full play. Meanwhile, as a big developing country with the largest population in the world, China has great market potential and a broad space for development from infrastructure, manufacture to services, in either urban or rural areas, in either the east or the west regions. Tapping these potentials will contribute to the achievement of the third-phase strategic goal of socioeconomic development, industrialization and modernization of national economy.

Over the twenty and more years since the reform and opening up we have maintained sustained and rapid development of the national economy. The overall national capacity of the country has been considerably strengthened. The bottlenecks in infrastructure industries that long held back national economic development has now been loosened. In the field of science and technology, a complete research and development system consisting of basic, applied and development research is shaping up, which will lay a good foundation for China's economic development in the 21st century.

China has initially established a socialist market economy, an ownership structure with public and state ownership in the dominant position and diverse forms of ownership developing side by side is coming into being, the market is beginning to play a fundamental role in resources allocation under the macro control by the state. All these changes will constitute institutional guarantees for the development of Chinese economy.

A worldwide scientific and technological revolution is in the making, with information technology as the forerunner and with microelectronics, biological engineering, new energy resources, new materials, aviation and aeronautics, and ocean engineering technologies as the main contents. And achievements in the revolution are gradually being commercialized and industrialized. New high-tech sectors are emerging and traditional industries are being transformed with high technologies. All these provide new opportunities for China to make use of the achievements of technical revolution in other countries and give full play to its staying advantages in order to bring about a leap in the development. Since the 1990s economic globalization has gathered momentum. There have been more and closer contacts between countries and regions through commodity trade, capital flow, technical diffusion and information transmission, exerting extensive and profound influence over the politics, economy and culture of all countries. As a big developing country, China will take an active part in the international division of labor, exchange and competition, take up the gauntlet of economic globalization, and at the same time make every effort for the establishment of a fair and rational new international economic order. As the ninth biggest export country, China will, with its entry into the WTO, have more opportunities to participate in international cooperation and division of labor, promote the marketing of Chinese commodities all over the world and make export further stimulate the growth of domestic economy. The comparative advantage of cheaper labor will still be present for China in international competition as the country is very rich in human resources. In order to seize the opportunities, face up to challenges and attain the goal of socioeconomic development China will follow the following things:

First, China will continue to make economic construction our central task and balance reform development and stability in order to create a favorable social and political environment for economic development.

Second, China will further deepen economic restructuring, make strategic readjustments to the state-owned economy, effectuate strategic reorganization of state-owned enterprises and strive to seek various forms of for materializing public ownership. Further, China will establish and improve the modern enterprise and social security systems, actively standardize and develop production factor markets, and improve the macroeconomic control system, including reform and improvement of tax, monetary and investment institutions.

Third, China will continue to readjust and optimize the economic structure with the main aim being to strengthen the competitiveness of industries and enterprises. The main tasks are as follows: Readjust the rural economic structure, promote agricultural industrialization and urbanization and hasten the steps of agricultural modernization, with a focus on increasing farmers' incomes; Accelerate development of high-tech industries with the information industry as the leading edge, base the national economy on information and networks and link informationization with industrialization; Transform traditional industries with advanced technologies and equipment, speed up the technical upgrading of traditional industries and the renewal of products; Encourage and guide the tertiary industry so that it will develop at an accelerated pace. Open up new areas of service and raise service quality.

Fourth, China will implement the strategy of developing the country by relying on science and technology, enhance the scientific and technological innovation capacity and improve the quality of the whole population. The main measures are: With economic development, gradually increase input in scientific research, technical development and education; With reform as a driving force and through institutional innovations, reintegrate science, technology and education with economic development, and encourage enterprises to undertake technical innovation; Closely follow world developments in science and technology and the knowledge economy, and concentrating on selected areas to speed up the high-tech development and its industrialization.

Fifth, China will promote rational distribution and coordinated development of regional economies and gradually narrow the gap between regions. Taking advantage of its favorable conditions, the eastern part of the country will continue to play its role in leading the reform and opening up. It will actively develop technology and knowledge intensive industries, raise its ability to take part in international competition and accelerate the process of modernization. The central zone will, on the basis of consolidating the position of agriculture, promote industrialization, vigorously transform traditional industries, and raise productivity and operating efficiency of industry. China will actively and steadily carry out the strategy of developing the western region, focusing on rational tapping and utilization of natural resources, protection and improvement of biological environment and construction of infrastructure.

Sixth, China will further expand in opening to the outside world and strive to do better in this regard. Taking advantage of its entry into the WTO, conforming to the trend of economic globalization and in accordance with the rules of international economic operation, China will extensively take part in international economic cooperation and competition, strive to raise the level and quality in the use of foreign capital, and channel foreign capital into the development of the middle and western parts of China, into the technical transformation of existing enterprises and into new and high-tech industries.

Chinese Response to the Global Financial Crisis

The international financial crisis has created unprecedented difficulties and challenges for the Chinese economy. It has brought about a marked shrinkage of overseas demand, overproduction in some industries, a sharp decrease in orders, stagnation in sales and a shrinking of profits. The impact has spread from the coastal region to inland regions, from small and medium-sized to large enterprises, and from export-oriented industries to other industries. The number of loss-making enterprises and industries has increased and a large number of export-oriented enterprises have been forced to shut down operations. Unemployment has worsened in urban areas and a large number of rural migrant workers have left urban areas and returned home. The downward pressure on economic growth has increased and GDP growth has slowed sharply, down to 6.1% in the first quarter of 2009, the lowest in 17 years. In short, this has created the gravest situation for China so far this century. In view of this situation, some people in China and overseas have had misgivings about China's ability to continue the steady and fast economic growth of the last three decades.

Taking into consideration the overall situation at home and in the world at large, China made a dialectical analysis of the possible consequences of the international financial crisis for the Chinese economy and reached several conclusions:

First, there are still strategic opportunities for development. The world in general is hoping for peace, development and cooperation, so China can continue to look forward to a relatively long period of peace in the international environment that will provide a favourable strategic environment for China's development that is no likely to be reversed.

Second, the basic conditions and favourable situation for China's economic growth remain unchanged. China has laid a solid material foundation through the fast growth of the last 30 years with the implementation of the reform and opening up policy. In view of the internal stimulus of institutional restructuring, the tremendous demand potential generated by rapid industrialization and urbanization, the vast potential for growth created by the upgrading and optimization of the industrial structure, advances in science and technology, environmental protection measures and progress in social programs will enable China to continue steady and rapid economic growth for a fairly long period of time to come.

Third, this international financial crisis has posed unprecedented challenges to development as well as presented with unprecedented opportunities for development. The shrinking of overseas demand, in particular, has created tremendous negative pressure to expand domestic demand, adjust the economic structure and step up efforts to improve the pattern of development. As long as China adopted the right policies, take effective measures and uncover and made good use of favourable factors in this adverse situation. China could turn pressure into a driving force, and transform challenges into opportunities so as to keep the adverse impact of the international financial crisis to a minimum.

To address the grave impact of the international financial crisis, the Chinese government has followed a general philosophy of “promptly responding, adopting strong countermeasures, carrying out appropriate measures and taking a practical approach”. China is continuing to take steady and rapid economic growth as her highest priority task, promptly adjusting macro-economic policy as needed, resolutely following a proactive financial policy and following an appropriately liberal monetary policy. The Chinese government worked out a package plan to deal with the international financial crisis and are constantly improving it, concentrating on ensuring continued growth, improving people’s standards of living and preserving stability, striving to resolve the major problems in economic operation and promoting sound and rapid economic and social development. At the same time, the government is emphasizing confidence as a prerequisite for overcoming the crisis. Confidence is more important than gold or money so China has launched a nation-wide publicity drive centering on strengthening national confidence, working hard to build a common consensus, boost public morale and spirit, and mobilize government officials and the people to work together to overcome these difficulties.

Expansion of domestic demand the basic starting point and greatly increasing government spending to boost consumer demand.

In the face of the drastic decline in international market demand, it has become particularly important and urgent to expand domestic demand. China has launched a government spending plan to invest 4 trillion yuan over two years, including 1.18 trillion yuan to be invested directly by the central government. These government outlays has finance major projects closely related to the well-being of the people, weaker links in economic and social development and major infrastructure projects with general benefits and long-range significance. In addition, China has been energetically working to guide and funnel non-government fund and private capital into fields in accordance with the state’s industrial policy to increase the effect of non-government investment in stimulating economic growth. At the same time, China has adopted a number of measures to boost consumer demand, foster growth areas in consumer spending, further improve government policy on consumer spending and strengthen the stimulus effect of consumer spending on economic growth. China is paying particular attention to the effort to expand the rural market through measures such as increasing the availability of home appliances and automobiles in rural markets at government subsidized prices, increasing rural market outlets and encouraging chain stores to extend operations to rural areas to stimulate consumer spending in the rural population and make the vast rural market a vital component in the policy of expanding consumer demand.

Industrial restructuring and stimulus program, with structural adjustment as the main approach.

The outbreak of the international financial crisis coincides with China’s efforts to improve the pattern of economic growth and restructure the economy. Accelerating structural adjustment and promoting industrial improvement and upgrading are extremely important for efforts to resolve deep-rooted problems in China’s economic operation and effectively cope with the impact of the external situation. Concentrating on improving the overall quality and long-term sustainability of the national economy, China is carrying out a restructuring and stimulus program for the automobile, iron and steel, equipment manufacturing and seven other major industries and has worked out a series of policy measures to boost development of new and strategically important industries. Because agriculture is a strategic industry in the effort to ensure social stability and public confidence and trust, China is greatly increasing government spending programs related to agriculture, rural areas and the rural population. In addition, China is increasing state subsidies for agriculture and extending the scope of such subsidies to counter the downward pressure on grain prices and thereby protect agriculture and the food security of the country. **China has** adopted 29 policies and measures especially designed to promote the development of small and medium-sized enterprises, improve the financing and development environment for them and support their efforts to upgrade production or change their type of operation. China has strengthened efforts to reduce energy consumption and pollutant emission and protect the environment, and begun taking vigorous measures to address the problem of climate change, concentrating on prevention and control of pollution in key areas and geographical regions. China is actively promoting improvement in the pattern of economic development and of industrial upgrading in the eastern region of the country, intensifying support for structural improvements in the central region and carrying out the strategy of large-scale development of the western region and reinvigoration of the old industrial area of the northeast region in order to promote balanced regional development. It is particularly worth noting that the international financial crisis has highlighted the special function and advantage of culture, in view of which China has drawn up and implemented the Plan to Boost the Cultural Industry, which focuses on promoting development of major cultural industries and new cultural industries.

Promoting reform in major fields and key links relying on the powerful driving force created by deepening reforms.

Reform is a driving force and a fundamental way of coping with the international financial crisis and promoting steady and rapid economic development. China is implementing a series of reform measures conducive to ensuring growth, promoting domestic consumption and restructuring, concentrating on key areas and crucial links, effectively resolving development difficulties and stimulating development vigor. China is deepening price reform, especially for resource products, accelerating efforts to develop a pricing mechanism for resource factors that fully reflects market supply and demand, the scarcity of resources and environmental costs. China is deepening reform of the system of public finance, improving the system of government budgeting and developing a sound new mechanism that ensures balance and coordination among budgetary formulation, execution and oversight. China is also deepening reform of the financial system to develop a sound mechanism to properly coordinate monetary policy with development of the banking and finance industry and financial oversight, improve the structure of the banking and finance industry and financial services, and strengthen financial oversight and encourage innovation in the industry. China is deepening reform of state-owned enterprises, adjusting the structure of the state-owned economy and promoting concentration of state capital in major industries vital to the national security and the lifeblood of the national economy and basic public services in a strong effort to strengthen the adaptability and international competitiveness of state-owned enterprises.

Promoting innovation in science and technology.

Innovation in science and technology provides the breakthroughs and is a powerful weapon for addressing a financial crisis. Experience has shown that a major economic crisis is often following by a scientific and technological revolution. History has shown that whoever possesses the edge in scientific and technological innovation also holds the initiative in development and takes the lead in recovery and becoming prosperous. China is following a path using innovation as the driving force and depending on our own strengths for growth to promote economic development. China is accelerating implementation of the Outline of the National Medium and Long-term Program for Science and Technology Development, carrying out major scientific and technological infrastructure projects, and stepping up efforts in major basic scientific research and research in new and high technologies. Chinese government has selected 16 major projects that will have the greatest impact and the most-far-reaching consequences and will yield results the fastest, including core electronic components, development and utilization of nuclear power, and high-level digitally controlled machine tools, and concentrating on making breakthroughs in core, crucial and general application technologies. China is actively developing a group of high and new technology industries that possess their own intellectual property rights, fostering new growth areas in the economy and creating new areas of consumer demand. China is giving high priority to the major role of enterprises in independent innovation and support their R & D work and efforts to apply advances in technology in fields such as biomedicine, 3G mobile communications and energy saving and environmentally friendly motor vehicles, and make extensive use of new technologies, production processes, equipment and materials to achieve both greater growth and efficiency.

Extend social welfare program to cover an increasing number of people with the primary goal of improving the lives of the people.

The government believes that in times of difficulty it is particularly important to pay close attention to the well-being of the people and to truly ensure the well-being and improve the lives of the people. China is concentrating efforts to fulfill the urgent requirements for social and economic development and carry out major tasks to benefit the people, focusing on resolution of the issues most directly linked to the interests and concerns of the people. China is implementing an even more aggressive employment policy creating more new job openings, increasing the ability of small and medium-sized enterprises, labour intensive enterprises and service industries to provide more jobs, helping college graduates find employment, stabilizing the employment situation for rural migrant workers and making appropriate arrangements for migrant workers returning to the countryside. China is increasing government allocations to strengthen social safety net by expanding the coverage of basic old age insurance and basic medical insurance and improving the system of cost of living allowance for urban and rural residents, unemployment benefits, the urban and rural medical assistance programs and the new rural cooperative medical care system. China is accelerating construction of low-income housing, increasing investment in building more low-rent houses and improving housing conditions in shantytowns and expending a great deal of effort to build permanent housing in localities ravaged by earthquakes. While working to improve the material living conditions of the people, China is also working to protect the cultural rights and interest of the people by energetically working to improve public cultural services and developing community-based cultural activities to enrich people's cultural life. These policies and measures take into account the situation in China and the ongoing international financial crisis. The most prominent features of these policies and measures are that they balance market forces and government regulation, balance long-term development goals and short term goals for growth, balance the need to expand domestic demand and stabilize overseas demand, and maintain the inherent balance between the need to improve people's lives and the need to expand domestic demand. In other words, they are designed to ensure growth, ensure the people's well-being and ensure stability, while striving to ensure scientific development and harmonious development. They are designed to ensure the continuity and stability of policies while also maintaining flexibility and sustainability to provide effective guarantees for the success of our efforts to cope with the international financial crisis and maintain steady and fast economic growth. All measures we have taken to improve the lives of the people have yielded positive results, with improvement in the people's working and living conditions and society as a whole remaining harmonious and stable. Individual incomes have continued to rise, with a 10.5% year-on-year rise in urban per capital disposable incomes and 9.2% rise in rural per capita cash incomes in the first three quarters of 2009. The employment situation had exceeded expectations, with the creation of 9.4 million new urban jobs in the first ten months of the year, which is expected to exceed 11 million by the end of the year. The employment situation for rural migrant workers in urban areas and college graduates also showed improvement and the overall employment rate remained steady. The social safety net has been strengthened thanks to a 29.2% increase in government allocation, which was used to increase the basic cost of living allowance for urban residents by 50% and for rural residents by 150%. The amount of pension payments for retired enterprise workers is rising steadily and significant progress has also been made in setting up community-level medical care facilities and in efforts to prevent and control H1N1 influenza.

In short, keeping China's economic and social development on track in spite of the serious international financial crisis, global recession and complex and grave domestic and international situations has truly been a difficult task. These achievements have created the conditions that will enable China to overcome its current economic difficulties and strengthen the economic rebound as well as laid a solid foundation for fundamentally resolving the institutional and structural problems that are hampering the healthy development of the economy and for longer and higher level economic development. At the same time, China is fully aware that there are numerous uncertain factors that could affect the world economy, our economy is still facing a very complex situation, the foundation for economic recovery is not solid, both positive changes and adverse effects are evident, there is an interactive combination of short-term and long-range issues, and domestic factors affect the international situation and vice-versa, all of which are making the task of maintaining steady and fast economic growth and improving the pattern of economic development and making structural adjustments in the economy more difficult. China is going to further strengthen and improve macroeconomic regulation, correctly balance efforts to maintain steady and fast economic growth with moves to make structural readjustments in the economy and correctly manage inflation expectations. China has continued to follow a proactive financial policy and appropriately liberal monetary policy, fully implement and improve our package economic program and put more effort into raising the quality and efficiency of economic growth, by improving the pattern of economic development and making structural adjustments in the economy and carrying out reform and opening up and encouraging independent innovation.

In summing up, China's economic and diplomatic relationships are still stronger with the African, Latin American and ASEAN countries. India's economic and political relationships are much stronger with Russia, Brazil, and South Africa. The BRICS can represent the interests of all the developing countries. The BRICS countries are not only the emerging largest economies but its growing strong economic and political relationship with the African, Latin American and Asian countries; it may change in the international economic order through using common currency in trade, sharing their own science and technology to improve and transform in agriculture, energy, and industrial sectors, and establishing a new military block so they can provide security from the imperialist aggression.

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