ECONOMICS

Assess the strategies used by a nation other than Australia to promote economic growth and development in this economy.

Since the 1970s, Chinese governments have sought to capitalise on the economic benefits of globalisation, recognising the large potential for significant economic development in labour intensive industries. Thus, successive governments have implemented policies designed to encourage an increase in foreign direct investment and trade, whilst shifting the structure of China's planned economy to one influenced by market forces.

Such a shift towards a market economy has been characterised by policies such at the Open Door Policy (1978). The policy dismantled the state monopolised trade co operations which otherwise determined price and quantity of both imports and exports. This has resulted in significant export led growth, with trade expansion averaging 10% above that of world trade expansion between 1979 and 1990. Furthermore, Special Economic Zones were established seeking to increase foreign direct investment through incentives such low tax and low production and employment standards, contributing to an average 17% (pa) of exports, surpassing large trading nations such as Japan in meeting a growing global demand for industrial goods. In order to achieve greater trade and foreign direct invest, China has recognised the importance of international agreements and organisations in establishing and maintaining strong trade links. Thus, a collection of bilateral agreements such as Chile and New Zealand, as well as multilateral agreements in China-ASEAN FTA have initiated greater foreign trade integration. Lastly, China's accession to the World Trade Organisation has enabled China to work towards goals such as the diversification of its export base and the encouragement of the use of ICT in its domestic economy, as well as the promotion of foreign direct investment. The entry marked a complete shift from the closed economy of pre 1980s to an economy dependent on trade flows and foreign direct investment for economic growth and development.

The Household Responsibility Scheme (1978) similarly seeks to eliminate the socialist economic flaw of quota driven production. Hence, the Chinese government constructed a profit motive, encouraging households to produce and price at their own discretion once a state quota of produce had been fulfilled. The policy also encourages productivity, entrepreneurial activity through tax incentives and cheaper land lease. A new phase of adjustments started in the late 1990s and in the early 2000s when oversupply emerged on most agricultural markets, causing grain prices to fall, and increased exposure to international competition stimulated further structural changes. Nevertheless, the scheme has been crucial to promoting economic development in encouraging the household sector to increase productivity and output.

As a component of China's Open Door Policy, Special Economic Zones have been established to encourage foreign direct investment, providing a crucial link between the globalisation process and China's large workforce. Such investment is encouraged mostly through tax incentives, but unrestrictive employment and land ownership laws also promote foreign firms to establish operations in China to avoid strict regulation within their own nation. Foreign owned firms in SEZ's pay 15% tax compared to 33% of firms outside the zones, with the first two years tax free. The policy has achieved a vast increase in FDI flows, increasing to $5.3 billion in 1988, and to $11.4 billion in 1991. Furthermore, the city of Shenzhen experienced a 10 year growth rate of 545% between 1980 – 90, indicative of the success of Special Economic Zones in promoting growth.

The change in protectionist policy since the 1980s reflects the gradual shift towards greater trade integration, with average tariffs falling from 32% to 19% in 1996 and again to 15% in 2000. Due to low production costs relative to developed nations, China's export industries, particularly manufacturing, remains highly internationally competitive without significant government subsidy. Consequently, China is largely dependent on its export revenue in generating growth. The onset of the global financial crisis, and the protectionist practices many countries adopted to ensure domestic export competing industries, was detrimental to Chinese growth, falling to 9.2% in mid 2009.

The revaluation of the Yuan in 2005 saw China's currency move from a pegged rate (USD), to a managed peg rate (basket of currencies; USD, BPS, AUD...), immediately appreciating to reflect its position as a major trading currency. The revaluation, though minor, has since partially removed China's international competitiveness in ETMs, however it will provide greater flexibility in settling the exchange rate in the medium term. The People's Bank of China also gains greater control over domestic monetary policy and inflationary pressures assisting the government's influence on economic growth and development in the long term.

Several banking reforms have taken place since 1984 in an attempt to improve the efficiency of China's state owned banking system. Since 2003, the government has seen the importance of the Chinese Central Bank in influencing domestic market forces and overall financial stability through the implementation of monetary policy. Furthermore, China's domestic banking sector was opened to foreign competition in the late 2000s as a part of a WTO agreement, but also to decrease China's dependency on the inefficient state owned banking system. Thus, the impact of negative shocks on the global business cycle to China's highly integrated economy are diminished, as to assist sustained economic growth in the long term

China's agriculture is characterised by scarce arable land, abundant labour and small scale production, providing a comparative advantage in labour intensive crops such as fruit and vegetables, whilst disadvantaged in land intensive grain production. Due to large the dramatic growth in urban and city regions, the government views agriculture reform as crucial to increasing productivity and output, to sustain its 1.3 billion citizens. Hence, agriculture reform since the 1980s has been aimed at achieving 95% self-sufficiency in grains, namely wheat, corn and rice. The Household Responsibility Scheme was crucial in that the increased crop output have helped small subsidiaries and household farms to be at the very least, self-sufficient. However in recent years, the government has aimed at increasing the number of large scale farms, through an increased use in pesticides and chemicals. Despite the long term impact of such practices on the environment, agriculture reforms are crucial to continued economic prosperity and development.

Through social reform, China's government aim to increase the productive capacity of its population through increased education and urbanisation. Thus, agriculture reform has been crucial to the reallocation of China's rural population from inefficient household farms to industrial regions and cities. One of the remarkable achievements of the reform period has been the strong growth of real per capita rural incomes, largely due to the rise in non-agricultural employment opportunities. Real rural income rose more than three-fold between 1980 and 2000. The overall rise of incomes in rural areas, including those in poor areas, has led to a dramatic fall in poverty. Despite the rapid reduction in poverty levels, overall the rise in rural incomes was not sufficient to close the gap with urban areas as differences in labour productivity between agriculture and the rest of the economy and, more generally, between rural and urban areas persisted. In fact, the income gap has widened as the reforms progressed. Per capita income in urban areas was 1.85 times that in rural areas in the mid-1980s, but by 2003 and 2004 the ratio had risen to 3.2, the highest over the whole reform period. Through continued social reform and development, China can hope to develop higher standards of living, leading to increased household consumption whilst increasing the supply of trained labour, stimulating economic growth.

Plan: China
Open door policy (foreign trade)
Household responsibility scheme (shift to market economy)
Special Economic Zones (increasing FDI)
Protectionism
Currency
Banks
Agriculture reform
Social Reform