Causes of and challenges to china's economic expansion

As the world adjusts its vision from the Beijing Olympics to a growing Chinese population, the underlying whispers resound with imperialist fears and economic worry. Researchers continue to bolster China's position as the next superpower, yet remain limited by supposition and faulty conclusions. Regardless of China's current size or influence, there is a hierarchical foundation within this world which demands economic and military dominance before offering such a broad title of authority. The fundamental definition of a global superpower evolves from hegemony, or an ability to dictate the policies of other nations, according to Britt (2008). As China flexes its economic muscles, the surface level apparition is one of expansive global control. Yet the question remains as to whether such unparalleled growth is sustainable or simply an artificial boost accelerated by a competitive global market. As wary nations anxiously await a Chinese offensive, economic statistics and researchers demonstrate conflicting results, challenging China's superpower status. In actuality, the multitude of pitfalls and fluctuating economic status will continue to offset China's capacity for ascension beyond its current foothold; and while economists may maintain a wary eye, the future of economic growth is one of stabilization and competition, not domination.

Perhaps the greatest hindrance to China's determined expansion, human variables continue to numerically plague their overtaxed industrial industry. As with historic examples of developing nations, economic fundamentals operating on a strategic and skill based platform in comparison with international competitors are essential to sustaining economic growth. Recognized by Hofman and Zhao (2007) as total factor productivity (TFP), or a measure of how efficiently economies utilize their capital and labor, China's growth rate over the past decade has been inconsistent. While directly contributing to over 40% of labor productivity, only 5% of such growth is contributed by human capital, thereby asserting the Chinese disparity between educational advance and industry expansion. As Chinese businesses continue to partner with foreign firms, the need for skilled laborers, specifically in the field of management and operations, continues to reduce market effectiveness. If superpower definition comes through a broadly recognized economic legacy which is influential and market altering, China will fall far short of this goal as their educational system and impoverished rural participants fall short of leveragable human capital.

Unfolding challenges to China's global dominance evolve from the inherent frailties within their vast but immature socio-economic ecology. The continued pollution of China's urban and rural areas directly influences the health and well-being of the working class, and in spite of industrial projects being placed on hold as environmental goals fall short, current operations further exacerbate the damage (Dollar 2008). As sustainable enterprise rapidly spreads throughout the global community, nations actively pursue carbon reduction schemes and enforce environmental reform legislation. China, represents an at-risk nation given its current sustainability challenges, and as an expanding population is exposed to increasingly harmful conditions substantial overhaul is needed to reduce pollution and improve the health of the Chinese people (Park 2008). Seven of China's major river systems are now polluted beyond life-bearing limits, intoxifying the nearby residents and reducing the available resources for struggling farmers ("

Poison From the Dragon’s Belly” 2008). Given the aforementioned need for a skilled and healthy workforce, the environmental challenges which accost the Chinese people directly reduce their competitive potential within the global community and diminish a human legacy which could have contributed to additional growth.

Perhaps the most widely recognized factor supporting growth in China’s economy since 2000 has been the expansion of the domestic private business, a force once undermined by a capitalist-fearing, overbearing socialist party (Cooke 2005). Such firms demonstrate remarkable adaptability, a trait which continues to sustain economic growth as China diversifies its exports to remain competitive on an international level. Small to medium enterprise has been recognized in countless publications as a method for developing nations to reduce the disparity between impoverished and wealthy classes. Cooke (2008) highlights the improved operational freedom post-socialism, an expanding inexpensive labor force, technological advancement, and a broadening base of Chinese entrepreneurs as the underlying success factors for increasing domestic business growth (p. 32). O’Leary (2007) predicts that by the year 2025, China’s middle class will have expanded to 520 million people representing over half their estimated population. As the majority of China’s GDP arises from export revenue, these firms must be provided with resources to actively pursue international commerce, including continued education and government tax reliefs to ensure that expansion is linked with a global partner network.

If China has been recognized for one industrial trait over the past decade it has been their pursuit of manufacturing opportunities and capacity to offer low cost, high quality products for foreign firms. Tactically, China’s expanded technological sector has been founded on principles of joint venture and technology transfer, rapidly accelerating growth of a domestic knowledge base and advancing the Chinese reputation as the world’s workshop (Vaidya et al. 2007). Unfortunately, this knowledge capital is not readily transmitted among the working class and is heavily guarded within a hierarchical system. The reality is that unless Chinese corporations actively pursue individualized export operations, the influential nature of a growing Chinese economy is reduced. The fundamentals of expansion are based on innovation and competition; therefore, while the continuation of partnerships is essential to maintaining operations, localized efforts will be needed to increase GDP beyond its current limits. China remains a powerful workshop and should continue to maintain this status; however, expanding their GDP base will rely entirely on more competitive initiatives and a strategic effort which is directly integrated into the world marketplace.

There is a substantial dissonance between Chinese operations and their Western partners that arises from operational management practices and the protectionist methods behind distribution of knowledge capital (Meyer 2005). Currently, the limited support for sector based best practices within the Chinese market pushes businesses to innovate and compete without accepting industry standards or expectations. Wang (2004) recognized that there is differentiation between the West and China in terms of knowledge management, specifically highlighted by methods of dissemination and inclusivity. Investing in IT operations and progressive knowledge reform, countries like the US actively pursue broader knowledge exchange among employees. As the Chinese management style integrates an interpersonal cultural relationship, oral communication and inner-circle divulgence become the main forms of knowledge sharing (Wang 2004). Yet such common practices oftentimes limit the ingenuity and innovative potential of Chinese corporations, instead placing emphasis on a control system which views knowledge as a guarded commodity (Peng et al. 2007). Regardless of technique, the lack of proficient management candidates for a growing number of industrial firms hinders expansion at a level which could rival other world powers. Cultural influence by Western organizations undermines that of Chinese culture and rejects a longstanding legacy of hierarchical control systems. Homogeneity lingers as the future for Chinese managers, and their limited understanding of Western practices will inevitably act as a hindrance, reducing the available human capital for growing firms.

As business practices evolve to integrate a global value chain, corporations such as Microsoft and GE Medical Systems are actively sourcing components for US designed products from Chinese producers (Inkpen and Rmaswamy 2007). Transitioning from a national production formulae which expands domestic jobs, firms are pursuing the wealth of low cost resources available within Chinese borders, stretching the value ideology to include acceptance of international distribution and foreign job creation. Multinational corporations continue to seek out business to business partnerships within Chinese borders, defying conventional operation and expanding a field of vision which redefines strategic business methodology (Inkpen and Ramaswamy 2007). Unfortunately, within a frail and oftentimes frustrating Chinese infrastructure, multinational firms actively pursue third party logistics providers to assist with navigating supply chain challenges including transportation and material availability (Mulani 2008). Regardless of expanded manufacturing operations, if firms cannot successfully navigate the difficult logistics of the Chinese interior, the cost basis savings from skill-set outsourcing will be lost. Developing nations must enhance their infrastructure, specifically those transport routes which can best interconnect urban areas or commercial centers. China cannot hope to compete with Western powers as their one seaboard and lack of structural integrity continues to reduce capabilities and the expansion of industry to more rural areas.

There have been widespread concerns as to the financial influence a growing Chinese economy can wield against global exchanges and competing economies. As the development of high tech industries have encouraged rapid increase in venture capital and foreign direct investment throughout Chinese firms, the limited liquidity of the Shanghai and Shenzhen stock exchanges serve as a hindrance to investment firms, locking in profits and limiting returns (Pukthuanthong and Walker 2007). Humphreys (2007) challenges that regardless of China’s expanding military or dominant technological production, the cultural fundamental of harmony which defined the Chinese people should be recognized as an opportunity for partnership and market based economic principles. Undercutting the potential for rapid Chinese ascension to superpower status, the fluctuations within their capital system, lack of banking liquidity, and unproven financial markets continue to reduce external demand for Chinese sponsored investment opportunities. As current government reform measures seek to develop a more complete structural foundation for the growing economy, rapid advances must be made in the financial markets before foreign investors will pursue returns with confidence. It is the foreign direct investment, however, which will offer Chinese firms the opportunity to rapidly expand, and through such growth, diversify their operations and competitive focus. Capturing the world's attention during the Beijing Olympic games was a remarkable step for this once guarded nation; however, retention and partnerships which later evolve will demonstrate a sustained international respect and hopeful commitment to Chinese growth.

There is a final fundamental frailty within the Chinese economy which mitigates global economic dominance and that lies in the linked nature of their current economic structure. Dollar (2008) recognized the economic inconsistencies which have plagued China throughout their history, demonstrating the substantial effect that the global economic crisis has had on the Chinese GDP, reducing growth to 9%, their first time below 10% in over five years. Export economics are based entirely on a supply and demand structure, and as the world continues to navigate financial catastrophe, China's reduction in GDP evidences their reliance on external support mechanisms for consistent growth. Regardless of the internal growth which continues to offset international reductions in spending, there is a limited functional infrastructure from which to ensure that citizens can actively support the national economy. Regardless of industrial growth, the repercussions have not been felt throughout the impoverished population which serves as China's backbone and economic foundation. Long term growth will be leveraged through the inclusion of citizen capital and must be more balanced to allow wealth disparity to realign.

Remarkable evolution has contributed to China's global positioning as the fourth largest economy, generated from an intense industrial focus and the recent allowance of privatized operations. Yet superpower status, while an admirable goal, remains out of reach for this still-developing nation. In spite of concerns from global leaders and theorists, the potential for China to evolve past the US in terms of GDP and begin to dictate policy is simply not realistic. There are currently too many pitfalls which China must over come in the coming decades including infrastructure, environment, and trade imbalance. While Chinese corporations are rapidly pursuing additional modes of differentiation and innovation, their pace cannot match the foundation retained by Western companies who retain countless generations of operating legacy. Similarly, Chinese firms cannot simply operate within their current foundation of manufacturing export. Aggregate growth is a realistic goal over the long term outlook, and founded on a well integrated educational structure, diversified income streams, and active global participation, China will see its status continue to creep towards that ever elusive number one point of power.

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