

# Free protectionism in term paper sample

[Business](#), [Marketing](#)



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## **Abstract**

A vast contraction in world trade and the global economic environment leads to the financial crisis experienced today as countries fight for market share in the international trade. Most governments face pressure from their neighbors to create wealth and jobs creating a complex system governing commerce between states. The above situation creates desperate times that lead into desperate protectionist measures (Wyk 1). China fears protectionism having experienced the biggest ever financial crisis in 2009, and struggled over years to build its economy to its current position. China recorded 8% Gross Domestic Product (GDP) growth in 2009, a situation attributed to falling exports. The World Bank estimated China's export to have fallen by 12. 4% in 2009 dragging the net annual GDP growth by 3. 4 per cent. These situations were caused by strong and competitive environment in the China's manufacturing industry. With the increased

economic growth, China expects to continue increasing its international market share each year (Bown, Chad and Chad 112).

## **Introduction**

The financial crisis has put the world in a very critical moment and the financial experts have not come up with a concrete solution to end the problem in some countries to date. Since the United States financial crisis of 2008-2009, the global economy has been experiencing stagnated growth that is causing the instability in the China fiscal policies. China is one of the nations that have faced an extended period of financial crisis with low economies and frequent borrowing from other states. Financial crisis is identified with loss of credit markets confidentiality. The financial crisis evolves to a liquidity crisis which spread to sub marine mortgage markets. Even though the current global financial crisis is natural, the debt crises experienced in China have gone to an extreme. The crisis led into real shocks in the monetary union because of the external competitiveness and market trade organizations. The integration of the traditional and capital market banking in China is contributing to increase in protectionism (Cuthbertson and Nitzsche 8).

## **Background**

China has experiences a few developments in the international economies that have elicited some interests in the recent years. China is one of the biggest trading and manufacturing center in the World with over one million business enterprises running from the area. The country has recorded a high rate of economic growth because it adopted more liberal economic policies

under the leadership of Deng Xiao-Ping during in early 1980s. Before then, China had experienced a period of financial crisis that extended beyond borders affecting other countries like United States. Moreover, the European financial crisis had a bigger impact on China economy because they depend more on European countries for exports. Despite these challenges, China has transformed its economy from a poor nation into one of the world's biggest supplier of labor-intensive manufacturers. Once it completes its quest to join the World Trading Organization (WTO), China will fall in the ranks of world trading nations.

The financial crisis has put the world in a very critical moment and the financial experts have not come up with a concrete solution to end the problem in some countries to date. As China tries to enter the international economic institutions and global markets, the growing awareness of external factors is shaping the regulatory structure, policies and laws that govern China's economy. In addition, a further economic integration into the global trading and investment systems would serve best if combined with economic liberalization as observed by external economists. Lack of openness in the China's economic situation has the capability of entrenching domestic factors. China entry into the WTO serves as a way of transforming its economy. The protectionist elements of China's evolving economy are explained with a close link between economic openness and its participation in global economic institutions in a more accurate manner. Moreover, the economic integration has introduced diversification of interests within Chinese government and the introduction non-governmental advocates of economic openness (Zeng 24-26).

## **The analysis of the issue**

### Economic interests involved

On October 11th, the US senate passed the Currency Exchange Rate Oversight Reform Act, aimed at allowing any “ misaligned” currency is termed a subsidy subject to countervail. The following bill has faced many variations since 2003, but none has gone through. The current economic status in China has the capability of reversing the act because republican leaders have already resisted from voting on a similar bill in the future. The above act seemed as if the US senate wanted to threaten the action of other nations and create trade barriers with them. China, however, passed bilateral trade act with Colombia, Panama and South Korea. The rising productivity and cheap Chinese imports have contributed to the decline of American manufacturing jobs as public support for free trade takes stand. US’ s resentment of china has expanded as its economy slows down while China’s economy expands drastically.

The Chinese debt crisis created a lot of impact on the financial markets. With the ongoing debt crisis, the debate on the role of credit rating agencies during such crisis, and the relationship between differing financial markets was renewed. The financial crisis led to the spread of the sovereign bond and credit default swap (CDS), creating a lot of pressure on the stock markets. The 2009 China financial crisis achieved a high degree of financial integration on the international trade markets. The World Bank also introduced financial regulatory measures aimed at fostering the European financial integration (Blundell, Wehinger, and Slovik 15-17). Nevertheless, some economists came together and to debate on the sustainability of

China's current rates of export growth and GDP. The shortcoming on China's social market economy attributed to the inability of the government to raise adequate revenue through taxing new private economy. In addition, the government has faced a problem in reforming state owned enterprises and non-performing loans problem in Chinese banking sector contributes to low current rates of GDP and poor export growth.

Money markets are essential in determining the financial status of individual investor or a nation. Investors have a belief those bank accounts that are lower yielding even though they are not protected. The US dollar has been high in value than the Chinese Renminbi, from the beginning of this crisis. This strong dollar has led to prices of goods being less competitive hence minimizing the US exports hence slowing the economic growth. This has led it to make it import more than export. The Chinese currency has created segmentation between the rich and poor banks, and fragmenting many nations. The 2009 China financial crises have created many stresses on the money market. It has introduced increased interest rates that have led into declined market activities in different market segments. The impact of debt crisis on the money market leads banks into borrowing loans from Central Bank funding, which end up becoming the intermediaries of bank-to-bank transactions.

America and China have been on crisis for a very long time, a reason why US passed the Currency Oversight Exchange Act. The following act was not constitutional because it contained many legal flaws. WTO never recognizes undervalued currencies and illegal subsidies, instead considers them as part of a country's monetary sovereignty meant to be dealt with by the

International Monetary Fund. The effort by the US government to silence Chinese currency never made progress because China joined WTO, which could protect it from America's harassments. America had a believe that by the time WTO rules against the currency act, it would have acquired most of China's imports and enjoyed free trade for some years. American consumers, however, were denied cheap products because China retaliated.

An increased protectionism is also evidence in the World Bank-sponsored Global Antidumping Database. According to a report published in Q3 2009, all WTO member governments initiated forty four new products-level investigations because of imposition of import restrictions like global safeguards and antidumping. This number represented a 52. 6% increase as compared to the value obtained earlier that year. A continued number of such request in the first four months of the year 2009 made it rose by 30. 3% compared to the same time in 2008. Most countries target for imports from China, but the Chinese industry demands for new import restrictions to promote protectionism (Wyk 3). The fracturing of China economy has the probability of increasing the inflation rates leading into increased market costs of commodities. If the country allowed this to continue, it could cause pressure among countries that depend on China for imports.

## **Recommendations**

In order to overcome the above named problems and issues, China needs to do some of these recommendations. Firstly, the government should come up with effective policies governing the importation of their industrial products to other states. China produces almost half of the world's imports and stands a better chance of improving its economy by a double digit. By entering

WTO, China should form treaties with member countries to develop a standardized trade union that will enable every state enjoy the right to take care of their resources without any external forces. The presence of financial crises resulted into the fall of many countries' money market, China being the most affected. These effects cropped into other countries especially the developing ones who depend on China for imports. Most financial institutions in China became bankrupt because of currency subsidy, a move by Americans to sabotage China.

Secondly, China should come up with different strategies to overcome the forces from other developed countries like US and UK in winning the competition in the international trade. The fact that China's currency is low in value does not make it to blame for the fall of WTO trade. Even if its currency is low, it contributes to subsidies on favored domestic industries and discriminates against foreign ones. Other countries such as South Korea, Japan and Asia who share the same fate should discriminate against foreign sectors like transport and energy in order to force neighboring countries surrender their technology and prevent intellectual property theft.

On the other hand, downgrading the Chinese currency has the potential of increasing the inflation rates resulting into increased marketing costs and high commodity prices. If the financial crisis that faced China in 2009 were to continue, the country could be one of the most dependent nations in the world bearing in mind its population. China, however, can ensure its economy and that of other countries, like Japan, grows significantly by entering into agreements with WTO member states willing to conduct a free and fair trade. China should focus of investing mostly for the purpose of



processing trade and not ordinary trade. Under the processing trade, intermediate inputs will be imported, incorporated to other products and exported again. The interest will be on foreign exchange in order to sell back products to China. In following this strategy, the country will have more exports that imports making its economy grow and increasing the value of its currency to compete with the US dollar in the financial exchange market (New report 3)

## **Conclusion**

Financial crisis have affected many nations in the world who have suffered multiple debts as they try to stabilize their economy. China fell in the same trap, and as discussed above, forces from neighboring countries like US contributed to its fall. Before the 2009 China financial crisis, the country ranked among the top exporters in the world. After the debt crisis, its export value decreased by 12.4 per cent dragging its GDP growth rate by 3.4 per cent. China can reconstruct its economy by following the above mentioned recommendations and working together with WTO members. In addition, China's huge manufacturing firms have the capacity to create a high competitiveness in the global market and make it raise its economy to the highest level possible.

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