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Economics, Macroeconomics



Running head: ASSIGNMENT 1 Assignment 1 - The Effect of Globalization on The Chinese Economy Pilar R. Reyes Dr. Z. Judith Mushipe EDL 805-304 — Strategic Management of Global Change Saint Thomas University February 24, 2013 Globalization has early roots when when humans first settled into different parts of the globe. Globalization, however, has shown a solid and quick progress in modern times and has become an international force which, due to technological advancements, has increased in speed and scale, so that nearly all countries across the globe have been affected and engaged. The purpose of this paper is to discuss the role of globalization in the economic growth of China, an emergent and developing nation.

Globalization is " the increase in international exchange, including trade in goods and services as well as engage of money, ideas, and information" (Dess, Lumpkin, Eisner, & McNamara, 2012). Further, globalization is defined as " the growing similarity of laws, rules, norms, values, and ideas across countries" (Dess et al., 2013). In short, globalization is the progressive incorporation of national economies through the breaking down of global trade barriers. In many ways, China represents an idyllic model of an economy that has been impacted and has taken total advantage of the opportunities offered by globalization. In little over a quarter of a decade, this immense country has emerged from the rim of economic insignificance to lead the world in respect of economic growth. China has was able to do so by joining the World Trade Organization, implementing responsible government policy, attracting foreign direct investment, and developing vast export-oriented industries. Near the beginning 1980's, China's economy was very fragile due to its inward looking government system of a socialist

planned economy under the Mao government. Living standards were below world averages, and there was barely any economic growth. Also, there was no inflation due to no extent in growth and unemployment rates were incredibly low. Since opening up to globalization under the Deng XiaoPing government in 1978, through adopting the 'open door' policy with an outward looking government system, China's system gradually transformed to a socialist market economy, establishing Special Economic Zones in the Southern coastal provinces, opening up to trade with world economies. With the globalizing Chinese economy in transition, impacting substantially on a growing unemployment rate since the 1980s to estimated 9% in urban areas while rural is estimated to be as high as 30% in 2003, while the economy has moved into inflation of 3.4% (Nolan, 2004). However, the impact of globalization has improved living standards dramatically, with annual per capita disposable incomes of US\$993 in 2003 compared to 1978 of US\$299, with an extraordinary growth in the Chinese real GDP (US\$1.4 trillion in 2004) at an average of 9.5% annually and gaining US\$1200 billion in 2003 from exports with a rise of 7% per annum for the past decade, has placed China as the sixth-largest economy and the fourth biggest exporter in the world (Nolan, 2004). China's Communist Party has put into practice responsible government policies and long-term strategic planning of slowly opening itself to the integration of the world, has ensured political stability gaining rapid growth, surviving the 1989 Tiananmen Square rebellion, the 1997 Asian crisis and last year's SARS virus without making concessions to democracy, whereas socialist regimes around the world have dissolved. However, China is in good hands as the future seems to be prosperous as Goldman Sachs, an

investment bank, predicts that by 2040 China will overtake America as the world's leading economy (Amsden, 2004). Not to my surprise, the results of China's recent affluence have not been shared equally amongst the nation's 1.3 billion citizens. A noticeable and growing disparity in the annual per capita disposable incomes of urban communities and rural communities, currently 7703 Yuan (US\$993) respectively 2476 Yuan (US\$299) (Nolan, 2004). This is due to the impact of globalization, directing 97% of foreign direct investment (FDI) along coastal cities allowing coastal communities to boom while inland rural communities are languishing, with 800 million people left behind by the current growth. Clearly, the economic globalization of China has affected its environment as well. The unrestricted Chinese economic growth has caused the loss of biodiversity, deforestation, desertification, persistent organic pollutants and environmental degradation bringing with it serious air, water and soil degradation throughout the country. Air pollution from manmade greenhouse gases is an immense concern for major economic cities of China, causing health issues. Also, since the 1980's the population increased by 200 million, despite a 'one child policy' implemented by the government, coupled with the increased level of economic activity, this has placed a huge strain on China's infrastructure, with growing housing shortages and traffic congestion (Amsden, 2004). The government has committed to improving infrastructure, but this will inevitably be at the cost of the environment. Much of China's recent economic success from globalization can be credited to responsible government policy and long-term strategic planning. Over the past quarter of century, the economy has gone through a period of drastic structural reform,

designed to increase efficiency and competitiveness. A number of state owned enterprises of key sectors have been deregulated, with an increase in private enterprises, competition policies have been introduced and the tax system has been overhauled. China's WTO membership in 2001 has also resulted in the dismantling of many protective trade barriers, such as the gradual phasing out of tariffs, which now averages 12% (Amsden, 2004). Through globalization, China has experienced a fluctuating inflationary status from inflation in 1993 of 14.7% to deflation in 2002 of 0.8% and now inflation of 3.4% (Amsden, 2004). Although overall prices have been steady of falling over the past seven years, recently food prices has relatively shot up by 9.7%, due to flooding of agricultural areas in 2003 (Nolan, 2004). The government is working closely with the central bank and state banks of China, placing new taxes on savings and has lowered interest rates down to 2% thus to influence an increase in aggregate spending to hop out of the liquidity trap, switching deflation into minimal inflation. Also, the government has placed bonus offers also such as extensions to official holidays and strong government spending to fuel consumer spending. Nevertheless, to reign in the risk of high inflation, the government has capped increases in utility costs and limiting lending by state banks. Due to globalization, the Chinese government has also increased confidence in the economy through its macroeconomic policy. In the past few years, fiscal policy has resulted in strong government spending underpinned by massive bond sales to boost the economy, helping to sustain GDP growth averaging 9% (Nolan, 2004). As a result of joining the world trade organization in 2001, China had gained a more vast export market, leading to upswings in the primary sector of 2.9%

and the tertiary sector at 7.5% and the boom in secondary sector at 9.9% increasing year-on-year gaining US\$640.09 billion in 2003 alone (Amsden, 2004). The Chinese Yuan is pegged by the reserve bank of China to the US dollar of 8.3 Yuan, thus, increasing the competitiveness of domestic export-oriented industries allowing an expansionary effect upon the domestic economy (Amsden, 2004). WTO membership, however, has provided China with globalizing stability, gaining extra resources, accessing to; world technology, market information, global production and distribution networks, and also reduced disruptions to trade by reducing unpredictable policy shifts and promoting stability in China's external economic relationships. Moreover, it is reinforcing growth of the rapidly globalizing Chinese economy, increasing FDI into exports and domestic production; upgrading management skills and technology. All these factors have made the globalizing Chinese economy the most attractive location for foreign companies to base their operations. Its vast pool of low cost-labor and the country's 1.3 billion consumers for every conceivable product and service. And with a low tax rate for export-oriented industries in some cases of mere 10%, has continued to attract a disproportionate share of FDI coming into Asia (Amsden, 2004). China has gained a growth over US\$52 billion of FDI between 1999 and 2003 at the expense of its South-East Asian neighbors and the 'Asian Tiger' economies of Hong Kong, Taiwan, Korea and even Japan with a decrease over the 4 years of US\$47 billion dollars (Amsden, 2004). Increasing foreign direct investment (US\$52.7 billion) of 10% year-on-year from globalization has allowed the Chinese economy to develop a variety of export-oriented industries, sucking in imports and dictating global prices of

everything from steel to microchips. Around the globe, shelves are stacked with low-cost goods churned out by "the world's workshop." Today, manufacturing by foreign trans-national corporations (TNCs) amounts to a over 50% of the national economy. TNC's also account for over half of total exports, worth an annual \$50 billion dollars (Nolan, 2004). In summation, China has been impacted and has taken full advantage of the opportunities presented by globalization. China's economy has experienced a period of rapid economic growth from the 1980's, surpassing all other world economies. The impacts of this growth have been both positive and negative, with the majority of financial rewards flowing to the top end of the social ladder and the environment suffering greatly. Through continued government involvement and strategic planning, however, it appears that China will continue to develop economically and establish itself as a major international economic player in the future to come.

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