Implications of china's rapid economic development

Global firm and global business environment

If current trends continue, China may be the world's largest economy by 2050. Discuss the possible implications of such a development for:

The world trading system

The main implication of China's economic rise is that China has become a major engine of global economic and trade growth. From 2000–2005, China's economic growth has averaged 9. 5 percent in real terms; but its imports have tripled from $225 billion in 2000 to $660 billion in 2005 (Bergsten et al, 2006). As a result of this, China alone has accounted for about 12 percent of the growth of global trade, an impressively high share given that in 2000 it accounted for less than 4 percent of global trade. Indeed, although China's economy is a small fraction of that of the United States, in the first half of this decade, China's trade grew so fast that it contributed half again as much as the United States to the expansion of global trade. As a result, should China's economy begin to approach, and even overtake, the United States as the world's largest economy, global trade would potentially see a corresponding, albeit disproportionately, large increase in size.

However, running counter to this is that China's massive trade surpluses, most notably a $202 billion surplus with the United States (Bergsten et al, 2006), hugely exacerbate political frictions in several developed nations. This has led to pervasive pressures being brought in many countries to reduce their dependence on cheap, labour-intensive Chinese imports; and to redress the balance of these surpluses. Should China's economy grow to surpass the US, these pressures may become unbearable, and protectionist measures may win support in many nations. This would undoubtedly harm the global trading system however it would be likely to make a fatal impact because, as several countries have found with the US, if you want to participate in global trade, you have to be willing to deal with the biggest economy.

The world monetary system

China's monetary policy currently presents two major issues for the world monetary system. Firstly, due to China's fixed peg to the U. S. dollar, the renminbi has depreciated on a real trade-weighted basis since the start of 2002 when the value of the dollar began to depreciate significantly when compared to major currencies such as the euro (Bergsten et al, 2006). Second, even though China's productivity growth has slowed somewhat in recent years, the fact that it still exceeds its trade partners' average, when combined with the artificial peg to the dollar, makes its goods disproportionately more competitive in global markets.

As China's economy grows ever larger, and the US trade deficit continues to worsen, the demand for the dollar will fall further. This, combined with China's position as the country with the world's second largest surplus country, should lead China to allow its currency to appreciate against the dollar, and thus transition to a growth path driven more by domestic consumption than by farther increases in its external surplus, which is already far too large for the rest of the world to accept. If China were to allow its currency to appreciate significantly it likely would lead to the desired general appreciation of Asian currencies relative to the dollar, and would thus increase China's importance in a world monetary system no longer dominated by the dollar and the euro. Moreover, if China allows the renminbi to appreciate, it reduces the risk of stimulating a harmful protectionist response in the United States, and perhaps elsewhere.

The business strategy of today's European and U. S. based global corporations.

As China's economy becomes ever more important, global corporations will have to deal with China and Chinese companies and consumers if they wish to remain globally competitive. However, China's internal competitive pressures will grow ever stronger, with several firms manufacturing similar products and local firms becoming stronger players. Consequently, before a multinational firm can introduce a new product to China, it must first evaluate every aspect of its homegrown marketing strategy to see where adaptations may be necessary, especially if a firm is entering China with a culturally specific product, such as automobiles, foods or clothing (Dayal-Gulati and Lee, 2004).

As China's cultural norms are so different from those in the West, global corporations will increasingly create whole business divisions devoted to tapping into the Chinese market, and will seek strategic alliances with local businesses to benefit from their knowledge. Equally, as China's economy grows, increasing numbers of global corporations will begin basing more of their operations in China to take advantage of the strength of the local economy and the relatively low wage rates. However, this will not necessarily be a fundamental shift, and will likely fit into many of these corporations' existing global strategies of having separate offices for Europe, America, Australasia etc.

Global commodity prices

China's rise has important distributional implications for the global economy. Its massive exports of labor-intensive goods have led to significant declines in the relative prices of those goods. This, in turn, has put downward pressure on the relative wages of unskilled workers, even in advanced industrial economies. The other side of the coin is that China's imports are mostly skill- and capital-intensive investment goods, and commodities. Thus China's burgeoning import demand is raising the relative wages of skilled labor, the profit share of output, and commodity prices. Should the Chinese economy grow to match that of the US, without shifting its balance away from labor-intensive manufacturing, global commodity prices could rise significantly as Chinese demand for these commodities continues to rise.

However, as China's economy continues to grow, and if political resistance to its export policies remains strong, China may well look to shift its economy away from resource heavy manufacturing, into the skill- and capital-intensive investment goods and services. This shift may also be driven by China's desire to reduce its dependence on the US, Japan Taiwan and South Korea, who supply almost 45% of Chinese imports, primarily electrical machinery and professional and scientific equipment (Economist Intelligence Unit, 2007). Again, in this area it may be political pressures, rather than economic, that prove to be most pervasive.

References

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