

China, strenghts,
weaknessess,
analysis and
participation in the
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Currently the globalization plays an important role for the development of the emerging country. There are some countries which contribute more than others on the global growth of economy such as the BRIC nations and especially China which is the emerging country which bring forward the most in the global growth. It is why we focus on the strenghts and weaknessess of china from a politico-economic, social and environmental perspective and also on its geopolitical role in the aim to focus on the future of China and how it can become the first-order global power in the world.

Stage 1: Strenghts and weaknessess of China from a political, economic, social and environmental perspective

Each country being unique, it has strenghts and weaknessess which are peculiar to it. They are defined with regard to the rest of the world. We can distinguish six axes of study (politic, economic, socio-cultural, technologic, ecology, and legal). In this part we will study the politico-economic, social, and environmental factors.

Politico-economic:

Politically, China combines a socialist political regime with the aim of a market economy. In practice, China is a unitary state, where the Chinese Communist Party holds all political power. So with the liberty of trade china can give to the companies the same advantages as western countries but at the same time it is a totalitarianist and communist state in which the labour unions are controlled by the government party so they are not really powerful. In china there is no strike, no conflict because of the lack of

freedom of speech, as a result there is no interruption of production so less unforeseen costs.

As we know, China is one of the countries where corruption is the most present, by consequence the country has a bad reputation. Economic evidence suggests that high levels of corruption significantly reduce the Foreign Direct Investment (FDI), level of international trade, and economic growth rate. By siphoning off profits, corrupt politicians and bureaucrats reduce the returns to business investment and, hence, reduce the incentive of both domestic on foreign businesses to invest in that country.

Moreover, China has been blamed for imposing price dumping strategies to enhance export and to outperform its competitors. Dumping is defined “ as the act of a manufacturer in one country exporting a product to another country at a price which is either below the price it charges in its home market or below its costs of production”(OECD, 2009). It is an unfair competition process which soiled its reputation.

Like big powerful countries, China has means of pressure. Effectively, the payment of commercial invoices are generally made in foreign currencies (in dollar for most of them), as China’s trade balance is positive; it receives more dollars than it pays, and, in the case of United States, China acquires American Treasury Bonds with US dollars. So, China holds a weapon of diplomatic pressure on its commercial partner because the liberalization of so many Treasury Bonds would make the American currency fall.

Relating to military force, the Chinese army is very large and equipped.

China has nuclear arm, submarines, and is a permanent member of the <https://assignbuster.com/china-strenghts-weaknessess-analysis-and-participation-in-the-wto-essay-sample/>

United Nations Security Council. In 2008, a French diary wrote “ The power of the Chinese army worries Washington”(Le Figaro, 2008).

Concerning economical aspect, the authorities have encouraged Foreign Direct Investment towards high technology industries (Business Monitor International, 2006b). In 1978 China started a reform and open policy and has given opportunities for foreign companies looking to do business in China. In addition to that China is more and more involved in the world economy, actually at the beginning of the 1980s, China became a member of the International Monetary Fund and of the World Bank. Later during the same decade, China also joined the Asian Development bank and the General Agreement on Trade and Tariffs (GATT). This registration in these world authorities is synonymous of security for investors.

And the fact that China ratified the GATT had for consequences to lower border barriers and promote cross-border trade and investment. China has become a more open global business market which favours the exports toward the world and the FDI (Greenfield investments, mergers and acquisitions). This has been confirmed by the accession to the World Trade Organisation in 2001, and WTO membership is expected to reduce the price of imported products (EI, 2005a). All these reforms and accessions to world organisations, allowed China to go out from its autarky and to highly decrease poverty. These efforts propelled China in the rank of the largest receiver of foreign direct investments worldwide (BMI, 2006). Economical growth being closely link to the inflows of FDI and its significant flows are an important factor that explains the growth rate of China.

During the next 20 years the Chinese middle class is expected to increase at an astonishing rate, which will mean enormous spending power (The McKinsey Quarterly 2007). This growing middle class would like to have the same way of life as people of developed countries that represents a real opportunity for businesses. With the increase of incomes each Chinese will become a potential buyer for companies.

Despite the rapid development of the Chinese economy, mainland China still displays structural problems in the financial sector. The capital market is under developed and perceived by investors as highly risky, not transparent and loosely regulated (Asia money, 01. 09. 2005). Even with structural reforms, financial actors are still perceived as vulnerable to economical turbulence (Economist, 22. 05. 2006).

Because of the savings rates which are about 40 percent, Chinese people are dissuaded from invest, so they are not a source of growth. Moreover most Chinese prefer savings to investments due to cultural risk and attitudes.

In the past, Chinese government strictly managed the exchange rate to avoid currency risk for financial transactions. Historically, exchanged rate was fixed (based on US dollar price) since 2005 China has softened its monetary policy, nowadays the exchanged rate is almost floating.

Nevertheless Chinese Bank can instantaneously decide to come back to a fixed rate.(sources) This uncertainty can slow down investors and can damage cross-border trade.

About the labour market, China has an active labour population of 737 million. According to official statistics, China's unemployment rate is <https://assignbuster.com/china-strenghts-weaknessess-analysis-and-participation-in-the-wto-essay-sample/>

currently 3.6 percent. However, including under employment and new redundancies from state own enterprises, the figure can be expected to be significantly higher. Due to expected urbanisation and high internal migration, unemployment is likely to increase in the coming 20 years (BMI, 2006b).

However it is necessary to put in perspective because first of all the local market is increasing, jobs are created to please the demand. Secondly to succeed to sell products to Chinese people, companies must adapt them to tastes and preferences of Chinese citizens. By consequence enterprises open research and development centres to adapt product and it is possible thanks to the labour force which become more and more skilled even though a big part of the population has not diploma yet. And to finish a lot of firms still relocate in China, which generate employment. Although China's labour market is limitless in terms of availability of cheap labour, high skilled labour may be hard to recruit (BMI, 2006a).

Actually, labour force is numerous and cheap, it is one of the countries with the lowest labour cost. Cheap labour is one of the four main reasons which attract foreign companies to relocate in China. The huge potential market, the geographical situation (it is a crossroads between United States and Europe) and the abundance of resources are the other reasons.

Concerning taxes and fees, in the continuity of its opening toward the world and to conform to the WTO requirements, since 1990 China has reduced its import tariffs by 40 percent.

China has a dual level tax regime, which differentiate domestic and foreign firms. Some measure has been taken to encourage foreign firms coming in China for example; the state tax rate for foreign companies can be reduced by 15 percent if they are located in special administrative zones.

Furthermore foreign owned enterprises are subject to a three year tax exemption which is followed by another three years of 50% reduction in taxes (U. S. Securities and Exchange Commission Annual Report, 2005).

Value added taxes (VAT) are divided into three categories, a standard rate of 17 percent, 13 percent and 6 percent for small enterprises. Exporters enjoy zero VAT and can obtain VAT refunds from national trade. There is no tax on dividends and 10 percent tax is applied to interest and royalties (Business Monitor International, 2006b). China encourages the setting up of small companies by granting to them a reduced VAT, and it attracts companies by exempting them of exports' VAT. Moreover, without tax on dividends China incites stock exchange investments (because as mentioned before Chinese people tend to save money but do not invest, and china also wants to convince foreigners to be fiscally taking up residence and to invest there). And concerning the royalties the taxation rate is lower than other countries, this motivate collaboration between China and other countries and facilitate the exchanges.

Social:

A study shows that both urban and rural population has a level of welfare which allows them to spend a significant share of their income on non basic

survival requirements. This totally explains why China is beginning one of the biggest potential markets around the world.

China is still late concerning the educational system, actually, the average number of years for schooling in China is 6. 4, which is 3. 6 years lower than the OECD (Organisation for Economic Co-operation and Development) average. In 2000, the illiteracy rate was estimated to be 8 percent for males and 24 percent for females (BMI, 2006b).

China is diverse in many subcultures and the spoken language varies from region to region, trade are being more difficult between them, also because of subcultures needs are not the same, which obliges a products and services adaption for each region market.

Environmental:

Historically, China did not worry about environment, but to face international pressures and to improve its reputation, the 28th May 1998 it ratified the Kyoto protocol (commitment to reduce greenhouse gas emissions: in 2012, they must be reduced of 5, 2% with regard to 1990). Previously China behaved like a poor country, its priority was its economical growth.

Chinese strongly depends on the imported energy and tries to invest in other countries to secure their additional sources of energy. It is a responsible process which perpetuates supply.

Stage 2: Write a critical analysis of china's geopolitical role and its participation in the WTO

Critical analysis of china's geopolitical role:

China has become in the last few years one of the biggest countries by trade in the world, over passing countries such as Germany and Japan, Also China is nowadays the largest receiver of Foreign Direct investment which have made of this country the biggest manufacture and one of the biggest exporters in the world, with exports of over \$1. 204 trillion in 2009, CIA fact book.

As we know, nowadays, China has become a monster in diverse sectors but essentially in those which have international relevance as trade and economy. But, to become as an important country several factors are important to consider in the analysis, for example economy, geography, social, culture, political which resume as geopolitical role.

Even though China have maintain for the last years territorial conflicts with India, Pakistan and Kashmiri it have been able to create economic relations with this and other countries, mainly by FDI, and because of this it have been able to put their products in a lot of countries including the USA and the EU.

With foreign Investment of over \$108 billion in 2008, CIA fact book, China have been able to growth at rates 10% per annum and even in the 2008 economic crisis it was able to maintain a growth of 9%, number 4 in the world according to GDP, in compare with other develop countries that suffered an enormous decrease in their GDP. All this growth was achieved mainly because of reforms in internal policies which make reforms the former closed economy of China and change to what have become a more Market-oriented economy where there have been an increase in the develop <https://assignbuster.com/china-strenghts-weaknessess-analysis-and-participation-in-the-wto-essay-sample/>

of the private market, liberalization of prices, openness to Foreign investment and less government control but because China is a communist country the government have maintain control in sectors that the government considers vital to “ economy security”, CIA Fact book.

Social conditions, in China, are similar as underdeveloped countries because of population (1, 245. 8 million in 2009) and standard of living which is so limited if we related with richness of the country. Moreover, China’s culture is an important factor to consider and one reason is the “ consumer nationalism” because of foreign dominations thought China’s history and the preferences of Chinese people when they tend to buy things due to certain status or image. So, local manufactures tend to do some distinctiveness for their national customers and then try to protect the national market.

China’s geography is relevant because thanks to globalization the geographical location tends to play an important role due to this factor China has created clusters and then take advantage of competitive advantage, support industries and demand in some industries as technology. Politic aspect is also essential to the growth of China because this has factor will let this country to improve their international trade relations, become more global and strengthen its economy with the 14 Free Trade Agreements (with 31 countries and signed already 8).

Participation in the WTO:

After several years of negotiations, and because the fact that China is the destination number one for foreign direct investment and the third largest

trader in the world, China was finally accepted into the World Trade
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Organization in December 2001 and became the 143rd full member in 2006. However China has indicated the fact that it will not open its market to trade as the United States.

As a result of the negotiations, China agreed to undertake many important commitments to open its trade which required changes in trade policy such as tariff reduction, elimination of quota system and improved accessibility to its home market.

By joining the WTO, China has a lot of benefits such as expanding their trade, a way to become the leader in the world's economy and more attractive for foreign investments. China's economy also benefits from a range of various services such as transport, research and development and distribution that foreign companies want to bring into the country. These benefits conduct to more money invested inside the country and it is one of the best ways for China to sustain its economic growth.

China plays an important role in the WTO with its huge potential of growth, so it is why China participates in WTO activities such as the dispute settlement process, the trade policy review, the Doha Round trade and other activities.

In fact China is actively involved since the beginning in the WTO dispute settlement system which is regarded as the central pillar of trade and a unique organization which contributes to the stability of the global economy.

Moreover China, thanks to its entering in the WTO, has been able to participate in the formulation and review of rules concerning international

trade and investment. But since entering the WTO China has already undergone six rounds of transnational and two rounds of normal trade policy review in the aim to adapt their trade policies to the WTO rules.

China has also participated in the Doha Round Trade Talks which was the first multinational trade talks with the aim to lower trade barriers around the world which will allow countries to increase trade globally.