ECONOMICS

How has globalisation occurred in China, and discuss its impacts.

Globalisation involves the development of world markets in capital, goods and services driven by international integration of economies. Through trade, investment and technology, finance and labour, increased global interaction has accelerated economic growth and development. A prime model for globalisation is Newly Industrialised Economy, China, which since its 1980s deregulations and implementations of pro-market policies that favour Transnational Corporations (TNCs), has experienced rapid economic growth accompanied by higher living standards. Yet, global forces have led to China's higher inequality, economic volatility and extensive damage to the natural environment, which setback its globalisation process. Nonetheless, globalisation has played a central role in China's economic prospects, crucial to its industrial development.

China has a socialist economy ruled by a communist government, first under Mao Tse Tung. After Tung's failed economic policies in the 'Great Leap Forwards,' his successor, Deng Xiao Ping implemented a range of radical reforms based on rapid industrialisation. These included agricultural reforms, which allowed increased food production and surplus income. Additionally, the 'Open Door Policy' was adopted in 1980, whereby Special Economic Zones (SEZs) (e.g. Shanghai) have been established to promote foreign trade and investment through incentives like low tax rates, cheap labour and power, and less stringent government regulations. Other reform processes encompass taxation reforms, banking laws and cuts to tariffs, which have encouraged greater domestic efficiency and created opportunities for expansion. Therefore, it is through China's adoption of market friendly reform strategies that has provided the stepping stone for economic integration, and ultimately, improved economic performance.

From its major move from a planned economy to a market economy, characterised by an urban based society and a trade orientated focus, China has grown to be the world's second largest economy in 2005 in PPP$US terms. This is attributed largely to the bilateral and multilateral trade involvements (ASEA, EU, US), which China since its 'Open Door Policy,' has exports and imports growing on average 17% and 12% per year respectively. China's large export volumes have also been associated with substantial current account surpluses (3.2% of GDP in 2007), fuelling its drastic economic and human development. The importance of trade to the Chinese economy however can be seen in its share in global resources, where China now accounts for 10% of world consumption (mineral ores and coal), as well as its contribution of 17% to global imports (mostly manufactured goods). Yet, 65% of the nation's growth has come from multinational corporations set up in China, comprising of a massive 54% of total exports. Thus, the liberation of China's trade has significantly contributed to improvements in the Chinese economy.

China's success in economic development has been in large achieved with foreign investment. Reported now with more than 4% of global Foreign Direct Investment (FDI) received by China, financial markets have seen increased reliance on foreign sources of finance for investment. Yet, the mass injection of foreign investment has helped transform China into a 'manufacturing' centre in Asia, bringing advanced technology and managerial skills that has boosted economic growth. However, much FDI comes from TNCs who have the ability to move production facilities to countries, like China, which have enormous populations and cheap labour markets. While TNCs have raised average incomes, they have often exploited low factory wages (in 'sweat shops' like for Nike), where wages average less than 5% of those in the USA. Nevertheless, the establishment of production bases in China has greatly improved its economic condition, and as China enters the World Trade Organisation and more TNCs are set up, we can anticipate an even bigger figure than its FDI of $US350 billion.

The deregulation of Chinese financial markets and re-evaluation of the Renminbi have also assisted economic development. Contributing to China's fivefold growth, the banking sector opened to foreign competition in 2006, has encouraged greater financial inflows(from 1991 to 1994 market capitalisation increased about 32 times), also with the Shanghai and Shenzen stock markets established in the early 2000s, share trading volumes have rapidly expanded. However, it was the abandonment of the country's fixed exchange rate that has facilitated flexible adjustments in the medium term, and greater control over China's domestic monetary conditions and inflation pressures. But, as a result of a more relaxed exchange system, speculative activity has arisen leading to the financial market being over valued and vulnerable to collapse and investor sentiments quickly change, as seen in the 1997 Asian Crisis initiated by the collapse of the Thai Baht. In light of China's dependence on financial flows, its economy has also become more volatile to economic shocks, witnessed in 2008 Global Financial Crisis, in which US's collapse caused a ripple effect of central banks flooding financial markets with liquidity and governments guarantee banking depositions to improve confidence. Therefore, a more open financial market has fostered China's good economic conditions, but has also left its economy exposed to international fluctuations.

With increased economic growth, globalisation has improved the overall quality of life in China. As a result of rapid development, China has experienced a substantial reduction in poverty, whereby in 1990-2001 130 million people have been lifted above the $US 1 /day poverty line. China's upward trend of its Human Development index (HDI), from 0.530 in 1975 to 0.777 in 2005, has indicated benefits reaped from globalisation, including material indicators (real GDP per capita) and non material indicators (life expectancy and literacy). Higher living standards, however, are not equally experienced mainly due to uneven distributions of income. Per capita incomes are higher in coastal, urban areas in the East and South of China because they benefit from their close proximity to SEZs. Meanwhile, the poorest provinces in the West (e.g. Tibet) experience the greatest inequality with low education and life expectancy. Hence, despite China's large share in global income, totalling $US 12000 billion, inequality has worsened overtime.

Moreover, China's strong economic growth of 6-8% in the past two decades has been associated with extreme environmental degradation. Consequential of severe resource depletion and pollution, the Chinese government face major environmental problems, in which China has been responsible for 16% of total global carbon dioxide emissions (2003). Environmental effects of the nation's globalisation, including loss of grass, forest and wetlands, soil erosion, air pollution etc. also has impacted upon public health, evident from China having the world's highest rate of chronic respiratory diseases. In response to unsustainable growth, the Chinese government has implemented environmental legislations like tradable emission permits and bans on logging, but much more environmental protective policies are needed to stop direct damage from growing economic activity.

The Chinese economy additionally faces numerous domestic challenges, synchronous with the international business cycle. Due to its heavy dependence on global markets and organisations to drive economic activity, China has adopted western style policies to address issues like inflation and structural unemployment that are related to economic growth. Albeit the macroeconomic monetary policy generally being ineffective because of cultural values of preferring to save rather than spend, the fiscal policy has been necessary in addressing widespread tax avoidance and budget deficits. In conjunction, microeconomic polices like labour market reforms have been enforced to improve allocation of inefficient resources. Overall, the pressure applied by international markets has led to China adopting certain policies and due to increased global integration; the extent to which China can manage policies independently has reduced.

In conclusion, China's phenomenal economic growth could not be accomplished without its economic integration into global markets. The main drivers being trade transactions and foreign investment, brought about by outwardly focused policies, global forces have created profound impacts on China, particularly on its standard of living, environment and economic management. Therefore, the process of globalisation can be very important to economies like China which are slowly transitioning into advanced economies.