

# China facing the 21st century

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China: Facing the 21st Century China's history is quite extensive dating from at least 2200 BC. It is divided into clearly marked stages where important events and individuals contributed to what today is the second largest economy of the world, measured in nominal GDP (millions of USD), according to the International Monetary Fund. One of the individuals that set the tone during the Dynastic China was K'ung Fu-tzu (Confucius), who emerged as the first Chinese thinker to introduce concepts that became fundamental not only to Confucian philosophy but to Chinese philosophy in general. His theories were part of China's imperial system and have influenced China through modern times. (Johnson, 1979) The first emperor of China, Qin Shi Huang, was credited for unifying the country in 221 BC, creating its first dynasty as well as adapting the Chinese currency, weights and measure, and the Chinese language. Inventions like paper, gunpowder, printing, the compass, iron casting and the mechanical clock demonstrated that China was more developed than the West. After the fading of China's last dynasty, the Qing (1644-1911), the country emerged into chaos, conflicts in between the Guomingdan (GMD) nationalist party and the Chinese Communist Party (CCP). Subsequently, Mao Zedong (Communist Party of China) took power and ended the civil war by proclaiming the People's Republic Of China on October 1st, 1949. Mao is viewed as a great revolutionary, and most valued for his contributions and efforts to rebuild the economy. However, he is held responsible of millions of deaths associated to campaigns such as the Great Leap Forward (1958-1957) and the Cultural Revolution (1966-1976). Mao died on September 9th, 1976 concluding with what was called the " Maoist Era". Following his death, Deng Xiaoping gradually emerged as the leader of

China and initiated China's program of economic reform in 1978. When Deng took control of China in 1978, the country was still feeling the impact of the Great Leap and the Cultural Revolution. More than 60% of the population was poor; the population had outgrown the production of crops and mass starvation was around the corner. One of the first steps of Deng was the launching of a "one child per household rule" in order to ease poverty and famine; where high resistance arised, a two-child policy was applied. Deng introduced the dual-price system and the Household Responsibility System in the countryside. The dual-price system worked because it allowed for market competition; the agriculture industry increased its production which translated into profit and at the time it allowed to the hiring of more workers, which meant that the poor population would decrease. The Household Responsibility System was similar to the dual-price system because it forced the recipients of the leased plots of land to increase production and this caused the unemployment percentage to decrease since more hands were needed. Exhibit 3 proves that the Agriculture output increased. Similar reforms in state-owned firms didn't work because they had too many employees that would continue to stay employed but apparently weren't doing their job. As Non-State Owned firms gained competitiveness, State-Owned Enterprises positions were eroded. New management was added (exhibit 10 proves this) even though their contributions to the central government fell from 38% GDP in 1978 to only 3.6% in 1990. Additionally, the "Management Responsibility Program" provided opportunities for corruption. Enterprises directors used their personal relationships to negotiate deals and bribe local officials. Like in many Latin countries, with so

much corruption is difficult to get positive results. The fact that China had most of its doors closed to the outside world was preventing them from having the great success in exports that other countries in the area were having. Exhibit 6 proves the growth that Japan and Hong Kong were experiencing. Even though China had educated people willing to work hard for a low labor cost, China wasn't mimicking its neighbors' success. The liberalization of FDI was much more controversial and it was a sensitive issue because hardliners believed that foreign investments implied foreign control of the Chinese assets. Because of these reasons the FDI was restricted to a few geographic areas in 1980. Little by little Deng implemented foreign currency reforms like the dual exchange rate system and he had an open mind and the desire to experiment and explore opportunities. All these trades and investments reforms contributed to an increase of the FDI from 1.9 billion US Dollars in 1983 to 41.7 billion dollars in 1996 (refer to exhibit 8). Deng led China to a "market economy" by opening the doors to foreign investments and global market. He passed away on February 17th, 1997 and after his death, economic czar Zhu Rongji was in charge of addressing issues that could affect a long-term growth. I believe that the biggest problem that Zhu faced was that China couldn't join the World Trade Organization (WTO) and this obviously denied access to international markets. China was unwilling to join without the "developing country" status because "developed countries" were expected to meet the WTO standards quickly than developing countries were. Pollution was another important issue, which contributed to make cancer the leading cause of death in China. (Source: Chinese Ministry of Health). I believe Zhu needed to invest more in

green energy to substitute or at least to reduce charcoal produced energy for the future. Finally, China was accepted into the WTO in 2001 after 15 years of negotiation, adding 1.3 billion people to the trading system. (Online Source CNN World). Today China is the biggest exporter country and is the leader among all developing nations in terms of FDI. (Online source Wikipedia). Even though there are many risks at the time of investing in China because of political issues, there are also a lot of opportunities in a country considered to have emerging markets that are offering a low cost environment. Wikipedia Chinese Ministry of health files Johnson, Spencer. The Value of Honesty: The Story of Confucius. La Jolla, CA: Value Communications, 1979. (Paragraph 2)