

Contemporary china's socio-economic problems



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Race to the bottom

The first part is to show that the race to the bottom is the crux of contemporary China's major socio-economic problems. Firstly, we can see the nature of the race to the bottom phenomenon and put forth a basic principle, i. e. a race to the bottom is caused by marketization (or market integration) in conjunction with regulatory decentralization. Therefore, to eliminate the race to the bottom problem within a common market there must be centralization of regulatory power and harmonization of regulatory standards. According to this principle, China's marketization reform of the past 30 years that features fiscal and administrative decentralization has led to a race to the bottom among China's regions in a fundamental sense. We can also see that the race to the bottom concerning labor standards has profound negative macro-political-economic consequences. We then discuss by turn the major socio-economic problems facing China, to show that the crux of them all is the race to the bottom. And there 5 main factors cause this: 1 worker wages down, a serious imbalance in the distribution of income; 2. Insufficient domestic demand, the economy faces continued deflationary pressures, the employment situation is grim; 3. Economic growth is heavily dependent on exports of processing trade and foreign investment, trade disputes frequently, export-oriented development model is unsustainable; 4. Environmental pollution, food safety and safety issues; 5. lagging development of local private enterprises, independent innovation fatigue.

It explores that the political economy of China's export-led growth using a simple numerical model. We argue that since the 1990s China's export-led

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growth strategy has gradually turned into a model that largely relies on “ racing-to-the-bottom” (RTB) – strategic lowering of production standards – for achieving cost-competitiveness and income growth, a so-called “ RTB growth model”. RTB has led to spurious total factor productivity growth and undervaluation of the RMB real exchange rate, spurring export and fueling strong growth in national income which we call “ RTB-rent”(Tang 2012). However, this RTB-rent largely accrues to the government and government-related special interest groups with stagnant real wage growth, as reflected by China’s heavy macro-tax burden and severe income inequality. The skewed income distribution in turn helps to maintain the undervalued real exchange rate by depressing internal consumption demand. If RTB is eliminated, then the existing level of China’s macro tax burden will almost certainly cause a spike in the RMB real exchange rate, jeopardizing its export-led growth

Race to the top(based on Friedman’s)

When the topic changed into “ race to the top” , first mind is offshore outsourcing. Offshore outsourcing is when a company transfers its production from the home country to another country(Friedman, 2006), where it can be used to “ lower taxes, cheaper labor, subsidized energy, or lower health-care costs” (Friedman, 2006). This is different from outsourcing, in which the company takes one of its peripheral tasks and has another company handle it(Friedman, 2006). Offshore outsourcing is what people in the America complain that when they complain of manufacturing works moving to China. However India has become a center of knowledge-industry outsourcing (Bardhan, 2006), and China has emerged as a center of manufacturing

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outsourcing. The cost savings of moving manufacturing to China are so big that if one company starts to move its manufacturing to China, the only way for rival companies to survive is that they can shift their manufacturing to China.

Friedman cites an expert who advises American companies, " If you still make anything labor intensive, get out of it, rather than bleed to death" (Friedman, 2006). Offshore outsourcing to China took off relatively recently, on December 11, 2001(Friedman, 2006), when China joined the WTO and international companies felt safer to operate in China. It seem that the main reason that China is so attractive is that its labor market is very cheap. This has led to companies in other developing countries , trying to cut their wages to remain competitive, driving down wages for all non-skilled workers in the developing countries to maintain a competitive with " the China price." Needless to say, the human costs of this process can be devastating. The fact that Chinese wages have such a big impact on the wages of workers around the world can be considered as another example to describe how the world has become " flatter."

In Friedman's opinion, he warns that too much focus on the " race to the bottom" of wages may blind us to an even more unsettling development: China's race to the top - their encroachment into the high-skill manufacturing of items like computer processors that were at one time only able to be manufactured in First World countries because of the workers' education and training requirements. This is one point that Friedman stresses in his book: The real money is in the creative design rather than manufacturing. China sees its low-wage manufacturing jobs as a stepping

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stone to dominating all stages of production, especially design. As soon as China's education system will catches up with the America's, expect to see wages of highly skilled workers fall as they begin to compete against international workers who will do the same work for less money. To remain competitive in the knowledge industry, America needs to put more resources into research and education. Currently, American children are falling far behind Asia's in their math and science areas. This must be reversed or we will be like a big trouble in the future.

Finally, It also would be a mistake to ignore some of the positive consequences of offshoring. By moving their production overseas, American companies are able to sell the same productions to consumers for a lower cost. Friedman cites a 2004 Morgan Stanley that estimated that offshoring to China has saved American consumers \$600 billion since the mid-1990s (Friedman, 2006).

Race of the bottom again

As *The Travels of a T-Shirt in the Global Economy* examines the success of the textile industry and the effect of the "race to the bottom," it becomes clear that the success of the textile industry in China is largely based on access to desperate rural workers seeking a better life in the cities. As outlined in the book, every single nation that has been the location for major textile factories won the race to the bottom, at that time, and China is just the newest member.

This got me to wondering, how does one "win" the race to the bottom for any extended period of time? Well, the key is having an unlimited supply of

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rural workers, but also keeping the existing urban population from pushing for better working conditions and other improvements that would end up hurting the industry. Achieving both of these goals is critical to China's success.

China has a very large population and uses their numbers to their advantage. What they are able to do through the houku system is leverage their sizeable population by keeping a good chunk of it under the government's thumb and economically hindered. This is basically the ideal situation. In this way, China will be able to keep the competitive edge over other nations.

The other key to Chinese success is the intimidation the government uses to keep the city population from possibly ever questioning its policies. This is critical since the western path to modernization has an interesting plot twist that involves the urban middle classes championing the causes of the poor and powerless while subsequently challenging the current government's abuses. This, naturally, is what China fears and they will stop at nothing to keep this from happening - if you don't believe me then look at Tiananmen Square.

Intimidation and exploitation are the name of the game for the Chinese government. And so far it is working, and I think that so long as the urban population can be kept under the government's thumb and the rural population can be continuously tempted by the prospect of a better life, then China will have solidified its place at the bottom of the wage pool and will secure its position as the world's manufacturer. cut. We need a new " Race

to the Top” that will hugely incentivize businesses to embed workers in universities to teach — and universities to embed professors inside businesses to learn — so we get a much better match between schooling and the job markets.

Hence, the solution to these problems lies in the proper management of the race to the bottom both on the domestic and global level. Specifically, to eliminate the domestic race to the bottom, China needs to re- centralize its regulatory power and institute common regulatory standards. On the other hand, to better cope with the global race to the bottom, China needs to adopt a strategy of selectively “ quitting” the economic globalization (e. g. following a more internal-demand- oriented development model) and play an active and responsible role in the international effort to contain the global race to the bottom (e. g. harmonization of labor and environmental standards)

References

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