Strengthening the Global Importance of China's Economy in the Post-Pandemic Period

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Abstract

Despite a pandemic that has brought most of the global economy to its knees, Chinese economic growth continued in 2020 and strongly accelerated in 2021. An almost certain scenario in which China is becoming the leading world economy already brings strong geopolitical implications, primarily in the form of shaking the existing world order, which is practically managed by Washington. The key reason for the strong growth of China's economy is the high share of both savings and investments in GDP (over two-fifths each) in a very long period, together with its impressive technological progress. In this regard, the direct reason for the current tension between the two countries is China's economic transformation towards the upper end of global industrial value chains. Attempts to end China's economic expansion through forced technological unbundling, US trade sanctions, or forced changes in global supply chains, seem doomed to failure given its vast internal market and conquest of entire product ranges or supply chains. America will continue with its efforts to maintain primacy over China in the basic technologies of the future, from artificial intelligence to quantum computing, with the help of huge investments in science. Although the US and China are not necessarily on the path of confrontation, this certainly cannot be ruled out. The aim of this paper is to project the future of the American and Chinese economies' dynamics of GDPs. The applied methodology is based on a linear projection of the GDP growth of both countries in the period after 2026.

Keywords: pandemic, economic growth, GDP, China, USA, competition

Strengthening the Global Importance of China's Economy in the Post-Pandemic Period

The challenges faced by the world in the conditions of the COVID-19 pandemic have produced different reactions from countries, which, in addition to direct positive effects, also led to the exposure of the shortcomings of global and national societies (Bjelajac & Filipović, 2020, p. 9; Filipović & Bjelajac, 2020, p. 147). Almost no one during the fierce trade war imposed by the US expected Chinese merchandise exports to break the record in 2020, and intensively to grow in 2021 also. However, China's economic recovery from the coronavirus pandemic has been blunted by a global shortage of shipping containers that have raised transportation costs and slowed manufacturers in fulfilling fast-moving goods orders around the world. Due to the Chinese container trade balance (export of three containers for each imported) and delays in containers returning to China due to the pandemic, a large shortage makes exports difficult (Reuters, 2020). Closely related to the export trend is the economic growth, which cumulatively increased by 10.4% in 2020–2021 (IMF, 2022). Wilhelm & Au (2020) point out that the pandemic has shown how strong China's supply chains are, and they expect the three areas to boost China's economic development (learning from Huawei's R&D investment, developing agencies modelled on Germany's Fraunhofer Institutes, and further opening capital markets). Kang and Chen (2020) state that the pandemic encourages the acceleration of trends that existed before, and that, in addition to pandemic control and the return of society to normal, innovation and digitalization enabled the resumption of strong economic growth in China. According to the McKinsey and Company Report (2020, 5–7), the sense of confidence sparked by achieved results in pandemic control has encouraged Chinese retailers to return to the growth path, which showed the potential of Chinese consumers to lead not only domestic economic recovery but also global.

China has finally managed to connect more economically with its regional neighbours. At the ASEAN summit in November 2020, an agreement was established: the Regional Comprehensive Economic Partnership (RCEP), which brings together 15 Asia-Pacific countries covering almost a third of the world's population and global GDP (making it the world's largest trading bloc). This, among other things, means that the countries of East and Southeast Asia no longer have to look for primarily Western trade partners. Although China is by far the largest economy within the RCEP, it would be wrong to see that agreement as a Chinese endeavour, because the real driving force of the negotiations (started in 2011) was ASEAN. It is indicative that China, Japan, and South Korea joined forces in a trade agreement for the first time. The RCEP is impressive primarily because of its scale, while in essence, it is less comprehensive than similar trade agreements, perhaps because of the extreme heterogeneity of the participating countries (from rich Australia, through developing economies like Thailand, to poor states like Laos and Myanmar). The RCEP is a de facto framework for the trade aspects of their relations and it foresees, among other things, moderate and relatively slow reductions in tariffs, bureaucracy reduction, a simpler framework for intellectual property and investment rights (harmonization of standards and guidelines on origin rules are agreed, as well). The production in the region is likely to be strengthened, to the regional companies' benefit. The RCEP is also important because for most countries in the region it is important to maintain a balance between China and the US in their foreign, trade, and security policies (Günther, 2020).

Fischer (2020) sees 2020 as an extremely successful year for China, in the context of a wider 20th-century global transition dominated by the United States in the 21st century when he expects Chinese dominance (although things did not look like that at first, with an epidemic grew into a pandemic in early 2020, with the continuation of the trade war with the US, and the "violent" suppression of protests in Hong Kong). He sees the RCEP as a "geopolitical coup" that, according to the author, will put China at the centre of the world's largest free trade area, linking China's vast market to that of the ASEAN, including important US allies such as Japan, South Korea, Australia, and New Zealand (India could join later), with the only important regional player left out – the US. According to him, a new geopolitical reality will come with the new free trade zone; a network of dependencies will form around China, strengthening its position in the region of Indo-Pacific. As China emerges stronger from this year's crisis, America is weaker with far-reaching geopolitical consequences, and without the eventual renewal of US global leadership under Biden, China will be well on its way to becoming the world's dominant power. What Chinese hegemony might look like, this author tries to present through a diplomatic precedent at the end of 2020, when Beijing dictated 14 points to Australia, demanding that it "correct the mistakes" it made in bilateral relations.

So, China seems to be acting confidently, with an economy recovering, modernizing its military, accelerating technological development, and expanding diplomatic influence around the world. However, Blumenthal (2020) sees China as both an assertive and an ambitious force, but also one with fundamental weaknesses that could slow its rise. He sees a number of economic, social, and political challenges facing Beijing, including the growing demographic crisis, slowing GDP growth due to the re-strengthening of the state's influence over the economy, capital flight (with rich Chinese going abroad with hundreds of billions of dollars), environmental degradation, and the possibility for the country of falling into the "middle-income trap". On the other hand, this author perceives the ambitions of that country as global, and by no means regional. China wants to lead a new world order based on its own power and governed by Beijing. The Communist Party of China (CPC) considers the Sino-centric international order essential (China's self-perception as the natural centre of the world has always served as an important source of domestic legitimacy).

The issue arises whether the most populous country in the third decade of this century will continue its dramatic rise, threatening the existing American-led order and whether the Covid-19 pandemic will eventually accelerate that process. In an attempt to answer this question, we will first analyze the most important economic indicator of the size of an economy: Gross Domestic Product (GDP).

The key research question we are trying to answer here is whether China will continue its dramatic rise in the 2020s, threatening the existing US-centric global order and whether the Covid-19 pandemic will further accelerate that process. More precisely, the key hypothesis we are trying to prove is that the size of the Chinese economy measured by GDP (at market rates) will become larger than that of the US in 2028.

The applied methodology is based on a linear projection of GDP growth of the two countries in the period after 2026, or in the period starting from 2022 to 2028. The first projection implies identical nominal growth in each year during the period 2026-2029 (which follows a far more complex estimate made by the IMF by 2026) is of course a simplification of a far more complex reality. However, given that is a short period of time, the possibility of error is reduced to probably no more than one percentage point. The second projection is based on the assumed repetition (starting in 2022) of cumulative nominal GDP growth in 2015–2021 in both countries, which is a method with a slightly higher possibility of error.

The aim of this paper is to project the future dynamics of the GDP of the two leading world economies. Namely, based on data on GDP trends of the US and China economies taken from the IMF (with IMF projections until 2026), with additional calculations by the authors, we calculated the size of GDP and GDP PPP for the two economies, and we expressed the same data as the share of Chinese GDP in the US's GDP. The mentioned methodology is based on reference data (IMF 2022, IMF 2021, IMF 2020) referring to the size of the GDP of China and the US, as well as their projections until 2026. The authors assume that nominal GDP growth achieved in 2026 will be maintained over the next three years, or that nominal GDP growth in 2015–2021 will be repeated in the period 2022–2028 (for both economies). Given that nominal GDP growth incorporates addition to real GDP growth, the GDP deflator, and possible exchange rate changes, this approach is methodologically acceptable.

The purpose of this paper is to bring it closer to the scientific public perhaps the key economic dynamics that are already shaping and will shape the global (economic) order – the strong rise of one non-Western country with all the implications for smaller economies like Serbia. The potential scientific contribution of the paper is the author's attempt to analyze a topic that is of great importance not only for the world economy but also for the position of our country in the very near future. In addition to the mentioned scientific contribution, the work can be interesting and useful to the wider professional and academic population as well, especially having in mind that the topic we are dealing with is widely present in journalism and public discourse in general.

The contribution of this paper is the analysis of a topic that in our academic public, in spite of the numerous implications for Serbia, does not have enough attention. Namely, since the change in the global economic constellation implies changed geo-economic dynamics, this text could optimistically help other scientists, especially Serbian ones, to further research the same topic. The limitation of the research is the focus on only one, i.e. two indicators, which, despite being the most important indicators of the size of the economy, are not enough to see the overall economic and geopolitical status of the two main world actors. In addition, the projection of GDP trends, especially the part done by the authors of this text, carries a risk in terms of accuracy.

In addition to the introductory part and the conclusion, the paper contains the following chapters: Literature review; Accelerating of the "catching-up" process; The effects of the expected slowdown in global trade to China; The position of the new American administration towards China. At the very end, the sources used are listed.

Review of Literature

China's economic rise has led many authors around the world to analyze how long the expansion could last and whether the country's economy could become a global leader.

The projection of HSBC Holdings Plc (Kennedy, 2018) indicates that this will happen in 2030. The authors of the scientific analysis for the PwC (PriceWaterhouseCoopers, 2019, pp. 19-20) believe that China's economy will be larger than the American one before 2030 while regarding GDP PPP (Purchasing Power Parity) China is already since 2014 the largest economy in the world (followed by the US, EU27, India). The CEBR study (2019, p. 75) indicates that China could become the world's largest economy somewhat later, 2033: the projection is based on relatively moderate growth rates of 5.4% 2019–24, 5.2% 2024–29, and 4.3% 2029–34). The OECD study (2018, p. 8), which is less optimistic for China, estimates that China's share of world GDP will peak in the 2030s at about 27% of world GDP – well above the US share. Huang (2020) is also cautious about Beijing's capacity, believing that the perception that Beijing is on its way to becoming the world's No. 1 is based on problematic assumptions – that rapid GDP growth will continue, and that the size of GDP can be equated with the strength of the country. The author points out that China's GDP growth has been slowing continuously since 2007, but there are doubts about how the Chinese official statistics calculate the data. In addition, he states that the increase in GDP is closely related to the "bubbles" in the real estate market, speculation and publicly invested capital investments, all of which lead to excessive capacities and a high volume of non-performing loans. Huang (2020) emphasizes that even if China's GDP exceeds that of the US, it does not mean that this country will be as strong and rich as the US, because GDP alone cannot necessarily indicate an improvement in individual well-being (and even then GDP per capita would be over four times lower than in the US, due to the difference in population between the two countries).

The British Center for Economic and Business Research (CEBR) indicates that China will overtake the US as the world's largest economy in 2028 due to the pandemic (BBC, 2020; CEBR, 2020). According to CEBR, Beijing has gained an advantage due to the early control of COVID-19, as well as due to planned policies regarding technologically advanced industries. When it comes to the year of the famous "catching up", the assessment of Homi Kharas, an associate of the Brookings Institution (Bloomberg, 2021), is identical.

Accelerating of "Catching-Up" Process

The question is: whether the world's most populous country will continue its dramatic rise in the third decade of this century, threatening the existing order led by the US and whether the Covid-19 pandemic will possibly accelerate that process? In an attempt to answer this issue, we will first analyze the most important economic indicator of the size of an economy: Gross Domestic Product – GDP.

If we look at the official IMF projections (IMF, 2020) (Table 1) and assume that the US and China will maintain nominal GDP growth from 2025 for the next three that is five years, respectively, which is a realistic assumption (although it is possible that both countries have a slight slowdown in growth), as early as 2028 China's GDP will surpass that of the US (by almost 1%). This implies that even in the event of somewhat slower growth of the Chinese economy, it would still become larger that same year than the American one (Figure 1).

When it comes to GDP by Purchasing Power Parity (PPP), it will be 54.4% higher than the American one in the same year (catching up, according to this indicator, had already happened during the second decade of the 21st century). In 2028, China's GDP per capita will be at 37.1% of the US's (and two-fifths of the US's two years later), while GDP per capita will be almost a quarter of the US's (exactly 24.2%), with a tendency for further constant growth. In any case, what is becoming increasingly certain is not whether the Chinese economy will become the world's largest by the most important economic measure of the size of the economy, but only when that will happen. Exceptions are possible, but it is not realistic for them to be higher than a few percentage points except in the case of very sudden extraordinary circumstances.

Recent IMF data (IMF, 2022; IMF, 2021) practically confirm these conclusions, together with the upward correction of China's GDP to 18 000 bn. $ for 2021 (Tang & Wang, 2022). Taking into account projections of GDP growth of China and the US until 2026 (given in the IMF's October report 2021) we are coming to the conclusion that in 2026 China will lag only 8.3% behind the US in terms of GDP. Consequently, the growth of the nominal GDP of both countries achieved in 2026, which would be repeated in the next three years, would lead to China's GDP becoming 1.6% higher than that of the US. In the alternative projection we have done, the nominal growth rates of China and the US achieved in the six years to 2021 would be repeated in the next six years. According to that scenario, already in 2028, China is a leading world economy.

What is interesting is that the first such calculations of one of the authors of this article from 2010 indicated the end of the 2020s as a period of famous catching up, which is practically indistinguishable from the projections in this article written more than a decade later (Nikolić, 2010, 86–98), while the more recent prediction was almost the same (Nikolić and Malović, 2020, 474). Tables 1 and 2 show, in addition to GDP, other major economic indicators of both countries, while Graph 1 shows the expected trajectory of GDP movements of China and the US from 2020 to 2030. What needs special attention when looking at these tables is the very high level of investment and savings in Chinese GDP (twice as high as in the US), which actually almost completely explains its high growth rates (Tables 1 & 2).

In this regard, the so-called "circular growth" strategy, an attempt to shift the economy more to domestic demand, is a consequence of a long-term threat to China's investment and export-led growth model. Although the sustainability of the model has been questioned over the last two decades, the country's development strategy has remained virtually the same. Despite the fact that Beijing periodically tried to make the economy more dependent on domestic demand, that effort always ended with more investment, primarily in infrastructure (resulting in a capacity expansion that made China even more export-dependent). Namely, the investments are not final demand; when the government initiates investments by mobilizing resources, it leads to less income for households and consequently less consumption. After each investment boom, the government must promote exports to absorb excess capacity. Investments in new technologies mean higher productivity and that explains China's competitiveness, which decreases with each additional injection of capital. This is the main reason why China has slowed down under the same growth model. Related to this, an additional problem is the trade war with the US, which could redirect exports elsewhere, which will require its price competitiveness, hindering the development of the local middle class. Namely, the disposable income (of both the average Chinese and as a share of GDP) in 2019 was 43%. It is clear that at such a low relative level of income, consumption hinders economic growth, which makes exports more important. As the pandemic brought down domestic consumption, the Chinese economy has become even more dependent on exports, and Beijing's concerns are understandable. With Covid-19's vaccine, global production will normalize and China will face more competition, while reduced monetary and fiscal stimulus in rich countries will reduce their import demand, which could cause a decline in Chinese exports. In response, it appears that Beijing will again seek new ways to subsidize exports, which in turn will lead to a reduction in disposable income (Xie, 2020).

What will certainly alleviate the problems facing Beijing is the strong growth of the digital economy, which began well before the pandemic (already in 2018 accounting for 34.8% of GDP, with 191 million jobs – representing a quarter of total employment). The digital economy is caused by years of growth that have outpaced GDP growth, even though it is only close to one-third the size of the US digital economy. The pandemic-induced crisis will strengthen the growth trend of the digital economy, as the pandemic has damaged many businesses and industries, while greatly accelerating the application of digital technologies. Households have adopted applications that have enabled them to purchase food online, schools and universities have reoriented to online lectures, and companies are increasingly using digital tools to operate their business. A similar digital transformation affects, in addition to health, the Chinese financial industry (for example, Chinese mobile banking applications have 562 million users). Among the main beneficiaries of these new jobs are young, educated Chinese, and this is probably the reason why urban unemployment has not increased significantly in recent years. The process of digital transformation will accelerate in the coming years, also due to the government's planned investments in new infrastructure, including 5G networks and data centres, which will reduce China's lag (behind the West) in some key technologies (June, 2020a).

Digitization will also affect the improvement of the global status of the Chinese currency. Namely, although the Yuan is not yet open for trading and does not pose an immediate threat to the dominance of the dollar, China's approval of some kind of payment in the national crypto-currency will pose a direct challenge to the US. The size of China's domestic market, together with the widespread use of mobile payments and their importance in global trade could trigger the widespread adoption of the "crypto Yuan". Although so far much attention in the technological war between Beijing and Washington has been focused on Huawei, control over the world's financial structure will be of greater importance – and China's efforts in crypto-currencies have given it a great advantage in this area (Arduino, 2020).

Connected with currency, the liberalization of the financial system, and the timely response to Covid-19, have boosted confidence in the yuan and increased demand from global investors looking to diversify dollar portfolios. Additionally, the global pandemic has finally revived Chinese capital markets, with an inflow of as much as $150 billion in 2020. The benchmark stock index (CSI 300) rose 27% during the year, outperforming the S&P 500 by 13 percentage points. Chinese 10-year government bonds yield over 3%, three times more than US ones (Lockett and Hale, 2020).

The effects of the expected slowdown in global trade on China

Related to China's positioning in the post-pandemic period, this time in a negative context, global trade is very likely to slow down in the post-pandemic world, which could be a serious problem for the world's leading exporter (China). While much of the economic activity (health, housing, and utilities) is not traded internationally, what is widely traded such as cars, electronics, and tourism services will continue to decline sharply. Industry 4.0 (growing automation and data exchange in manufacturing technologies, including cyber-physical systems, internet of things, cloud computing, and smart factories) already had a negative impact on world trade before the pandemic (trade in services grew faster, probably reflecting the emergence of Industry 4.0 as well as the US-China trade war). The question is what is the possible evolution of supply chains and international trade in the medium and long term after the pandemic i.e. will there be lasting changes in international trade after the recovery of the global economy? Possible long-term effects on trade could be changes in the structure of demand; the acceleration of Industry 4.0; and protectionism clothed in matters of national security. Life will almost certainly return to the new normal, with some permanent changes in the structure of demand. People in rich countries can work more from home, reducing the demand for cars and gasoline, office, and retail space. This will put pressure on raw materials, which will positively affect China as its leading importer. The three industries with wide value chains especially important for developing countries are cars, electronics, and clothing. Higher demand for electronics is expected, and lower for cars and clothing in the post-pandemic world. Demand for health and care for the elderly is likely to increase. These are immigrant-dependent industries, especially in advanced economies, but also in China regionally, which is a problem that Beijing will easily overcome, given that China's rural population still numbers about 400 million people (which is well above the standards for the country of this income level). Yet, probably the biggest risk to trade for developing countries, especially China, is growing protectionism in advanced economies, especially the US. Before the pandemic-induced recession, the US charged customs duties of about 25% on about half of imports from China, so that a certain amount of final operations in electronics, clothing, and footwear had already been redirected to countries such as Vietnam, Indonesia, and Mexico. As a result, China's exports to the US fell, but China's exports to other developing countries rose (ASEAN became China's first trading partner, with the US falling to 3rd place, with the EU in 2nd place). China has already moved to the middle of many value chains, producing machines and components of medium technology, which are then exported to countries that perform the final assembly. The risk for China is that Washington's new administration will find a way to make protectionism more effective because tariffs directed at China have not fulfilled the planned goals (the US trade deficit continues to grow, which is expected, because it is affected by the difference between savings and investments). Also, so far there has been no return of production to the US, and China's share in world exports continues to grow. A recent survey of American companies in China showed that almost no one is thinking about returning home, while about one-seventh is thinking about redirecting some products to lower-paid countries. Additionally, there is a risk of an increase in protectionism in China, as the "double circulation" policy may suggest (Dollar, 2020).

Jun (2020b) highlights that concerns about the dependence of global production on China have prompted calls to expel that country from global supply chains. But, contrary to popular belief, the country's continuous economic growth is not so much dependent on maintaining a global free trade system and access to Western technology. Instead, the real drivers of China's economy over the last decade have been rapid growth in purchasing power and investment – including in the country's technology sector. Politicians in the West still think that the most effective way to combat China is by targeting its position in global supply chains. However, the already serious impact of the global financial crisis in 2008 forced China to accelerate its "change of focus" by developing a more integrated huge domestic market and promoting growth driven by "(internal) dual circulation". Such efforts have gained new momentum in recent years as a result of escalating trade frictions with the US and the recognition that China's continued economic expansion requires overcoming structural imbalances. The government has not only liberalized imports but has also begun to allow foreign penetration of financial markets and other non-tradable sectors while facilitating cross-border capital flows. The construction of large networks of information and communication infrastructure is subsidized and private companies are encouraged to innovate in the most modern sectors such as mobile payments, e-commerce, the internet of things, smart manufacturing. All this indicates that it is a naive belief that forced technological decoupling, trade sanctions or forced changes in global supply chains will end the future economic expansion of the most populous country.

Dollar (2020) believes that the worst-case scenario would be the division of the world into the American and Chinese spheres, with developing countries being forced to choose. The best hope for resolving all these risks is new trade agreements that would reflect an open trading system. It is desirable to amend the provisions of the World Trade Organization (WTO) regarding cross-border data flows, services, protection of intellectual property rights, and subsidies to state-owned enterprises.

The position of the new American administration toward China

Although it is more multilateral in nature than Trump, Biden is under pressure to be harsh on China, especially when it comes to technology (Zhou, 2020). Pei (Pei, 2020) believes that the development of an effective strategy for cooperation, competition, but also coexistence with China is one of the most difficult foreign policy challenges for the new American president. Biden is unlikely to change the basic tenets of Trump's Chinese policy. Namely, China will remain the most important American geopolitical opponent, and maintaining its rise will be the main principle of US foreign policy for the foreseeable future. However, Biden's policy toward China is significantly different from Trump's. His strategic calculation is that the Sino-American conflict will be a decades-long marathon, the outcome of which will primarily depend on whether the US can maintain and strengthen its competitive advantages: economic dynamics, technological innovations and ideological attractiveness. In addition to bringing together traditional U.S. allies, the U.S. president should therefore focus on strengthening America by repairing its dilapidated infrastructure, advancing an inadequate human capital base, and promoting R&D investment. Mutually beneficial cooperation on climate change, pandemics and non-proliferation is desirable. Therefore, Biden's focus on creating a more nuanced and sustainable long-term Chinese strategy could lead to a welcome break in the Sino-US Cold War. As the U.S. economy needs all the help it can get to recover from a pandemic crash, Biden should even reduce the scale or even end the trade war. Chinese leaders are certainly aware that an open conflict with the US is not good for them, because Beijing obviously believes that time is on its side since the Chinese economy will continue to grow faster than the American one in the coming decades, gradually shifting the overall balance of power in its favour. While the short-term interests of Biden and Xi could be reconciled, achieving a comprehensive reduction in US-Chinese tensions will not be easy. But, the biggest obstacle to more stable relations remains the trade war. Biden and Xi should start talks immediately to prevent a looming catastrophe – namely, China's inability to meet the Trump administration's request to buy an additional $ 200 billion in US goods and services during 2020-2021. However, all these expected positive changes will probably not change the trajectory of the Sino-American confrontation characteristic of the great powers.

Rennie (2020, 97-99) believes that Biden's team will want competition with China to become more orderly, less openly ideological, but also more challenging for Beijing, which will try to ease tensions, but has no illusions about a complete reset of relations (i.e. return to 2016 and earlier). The new president will not rush to abolish the tariffs that Trump imposed on two-thirds of imports from China, nor will Biden immediately relax all export controls and restrictions on investments by Chinese high-tech companies. America will certainly try to contain China, making the continuation of the fierce competition between the two great powers inevitable. Although the Democratic Party is more sceptical than ever about globalization, Biden's team will include economists who believe that tariffs are mostly harmful to the US and who see serious risks in using the dollar-dominated global financial system as a tool to keep China. Silicon Valley technology chiefs, who will be more present in the administration, will address the government to be much more selective in determining which high-tech products and supply chains are a threat to national security. However, the president will call on America to maintain its primacy over China in the basic technologies of the future, from artificial intelligence (AI) to quantum computing, with the help of large investments in science. Biden will keep the decades-old balance in which

America uses its armed forces to deter China from attempting to invade Taiwan while assuring Chinese leaders that the US will not encourage a formal declaration of independence. Washington will seek China's help in problems such as climate change or the development of treatment against Covid-19. China may be asked to join the US in reviving the nuclear pact that Obama signed with Iran. Finally, America will return to the business of forming coalitions, or at least fight less with its allies, as Biden wants friends in his backyard as he positions himself against China (97-99).

Dou (2020) emphasizes that Biden's selection of seasonal professional diplomats for foreign affairs and defence positions signals a return to the traditional liberal diplomatic philosophy of the US. During the election campaign, Biden already stressed the need to strengthen ties between the US and its allies, and he will probably try to multilaterally oppose Beijing in the South China Sea. This would make any type of conflict more complicated given the range of parties involved and their interests. We can expect more diplomatic and military interactions between the US and the Philippines, which will probably get a Washington-friendly leadership in the 2022 presidential election. So, the return of the Biden administration to the so-called multilateralism "and towards a" rules-based order "will not deny continuous, intensified military competition between the two countries. Biden can take steps to improve communication between the two sides so that the misunderstanding does not become a catalyst for military escalation, but the US is likely to continue shipping ships, strengthening military coordination with Southeast Asian countries. This means that the Sino-American will become worse than before Trump's arrival in the White House, and the distribution of defence and diplomatic resources will remain focused on the Asia-Pacific region as well.

Kroenig and Cimmino (2020) believe, albeit without offering empirical evidence, that China's autocratic system of governance is a major handicap in rivalry with the US because such systems stifle economic growth and innovation by limiting free enterprise. They believe China is affected by the economic slowdown; few true friends abroad; and domestic insecurity. The US National

Security Strategy for 2017 correctly diagnosed the problem of competition with China but did not articulate the desired end state of this rivalry. The US should strive for the revitalization, adjustment, and defence of the "international system based on rules" led by America, and in the long run, they would like China to be a member of that system. But that will not be possible soon, maybe not as long as the existing party is in power in Beijing. Therefore, in the short term, the United States and its allies must defend that system from the economic and military threats that China poses and impose serious costs on it when it violates international standards. This strategy will be successful when it convinces Chinese leaders that challenging the US-led system is too difficult and expensive.

Relations between Washington and Beijing are also affected by the deterioration of diplomatic ties between Australia and China, which deteriorated sharply during 2020, among other things, because Australia has not adequately balanced relations with Beijing for several years. Australia's huge economic dependence on China – a market for more than one-third of its exports gives that country no choice but to have good relations with its regional neighbour. It is almost impossible to find alternative markets on that scale in the near future, or ever. Evans (2020) considers that discriminatory and protectionist trade and industrial policies, periodic cyber attacks and attempts to exert undue influence on the Australian government institutions are unacceptable to Canberra, but that Australia has not only joined but also led international efforts to punish Huawei and has introduced strict restrictions on foreign investment and laws against foreign influence. He believes Australian leaders should stop irritating Beijing, and that Australia should recognize the legitimacy and inevitability of some of China's international aspirations.

Discussion: Can the deterioration of China-US relations be avoided?

In the context of China's post-pandemic global positioning, perhaps a key issue is its ability to avoid or mitigate deteriorating relations with its main economic,

Kultura polisa
19(3), 44–75

strategic, and geopolitical rival. It is important to note here that, unlike the Cold War, the new geopolitical structure is not marked by a binary division with clearly defined camps, as friends and enemies often cross traditional boundaries for short-term economic interest or political gain. Additionally, regional powers pursue their goals, often against the interests of the world's leading two players. It seems that the American bilateral party consensus against China will survive the change of the presidential administration, while the existing pandemic puts the EU in front of the biggest existential crisis since its emergence. Russia will continue to follow its independent global agenda, despite often siding with China (Vicenzino, 2020).

Beijing has to move wisely through a paradigm shift in US-China bilateral relations and live with the "new norm" of pervasive power competition, from trade and technology to the financial sector and humanitarian efforts, and proactively strengthen its capacity for high-tech self-innovation. In this regard, although the immediate cause of the current tension between the US and China is the growing strategic difference between the two countries in positioning their bilateral relationship, it only reflects a deeper root cause – China's economic transformation towards the upper end of global industrial value chains (e.g. in the production of automobiles and mobile phones). Although competition in military power and GDP size is still relevant, building complete industrial value chains (which are basically based on long-term improved industrial policies) has largely gained much more importance in the game of power competition. The most important aspect of the ongoing strategic competition between the US and China is that it is a race between Washington trying to regain the dominance of the entire industrial value chain and Beijing witnessing a proactive improvement in that domain. Current US industrial policies aim to achieve direct, vertical control of entire global industrial value chains, including rebuilding labour-intensive industries, maintaining capital-intensive ones, and keeping absolute dominance in state-of-the-art technologies (AI, Quantum Information Science, 5 G). In some of these state-of-the-art industries, China is accumulating a certain advantage, which has already caused the inevitable and growing pressure on Washington.

China has shown resilience and is managing to resist for now, which will be even more important in the post-Covid 19 periods when American pressure is expected to intensify. Namely, the US must decide whether to view China's rise as an existential threat and try to stop it with all available means, or to accept it as an equal partner. Ideally, this competition should take place within the agreed multilateral framework of rules and norms that govern the UN and the WTO. If the US decides to try to stop the rise of China, it will risk provoking a reaction that could lead the two countries on the path of decades of conflict, without excluding its military aspect. The US and China are not necessarily on the path to full confrontation, but that cannot be ruled out. The path to creating a new order is certainly not easy, because powerful domestic pressures encourage and limit the foreign policy directions and choices of both countries. It is not certain that the two countries will manage their bilateral relations on the basis of rational calculations of their national interests. Any confrontation between these two great powers will hardly end as it did in the Cold War, with the peaceful collapse of one country, according to Hsien-Loong (2020). Blumenthal (2020), already cited, highlights the outline of the plan for the victory of the US: ''This will mean convincing China that such a (global) competition is too costly and could come at the expense of Beijing's crucial goal of regime survival.''

Cooley and Nexon (2020) believe that the rise of great powers, such as China and Russia, has led to autocratic and illiberal projects competing with the liberal international system led by the US. Many developing countries can now seek alternative patrons, instead of remaining dependent on Western support. Both new regional organizations and illiberal transnational networks are challenging American influence. These two authors see the long-term tendencies of the global economy, especially the rise of China (which has expanded access to global resources and markets, among other things through the Belt and Road Initiative, and the deployment of staff in global institutions such as the UN, Interpol, World Health Organization), as events that transform the geopolitical landscape. The transnational civil society

Kultura polisa
19(3), 44–75

networks that practically created the liberal international order no longer enjoy the power and influence they once had, as illiberal competitors now challenge them in many areas, among which are some from western countries. For example, the lobby group The National Rifle Association of America worked transnationally to successfully win the proposed referendum "against weapons" in Brazil in 2005, which is certainly partly responsible for Bolsonaro's coming to power in 2018. These developments reflect the ways in which the "counter" movements "order" helped to accelerate the decline of hegemonic powers in the past. Namely, transnational networks played a crucial role in maintaining and challenging previous international orders (e.g. Protestant networks helped erode Spanish power in early modern Europe, especially by supporting the Dutch revolt of the 16th century; liberal and republican movements, especially in the context of revolutions across Europe 1848, played a role in undermining the Concert of Europe, which sought to govern the international order in the first half of the 19th century; the rise of fascist and communist transnational networks helped create global powers that would later enter World War II). Covid 19 further accelerates the erosion of the US hegemony as China increases its influence in the WHO and other global institutions. Even if the core of the American hegemonic system remains solid, Washington will have to get used to the increasingly complex international order. American policymakers should already conceptualize the world after global hegemony. If they succeed in preserving the core of the American system, Washington could continue to lead the strongest military and economic coalition but in a world of multiple centres of power.

The Covid 19 pandemic seems to have provided the anti-Chinese "hawks" in the Trump administration with the perfect opportunity to resolutely redirect US Chinese policy in line with its own long-term goal of decoupling the two economies. However, it will be impossible to completely separate the American and Chinese economies, and any offensive American action toward China will produce a Chinese counter-reaction. For example, the benefits of blocking Huawei's approach to American technology are already clearly inseparable from the risks, as China may retaliate and will certainly redouble its efforts to develop its own sophisticated semiconductors (Schell, 2020). As the US-China rivalry heats up, it will need to be managed with expertise, risk management, and careful efforts to achieve mutual understanding (Farrell & Newman, 2020). In this regard, Beijing, faced with growing external threats, has also made risky moves due to the West's anti-Chinese campaign, being additionally motivated to pursue policies such as the Hong Kong national security law, and the escalation of political and military pressure on Taiwan. These steps, in turn, strengthened the perception among officials in the US, the EU, Australia, and elsewhere that China is becoming what the European Commission in 2019 called "systemic rival" to the West. By placing competition over human rights, democracy, and the rule of law at the centre of US-Chinese strategic competition, the U.S. administration has practically declared a new Cold War (Nathan, 2020). So, at the beginning of 2020, the American policy of revolutionary revision of the existing rules and norms had already been shaped, influencing the intensification of the frontal collision of the US with China in almost all spheres, except the war. This conflict is objectively caused by the impossibility of simultaneously achieving the goals of the two superpowers. China itself has been trying for a long time to turn the conflict with the United States into a kind of "phone war" because the Chinese calculate that time works for them. However, the US is trying to turn the conflict into an "open form" in a revolutionary way, which gives Washington a better chance of winning. Thus, the change in the balance of power is manifested both through an increase in Chinese capabilities and through an increase in the US determination to maintain a dominant position (Vicenzino, 2020).

However, trying to emulate the Cold War by pulling the Iron curtain around the world would alienate potential allies and harm the American economy. Le Miere (2020) believes that it is better to maintain prudent engagement, "deter" as necessary and build American-led international institutions and alliances to maintain the existing order.

Solana and Fernández (2020) consider economic separation to be wrong because never before have two global superpowers been so interdependent and so at the risk of harming themselves by trying to hurt each other. Things can spiral out of control if political leaders and influential commentators begin to unnecessarily adopt conflict rhetoric. Cold War analogies can become a self-fulfilling prophecy and push the world into disaster. De-escalation is undoubtedly in the long-term interest of every country, not just the US and China, according to the two authors, who emphasize that there is nothing predetermined in the evolution of great power relations: although the US-China rivalry is there to stay, it does not prevent exploration of ways of cooperation. Solana and Fernández (2020) conclude with the thesis that the Sino-US Cold War would be a war of choice, not a necessity.

Conclusion

The basic research hypothesis of this paper has been confirmed. Namely, the answer to the key research question (whether China will continue its dramatic rise in the 2020s to become the world's largest economy, and whether the Covid-19 pandemic will further accelerate that process), is positive – the Chinese economy, measured by GDP at market rates, will become larger than the American one in 2028. The methodology used is based on a linear projection of GDP growth for China and the US in the period after 2026, or in the period from 2022 to 2028. Given that it is almost certain that the economy will dominate future geopolitical positioning, an important moment will happen at the end of 2020, when the Chinese economy, according to our calculations, will become the largest in the world.

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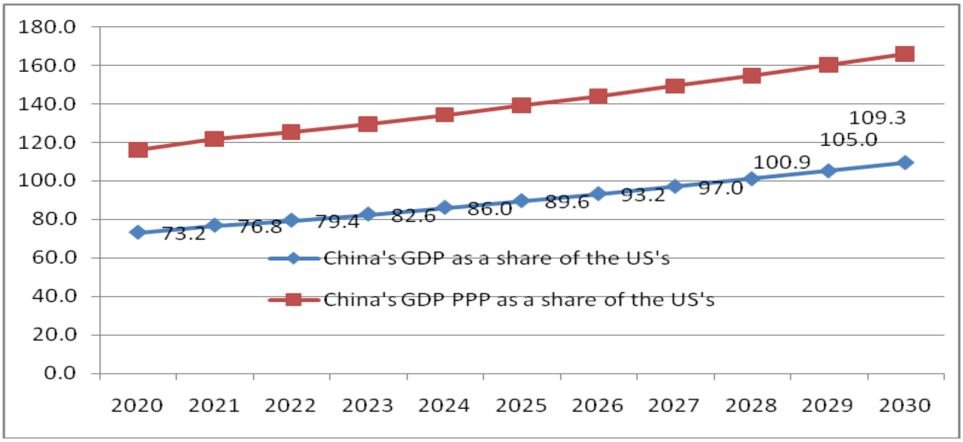
Appendix

Figure 1

Share of China's GDP in US GDP 2020–2030



Note. Author's calculations based on IMF data, 2020.

Table 1

Main economic indicators of China 2020–2025

China	2020	2021	2022	2023	2024	2025
Real GDP growth (in %)	1.9	8.2	5.8	5.7	5.6	5.5
GDP in current dollars, billions $	15222	16835	18241	19746	21369	23089
GDP PPP in current dollars, billions $	24162	26731	28784	30985	33361	35882
Share in world GDP PPP	18.6	19.1	19.4	19.8	20.2	20.6
GDP per capita, current dollars	10839	11956	12924	13964	15089	16284
GDP PPP per capita, in international $	17206	18983	20395	21912	23556	25307
Total investments, as % of GDP	43.9	42.5	41.6	40.7	39.8	39.0
Gross national saving as % of GDP	45.2	43.2	42.2	41.3	40.4	39.5
Growth of the volume of exports of goods and services	0.0	7.8	3.9	3.9	3.9	3.9
Balance of payments' current transactions, as % of GDP	1.3	0.7	0.6	0.6	0.6	0.5

Note. The IMF's database, October 2020.

Table 2

Main economic indicators of the USA 2020–2025

USA	2020	2021	2022	2023	2024	2025
Real GDP growth (in %)	-4.3	3.1	2.9	2.3	1.9	1.8
GDP in current dollars, billions $	20807	21922	22968	23913	24834	25783
GDP PPP in current dollars, billions $	20807	21922	22968	23913	24834	25783
Share in world GDP PPP	16.0	15.7	15.5	15.3	15.0	14.8
GDP per capita, current dollars	63051	66144	69004	71538	73974	76475
GDP PPP per capita, in international $	63051	66144	69004	71538	73974	76475
Total investments, as % of GDP	20.3	20.6	20.9	21.1	21.2	21.3
Gross national saving as % of GDP	17.7	17.8	18.2	18.4	18.6	18.7
Growth of the volume of exports of goods and services	-12.6	7.2	4.6	4.0	3.0	2.4
Balance of payments' current transactions, as % of GDP	-2.1	-2.1	-2.1	-2.1	-2.0	-2.0

Note. The IMF's database, October 2020

Kultura polisa
19(3), 44–75

Jačanje globalnog značaja kineske ekonomije u post-pandemijskom periodu

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Sažetak

Uprkos pandemiji koja je bacila na kolena veći deo globalne ekonomije, rast kineske privrede se nastavio u 2020. i snažno ubrzao u 2021. Skoro izvestan scenario u kome Kina prestiže SAD kao najveću svetsku ekonomiju u ovoj deceniji već donosi snažne geopolitičke implikacije. Ključni razlog snažnog rasta kineske privrede je visok udeo štednje i investicije u BDP (po preko dve petine) u veoma dugom periodu, zajedno sa impresivnim tehnološkim progresom koji ja ta zemlja napravila. S tim u vezi, direktan razlog trenutne napetosti između dve države je kineska ekonomska transformaciju ka gornjem kraju globalnih industrijskih lanaca vrednosti. Pokušaji da se forsiranim tehnološkim razdvajanjem, američkim trgovinskim sankcijama ili forsiranim promenama globalnih lanaca snabdevanja okonča ekonomska ekspanzija Kine, imajući u vidu njeno ogromno unutrašnje tržište i osvajanje celih paleta proizvoda, odnosno lanaca snadbevanja, deluju osuđene na neuspeh. Iako SAD i Kina nisu nužno na putu konfrontacije, to se svakako ne može isključiti. Cilj ovog rada je projekcija buduće dinamike BDP-ova dve vodeće svetske ekonomije; američke i kineske. Primenjena metodologija se bazira na linearnoj projekciji rasta BDP-a obe države u periodu nakon 2026. (koji se nastavlja na oficijelne procene MMF-a zaključno sa 2026).

Ključne reči: pandemija, ekonomski rast, BDP, Kina, SAD, konkurencija