

# ECONOMICS

## Case Study: China

### Impact of Globalisation

The enormous development of China has been the most stunning economic event in the past quarter century. This is due to the steady economic, social and political integration of China into the world economy, and the increased impact of international influences on all aspects of China's life, known as the process of Globalisation. Over the past 20 years the economy had become the 7<sup>th</sup> largest, grown five folded and income quadrupled. The profound impact of globalisation for China and its citizens are illustrated below.

### Economic growth, development and quality of life-

Economic growth occurs when there is a sustained increase in country's productive capacity over time. Due to the increased trade and investment brought by globalisation, China is in huge demand and supply of G&S, contributing to huge rates of economic growth. China had more than tenfold increase in GDP since 1978 until 2005 shown in fig. 1.1. In PPP term, China is as of 2008, the second largest economy in the world after USA with a GDP of \$24661 billion RMB. Its GDP growth averages at 13% in 2007, the fastest growing in 13 years, but this decreases to 9% following recent economic downturn. This is remarkably high as compared to other advanced nations averaging 2-4%. The increase in GDP increases the relatively income of Chinese citizen, as a result having a spin off effect on the demand for more goods adding on to the economic growth.

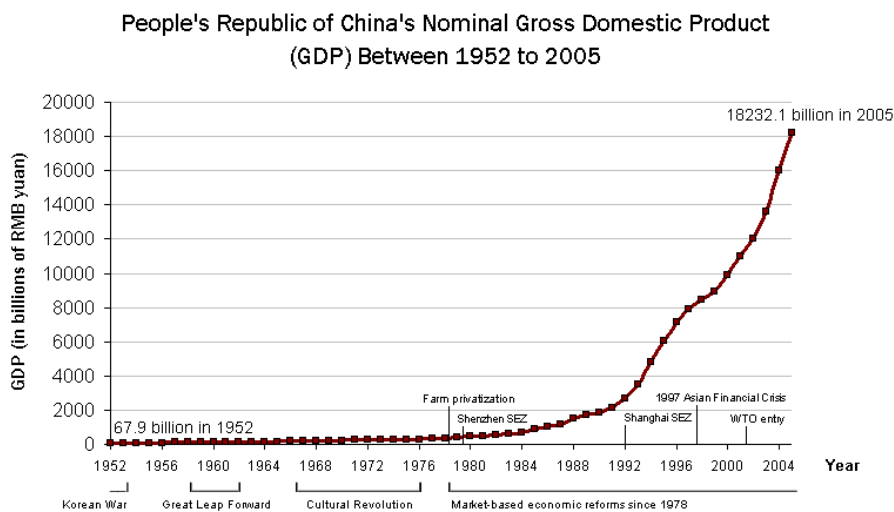


Figure 1.1

Economic development is a broader measure of welfare in a nation including indicators of health, education as well as material living standards. Globalization has connected and leveled China with other highly developed countries. By the introduction of new technology, better system of education, medical innovation and increased economic growth, the HDI level of china has rose from 0.523 in 1975 to 0.777 in 2005. The HDI level along with other exceptional statistics had shown an increased living standard for Chinese citizens.

	1975	2006/7
<b>HDI levels</b>	0.523	0.777
HDI rank	94	81
Life expectancy	41yrs	73.18
Literacy rate	83.5%	90.9%
GDP per capita	\$382.9billion RMB	\$24664 billion RMB
<b>Infant mortality</b>	85 per 1000	21.16
<b>Poverty(%of population living on&lt;US \$1 a day)</b>	18.5%	16.6%

Figure 1.2

### Trade investment and international corporations

Trade, investment and international corporations are the main sources of China's economic growth. How many times have you picked up a good that is labeled 'made in china' or 'assembled in china'? China's undervalued currency and cheap labour along with China's WTO membership in 2001, opens up huge market for global exporters and access to other markets. In 2003, China surpassed Japan in becoming the third largest goods trading country in the world, responsible for 17% of global imports and 6.7% of global exports both of which valued over \$US 30b.

Due to globalization China has also established both bilateral and multilateral trading agreements with countries e.g. Pakistan, Thailand, NZ, ASEAN Australia. This has further enhanced China's fast growing trade.

Since the late 1980s foreign investment has become a major component of the Chinese economy and its continuing growth. China is attractive to investors due to its booming market, rich human resources and stable political situation. Since 1991, FDI grew from US \$2.7 billion to US \$63.5billion in 2003, a 2351% increase, shown in fig 1.3 Record levels of FDI, were achieved in 2002-2003 with China surpassing the USA to become the top recipient of FDI in the world.

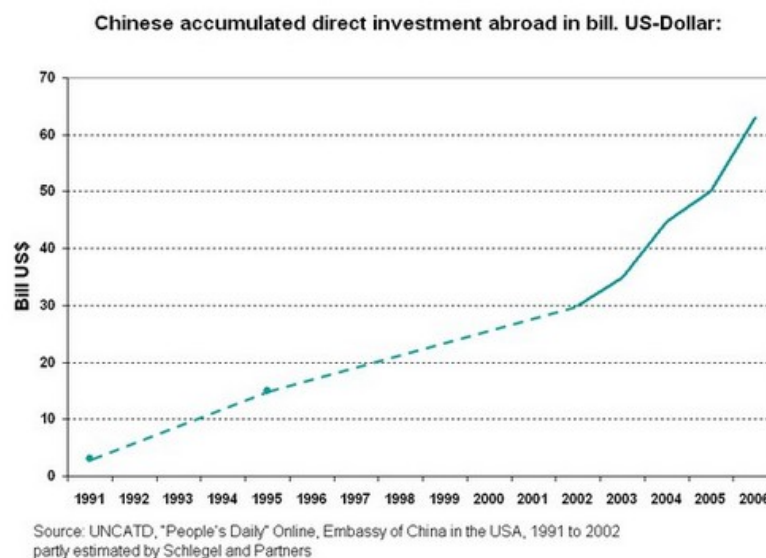


Figure 1.3

A reason for this massive increase in FDI is due to the international corporation investments:

- Transnational Corporations (TNC's) shifting production into China as a result of the cheap labour market.
- Virendi Universal signed an agreement in December 2002 to build a theme park in Shanghai.
- McDonald signed an agreement with Chinese state oil company, Sinopec granting the right to open McDonald's stores at any Sinopec's new and existing gas stations- all 30,000 of them!

Portfolio investment has also increased due to the increased confidence of investors in China's stock market. The increased trade and investment makes China a more prosperous nation with increased job opportunities.

### Distribution of income and wealth

Certain disadvantages and cost have accrued from China's integration with the world, for example the unequal distribution of income within the nation. There is vast development gap between the rural and urban areas, arising from the fact that much FDI, technology and trade is directed to the SEZs along the coastline. The northern provinces remain far less developed and more reliant on agricultural production for income and employment opportunities, the annual income between these regions varies averagely from \$500 to \$8000 Chinese RMB.

Also since SEZs attracted FDI and trade, the government is more inclined to reinvest into those area in terms of 'wealth' i.e. public resources/services. A main indicator to measure income inequality is Gini coefficient as it had risen from 0.25 in 1990 to 0.447 in 2005 rising above the 0.4 warning mark. This compared to Germany's gini coefficients index 0.29 is remarkably high shown in Fig 1.4

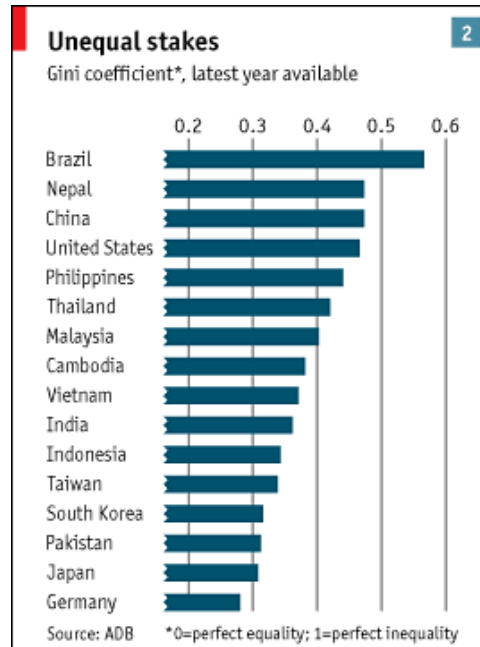


Figure 1.4

## Environmental consequences

Globalization offers China opportunity to protect the world's environment by suggesting to sign up environmental agreements e.g. Kyoto Protocol. But on the other hand, high economic growth makes China very resource intensive. This has resulted in mass deforestation, soil erosion, pollution and reduction in biodiversity putting an enormous pressure on the environment. In a report released by World Bank in 2001, it's been claimed that out of 20 most polluted cities in the world, 16 of them were in China. This has also become an economic concern as the Chinese government now spend 4% of China's GDP on minimizing the effect of such externalities.

China's stupendous export industry has made many claim China as a 'world factory'. Coal fired power stations are used to supply 70% of China's electricity needs. This had resulted many problems shown in Fig 1.5 and 1.6 China's Happy Planet Index (HPI) measures 56, a reasonable target is 83.5 this indicates China is not very successful in balancing both human development and environmental sustainability.

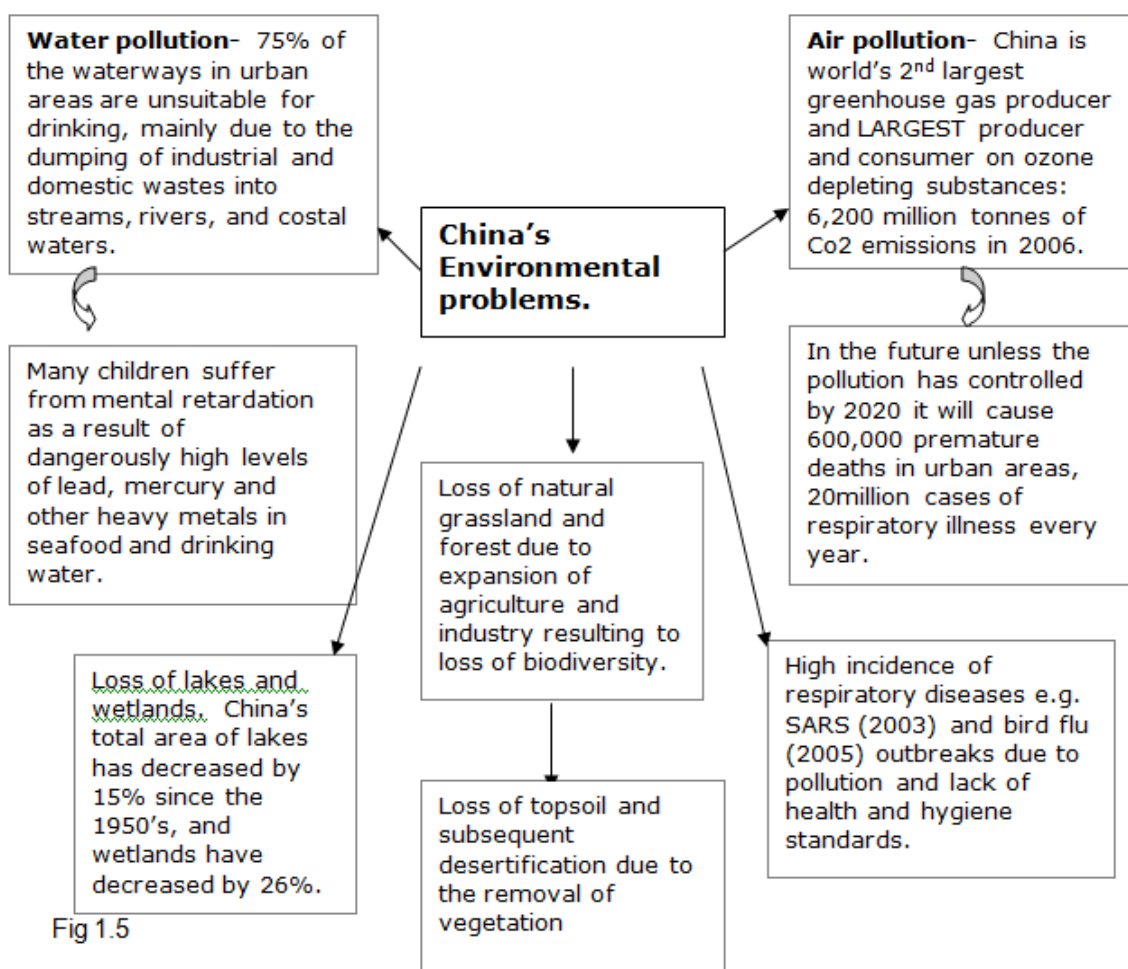


Fig 1.5

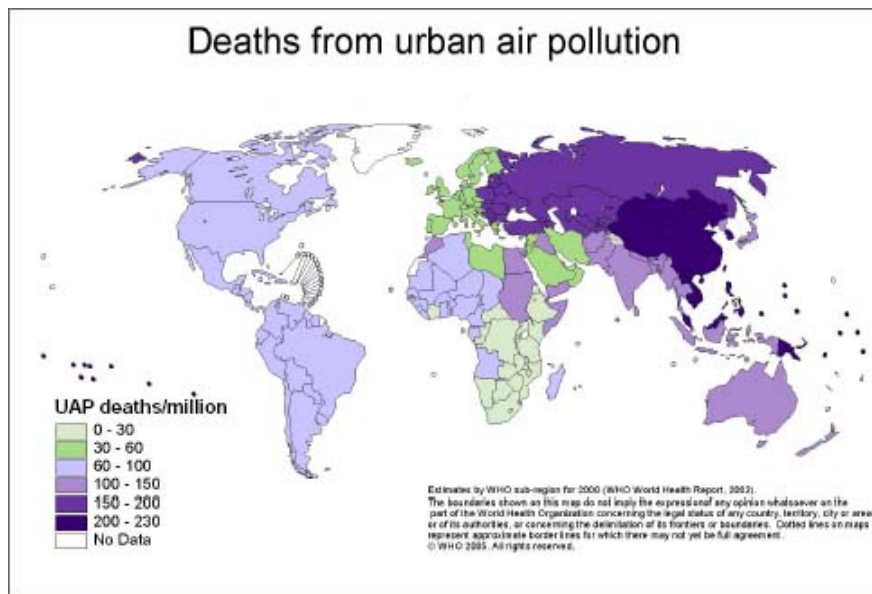


Figure 1.6

### Strategies used to promote globalisation

Starting from the communist rule by Mao Zedong, many reforms and strategies are used to enhance China's economic growth thus promoting globalisation.

**1953-1975:** China began its First Five Year Plan for economic development. During that period Chinese industry grew at a rapid rate of about 15% a year.

**1958:** China attempted to modernise both agriculture and industry in the *Great Leap Forward*. The government tried to speed development by greatly increasing the number of workers and their hours while ignoring China's lack of capital and modern technology. This policy failed as China suffered enormous economic depressions resulting widespread famine and poverty.

**1960s:** Cultural Revolution began that threw over the communist party and progress towards modernisation under socialist planning.

**1978-1994:** Agricultural reforms involved the abandonment of the commune system (de-collectivisation) and replacement by the *Household Responsibility System*. It is when households are able to make own production decisions and sell surplus output in free market once state quota was met. As result there was an increase in food production from 2.6 % to 7.1%, rural income grew by 15% per year.

**1980:** 'Open door' policy was adopted towards foreign trade and investment with Special Economic Zones established in the southern coastal provinces of China. Foreign investors were attracted to the range of incentives offered such as low tax rates, cheap labor, and exemptions from import duties and less stringent regulations.

As a result China received almost US \$39 billion from the foreign direct investment. Consequently this policy allowed trade and market access, transfer of technology and the receipt of management and marketing skills.

**1992:** Tariff cuts and other protection encourages greater domestic efficiency in order to keep up with its international competitiveness. Its tariff was cut from 19% in 1996 to 15% by 2000. This attracted foreign investment and trade thus promoting economic growth.

**1994:** *Tax reforms* were introduced that combined the power to collect tax from provincial government to central government to improve the efficiency of tax collection and limit tax avoidance. This allows greater revenue for government to finance infrastructure spending creating more economic growth.

**1995:** Banking laws were introduced creating network banking, stock exchange and more efficient capital market. This facilitates savings, investments (FDI and portfolio) and trade.

**2001:** WTO accession brought major beneficial changes in its economy such as access of the world market, attracts foreign investment, adopt new ways of management, access of new technologies, market information, global production, and market network and distribution.

### **Conclusion:**

China has benefited immensely both economically and socially from globalisation due to its many reforms over the years. Its defining features are of increased GDP and FDI inflows. It also resulted a better quality of life for its citizen in terms of its HDI values. However, the cost of China's rapid growth comes with unequal distribution of income and damage sustained by the environment. These are future challenges of China that must be remedied if possible for sustainable development and growth.