ECONOMICS

Describe the impact of globalisation on China's economic growth and development.

Globalisation refers to the process of increased integration between different countries and economies and the increased impact of international influences on all aspects of life and economic activity. The past 15 years have seen an increase in the four major indicators of globalisation: international trade flows, international financial flows, international investment flows and transfers of technology, and the movement of labour. In an effort to capture the benefits of globalisation without relinquishing Communist control, Mao Tse Tung's successor, Deng Xiao Ping, implemented a range of radical economic reforms between 1978 and his death in 1997, which began with China's official move from an economy with a domestic focus to one with a trade oriented focus. In turn, China has experienced phenomenal economic growth (percentage increase in real GDP over time) and an improvement in its economic development.

Recent decades have seen mixed fortunes for different regions as a result of globalisation for whilst some have emerged as winners, such as China and Australia, others have been pushed to the margins, such as Zimbabwe. An international convergence of economic performance is shown through China's 'catch up' against the GDP of the developing world. That is, China's economy, measured on a Purchasing Power Parity (PPP) basis, was close to $9 trillion in 2008, ranking it the 2nd largest economy after the US.

From this rapid economic growth stem major improvements in all aspects of economic development. The Human Development Index (HDI) is a measure of economic development devised by the United Nations Development Program that takes into account: life expectancy at birth, levels of educational attainment and material living standards. Between 1975 and 2007, China's HDI rose from 0.527 to 0.777 while its HDI rank (out of 177 countries) rose from 94 to 81. Also, over the last 25 years, poverty has been reduced by 400m people in China, all of whom were previously living on US$1 per day, signifying an increase in the Chinese standard of living.

However, globalisation has also accelerated resource use and environmental degradation, a fact recognised in both the Genuine Progress Indicator (GPI) and the Happy Planet Index (HPI). In 2007, a China-commissioned environmental study by the Organisation for Economic Co-operation and Development (OECD) found that pollution was reducing China's annual GDP by 7% and causing health problems. Similarly, carbon dioxide emissions were 6.2 billion tonnes in 2006, 8% higher than in the USA, owing mainly to electricity and cement production.

On the other hand, globalisation ensured the Chinese government's response to such environmental challenges. Its involvement in the World Trade Organisation (WTO) and in hosting the 2008 Olympics prompted the setting of targets for future pollution levels. These rely on shifting from coal-fired power generation to nuclear and hydroelectric power generation, especially the Three Gorges Dam Project. Overall, expenditure on environmental protection has risen from 0.8% to 1.3% of GDP.

Facilitated by China's newfound stability and transparency, its accession to the WTO at the Doha Conference in 2001 produced 3 major outcomes relating to future growth and development: the diversification of its export base to incorporate more value added Elaborately Transformed Manufactures (ETMs) and service exports, greater foreign investment into the tertiary sector of the Chinese domestic economy and a higher prominence of Information and Communications Technology (ICT). Reduced protection, such as a fall in the average Chinese tariff rate from 47% to 10% between 1991 and 2004, attracted foreign competition, resulting in higher efficiency yet also structural unemployment.

Transnational Corporations (TNCs), growing in line with global trade flows and foreign investment, have influenced the direction and composition of China's trade flows. Although once reliant primarily on agricultural production, China now accounts for over 5% of world merchandise trade (up from 2% in 1992). From the late 1980s, TNCs were drawn to China's large unskilled labour force and factory wages averaging less than 5% of those in the USA. Their arrival prompted further restructuring of the domestic economy, which in turn facilitated rapid economic growth in a highly populous nation. With this rise of local wealth and of industry heavily dependent upon resource and energy imports, China now accounts for 10% of world resource consumption. Using its managed peg system to ensure price competitiveness of its exports, China is currently the 3rd largest goods trading country in the world, responsible for 17% of global imports and 7% of global exports. Neighbouring Asian countries, such as Japan, Hong Kong and Korea, and ASEAN, together comprise 53% of China's exports and 65% of its imports.

FDI drives economic growth as it leads to improvements in infrastructure and business efficiency (a product of new marketing skills and expertise). The four special economic zones established in southern and some eastern coastal provinces of China in 1980, as part of the government's 'open door policy', attracted FDI rather than portfolio investment through incentives such as low tax rates, exemption from import duties, cheap labour and power, and less stringent government regulations. In 2008, FDI into China totalled $92.4b (making it the top recipient of FDI in the world).

While globalisation contributes to China's economic growth and development, some aspects of China's dualistic economy, such as the Household Responsibility System, entrench, rather than alleviate, geographical disparities in income and wealth. Under this system established in 1978, the Special Economic Zones provide those living in coastal regions with copious employment and income opportunities whilst those living in China's north-western regions suffer from low occupational mobility and poor living standards. For example, between 1978 and 1998, the performance of coastal areas, such as Shanghai and Shenzen, grew an astonishing 13% pa, which was 5 times the level faced by China's north-western regions. Political instability stemming from widespread peasant revolts forced the Chinese government to propose a plan to double, by 2020, the disposable income of the 750m ppl in the Chinese countryside through land reforms.

To ensure the reinjection of China's large pool of domestic savings (the Chinese Average Propensity to Save is approximately 0.5) into the circular flow of income, China's relatively underdeveloped banking system required many reforms. For example, following the establishment of the People's Bank of China in 1984, four big specialist banks were used to direct savings into government chosen sectors and industries, although now they are more market oriented and efficient due to the introduction of foreign banks. On the other hand, stock exchanges in Shanghai and Shenzen established in 1995 encouraged the growth of new local businesses and the Chinese economy.

Still, the Chinese government faces major challenges relating to its 'fragile' domestic banking and finance system. For instance, since the majority of investors in China (apart from institutional investors) consist of individuals eager to make capital gains by investing their life's savings in high-risk stocks, 'speculation bubbles' regularly occur. The resulting need for adequate prudential standards and an improvement in lending practices is as equally important as a more competent payments system including foreign exchange, electronic funds transfer and ATM access for consumers in their market dealings.

The international business cycle refers to fluctuations in the level of economic activity in the global economy over time. Limited foreign connection and a fixed currency once shielded China from global downturns (1997 Asian economic crisis) since it was less vulnerable to speculation and the state of the international business cycle. However, since China's exports now account for 35% of its GDP, it has increased its dependency on other countries. The recent credit crisis in America, for instance, caused China's economic growth rate to fall from 11% in 2008 to 6.1% in the March quarter of 2009, reflecting the 17% fall in exports in the year to March.

In response, the Chinese government implemented a 4 trillion yuan infrastructure package – 30% of which will be funded by the government whilst most of the rest will be financed by bank lending.

Already there is evidence of the effectiveness of this strategy, with China achieving an economic growth rate of 7.9% in the June quarter of 2009 and retail sales up 16%. Yet economists argue that this is not a long-term solution. Instead, the Chinese government must introduce structural reforms that improve the consumption mentality of the Chinese population so that in the future China is less exposed to the state of the global economy.

In moving from a planned to a socialist market economy, China has adopted the 'Washington Consensus' of market friendly policies, including trade liberalisation, privatisation of state enterprises and fiscal discipline. Following its abandonment of prices-wages policy, the Chinese government currently relies on strong infrastructure spending (particularly towards "image" and low efficiency structures) underpinned by massive (and probably unsustainable) bond sales to manage aggregate demand. Although, inflationary pressures resulting from high growth rates and non-performing loans of SOEs call for a more effective management of macroeconomic policy so as to maintain the price competitiveness of China's exports. Taxation reforms in 1994 specifically targeted tax evasion and avoidance in order to maximise finance for infrastructure spending and social welfare.

In conclusion, China has relied on its export-oriented strategy and adherence to the 'Washington Consensus' in addition to banking, agricultural and taxation reforms to drive economic growth and development. Still, problems such as the inefficiency of the financial market, the global slowdown, inequality and environmental degradation are yet to be confronted if China is to emerge as the new economic world leader in the near future.