ECONOMICS

Case Study - The Peoples Republic of China (essay)

The People's Republic of China is the world's fastest growing economy following the reforms from 1978 to become an economy in transition. This shift from a centrally planned system to a more market oriented economy was a hope for an improvement in standards of living and increased productivity. Since then, China has extensively engaged in a range of International Organisations and Agreements such as the participation in WTO, APEC, UN and ASEAN which is evident to the level of integration China is experiencing with the rest of the world. Through increasing trade, investment and financial flows, globalisation is having a substantial impact on the Chinese economy.

Economic growth refers to the increase in the value of goods and services produced domestically over a period of time determined by an increase in GDP. In fact, the Chinese economy has averaged between 8% to 11% annual growth in the 2000s with the highest level of economic growth of 12% in 2007. However, the global financial crisis in 2008 has seen a drastic decline in GDP to 8.5% - the first of many years to experience a single digit growth. Clearly, the impact of globalisation has increased as the Chinese economy is far more responsive to market signals than it was 10 years ago. The presence of economic growth is closely followed by improvements in GDP per capita giving an indication of advances through growth which leads to higher standards of living. In addition, economic development has been following the trend of economic growth with improvements in the HDI index from 0.53 in 1975 before the reforms to 0.77 in 2005. This 50% increase in the HDI index is accounted for by increased living standards comprising of better education, reduced poverty levels, higher life expectancies and higher disposable incomes.

Ever since China has opened its economy, international trade flows have increased drastically. Economic growth within China is mainly accounted for by its driver: export growth. Over the last 5 years, the value of China's exports has grown by 30% per annum with a trade surplus (more exports than imports) of $US216 billion this year. China is a commodities trader mainly importing machinery and equipment, oil and mineral, optical and medical equipment and iron and steel from Japan, South Korea, USA and Hong Kong which accounts for approximately 30% of GDP. It is also the largest manufacturer of steel accounting for approximately one third of world steel production. China has also been steadily increasing exports to the EU and East Asia following the slowdown of economic growth in the USA. As China is heavily reliant on its exports for economic growth, the global financial crisis has seen a decrease in exports thus resulting in the fall of GDP.

The decisions to accept Transnational Corporations has also widened China's export base and enabled China to become a competitor in the global market. The biggest TNCs operating in China now include Toyota, Sony and Samsung etc. Furthermore, the number of TNCS set up by large companies is a good indication of the level of globalisation and economic integration China is experiencing. 12 of China's top companies are now listed in the World's top 500 TNCs and TNCs consist of approximately half of China's export income.

Foreign investment is another key factor for the high levels of economic growth in China as investments stimulate the economy, generating the capacity for growth and creating new employment opportunities. China is now one of the leading FDI recipients in the world receiving $US78 000 in 2007 which is double the amount of $US39 000 in 2002 from the EU, Korea, Japan and the US. The significant FDI flows partly result from the encouragement brought by the Chinese Government allowing foreign investors to manufacture and sell large range of goods in the domestic market. However, investments tend to favour urban areas contributing to income inequality and also accounting for the increase in the urban population from 30% to 44% (of 1.3billion). High levels of investment also constitutes for China's economic growth as foreign companies tend to direct their productions to China for its cheap labour as factory wages average to be less than 5% of those in the USA.

Globally, China ranks at the 5th largest economy in the world and when adjusted to PPP it ranks 2nd, and due to overtake the US in 2040. China's high level of growth is also evident by China's increased share of the world economy from 3.5% in 2003 to 15% in 2006, measured in PPP. Although income per capital has grown at an average annual rate of 8%, it is still classified as low by world's standards being about $US8 000 in PPP terms which is equivalent to one fifth of the US. However, the rise in income per capita has definitely decreased poverty levels in China.

Domestically, income inequality has risen since the reforms in 1978. The Gini index rose from 0.32 in 1982 to 0.47 in 2007, which is a 50% increase in inequality. The main inequality has arisen from urban-rural areas with a widening gap as urban areas receive about 4 times more income than rural areas. The wealth of coastal areas is mainly due to ports and harbours owing to much to exports and cities in coastal areas stands at the top of the HDI ranking domestically with the western provinces on the bottom. However, poverty levels have generally declined as 400 million people no longer live on absolute poverty.

International financial flows have generally linked China to many economies through exports, imports, investments etc. The reforms made to the banking systems have made it easier for foreign investments. In the first half of 2008, China accounted for a twin balance of payments surplus of $US165 billion dollars.

For many years, China has been on the upswing of their domestic business cycle as they experience high levels of economic growth. However, the Government has implemented a tightening of monetary policy to reduce fluctuations and stabilize economic activity. Generally speaking, China's domestic business cycle is slowly adjusting to the international business cycle apparent in falling GDP due to the financial crisis that has left many countries to await a recession. The closer linkages between economies makes China more exposed to downturns in the IBC and to developments in their regions.

China's economic growth and development is supported by various market friendly policies and strategies adopted by the Chinese Government. In 1980, an 'open door' policy

was adopted to attract foreign investment with special economic zones where there were low tax rates and exemptions from import duties, increasing foreigners' incentives. This led to rising FDI and China was also able to gain new technology and skills from Multinational Corporations. Other reforms that have contributed to the promotion of economic growth and integration with the world includes: gradual liberalisation of prices, fiscal decentralization, increased autonomy of State Owned Enterprises, growth of the private sector, diversified banking system, development of stock markets and of course, opening the economy to trade and investment. By joining the WTO in 2001, it has enabled China easier access to foreign markets and also encouraged the lowering of tariffs and market impediments leading to tripled imports from US, and a higher stance in the global economy. However, policies that restrict freedom from internal controls have limited labour mobility as permits are required for employment outside of residency (costing around $800). This contributes to inequality as the rich benefit and the poor suffer, which ultimately may deprive China of the hidden entrepreneurial skills hence a chance for further economic growth and development. Furthermore, by controlling major economic sectors such as energy and communication has limited the amount of foreign investment and restricted the level of economic integration.0. n adjusted to PPP it ranks 2nd,ndns to China for its cheap labtion from 30% to 44% (of 1.3bi

With China's rapid growth follows negative externalities that arise with increased pollution levels, degradation of resources as well as the continual loss of arable land as of erosion and economic development. The extreme pollution meant China surpassed the US as the world's largest emitter of carbon dioxide in 2007. These environmental impacts are partly results from poor management by the Government yet environmental protections and consequences costs China 8-15% of GDP annually. However, the 2008 Olympic Games acted as an incentive for China to reduce pollution levels especially air quality (smog) which contributed to a vast improvement seen by cities for a number of years. Surely the pressures of other countries have contributed to these environmental plans to reduce pollution levels.

Generally, many economists have regarded China as being one of the biggest winners from globalisation given the immense increases in growth and development. However, as China becomes more interconnected with the rest of the world, it is likely that China will become a more competitive, if not already, economy in the global market.