

## ECONOMICS

### **Globalization of China 2010: “Analyse the impact of globalisation on the standard of living in the global economy with reference to economic development/growth and environmental consequences with reference to a country”**

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Globalisation refers to the increasing level of economic integration between countries, leading to an emergence of a global market. Through the reduction in natural and government-induced barriers, the growth in free international trade and investment flows have risen with an increased level of interdependency between economies. Despite providing improved levels of technology, communication and information technology, the increased financial and trade linkages have led to faster transmission of financial and economic shocks. An evident example of this was the global financial crisis in 2008-09 which caused a global recession, resulting in significant falls in financial activity with an estimated contraction of -6.25% in global GDP in 2008. However the increasing economic power of developing countries such as China, fuelled by foreign investment and international trade, has allowed them to prolong relatively high growth rates during the Global Financial Crisis (GFC). China has maintained an average annual growth rate in real GDP of 10.1% between 2003 and 2009 and upheld a growth rate of 6.8% in GDP in 2008. This has allowed China to become the 2<sup>nd</sup> largest economy in the world in terms of nominal GDP with predictions of surpassing all economies by 2030. Despite China’s impressive growth in recent decades, the standard of living remains relatively low with high wealth disparity, low per capita incomes, and environmental degradation and financial volatility.

Currently China is a socialist economy governed by a Communist government, installed by Mao Tse Tung after the revolutionary success of his forces in the civil war of 1949. Under Mao Tse Zhong’s communist government, China attempted to modernise agriculture and industry during the Great Leap Forward in the 1950s, however their policies failed to significantly raise national output and instead had disastrous results with widespread famine and poverty. The Cultural Revolution ensued in the 1960s and progress towards socialist planning and modernisation became impeded by the elimination of progressives and reformers. After Mao’s death, Deng Xiao Ping his successor became the catalyst for a series of radical economic reforms based on rapid industrialisation that desired to improve China’s economical performance whilst remaining under the tight political control of the Communist party. These reformist policies were continued by his following successors Jiang Zemin and Hu Jintao.

An impact of globalisation that has shaped China’s current economic approach is its increasing tendency to converge in economic strategy as indicated by their transition from a socialist planned economy with communist authority to a socialist market economy. By implementing policies such as the “Open Door Policy” in 1980, cutting import tariffs in 1992 and executing four ‘special economic zones’ in 1984, China was able to expand its economic territory into the global market. The establishment of the zones attracted foreign investment, capital and increased the productivity and capacity of firms for the future, where internal firms would compete in the international market. Between 1979 and 2000, agricultural employment fell from 71% to 50%, while the industry share of GDP rose from 43% to 52%, reflecting strongly on the success of government interventions and its transition from an agricultural to an industrialised economy.

China’s path to industrialisation has relied heavily on trade and a strong integration with the global economy in order to capture the benefits of globalisation. Trade accounts for 35% of the level of Aggregate Demand and has been the driving force behind the growth levels experienced. China’s intense integration in world trade can be explained by its comparative and absolute advantage in cheap, efficient labour with large availability to land and its production of clothing and textiles. China also has increased access to global markets due to its admittance to the World Trade Organisation in 1992 which has widened its export base and attracted more Foreign Direct Investment (FDI). China is the second greatest receiver of FDI, which is valued at \$67.8 billion and comprises of 65%

of trade. FDI has also introduced new technology and infrastructure, greater efficiency and increased employment opportunities due to the domination of Multination Companies (MNC) who demand the cheaper labour in Special Economic Zones of the East such as Shanghai. However with such high levels of economic integration China was inevitably affected by the GFC with demand in merchandise exports declining by 2009 causing GDP growth to fall to 6.2%. With lowering demand in this sector, corporate profit margins were severely reduced and lower incomes and employment in export-enterprises occurred. This was counteracted by the implementation of a US\$586b fiscal stimulus package by the Chinese government in November 2008 to maintain a growth rate of 8% in 2009-10 through increased consumption in domestic markets with a lower dependency on foreign exports for GDP growth.

Through the rapid growth of China's economy, the level of economic development has been raised substantially with an increase of 44% to 0.777 in HDI in 2005. The income inequality between rural and urban areas is still of great concern with the ratio of nominal urban-to-rural income per person climbing to a record high of 3.3 in 2007. The problem lies in China's previous implementation of special economic zones which are dominated by trade and foreign technology compared to rural areas still largely dependent on agricultural production. This also reflects the large gap in living standards with rural areas having limited access to education, welfare and healthcare. Unemployment levels in rural areas reaching 30% are also in stark contrast to 9% in urban areas, indicative of China's inability to maintain sufficient employment opportunities for its growing population. With higher employment opportunities available in urban areas due to globalisation, the Chinese government have introduced a rural pension program and a health care reform plan to produce more affordable and accessible health care. They have also broadened the scope of their most recent policy approach "Building a New Socialist Countryside" which targets agricultural productivity and land use, aiming to resolve the three main rural issues: agriculture, rural communities and farmers. Despite increased expenditure on rural areas which almost doubled in nominal terms between 2004 and 2007, further attention must be diverted to rural infrastructure and social development which combines support for rural education, health care and rural social security.

Unfortunately rapid industrialisation and high economic growth rates for the past 2 decades have taken a toll on China's natural environment with depleted resources and high levels of pollution now occurring. With severe problems of water scarcity, water pollution, soil erosion and desertification occurring in rural China, the government requires further monitoring, inspection and enforcement of pollution from rural enterprises must be made in protecting natural amenities and biodiversity. China also contributed 16% to total carbon dioxide emissions and pumped 17 million tonnes of sulphur dioxide into the atmosphere in 2007 however plans to make an international pledge to reduce such emissions by 2020 are still dubious. The Chinese government are attempting to address these environmental issues by implementing policies to move towards hydroelectric and nuclear power. By 2020, the government is committed to raising the share of renewable energy (excluding hydroelectric power) in the energy mix to 6%, from the current 1.5%. Despite the infusion of cash and government support for renewable sources of energy, China is expected to remain dependent on coal for about 70% of its energy needs for at least the next two decades, meaning it will remain the world's biggest emitter of CO<sub>2</sub>.

In the past half century, China's has rapidly increased its stand and dominance in the global economy through different approaches and strategies that have allowed it to meet its objectives.