Productivity, efficiency and economic growth in china

Business

When the People's Republic of China decided to shift from its fixed exchange system to a floating exchange rate system in June 2010, there were speculations that this move will have a devastating effect on the local and international market.

The situation of the renminbi was compared to that of the Japanese Yen in the 1970s and 1980s, where a great degree of slow economic growth was experienced. Even though there have been earlier instances where the renminbi has appreciated against the dollar, it is argued that those cases were only for a limited duration of time and that this was caused by a boom in the world economy. A study of twenty seven other countries who have exited from the pegged exchange rate system after the Second World War reveals that these countries did not face any major economic breakdowns. The following key business sectors remained unaffected: the banking and financial sectors experienced little if any crises, there was no significant decline in stock market, the current account remained intact and the investment rate did not go down. The above reason clearly indicates that the appreciation of the renminbi against the dollar as a result of dropping the fixed exchange rate system does not necessarily mean that the country's economy is at stake. As much as there may be mild evidence in support of weak economic deceleration, the Chinese authorities should have nothing to worry about because these are only minor occurrences.

A move away from the pegged exchange system can lead to appreciation against the dollar or on the other hand, depreciation against the same. Whichever way, there is a probability of an effect on the market and foreign exchanges. Appreciation against the dollar is the most likely circumstance to happen to the renminbi. Of all the exits from the peg exchange system, only ten cases involve exits that led to the appreciation of the dollar against the currency of the country involved. Twenty other cases involve currencies that appreciated against the dollar.

Because these countries share a lot of economic similarities with China, it is most likely that China will soon be joining this group (Wu 2006). A good example of this is Hong Kong, Japan, Mozambique and Singapore. All these countries listed above experienced tremendous economic growth before their withdrawal from the pegged exchange rate system. China is equally in the same position that these countries were close to four decades ago. With its large population, the country has witnessed a spontaneous economic growth that surpasses even those of the countries used in the sample.

All the countries used in the sample had a high growth before exiting form the pegged system. It is estimated that these countries have a growth rate of about 5. 6 percent, compared to the growth rate of other countries which stands at 4. 1 percent. The fast economic growth is attributed to factors such as faster increase in both exports and imports and high rates of savings and investments. Although there may be some differences in the growth rates, China hares a lot with some of the countries included in the sample.

It can therefore be prudently concluded that this country may go through exactly what the other countries went through when they dropped the pegged exchange rate system. One major difference is the level of inflation, which happens to be high in China at the moment compared to the level of inflation of the sample countries before and after they had dropped the fixed exchange rate system. The Gross Domestic Product (GDP) growth rate also changes considerably following an exit from the pegged exchange rate system. For example, the average GDP growth rate of the sample countries dropped after the exit. Before the exit, the average growth in GDP of the sample countries stood at 5. 6 percent.

Five years later, it was at 4. 4 percent. China's growth rate is equally high at the moment, and it is with no doubt that it is bound to slacken in a few years' time. China's exceptionally higher rate of exports is the only difference between it and the sample countries. Other more crucial similarities make it possible to foretell the economic future of China from that of countries with similar characteristics to it and that unpegged their currency.

From the study of the twenty seven countries, it can be discerned that exiting from the fixed exchange rate system does not really affect the economic status in the country. If it does so, then it happens on a very small scale. The economic growth slows on average, with a value of about one percentage point. Major sectors of the economy such as investment and inflation remain unaffected by the exit from the pegged exchange rate system. It is therefore certain that such exits do not in any way contribute to the economic deterioration of a country.

The impact of these exits is almost unfelt in macroeconomic and financial performances of a country's currency. The economy of a country does not suffer a crisis once the country abandons its pegged exchange rate system. These crises come in different forms, such as banking crisis, balance of payment crisis, equity market crisis and a sudden stop in the inflow of capital. Should any of these crises show up, then it will probably be on a small scale and won't last for long. Another thing to consider is that at other times these crises can be caused by external factors that are independent form the exits.

These external factors may influence the economy of the country at a time when it has just pulled out of the pegged exchange rate system. The effects of these factors should not be counted as effects of the exit. Appraisal The article discussed above has a number of strengths as well weaknesses. The strengths enhance a better understanding of the text while the weaknesses portray a sense of ambiguity that makes it difficult for the reader to comprehend whatever he or she is reading. This section of this review will focus on discussing what the author has managed to convey successfully to the reader.

In addition, it will also look at the flaws that have undermined the significance of the article. p; First and foremost, the article is saturated with real facts and figures that lend credence to the rest of the article. The information provided gives the reader an impression that the author of the article must have researched widely on the topic and whatever is written is the best one can ever get on the topic. The facts and figures also satisfy the reader's quest for knowledge. The reader is left satisfied with all that he or she has read.

In fact, after reading this article, one needs not to look for additional resources on the same topic. The article comprehensively and exhaustively explains all possible questions in the reader’s head. The reader is guaranteed that by the end of the story, he or she would have found all the answers to questions relating to that topic. In addition, the entire article is written in such a way that it is easy for the comprehension of the reader. The author has employed an appropriate choice of words that best describe events and circumstances in the article.

The language used is also clear and easy to be understood by the common reader. All the interests of the readers have been taken into account. The article has been written to suit all the age groups. In contrast to other literature that may exist on the same topic, this article is different because it arouses the same desire to read more in both young and old. One of the major setbacks of the article is the occasional use of jargon by the author.

Some of the terms used in the article can only be understood by someone who has at one time sat in a business class. This limitation inconveniences a reader who is eager to gain the information and yet is not in a position to understand anything that he or she is reading. The result of this is that the article ends up with a reduced audience comprising of only those who can understand the jargon used in the book. The graphs used can also be read and interpreted correctly by only a few people who have had the chance to study them in class. Though they appear simple and straightforward, theses graphs are a serious hindrance to readers who lack personal interest in such drawings.

The reader may be one who hates graphs so much that he or she would put away the article all together because of the graphs drawn at the end of the article. This also contributes to the reduction of the audience of the article. In conclusion, the article above has quite a number of strengths as well as weaknesses. The main strengths of the article are that it uses actual facts and figures and that it uses an appropriate choice of words. The strengths help the author to achieve the sole purpose of communicating the message to people.

The weaknesses include use of jargon and graphs which may not appeal to many readers. The jargon and graphs scare away reader who will sort after alternative resources on the topic. All in all, the article is a good educative piece that leads to a detailed understanding of the economic status of China before its decision to abandon the pegged exchange rate system and what could possibly happen in the future of the country’s economy.