

ECONOMICS

Economic Growth: Assess the impact of globalisation on the Chinese economy and outline strategies that the economy (government) is using to promote economic growth and development.

Globalisation is an integral element within the contemporary economic landscape that has instigated widespread changes to the underlying fundamentals of the world's economies. Globalisation refers to the increased economic integration of domestic economies, into a single world market culminating in the embracement of international influences. China, a newly industrialized economy (NIE) has been able to surpass an average growth of 9 percent for over the last 30 years due to its interdependence on the world economy. This resulted in a myriad of benefits which have bestowed unprecedented growth and development. This development allowed China to not benefit from an economic revolution but a cultural one as well. Nevertheless this change in dynamics of the Chinese economy has given rise to the creation of new hindrances that have been a direct derivative of the global economy.

It is often difficult to categorize an economy as being globalised, yet there are several indicators that suggest economic management decisions have led to globalisation. Growth in global markets, polarisation of income, rise of TNCs, shifts towards specialisation and the embracement of economic forums and cooperation and as well as the convergence into the international business cycle have been shown to be key characteristics of the global economy. This economic liberalization has encouraged greater competitiveness within the global markets and of which China has been a major beneficiary. Through this increase in trade and financial flows, China has undertaken an 'export oriented industrialisation' that has led to sustained economic growth causing sound economic development evident in the second fastest appreciation in HDI over the 1975-2005 period with a value 0.772.

China's rise to economic supremacy evolved from the failed "great leap forward" in the 1950s where China became a closed economy resulting in greater inefficiencies, polarisation of wages and reduced utility. This failure led to formation of the "open door policy" in conjunction with specialized reforms in the agricultural system. Special economic zones in coastal provinces were created which attracted foreign investment, trade and enterprises through attractive economic conditions. This produced positive externalities from FDI which have resulted in higher productivity and efficiency facilitating an even faster economic growth as well as the increased access to capital due to the presence of TNC's.

China also reduced their tariffs over much of the 1990s. This increased the level of foreign capital allowing China to exploit its comparative and absolute advantages in manufacturing as a foundation to further establish itself as NIE. This relaxation of tariffs has led to favourable economic conditions in China, with increased economic growth and FDI.

China became a member the 144th member of the WTO in 2001. This membership reflected China's transition into a globalised economy and converged its domestic market of 1.3 billion people to the global economy. China's accession to the WTO has and will deliver a number of benefits not limited to:

- Inducement of foreign investment which has risen to US\$55.75BN, innovation and technology into the domestic economy.
- Closer understanding of export markets resulting in more cooperative business environment and diversified export base which grew from 10% of China's GDP in 1978 to 36% in 1996 which has risen to US\$55.87bn.

- An assimilation of WTO laws into the Chinese business environment due to WTO stipulations leading to greater efficiency, improved legal system and lower opportunity costs.

However, upon joining the WTO, China may incur undesirable repercussions not limited to:

- Higher unemployment due to structural changes in domestic market as State owned enterprises (SOE), must be overhauled and resources reallocated to realise potential efficiency gains from a globalised economy.
- An expectation that China will comply with WTO regulations, indirectly limiting protectionist policies. This has caused the virtual elimination of tariffs, from 43% in 1992 to an average of 10% currently in 2005.
- Increased income inequalities typical of a free market system.
- Abiding to international rules set down by the WTO on intellectual property rights which may restrict the flexibility of their domestic economy.

China has implemented other wide ranging policies in order to encourage growth and development. Policies like the 'one child policy' which was implemented to reduce the dependency ratio of China's labour force in order to meet the demands of a growing economy. This has been attributed to China's increasing economic development while contributing to a reduction of 130 million people between born in China between 1990 and 2001. The "National Plan for Training Rural Migrant Workers, 2003-2010" strengthened China's competitiveness in the global economy by vocational skill training to the 60 million prospective rural migrant labourers while still enhancing its overall labour force. Also the revaluation of the RMB Yuan, allowed China to hedge its exchange rate against its commodity and service sector which has lead to an increase in economic prosperity.

As globalisation of nations becomes the forefront of economic discussion and planning a shift towards a greater integration of world economies, convergence of living standards and organizations like the WTO becoming more influential will become prolific. However China's rapid industrialization has given rise to detrimental internal and external impacts that are derivatives of this new world market. A general consensus has also arisen that suggests that a higher GDP fueled by economic growth does not necessarily entail a higher quality of living due to prolific social costs. In order to negotiate this balance, the Chinese government must encourage ecologically sustainable development by addressing on addressing environmental problems, and industry social responsibility, rather than focusing solely economic prosperity. Nevertheless, the long term benefits of globalisation are favourable, with greater standards of living, rising real national income and greater access to goods and services and in the coming years, provided conditions remain favorable; these benefits will continue to manifest themselves for the Chinese economy.