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# The Role and Impact of China's Trade Internationalization: A Paradigm Shift in the World Economy

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**ABSTRACT**

*In the present era, China has instigated a soft power image to dominate the world (by sweeping the world trade and markets) in contrast to the United States of America (USA) and European Union hard power strategy. This study presents and reviews the growth in China's trade in the context of the global economy. On the basis of this study, it can be concluded that China has caused a paradigm shift in the global economy through its trade-centered policies. Its dominance is largely attributed to the encouragement of local investors and promoting trade and products through a policy of minimizing barriers to openness. It is also observed that China's economy has been more stable in the recessionary times and has strong correlation with total world trade import and export volume.*

**JEL Classification:** *F15, F18, F43*

**Keywords:** *Global Economy, Trade Internationalization,Trade Pattern, Economic Implication*

## INTRODUCTION

The Chinese economy around 40 years back followed such trade liberalization and economic reforms that kept the economy somewhat isolated from the global economy leading to stagnation, inefficiency, poverty and a centrally controlled system. The economy went under structural reforms in 1979 moving towards openness and foreign investment that helped in accelerating growth; however, many scholars thought that this growth would not last for long due to the lack of fundamental reforms. Contrary to this, China has now become world's largest economy on the basis of purchasing power parity, holder of largest foreign exchange reserves, merchandise trader and manufacturer. This unprecented growth has changed China's global status from a populous and barely registered economy on global scale to the world's largest economy with generating 9.3% of world GDP.

Rapid urbanization and industrialization has transformed China from an agrarian economy. This transformation also helped China to performance outstandingly during the Asian financial crisis of 1998 and global crisis of 2008. Not only that, China's decision to maintain the stability of renminbi aided in stopping a potential devaluation competition among other East Asian countries. This decision played a major role in recovering other countries from crisis. Therefore, it can be said that the dynamic growth of China has played a crucial role in global recovery.

Technological innovation and industrial upgrading, in advanced and high-income countries, do not only require heavy investments but it is associated with high risk as well, since their industries and tehcnologies are at the global frontier. Their innovative processes for such

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development are path-dependent, costly trial and error and evolutionary. However, this notion is particular to high-income developed countries that want to be the first in the chase. On the other hand, a developing country which aspires to be at the frontier of technology and industry can borrow institutions, technology and industry from the developed countries at low cost and risk. China's modernization drive that started in 1949 got the advantage of backwardness in structural transformation and technological innovation. China knew how to tap into the advantage of such backwardness which led to its growth at rate several times higher compared to that in high-income countries.

China is emerging at the start of the 21st Century as a new center of the global economy, overtaking the USA and Germany to become the largest exporter in the world (with $2300 billion exports, compared to $1800 billion and $1600 billion for the USA and Germany, respectively). Trends in global Foreign Direct Investment(FDI) stock (1980-2014) show that the developed industrialized economies are at the highest level with competitive developing emerging economies of China and India on the second level. Multinational Companies (MNC's) and Trans-National Companies (TNC's) are interested to make investments in politically stable, peaceful and business friendly states. The cheap labor force in China is a major benefit for MNCs to invest there and maximize their profits which increases the production demand for China.

This makes it more challenging for policymakers (specifically of other developing countries) to maintain a rational approach that could end up in favor of their politico-economic structures. The objectives of this study are:

a)To analyze the significance and impact of the growing role of China in the global economy

b) To evaluate how China emerged to be the main contender in world trade, and its economic implications

c)To explore whether this evolving trend of China's trade internalization disseminates in a reciprocatingmode?

These questions are formulated to meet the research objectives.a)Whether China is exposed to varying challengeswith its diverse trading partners? b) Whether China's trade surplus promotes convergence or creates divergence by showing a trade deficit in different economies? c) Whether the imports of China are more expedient or its exports to preserve a viable status in the world economy? d) How can states respond towards this evolutionary paradigm?

This study incorporates both quantitative and qualitative methods. The quantitative approach will include a descriptive statistical analysis by applying central tendency and Pearson correlation test between the imports and exports of China to the world. The evaluation of this analysis will lead to conclude the implications of growth in China's economy on world trading patterns and analyze whether or not China's trade internationalization stimulates a convergence effect on world trade.

Secondary data sources such as books, magazines, articles, research papers, other library based

material, and online published quantitative and qualitative data have been employed in this study for analysis.The study will help academicians and economists to formulate policies for desired national interests by benchmarking the successful practices in China. It will also provide opportunities for researchers to explore new paradigms of the area under discussion.

## LITERATURE REVIEW

The literature on China's role and impact on the world economy is abundant,but is primarily focused on high-income countries, with less emphasis placed on the impact for convergence or divergence of lower-income countries. Most studies focused on Asia look primarily at China and India .The shrinkage of working labor force, competitive prices for standardized exports and Outward FDI of foreign assets in strategic arenas abroad are the varying challenges of the Chinese economy to integrate with the world economy (Fox and Godement, 2009). Strong evidence has been found that other developing countries have not experienced any fall in export shares as a result of China's gains. Instead, China's share growth has come largely at the expense of exporters based in developed countries, especially Japan and the USA (Husted & Nishioka, 2013). Moreover, it has been found that there is coexistence of formal and informal dispute settlement mechanisms (DSM) in China's free trade agreements (FTAs) (Jun and Yu 2016). The above cited studies have discussed about the role and impact, of China on world trade from diverse viewpoints, however, other peculiar perspectives as captured bytraditional patterns of comparative advantage (refered to as David Ricardo theory) (Ruffin, 2002), differences in natural resources as factor endowments (refered to as Heckscher-Ohlin theory) (Moroney & Walker, 1966) and new international trade theory of specialization of certain products by attaining economies of scale (refered to as Paul Krugman theory) (Krugman, 2008) has not been found in the literature related to China's economy.

### China's Trade Internationalization and its Impact on World Economy

The China's link with the international system was characterized by foreign investment, scienctific exchange, low levels of trade and tourism but since 1978 these characteristics have now been converted to all sort of transnational exchanges and global commerce (Zweig, 2018). The theme of trade internationalization paved the way for China puts a decisive role and impact on the world politico-economic structure. The industrialized and developed states of UK, Germany, USA and Japan have taken more than 100 years to attain a satisfactory GDP growth rate and Asian emerging economies of South Korea, Hong Kong, Taiwan and Singapore accomplished the same parameters of stable GDP in 25 years or so. By comparison, the economic transformation of the China (accounting for one fifth of global population) has been quite rapid. As recently as 2017, the share of exports of China was very low at 2% in world merchandise exports in 1990 which grew to 13.2% in 2017 (Figure 1). Within a decade from 2005 to 2015, its share increased from 7.5% to 14.1%.

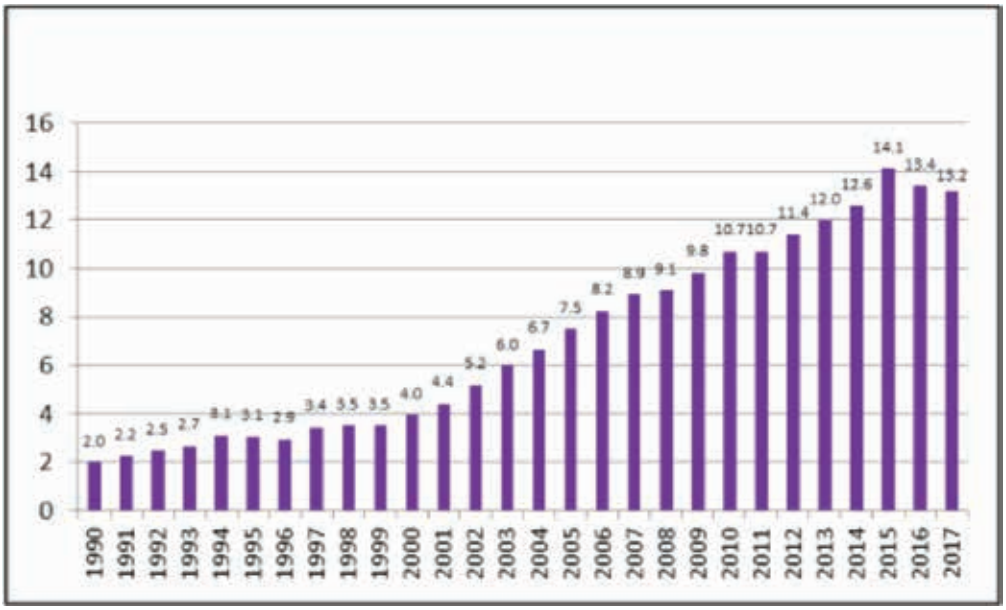


**Figure 1:**
*This figure shows China's Share of Global Merchandise Exports from the period 1990 to 2017, and it has been adapted from the study of Morrison (2019).*

However, in less than a decade Chinese growth has gener¬ated high levels of demand for natural resources with significant amounts of pollution and growing trade surpluses with the USA and the European Union (Dunford & Yeung 2010). Chinese MNCs captured the developed market, exporting capability through competitive pressure in the home market, standardized quality, brand awareness, market size, natural resource seeking locations, open and supportive regulative regimes and cultural proximity.

Yang et al. (2009) provided a holistic view to study the interaction among institutions, industry, and resource drivers in Chinese MNCs' international expansion. They are state controlled and supported entities which are hesitant to expand business abroad on the pretext of losing home market. But they are interested to partner with global brands to transfer technology and managerial skills and consolidate their competitive position in the domestic market.

There are vast implications of China's trade on the economy of the world. The higher income of workers leads to higher profitability for industrialists with positive signs of capital accumulation by the state authorities. The state sponsored export activities generate not only higher revenue but also stimulate the technological spill-over for research and development. According to the cohorts of Internationalization this process will not only promote trade integration among the developed industrialized states, but also among the emerging Asian economies which will ultimately increase international trade among all its benefactors.

The state policy of China to open its market for inward FDI in processing industries leads towards the establishment of US competitive high techexclusive economic zones in

Guangzhou. This region also serves as an important national transportation hub and trading port. The next step for China is the internationalization of its currency Renminbi (RMB)that is serving as the tender for trade settlement by 220 countries of the world from Luxembourg to Singapore.According to Bank of China Hong Kong report (2014) China encourages trade and investment in RMB. This can be easily assessed with the statistics of the year 2013in which RMB3.8 trillion of trade, RMB 448 billion in FDI and overseas FDI RMB 86 billion was observed. Furthermore 23 countries had made bilateral currency swap agreements with China.The banks of Australia, Malaysia, South Korea, Japan, Norway, Qatar, Indonesia, Thailand, Cambodia, and Nepal have all already decided to keep RMB denominated bonds in their reserves, suggesting that over time it will become a major reserve currency.

**Trade Internationalization**

International trade, including regional integration, is seen as pro-convergence to global economy (Singer, 1998). Figure 2 shows the notion of possible implications of internationalization of trade that it will bring not only trade surplus or reciprocal benefits, but also the convergence for working together with partner states by making bilateral and multilateral trade agreements. On the contrary, advocates of the rational approach stated that trade may lead todivergence as despite efforts of unification; every country of the world desires to make profitable contracts for itself.

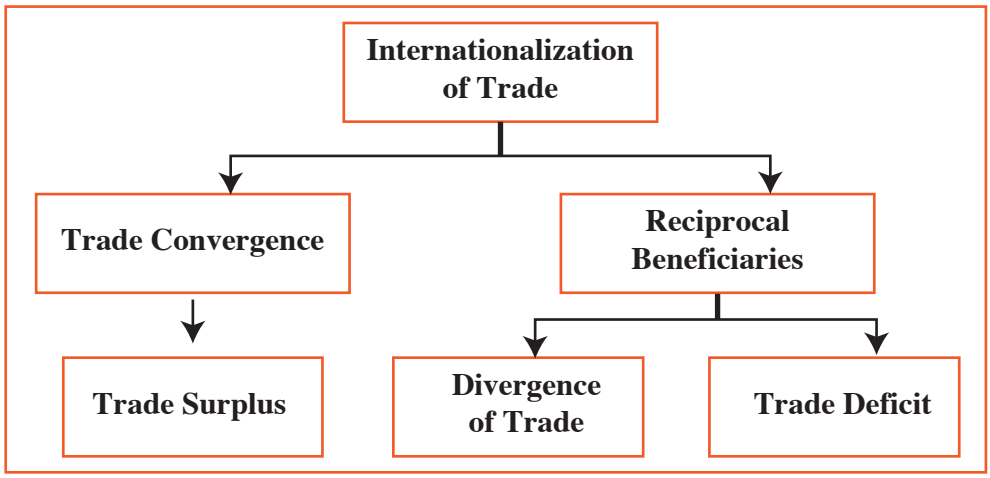


**Figure 2:**
*This figure has been developed by the authors showing the Implications of Trade Internationalization.*

The notion of convergence or working together with partner states by making bilateral and multilateral trade agreements in which technological and research sharing can be possible and is observed in marginal extent in the prevailing world scenario. Except in few cases like the European Union, which had proven it since its emergence in 1992 till yet. On the contrary trade can evolve divergence because despite of all the efforts of unification every country of the world desires to make profitable contracts for itself due to the dissimilarities existingatthe level of economic and technological growth in every country. Still modern trade internationalization framework promotes therobust trend of convergence, but at present the magnitude of its sustainability is immeasurable.

The international capital flows should foster the convergence process as the big trading are more likely to exhibit it than intensively trading small country groups. Still the positive correlation between trade and convergence is weak. Rather trade is correlated with divergence. (Gaulier, 2003).

Cyrus (2004) estimated the relationship between trade and convergence and concludes that the fundamental linkages between theOrganization for Economic Cooperation and Development (OECD) and non-OECD countries are basically the same. The post-war era has seen increasing trade and conditional convergence, the causality is bi-directional: convergence causes trade, and trade causes convergence Cyrus (2004).

Yang et al.(2009) stated economic convergence has increased among the world's major economies which has risen the volume of international trade. Arvind (2014) used the statement of 'convergence with a vengeance' due to the evolutionary phenomena (in 1990s)of hyper-globalization which promotes world trade integration. In this scenario, the European convergence after centuries of extreme hostility among the big powers (Britain, France and Germany) also paves way for emerging economies (China and India) to exert for economic integration but still leaving behind major part of the world out of this trajectory.

Dunford and Yeung (2010) presented the findings that trade enhanced the process of urbanization and regional integration between the highly developed east coast and the central China, which will improve the process of convergence among northeast, west, rural and urban China.Sanidas and Shin (2011) made a quantitative study of Comparative Advantage indices of China, Japan and Korea export performance from 1995 to 2008 andinfer that probably in about five to ten years' time China will also go into the convergence stage in a backward and forward specialization of production.These predictions appear to be relatively accurate in the sense that during the last five years the volume of China trade with the rest of the world has enhanced considerably by making it a trading hub of the world.

Canfei and Shengjun (2007) used the statistical analysis to provide strong support for the forces of the market and comparative advantage embedded in natural resources. These forces stimulate regional integration and industrial specialization resulting in the divergence of industrial structures of the provinces with distinctive resource endowments. Trade liberalization benefits regions with better access to foreign markets, which entails the strong convergence. If the regions are already advanced prior to trade liberalization, then the opening of trade will bring about intense divergence (Brulhart, 2011).

According to World Trade Organization report (2015) the core areas of international cooperation for convergence among members are to achieve progressive development and friendly trade regimesamong non-multilateral and multilateral trading systems as convergence promotes domestic policies for sharing of education, skills, innovation, public policy on non-tariff measures and trade standards(Pascal,2013).A study conducted by Rodrik (2011) found that it is realistically not possible to trace rapid and stable convergence, which remains to be restricted to a relatively small number of countries.The proposition is rational as the instigation and permanence of economic convergence between varying economic position of countries is virtually not feasible.

**China Exposed to Challenges of Trade Deficit or Surplus**

It seems that the precise motive to enhance economic integration through international trade would be wasted if retaliation among the global players transfer its detriments on the poor and developing states. Chunding (2016) presented simulation results that China is a large trade surplus country and could potentially become involved in bilateral trade retaliation with more losses towards major trading partners, including the OECD, European Union (EU), USA and Organization of African Countries(OAC) who can gain from trade retaliation. However, there exists some literature that states that if China shows a commitment towards openness then the United States' reaction to its rising influence may be more favorable and accommodating from latter (Lake, 2018).

China achieved openness in international trade not by reducing import protection, but by creating special economic zones with different rules than those applied for domestic production. When China eventually joinedthe World Trade Organization(WTO), it did not stop stimulatingits industries, but shifted export promotion policy from direct industrial policies to currency undervaluation (Rodrik,2011). High-income countries remain critical about the policy modifications by the Chinese government to maintain their target of sustainable growth.

The global financial crisis (2008-09) highlighted the low level of Chinese investment in the European bond market and debt instruments despite being a key lender with enormous financial reserves to the world's financial system (Child, 2009).After that, the EU's trade deficit with China swelled up to €169 billion, after replacing the USA with Chinaas largest trading partner. This demands further market opening in China if mutual investment will not grow.The internal strives among the members of the EU makes it easier for China to benefit more from its trade agreements with the European Union by having a smootheraccess to the European market.

Arvind (2014) stated the semblance of Atlantic commonality and community as economic dynamism shifts to Asia with agreements like Trans-Pacific Partnership (TPP) in the Asia-Pacific; and a Transatlantic Trade and Investment Partnership (TTIP) which aims to contain China economically.The TTIP aims to prevent China from imposing its technical standards in telecommunications, hardware, data and agriculture on the rest of the world. If the US and EUagreed to common global (and non-Chinese) standards, Chinese firms will have to pay the cost of entering American and European markets rather than the other way round.

Bret and Martin (2011) stated that Chinese world manufacturing output share rose from less than 9 percent to 14½ percent from 2000 to 2007,bringing sluggish growth specifically for US share followed by Japan, Italy, UK, Germany, Canada, France.WRO accessionof China benefited its trading partners in the form of lower prices, rapid adoption of new technology and efficiency gains, removal of trade barriers, and increased competition for labor-intensive industries (apparel, textiles, and furniture) with some job losses. Capital and energy-intensive industries, particularly iron and steel, benefited from government subsidies which bring huge profits, for State Owned Enterprises (SOEs), with expansion and production abroad.China has experienced rapid increase in exports of few specific high-tech products, such as cell phones, laptops, liquid crystal displays (LCDs), and integrated electronic circuits because of science parks and enjoy worldwide dominance with these new technologies.

The International Monetary Fund (IMF) report in 2011 predicted the current account surplus of the emerging and developing economies will increase by more than $520 billion between 2010 and 2016. Although, we could not find any study that could accurately validate this prediction because 2016 is still recent but the most recent trend till 2014 shows that the predicted values may be achieved (Lee et al., 2016). On the other hand, the deficit increase is expected to be only $200 billion in the advanced economies, opening a positive trend of increasing world trade.

The model of frequency index finds that tariff, technical barriers to trade (TBT's) and quotas all have a negative impact on China's imports, but license had a positive trade promotion impact in the pre-WTO period(Bao and Qiu,2010).The potential scrutiny under TBTsassures quality and safety and pressurizes importers and exporters to carry out their trade within certain parameters. These TBTs are trade-reducing for agricultural goods, but promoting for manufacturing goods as it become more influential with tariff and non- tariff barriers which are phasing out gradually through multilateral negotiations.

## DISCUSSIONAND ANALYSIS

### Contribution of China in World Trade

Table 1 shows the time series data for world import and export trade volume and China import and export trade volume during 1992 – 2015 in US$. The data was accrued from the UN trade and commerce website as mentioned in the footnote of the Table 1. The average trade volume of China plays a significant role in world trade and represents to the strength and significance of the China's economy in the world economy. The average import and export volume of China were US$744 billion and $874 billion respectively against the aggregate world import and export volume ($9,958 and $9,719respectively)during the last 23 years.

The Pearson correlation test is used to know the association between the China imports and exports with that of the entire world. The correlation between world and Chinese economy was found to be 0.97, which shows there is a strong correlation between Chinese imports and exports and the entire world imports and exports trade.

According to United Nations Conference on Trade and Development report (2015, international trade in goods is increasingly linked to imports and exports of developing countries. South-South trade flows have increased almost US$ 5 trillion in 2014, primarily due to China. This supports the findings of the calculated data on the basis of Pearson Correlation procedure for weighing the escalating trend of China's trade relation with the rest of the world.The result shows the commendable status preserved by the China after disposing USA and Japan as the major exporters of the world.

**Table 1.**
*China and World Import & Export Volume (1992-2015).*

| Year | Total World Imports Trade Value (US$ billions) | Total China Imports Trade Value (US$ billions) | Total World Exports Trade Value (US$ billions) | Total China Exports Trade Value (US$ billions) |
|---|---|---|---|---|
| 1992 | 2470 | 81 | 2458 | 85 |
| 1993 | 2867 | 104 | 2832 | 92 |
| 1994 | 3811 | 116 | 3759 | 121 |
| 1995 | 4739 | 132 | 4783 | 149 |
| 1996 | 5081 | 139 | 4997 | 151 |
| 1997 | 5394 | 142 | 5223 | 183 |
| 1998 | 5347 | 140 | 5271 | 184 |
| 1999 | 5607 | 166 | 5469 | 195 |
| 2000 | 6480 | 225 | 6277 | 249 |
| 2001 | 6248 | 244 | 6042 | 266 |
| 2002 | 6507 | 295 | 6353 | 326 |
| 2003 | 7599 | 413 | 7416 | 438 |
| 2004 | 9273 | 561 | 9000 | 593 |
| 2005 | 10466 | 660 | 10147 | 762 |
| 2006 | 12113 | 791 | 11858 | 969 |
| 2007 | 13919 | 956 | 13525 | 1220 |
| 2008 | 16098 | 1133 | 13638 | 1431 |
| 2009 | 12359 | 1006 | 12176 | 1202 |
| 2010 | 15107 | 1396 | 14900 | 1578 |
| 2011 | 17977 | 1743 | 17780 | 1898 |
| 2012 | 18023 | 1818 | 17836 | 2049 |
| 2013 | 18391 | 1950 | 18472 | 2209 |
| 2014 | 18367 | 1958 | 18379 | 2342 |
| 2015 | 14756 | 1682 | 14674 | 2282 |
| Mean **Value US $ Billion** | **9958** | **744** | **9719** | **874** |
| Pearson Correlation | 0.97 | | 0.97 | |

*Note: This table shows the import and export of China and the rest of the World from 1992 to 2015. The source of the data is http://www.comtrade.un.org/*

### Import and Export Trend Comparison between China and World Trade

Figure 3 and Figure 4 show the comparison of trends between import and export of world and China for since 1992. The values are plotted at separate axes due to difference in scale. It can be observed that imports and exports of China follow the global trend generally. However, it is worth mentioning that the depression in trade values was greater for global scenario as compared to China. The circled portions in these figures (around year 2008 and 2015) are evident of this fact. Hence, it can be concluded that China's economy has been more resilient as compared to global scenario, especially during recessionary periods.

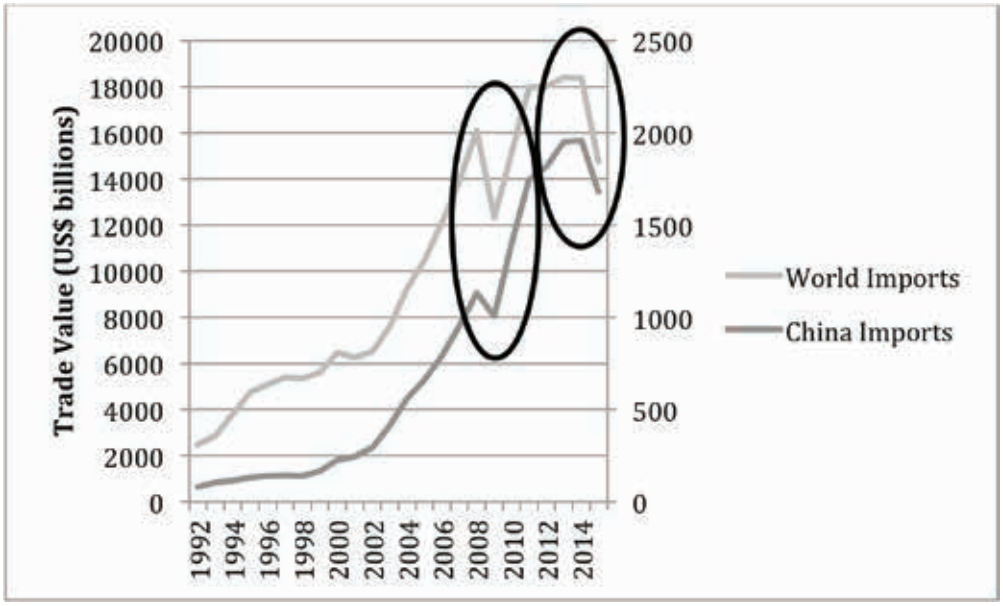


**Figure 3:**
*This figure shows the Comparison between Trends of World and China Imports*

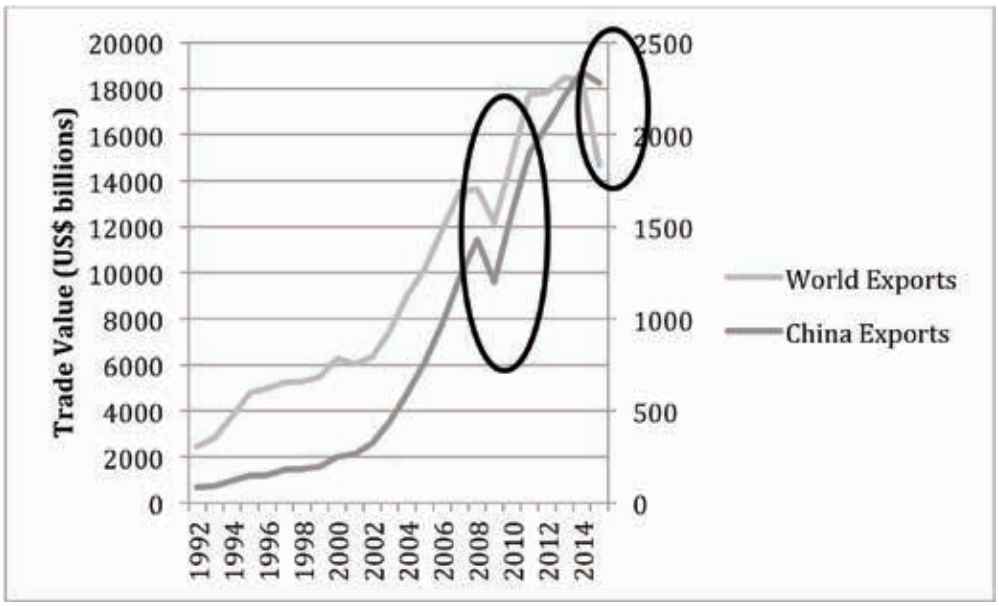


**Figure 4:**
*This figure shows the comparison between Trends of World and China Exports*

**Yearly Contribution of China Import and Export**

Based upon the data presented in Table 1, the share of China to world trade can be calculated for imports and exports as shown in Table 2 and Figure 5.The average contribution of Chinese imports and exports to world trade was 6% and 7% respectively between 1992 and 2015. It can be observed that the share of China has increased 3 times during the study period (1992-2015). The share has been constant or increased from the preceding year in most of the cases except imports between 1993 and 1994. The share of exports has been growing at a higher rate than imports, which could be considered indicative of China's export oriented trade regime. This trend also suggests that the dependency of the world is increasing on Chinese industries. The average growth in exports and imports of world trade is estimated to be 9% during 1992-2015. For the same period, China's average growth rate is around 15%. These figures are indicative of the growing trend of China's expansion.

**Table 2:**
*Share of Import & Export of China to the World Trade (1992-2015)*

| Year | Share in World Imports | Share in World Exports |
|---|---|---|
| 1992 | 3% | 3% |
| 1993 | 4% | 3% |
| 1994 | 3% | 3% |
| 1995 | 3% | 3% |
| 1996 | 3% | 3% |
| 1997 | 3% | 3% |
| 1998 | 3% | 3% |
| 1999 | 3% | 4% |
| 2000 | 3% | 4% |
| 2001 | 4% | 4% |
| 2002 | 5% | 5% |
| 2003 | 5% | 6% |
| 2004 | 6% | 7% |
| 2005 | 6% | 8% |
| 2006 | 7% | 8% |
| 2007 | 7% | 9% |
| 2008 | 7% | 10% |
| 2009 | 8% | 10% |
| 2010 | 9% | 11% |
| 2011 | 10% | 11% |
| 2012 | 10% | 11% |
| 2013 | 11% | 12% |
| 2014 | 11% | 13% |
| 2015 | 11% | 15% |
| Average Contribution | 6% | 7% |

*Note: this table shows the share percentage of Import & Export of China to the World Trade.*

Figure 5 depicts the trend and growth of the annual contribution of Chinese import and export in the world trade volume of import and export. It can be seen in Figure 5 that the annual export contribution of China is higher than the import contribution during the study period, i.e., 1992 -2015 except 1993. The gap between export and import represents the trade surplus in favor of China.

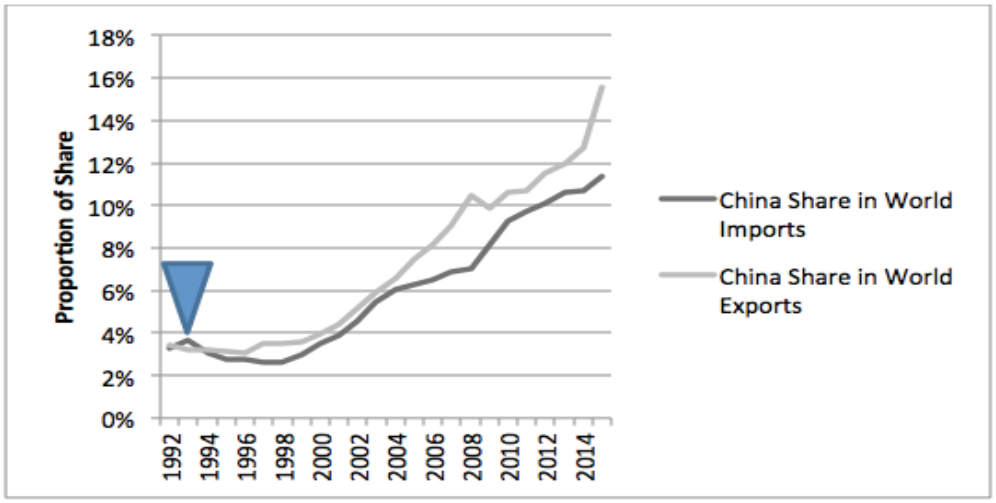


**Figure 5:**
*This figure shows the contribution of China in the World Trade*

Table 3 shows the comparison of China's trade deficit with the world from 1992-2015. It can be observed from this table that China's trade deficit has mainly been positive, indicating the dominance of exports over imports. The deficit in world trade is calculated as the difference in the sum of exports and imports of all countries in the world. This has been the case despite the global economic situation, which shows a negative trend in almost all years. It is also observed that a deficit in the trade of China decreases with a lag when there is an abrupt change in the world deficit. An example of this can be seen in the shaded cells of Table 3. This also reinforces the observation from Figure 4 and 5 that China's economy remains relatively stable and insensitive to sudden changes in the world economy.

**Table 3:**
*Comparison of Trade Deficit (1992-2015)*

| Year | Share in World Imports | Share in World Exports |
|---|---|---|
| 1992 | 3% | 3% |
| 1993 | 4% | 3% |
| 1994 | 3% | 3% |
| 1995 | 3% | 3% |
| 1996 | 3% | 3% |
| 1997 | 3% | 3% |
| 1998 | 3% | 3% |
| 1999 | 3% | 4% |

| | | |
|---|---|---|
| 2000 | 3% | 4% |
| 2001 | 4% | 4% |
| 2002 | 5% | 5% |
| 2003 | 5% | 6% |
| 2004 | 6% | 7% |
| 2005 | 6% | 8% |
| 2006 | 7% | 8% |
| 2007 | 7% | 9% |
| 2008 | 7% | 10% |
| 2009 | 8% | 10% |
| 2010 | 9% | 11% |
| 2011 | 10% | 11% |
| 2012 | 10% | 11% |
| 2013 | 11% | 12% |
| 2014 | 11% | 13% |
| 2015 | 11% | 15% |
| Average Contribution | 6% | 7% |

*Note: This table shows the comparison of China's trade deficit with the world from 1992-2015*

In the period from 1980-2011, China's share of world exports rose from 1% to 11%, and imports rose from 1% to 10%.Whereas the US, EU, and Japan experienced relative declines in trade patterns due to Multipolar Geo-economic structural changes, redistribution of trade and investment (Braz,2014).These changes have forced the developed economies to now coexist in collaboration with the emerging economies, led by China, also including, India, Brazil, Russia, South Africa, Singapore, Taiwan, and Malaysia. This shows the consistency of the Chinese government during the last two decades in the form of supportive policies to attach industrialization with inward and outward trade activities. This was the reason that China enjoyed leverage among the other Asian countries who were seriously affected by the economic recession of 2008-09.

**China Exports and Major Trading Partners**

Chen et al. (2012) modeled the effects of Chinese exports on the country's total domestic value-added (DVA) and employment with the progress of economic reforms. They found that the total DVA of exports and final domestic demand have converged from 2002 to 2007.

The list of prominent importers from China in 2014-15 was comprised of Hong Kong, Japan, Korea, Vietnam, UK, Netherlands, Singapore, and Germany. Openness to trade and capital flows make markets more global by reducing sub-national disparities in income at large and persist for longer in developing countries. China's size, and the openness of coastal China to world trade, and Shanghai's location are the reasons for this openness (World Bank, 2008).

Husted and Nishioka (2013) ranked China at the top in exports to the world market with merchandise export sales $1.5 trillion and a world market share of 10.4 % in 2010. Twenty years earlier, China's share was almost zero. By reaching the year of 2010, its highest regional market share was in Asia with 18.9 %, next to North America, with 16.7%. On average, China's smallest regional market penetration was in Europe, with 9.4 %. Since 2005, China's

export shares have increased, particularly in remote and low-income countries. For example, in African countries, it increased from 8.3 to 15.9 %. For the South American countries, its share almost doubled, rising from 6.6 to 12.7 %.

Table 4 shows the percentages of China's exports to major trading partners in the world between 2011 and 2015.The highest share of export is to the USA, which has also increased from 17.1% (2011) to 18%(2015). France has the least share, which has decreased from 1.6% (2011) to 1.2% (2015). However, these shares have been reasonably consistent in this period, with less than 1% change in almost all cases. It should be noted that this table does not indicate the monetary value of the trade, which has been increasing, as shown in Table 1.

**Table 4:**
*China Export %, to Major Trading Partners*

| Year | USA | Hong Kong | Japan | UK | France | Germany |
|---|---|---|---|---|---|---|
| 2011 | 17.1 | 17.1 | 7.8 | 2.3 | 1.6 | 4 |
| 2012 | 17.2 | 17.2 | 7.4 | 2.3 | 1.3 | 3.4 |
| 2013 | 16.7 | 16.7 | 6.8 | 2.3 | 1.2 | 3 |
| 2014 | 17 | 17.2 | 6.4 | 2.4 | 1.2 | 3.1 |
| 2015 | 18 | 17.1 | 6 | 2.6 | 1.2 | 3 |

*Note: This table shows the percentage of China export to significant trading partners, and the data has been compiled by authors and extracted from ITC calculations based on General Customs Administration of China statistics since January 2015.ITC calculations based on UN COMTRADE statistics until January 2015.*

**China Imports From Major Trading Partners Counties**

The list of prominent importers of China in 2014-15 includes the USA, Japan, Korea, Vietnam, United Kingdom, Netherlands, and Germany. There was a striking increase in the trade between China and the USA and European countries, which indicates that world trade was largely unbalanced during 2011-2015.

**Table 5:**
*Imports of China from Major Trading Countries (2011-15)*

| Year | USA | UK | Korea | Hong Kong | Japan | Germany | Australia |
|---|---|---|---|---|---|---|---|
| 2011 | 7.1 | 0.8 | 9.3 | 7 | 11.2 | 5.3 | 4.7 |
| 2012 | 7.4 | 0.9 | 9.3 | 7.9 | 9.8 | 5.1 | 4.7 |
| 2013 | 7.9 | 1 | 9.4 | 8.1 | 8.3 | 4.8 | 5.1 |
| 2014 | 8.2 | 1.2 | 9.7 | 7.4 | 8.3 | 5.4 | 5 |
| 2015 | 9 | 1.1 | 10.4 | 8.6 | 8.5 | 5.2 | 4.4 |

*Note: This table shows the import of China from significant trading countries, and authors have compiled data. Data on ITC calculations based on the General Customs Administration of China statistics since January 2015.ITC calculations based on UN COMTRADE statistics until January 2015.*

Table 5 shows the major import partners of China from 2011 through 15. The highest imports to China in 2011 were from Japan (11.2%), which reduced to 8.6% in 2015. On the other hand, the imports from the USA, the UK, and Korea have increased from 2011 to 2015. This could be attributed to the advent of technology in these countries. It should also be noted that China specializes in the cheap manufacturing of hi-tech devices at mass scales, but the innovative

edge still belongs to developed countries. Another interesting fact is that the amount of export from China to the USA, and most of the major trading partners were relatively higher than the number of imports in China. This is although these countries do not share any geographical boundary, nor they have prevailing political ideologies. This confirms the theory of co-existence with harmony among the developed and emerging economies.

**China And Major Trading Partners Countries Account Balance**

Figure 6 shows the current account balance (% of GDP), which includes the sum of net exports of goods and services, net primary income, and net secondary income. The selected countries of Germany, China, and Japan show a positive account balance during 2011-2014. The account balance of Germany, China, and Japan was 7.2%, 2.1%, and 0.5%, respectively, in 2014.

Whereas the USA, UK, France, and Australia show negative current account balance, which is evident in their reliance on import trading.

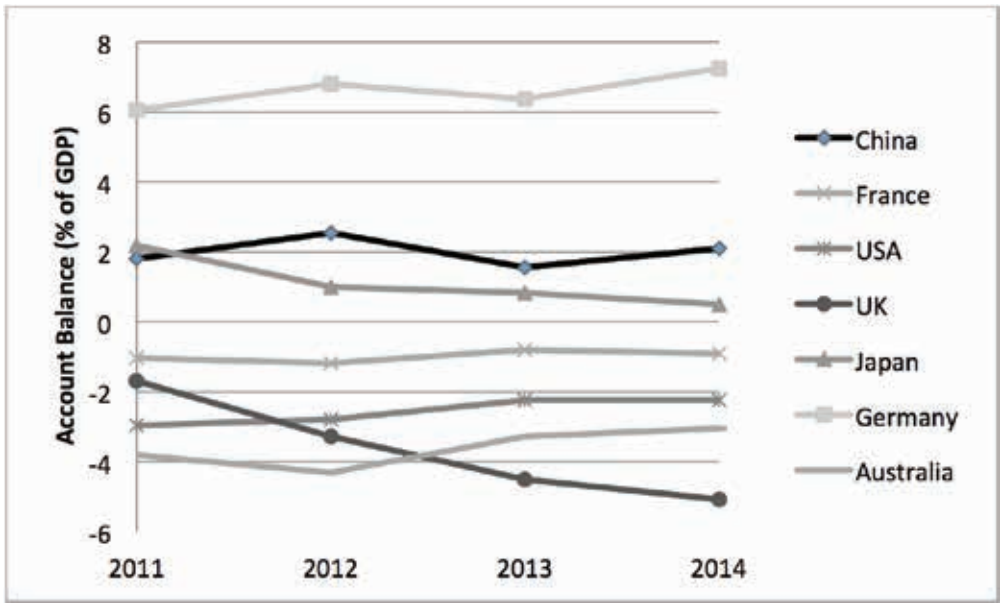


**Figure 6:**
*This figure shows China & Major Countries Current Account Balance (% of GDP, 2011-14). The figure has been compiled by authors and Data extracted from the International Monetary Fund, Balance of Payments Statistics Yearbook and data files, and World Bank and OECD GDP estimate. http://databank.worldbank.org/data/reports.aspx*

Zhang (2009) stated that the two driving forces behind China's economic miracle are the reform of its economic system and structure and its integration into the world economy. The link between FDI and growth is stronger in the West than in the central region but weaker than in the east. This shows the consistency of the Chinese government during the last two decades in the form of supportive policies to attach industrialization with inward and outward trade activities.

The report of U.S.-China Economic and Security Review Commission 2015 mentioned that china's rise exerts a powerful pull on the Association of Southeast Asian Nations (ASEAN) economies, from component manufacturing in Malaysia to banking in Singapore and copper mining in Burma. ASEAN's goods trade with China has gone from surplus to a deficit that reached $45 billion in 2013. According to data from China's Ministry of Commerce (MOFCOM), it contributed a mere 2.3 percent of ASEAN's total FDI inflows in 2013. In contrast, ASEAN accounted for 10.7 percent of China's total trade and only 6.7 percent ($35.7 billion) of China's global outbound investment stock. Singapore plays a unique role as a financial hub linking China to ASEAN, instead of mature capital markets in the rest of the region.

EU – China Summit report 2015 presented the fact that Foreign Direct Investment (FDI) flows between the EU and China have been continuously positive over the last four years. In 2014, EU investment in China, however, decreased to €9.1 billion. However, Chinese investment rose to €12.1 billion, meaning that China was a significant investment in the EU in 2014.

## CONCLUSION

The result of the Pearson correlation between China's import and export volume and World trade, import, and export volume supports the stated objectives that the role and impact of China on world trade to promote convergence. Except for the EU, the emerging economic and trading power like China will take more time for the reciprocal specialization. The spillover effects of trade are still pro-convergence in China, bringing trade surplus for its MNC's with outward FDI. Whereas the inward FDI by major global trading companies is also showing progressive trends. The decline in tariff barriers on manufactured products for protectionism by the developed states shows more inclination towards the new liberalism and open market policy. The most significant shift can be easily interpreted regarding China, which has reached the top position as a world-leading exporter in the last 20 years due to rapid industrialization and consistent mixed economic policies.

The comparison of China with the world economy has revealed that the dominance of China in exports is increasing continuously. It was also observed that China's economy shows a stable and constant positive trend towards growth, which continues in the recessionary periods as well. The analysis also reveals that China has been more investing more towards increasing its exports, which has resulted in a real trade deficit throughout the previous two (02) decades. The balance of payments current account of major trading countries of the world shows the stable position of China in net exports, imports, current account balance, and financial reserves in 2015, which is only compatible with the USA in the world. The other world trading blocs and countries like UK, Japan, USA, Germany, EU, OECD, and ASEAN are now looking forward to a more compact and rational approach towards the evolving and stabilizing BRICS and China. This leads to the escalation in the accumulation of financial reserves of China, enabling it to exert pressure in its favor, which undoubtedly represents a paradigm shift in the world economy.

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