

# Effects of international trade on the chinese economy



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China is the fastest emerging economy in the world and is also referred as a BRIC economy. BRIC is a term coined by a US investment bank in the year 2001 to refer to the four countries in the world which are Brazil, Russia, China and India. According to Goldman Sachs these four countries will become major economic powers in the world over the next thirty to forty years. They had also forecasted the size of GDP (Gross Domestic Product) of these countries which can be seen in the table below. (www. tutor2u. net)

International trade is a key component of economics and is the one that has played an important role in the growth of China. The forecasts made by Goldman Sachs will only be realised if international trade continues to play its part in the growth of the Chinese economy over time. So it is important for one to know what international trade is when reading this essay.

International trade also known as ‘ foreign trade’ can be defined as “ the exchange of products, services, and money across national borders; essentially trade between countries. When consumers in the U. S. purchase Swiss-made watches, Guatemalan-grown fruits, Chinese-made toys and electronics, Japanese-manufactured automobiles they experience the end result of international trade.” (www. wisegeek. com) The aim of this essay is to explain, why it is important for countries to trade, when and how China fully opened to international trade, and what are the benefits they have and problems they are coming across after opening to international trade.

International trade has been going on in the world for a long-time and one can find much evidence in history to prove this. The ‘ Silk Route’ between Europe and Asia is one of the best examples to prove this. The need for international trade has arisen because the production of different types of

goods and services require different kinds of resources (including economic resources) which are used in different proportions but all these resources are unevenly distributed all over the world and the international mobility of these resources is limited. Land is a major economic resource but it is geographically immobile. Labour is another resource whose mobility is restricted by barriers, there are restrictions on immigration and in different countries people communicate in different languages and follow different customs. Capital is the most mobile resource but its mobility is only possible if favourable conditions exist between countries such as political stability or no threats of confiscation. As it is difficult to move resources between countries so countries concentrate on those activities which require resources which they have in abundance. If the countries who have land in abundance compare to the other resources they will concentrate on producing land-intensive commodities and then exchange these commodities for other commodities from countries who have other resources such as labour and capital in abundance and the process of international trade starts.

China fully opened to international trade when its President Deng Xiaoping announced the 'open door' policy in December 1978, before this China was mainly trading with USSR and its satellites (socialist countries). China had some trade links with the capitalist countries but it was the first time that they had opened to the capitalist economy on such a large scale. So the 'open door' policy refers to the set of policies adopted by China to develop and expand the economic relations with the capitalist world economy. 'Open door' policy also consisted of " a set of subpolicies in the spheres of foreign

trade, foreign direct investment and foreign borrowing.” (Howell, 1993: p. 3)

The term foreign direct investment refers to “ investment, which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor’s country of origin.” (www.economywatch.com) China announced the ‘ open door’ policy because they had realised that if they want to grow and become a developed country they need western investment and technology and they should also open the door to foreign businesses. The first step China took to attract the foreign investment was authorising special economic zones in southern China with incentives such as tax concessions, reductions in land use fees and favourable labour prices. By making these reforms China’s economy took off and since 1980s it is said to be the fastest growing economy in the world. Continuing with the reformation process, in 2001 China joined World Trade Organisation (WTO) with the hope that its membership will help their economic system to flourish more. (Howell, 1993; <http://news.bbc.co.uk>) WTO is a “ 142-member group that makes the rules for global trade. At the vanguard of the globalisation movement, it is committed to promotion of free trade by reducing obstacles such as tariffs, quotas and regulations that slow and reduce the movement of goods between different countries.” (www.factsanddetails.com) China had made all these efforts which have been discussed above and is still making efforts to enjoy the benefits of international trade.

There are many benefits which are associated to international trade like, by doing business with other regions and countries a business or a country learns a great deal about the product development strategies and

technologies, and also there is always an opportunity for them to make more profit, sell more, increase productivity and remove seasonal fluctuations of supply and demand. International trade also leads to more and better choices of goods and services for consumers; increase in competition leads to competitive prices in domestic and international markets which again are good for consumers. Competition will also lead to, better quality products, reduction in unemployment and poverty level and a rise in the GDP (Gross Domestic Product) level. Consequently this leads to maturity and growth of a country's economy including its businesses.

Now if we look at China these benefits of international trade are clearly evident and facts and figures also support this. China has grown at a rapid pace after opening to international trade making it a manufacturing hub of the world. According to some reports between 1990-2004 China's economy grew at an average rate of 10 percent per annum which was the highest growth rate in the world and substantial part of this growth was international trade as 45 percent of growth came from exports. China also has surpassed Germany recently to become the world's second largest trading nation. Total foreign trade in China in the year 2007 was estimated to be \$2. 17 trillion which was an enormous increase from 1978 when total international trade estimated was \$21 billion. (www. wordpress. com; www. factsanddetails. com) It is said that no country has grown so fast in foreign trade. When Japan was growing, its international trade doubled in 20 years but China has been able to increase its international trade 70 times from 1978-2006. According to one report from World Bank in 2001 China contributed 21 percent to global trade growth. This growth in international trade and business activity

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has resulted in a drastic reduction of poverty level. China has been credited by World Bank for lowering the percentage level of East Asian population living in poverty from 80 percent to 18 percent within a time span of 20 years. (www. wordpress. com; www. factsanddetails. com) As more foreign investment has come into the country and as the country has rapidly grown in world trade more employment opportunities have been created reducing the unemployment rate in the country.

Moving on with the benefits of trade, by opening to foreign trade China's technological expertise and firms have been open to increased technological and business exposure and this has enabled China to acquire some highly sophisticated technology helping them to built a number of advanced manufacturing plants producing a large range of sophisticated equipment such as satellites and nuclear weapons making China and its domestic firms more competitive at international level.

Another advantage of trade is that it has increased the variety of goods and services available to the Chinese consumers, and at the same time it has also increased the competition level in the local markets. As multinational firms have entered into the Chinese markets, prices have become more competitive again benefiting the consumers as they are able to buy products at lower prices. This increase in competition due to trade has also helped the local Chinese firms to mature, especially the suppliers, as they are now able to support local firms as well as multinational firms operating in their country or other countries for example Toyota and General Motors who are operating in China as well as Japan but there supplies are mainly coming from the Chinese firms.

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The Chinese government have also been earning huge revenues from trade helping them “ to increase investment in public welfare and social infrastructure,” (www. wordpress. com) and as a result increasing the well being of China and its people. Another advantage China has from trade is that it is not dependent on any single country for its imports and exports which enables it to manage the seasonal fluctuations of demand and supply of the products by switching sources of imports and diverting exports as and when required. Chinese imports were around \$751. 9 billion (2006) from Japan 14. 6 percent, South Korea 11. 3 percent, Taiwan 10. 9 percent, the United States 7. 5 percent, and Germany 4. 8 percent. While Chinese exports were around \$969. 7 billion (2006) to countries as United States 21 percent, Hong Kong 16 percent, Japan 9. 5 percent, South Korea 4. 6 percent, and Germany 4. 2 percent. (www. factsanddetails. com)

However, despite many benefits trade also leads to problems which are not that clear at the outset of trade. Trade is said to increase employment in a country but at the same time it is blamed for job cuts in other countries. As businesses move their manufacturing units from a developed country to underdeveloped or developing countries, they take advantage of weak labour policies, cheap labour, support of the government, and weak environmental policies in those countries. Businesses are in a position to recruit more and as a result they produce more for less in the host countries, but their movement leads to job losses in the countries they had left or they originate from, usually these are developed countries. International trade leads to job losses in underdeveloped or developing countries as well because multinational firms expose underdeveloped and developing

countries to automation (technology) and modernization and to compete with these multinational firms' local businesses start using technology in their operations, requiring less number of people and creating job cuts. Many local and weak firms are also not able to compete with multinational firms in terms of productivity and prices and may lead to closure creating unemployment in the country. However, this also has to be realised that multinational firms will also increase employment opportunities which might be greater than the potential job losses. As the multinational firms take advantage of weaker labour and environmental policies there will be more environmental pollution resulting in environmental and health complications in the host country and in addition to this there will be labour discrimination resulting in weaker social well-being of workers. Firms also have to realise that the intellectual property rights might not be understood, recognised or may be weak in some countries which will lead to problems such as copyright violations, piracy, product copies, and patent violations eroding the brand image (reputation) and competitive advantage of the firms.

If we look at China the problems of international trade discussed above are clearly obvious. One of the major problems existing in China due to trade is labour discrimination. According to a survey 86 percent has said that labour discrimination exists in China's labour market; 51 percent of the respondents have said that it is serious. China's labour market is woefully ineffective and foreign companies are in a good position to take unfair advantage of this. Many multinational firms, for example Reebok, a famous brand known worldwide, have been found guilty, of taking unfair advantage of weak



labour policies, and of labour discrimination. Now even local businesses are taking such advantages. (www. wordpress. com)

Environmental problems have also grown in China along with the trade. According to SEPA (State Environmental Protection Administration) about 130 foreign companies were found guilty of not complying with the current environmental laws in China. Many multinational companies have been, and are blamed for maintaining different environmental standards in their own countries and in China. In fact, companies are taking unfair advantage of weak environmental policies in China and using them as a mean to reduce costs, and if an incomplete regulation system will keep on running in China multinational companies will keep on creating more pollution. Forbes has reported that according to Environmental Protection Authorities, since 2004, 90 multinational companies have been found violating the water pollution regulations. Few famous companies which were mentioned in the report for polluting the water were General Motors, Unilever, Samsung, Pepsi, Pizza Hut and Kentucky Fried Chicken (KFC). The Chinese government has also been blamed for polluting the environment. As China has opened to foreign trade more companies and money have moved into China making it a manufacturing hub but with this increase in companies demand for electricity has increased and to fulfil this demand the Chinese government has been using coal to produce electricity. It is said that coal accounts for 70 percent of the electricity produce in China. This large consumption of coal has made China the largest sulphur dioxide polluter almost emitting 26 million tons of the gas in 2005 which was a 27 percent increase from 2000. The release of this gas results in acid rain which damages crops, soil,

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buildings and create health problems for humans. (www. wordpress. com; www. factsanddetails. com; www. tutor2u. net)

Another problem which has arisen in China is the difficulty in protecting the Intellectual Property Rights leading to further problems such as piracy and copyrights violations. One of the reasons behind these problems is that there is not much awareness about, the laws of piracy and copyrights violations, and that in China infringement is a crime. Another reason for these problems is that the number of firms involved in the activities of piracy and copyrights violations have grown so fast, in large numbers, and have become so huge that it has become difficult for the Chinese government to regulate them.

Unemployment is also a major problem of international trade that is being faced by China. By opening to trade business systems and production techniques have started changing and with time the use of technology has increased creating unemployment in manufacturing industries of China. The Conference Board in New York working with China's National Bureau of Statistics reported that in China from 1995 to 2002 manufacturing unemployment fell from 98 million to 83 million. (www. wordpress. com)

Hence it can be concluded that there are benefits of international trade to China which have helped China to become a major economic power in the world, and has also helped China in tackling many serious problems like poverty and unemployment, but, there are several issues which put forward that international trade has also contributed to serious problems in China, some of which have been discussed above, such as unemployment, labour discrimination and pollution. So to achieve the full potential of international

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trade and to make sure that it really does help in the continuous growth of Chinese economy; problems of international trade discussed above and all the other problems of international trade must be taken into consideration and then tackled efficiently by China.

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