

China becoming an economic super power history essay



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As part of the Asian business and trade course which is part of the Asian trade, business and economics block at Europort business school the students are assigned to write an essay about an Asian topic and country of choice. The goals of this subject and essay are as following:

Understand the major economic and other issues in the economic development and growth of Asian economies

Apply appropriate economic theory and analysis to Asian economic development issues

Form a critical and objective evaluation of the economic status of an Asian nation, particularly in the current economic situation of downturn and negative sentiment

Introduction

After my visit to China and reading the books; Cultures and Organisations by Geert Hofstede and Outliers by Malcolm Gladwell, I Became very interested in defining the cultural, demographical, political and economical aspects that gave China the capabilities to grow as rapidly as it has done in last two decades. In this essay I will use a variety of sources that will be included in the Appendix. It has my preference to use the two books that initially inspired me to choose this topic. These books will serve as a red line throughout this essay as they give me the ability to analyze and approach China with a certain framework.

For the ones that are not familiar with both books I'll summarize the key elements before starting my analysis:

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Geert Hofstede, Cultures of Organisations (Software of the mind) 2005;

Hofstede is a Dutch researcher whom accidentally became interested in national cultural differences. In his book Cultures and organisations he describes his paradigm which makes it possible to class organisational cultures on five elements (Power distance, Long-term planning, masculinity, individualism and uncertainty avoidance). These elements are widely adopted and give good insight in the motivation for certain behaviour within groups, businesses and nations.

Malcolm Gladwell, Outliers (The story of Success)2008;

Gladwell is an English journalist who conducted a research about why some people are more successful than others and why some successful people become outliers and others don't. In his book he uses a lot of examples and famous people like Bill Gates, Joe Flom and the Beatles to support his theory.

In general his theory comes down to the following. No matter how much talent you have got, just working hard will not make you an outlier.

Becoming an outlier depends on a lot of circumstances and on opportunities created around an individual that enables the talented person to use their talents and interests to its full extent in order to become a real outlier.

Although this book is focused on the individual it acknowledges that periods in time such as the great depression in America have great effect on the success of both groups as individuals. Therefore I will use the ideology and approach of this book to search for the opportunities that were offered to China and made China grow as fast as it did.

Approach

3. 1 Structure

This essay will try to answer and give better understanding about the cultural aspects that have driven and still drive the economic success of China in the last decades. To get to a conclusion I will first try to establish a historical background covering 1949 till the present. In this background I will also describe the Chinese economy in the past, present and future. This background will be followed by describing the Chinese culture using Hofstede's.

3. 2 Main question

My essay will revolve around the theories in the book and these are the main questions I would like to answer;

How has the Chinese economy evolved in contrast with the world economy?
To answer this question I will make use of the theory used in the book of M. Gladwell, Outliers 2008

Which cultural aspects could give the Chinese work force their ability to become an economic super power? To answer this question I will use the book of G. Hofstede, Cultures and organisations 2005

Background

4. 1 Political background

In the last couple of decades China has made some incredible political changes that have brought the Chinese economy to the size it has nowadays. Most of these political changes that had great effect on the

Chinese economy were made after the death of Mao in 1976. However this change was put in motion much earlier when on 1 October 1949 the people's republic of China was created. China previously dealt with a lot of regional and local disputes as a result the stability created by the communist party was much welcomed. One of the side effects was that in order to create structure a lot of rules and changes were enforced on the people.

In 1958 Mao launched " the great leap" unfortunately this step towards becoming a bigger economic power failed. As normal market mechanism were completely disrupted lots of the products that were produced in the state owned factories were useless. In the following years Mao's reputation was changing as he was criticized in public. In order to restore his power and authority he launched a number of initiatives and with the help of an enormous amount of red guards he re-enforced his popularity. Because of the huge amount of red guards a lot of local disputes aroused between different governing organisations as a result the so called Cultural Revolution got out of control and some radical changes had to be made. Once again Mao's authority was questioned, to make things worse Mao's right hand Lin, expected to be Mao's successor, attempted a military coup which failed and lead to the Lin being killed while trying to escape. This left Mao with no successor after he died in 1976.

After 1976 a bloodless power struggle arouses which was eventually won by Deng Xiaoping in December 1978. From that moment on China started to change its politic and economical structure according to the four modernizations. The main focus of this plan was to:

Expanding rural income and incentives

Encouraging experiments in enterprise autonomy

Reducing central planning

Establishing direct foreign investment in mainland China

In order to make these four modernizations work the country was centrally governed on macroeconomic levels but on microeconomic level local decision making was encouraged. Furthermore China opened its internal market by allowing farmers to sell their own products on the market and introducing use and fabrication of light industrial output. By introducing special economic zones (SEZ) China started to welcome foreign countries and to boost the four modernizations it started importing equipment from abroad.

At the same time in 1979 the one child policy was introduced having a great impact at Chinese demographics.

In the beginning this reform was great for the Chinese economy, but it also brought higher inflation which sparked many protests in the period 82-89. As the press gained more freedom, groups for faster economic reform emerged. After the death of one of these group leaders a big protest was organized this is today known as the Tiananmen Square protest of 1989. This protest was ended by use of the military resulting in many casualties. After the protest crack-down China faced great criticism from foreign countries for suppressing the protest.

After this suppression Deng officially stepped down and retired. His position was taken over by the former mayor of Shanghai. After the situation in China calmed down the economic structure created more problems such as lack of residence in addition the rate of unemployment was increasing. In 1992 Deng, although retired, introduced more plans to reform the Chinese structure which were later adopted during the 14th party congress. From that moment on China has been able to maintain on average an 8% growth per year. While surrounding Asian countries and world economics were having difficult times China prospered.

4. 2 Chinese economic background

Now we know what happened in the past decades it is important to put this in perspective. What effect did these historic moments have on the Chinese economy? I will measure the economic growth by using the Gross domestic product growth figure.

Source: Chinability. com

This is the period after the creation of the People ' s Republic of China lead by Mao. It is obvious that this period is characterized by an unstable growth with some big recessions every now and then. In 1958 the great leap was initiated by Mao, which had some unsustainable effects. From 1978 a more stable growth strategy was initiated by Deng Xiaoping and the effects of this strategy were very good as the Chinese economy has been growing ever since.

Source IMF Data and Statistics

After the four modernizations introduced by Deng Xiaoping, China has merely seen years of GDP growth. Often the GDP growth was even in double figures. During this period China opened its border for foreign investment and also created their special economic zones (SEZ) in which trade flourished. In the graph the biggest American recessions of the past two decades have been identified and it's obvious that the biggest GDP growth in China appears after an American recession.

4.3 worldwide economic background

It's clear that the involvement of Deng Xiaoping and his four modernizations had a great positive effect on the Chinese economy. But was this just luck or was this a worldwide phenomenon?

This model shows that the period 1980 – 2009 generally was a period of growth for the whole world. There are three dips or American recessions around the first was around 1991, followed by the dot com bubble in 2002 and most recently in 2009 the housing market collapsed uncovering a large number of unhealthy companies and financial products eventually leaving the financial sector ruined.

So did China do something extra ordinary or did their economic growth follow the worldwide market growth? By overlaying the Chinese % GDP growth it's possible to see how much the Chinese growth followed the world trend.

4. 4 Worldwide GDP growth compared to Chinese GDP growth

Source IMF Data and Statistics

In this graph it becomes clear that China has done an extra ordinary job in the latest years. Moreover since the United States are one of the biggest trade partner of China, Chinese GDP growth declines whenever the United States are going into a recession. However after a recession or even during one the Chinese growth seems to increase more than the growth of the rest of the world or the rest of the advanced economies.

It is to be expected that this growth is based on the outsourcing and relocating of work from the advanced economies towards China. When companies are in difficult economic times they do everything to reduce costs. One of the options to reduce costs is to relocate the production facilities to cheap labour countries such as China. As soon as the economy in the advanced economies starts to recover China is one of the first to see their growth figures rocket, this is also endorsed by the GDP growth visible in the China, People's Republic of, % GDP growth 1978 – 2014 graph illustrated earlier.

4. 5 Economic conclusion

So although Deng Xiaoping has laid the foundation and created the capacity to supply the advanced economies demand by building state owned factories and creating a foreign friendly climate in addition to an incredible workforce, China has been offered at least 3 periods in and after which production work moved from advanced economies to China.

Combining this with Gladwell's Outlier theories and the symptoms are unmistakable. China will become an outlier, or in this case an economic superpower. Not only because of their cheap labour our central way of dictating planning and production, but also by the opportunities that are offered by the advanced economies to take over production. Which in their turn base their relocation of production facilities on cost saving and profit maximisation.

4. 6 Current and future economic situation

At the moment the world economy show signs of recovery. Although the economic growth in China decreased during this period of worldwide decline China did not encounter a recession. The financial times indicates that in August and September trade in China has fallen 23. 4% and 15. 2% respectively compared to the same time the previous year. But even with these numbers China manages to grow their GDP with another 9% this year.

On the other hand analysts warn that the current Chinese economy is too unbalanced and too much relying on foreign demand. China should try to resolve this by growing their internal market. During this recession China has been able to sustain their economic growth by heavily investing in fixed capital. This creates more and more production capacity and provides work for the incredible amount of Chinese migrating to the urban areas for work. As a result their internal domestic demand has risen 11. 5% unfortunately not due to consumer spending but due to government spending. This year and in the ten years previous to this year, China has invested a higher percentage in fixed capital than its economy has grown. This could lead to an unstable economy and massive excess production capacity. Although this

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time China was able to save its own market by investing, in the future they should create a healthier system to increasing consumer spending. A method of doing this might be found in the Micro credits and more local financial stimuli rather than national investment in mortar and bricks.

Referring back to Gladwell, for China to become a true outlier they need more opportunities. Previously China needed foreign investment and demand to grow its capacity. However, due to the recession in the western advanced economies demand does not equal Chinese production capacity anymore. To become less reliant on those countries further financial stimulation should increase and enhance production and demand for the internal market. In this way the next opportunity to become a real outlier will, can and should be created by China itself.

Chinese culture

5. 1 Cultural dimensions

Hofstede (2005) uses the following 5 dimensions to identify national cultures;

Power distance index:

This index reflects the emotional distance that separates subordinates from their bosses. In small power distance countries there is limited dependence of subordinates on bosses, and there is a preference for consultations. In large power distance countries there is considerable dependence of subordinates on bosses. Subordinates respond by either preferring such dependence or rejecting it entirely which is known as counter dependence. In this case emotional distance between subordinates and their bosses is

large; subordinates are unlikely to approach and contradict their bosses directly.

Individualism Index:

This dimension shows if a country or a group has an individualistic or collectivist attitude. Individualism pertains to societies in which the ties between individuals are loose; everyone is expected to look after himself or herself and his or her immediate family. Collectivism as its opposite pertains to societies in which people from birth onward are integrated in strong, cohesive in-groups, which throughout people's lifetimes continue to protect them in exchange for unquestioning loyalty.

Masculinity index:

This index distinguishes a culture in being a Masculine or a feminine culture. A society is called masculine when emotional gender roles are clearly distinct: men are supposed to be assertive, tough, and focused on material success, whereas women are supposed to be more modest, tender, and concerned with the quality of life. A society is called feminine when emotional gender roles overlap: both men and women are supposed to be modest, tender, and concerned with the quality of life.

Uncertainty avoidance index:

Uncertainty avoidance can be best described by the extent to which the members of a culture feel threatened by ambiguous or unknown situations.

Long term orientation index

Describes the difference between long term versus short term orientation within a society. Long term orientation stands for the fostering of virtues oriented towards future rewards in particular perseverance and thrift. Short term orientation stands for the fostering of virtues related to the past and present in particular, respect for tradition, preservation of face, and fulfilling social obligations.

5. 2 China's score on the five dimensions

Figure Source: http://www.geert-hofstede.com/hofstede_China.shtml

Implications of Hofstede's Theory on China

Hofstede's analysis of the Chinese culture shows us that Chinese has an extreme value for long term planning and a very low value for individuality. Before discussing the implication of these values I will put it in perspective with the Netherlands and another economic super power the United States to represent the well known western culture.

Figure Source: http://www.geert-hofstede.com/hofstede_dimensions.php

Apart from masculinity and uncertainty avoidance our cultures are miles apart.

Power distance: The Chinese culture has much power distance, this results in a work situation where orders are executed right away and not questioned. Creativity among employees is low and decision making and strategy of companies is decided by the top management. The leaders are always right.

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Individuality: this factor is really low compared to our standards, the Chinese think about the greater good, the family, the community, the country. All of those are more important than the individual. Subjects like family honour and country prosperity are very important. I'm not sure if the collectivism comes forth out of the decades of communistic regime or out of the sheer need of collective work as a family on the labour intensive rice paddies? What I'm certain of is that this attitude and cultural aspect makes this country a very workaholic country where everybody is ready to work for long hours without complaining.

Masculinity: Compared with the Netherlands, China is a very masculine country. Individuals feel that they have to show their masculinity with a clear distinction between male and female dominance. Males are dominant in China and this is strengthened by the one child policy. Due to this policy having a boy is very important as he is stronger and will continue and keep the family line going. Chinese also expect that a boy is more capable of taking care of them when they are old than a girl.

Uncertainty avoidance: This dimension is very low in China. This could come forth out of the planned style of governing in China. Most of the Chinese are dictated what to do and are not rewarded or stimulated to show creativity or initiative. They expect to be told what to do and when, without having a certainty or involvement in the decision what to do next. As a result this aspect is fully embedded in the whole culture and other aspects.

Long term planning: Chinese have a very history of long term planning; dynasties have ruled the country for centuries and build the empire with a

long term vision in mind. Strengthened by low individualism the Chinese people won't go for quick wins but seek merit in the greater good and prosperity of the family and country.

Implications of the cultural dimensions

Combining these dimensions makes the Chinese culture very suitable for mass production of for instance western consumer goods. The attitude to work and obey orders makes decision making, company transformation and scaling very efficient. These dimensions in combination with long term government planning makes China able to completely tailor its country to suit western demand.

Coming forth out of centuries of history the Chinese culture has always been one of hard working for the greater good. It took for instance a whole family to grow enough rice on their rice paddies and making mistakes would jeopardize their harvest and amount of harvests per year. A part from masculinity which has the least to do with working long hours the whole culture is focussed on obeying orders and working for a greater good decided by people on top of the communist party or top management of the company.

This culture forms the basis of the Chinese economic growth of the past decades. Having the right attitude embedded in their culture the Chinese workforce is prepared and willing to serve as the supplier/producer of the world.

Conclusion

6. 1 How has the Chinese economy evolved in contrast with the world economy?

In the past two decades China has proven that it is capable of extra ordinary economic growth. During those years the whole country has been transformed to become the manufacture of the world. China has used its skills, capacities and resources to its best advantage and has changed its foreign policy to support its goal to become an economic super power.

On the other hand we can see that the advanced economies gave China the opportunities to take over the work traditionally done nationally. So due to the advanced economies drive to reduce cost and maximize profit much work has been transferred to China.

In short, the combination of Chinese resources and western welfare and strive for cost reduction has lead to an incredible economic growth of the Chinese economy.

6. 2 Which cultural aspects could give the Chinese work force their ability to become an economic super power?

Apart from having the resources in the first place the Chinese culture and in particular, power distance, individuality, uncertainty avoidance and long term planning has created an attitude that made China a unique and very suitable country for mass production. The culture in combination with the communistic regime makes the Chinese people capable of rapidly tailoring their country and companies to suit Western demand.

In my opinion the culture in China is one of the main factors that help making China an economic super power. I doubt that this government creates the best circumstances for its people but in striving towards economic dominance the culture in combination with communism is deadly efficient.

In short, the cultural aspects have great effect on the success of the Chinese economy. The effect is strengthened by the communist government which uses the cultural dimensions very efficient.

6.3 Combining the outlier theory with the cultural dimensions

M. Gladwell refers to people like Bill Gates when they refer to outliers. Bill Gates was a very intelligent boy with among other interests a healthy interest for technology. Back then being able to spend time on a computer was very unique, computers were still very expensive incredibly big. Only few people were allowed to use them and only one at a time. During that time Bill Gates grew up in a neighbourhood where a lot of the early computer programmers lived. Also Bill went to a private school which coincidentally was one of the first to have a private computer for their students. And in addition later at university a mother of a friend of him allowed them to use a company computer during night.

What I'm trying to illustrate is that although Bill Gates might have been a very bright student with a lot of persistence and interest in computers, he was offered dozen of opportunities to educate himself and gaining computer

skills which eventually lead to the big success of Bill gates in becoming the richest man in the world and a true outlier.

Obviously China is not one person, but I think you can see a lot of similarity in their path to becoming an economic super power compared with the young student becoming outliers. If we look at China like a Young genius back in 1980 when Deng Xiaoping introduced his four modernizations we could say China already had the brains in the form of an incredible big population willing to work. We could compare the Chinese culture as being the persistence and the will to be educated and grow just like young Bill Gates with his interest for computers. And finally we are able to identify the numerous opportunities China was given in ways of western recessions, greed and strive for profitability. During these opportunities advanced economies moved their labour intensive work to China.

Hofstede has given us a framework to compare national cultures and the conclusions we can draw from our comparison is that the culture is incredibly suitable for the type of production work China is taking over from the western advanced economies. Although this culture and resources has been present for centuries it were the four modernization of Deng Xiaoping that kick started the decades of growth allowing China to become the manufacture of the world it is now.

Personal note

I have not conducted a scientific research to write this essay. This essay was based on my own experience in China, what I've found on websites like the Financial times and the International Herald Tribune in combination with

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figures from the international monetary fund and the two theories in the books from Hofstede and Gladwell. As a result I could have made wrong assumptions so this essay should be perceived as merely my observations and interpretations of the theories.

Also, I did not include any controversial topics as human right and quality of life which deserves a report on its own. My report is based on countries and China as a whole and not the individual.

Appendix