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### **Booming Chinese Economy: Creating Golden Opportunities or Causing Daunting Threats?**

In the past two decades, China has emerged as the major participant in the world economy. With the economic growth rate of 10.3% as of 2010 (CIA), China remains the fastest growing economies over several years. Presently, China ranks as the second largest economy in the world as measured by the Gross Domestic Product (GDP) of USD 10.1 trillion compared to the United States GDP of USD 14.6 trillion. Following Mao's death in 1976, Deng Xiaoping and his new government began to reform the predominantly agrarian state controlled economy to an industrialized market- driven structure which resulted in booming Chinese economy. In the past few decades, the distribution of economic activities around the world has greatly changed due to the growing economy of China. Today, China is one of the major contributors in the Global economy as the largest exporter, biggest automobile manufacturer and prime importer of iron ore and copper (Bloomberg). The emergence of China as one of the strongest economy undoubtedly develops the nation along with the rest of the world. But when analyzed from a different angle, the fast paced Chinese economic growth not only accelerates economy but also poses threatening economic challenges.

#### **China and the source of its growth**

China has shown tremendous economic growth since 1976 i.e. after the death of Mao, when it completely changed its traditional economic structure to a market-oriented mixed

economy. China's economy today is ten times larger than it was in 1978, and continues to grow at the rate of 10 percent per year (China's Economy). Analyzing the extraordinary growth of the nation, it can be well observed that its growth roots back to the strategic transformation of the economic policy. Reforms began when Deng Xiaoping started phasing out of the collectivized agriculture structure, and introduced a household-based system that delegated better leadership and decision-making powers to the peasants in the agricultural activities. The industrial sector flourished equally with the initiation of market-oriented structure that fostered individual initiatives and entrepreneurship. Along with the improvements in the agricultural sector, more people began to participate in the industrial sector, which significantly improved the economy. In 1980s itself, the reforms brought about substantial growth of 10 percent in the agricultural and industrial output and the rural per capita real income doubled (China's Economy).

Similarly, the state-owned enterprises were reformed to adapt to self-management system which created increased competition in the marketplace giving rise to entrepreneurship. The government at the same time reduced price controls which further supported the private sectors. The government also invested heavily on industrial production and education of the workforce.

In any economy, growth is measured by the sum of private and government consumption plus investment plus net exports of goods and services. Among the factors, foreign trade and investment accounted as the most powerful tools to boost the economy in China. Today, China is the largest exporter in the world with 34.4% annual foreign trade growth which amounted the total trade of the country to approximately USD 2.9 trillion (China-US trade). Export remains the main feature in China's rapid economic growth causing a trade surplus within other nations.

China has pursued policies such as fostering the rapid development of foreign-invested factories, which assemble imported components into consumer goods for export, and liberalizing trading rights (China's Economy). Today, China's main exports include Electrical machinery and equipment, power generation equipment, computers and machinery, apparel, iron and steel while its major imports are iron ore and copper along with other mineral fuel and oil. China's top trading partners include the United States, Japan, South Korea, Hong Kong and Germany.

Another important aspect of economic growth of China, as presented above, is foreign investment. The investment climate has drastically changed after the reforms enacted in 1978. In the early 1980s, China restricted foreign investments to export-oriented operations and required foreign investors to form joint-venture partnerships with Chinese firms (China's Economy). Later, China allowed foreign investors to freely manufacture and sell wide range of goods in the market. Foreign-invested enterprises produced about nearly half of China's exports, and China continues to attract large investment inflows. The growing investments in China basically emerge from the high productivity, desired infrastructure, and low manufacturing and labor costs. The increasing foreign investment created jobs, built infrastructures, transferred technology and linked China to international markets which fostered the economy. Foreign exchange reserves were \$2.39 trillion at the end of 2009 making China's foreign exchange reserves the largest in the world (Sachs). The major investors in China are Hong Kong, the Virgin Islands, South Korea, Japan and the US.

### **The Price China has to pay and its future**

Since 1980s China's reform in the economic policy brought about a booming economy in the nation but growth does not come without costs. Though the expansion accelerated efficient

productivity, increased the living standards of the people and fostered innovation and technological development, it is sure to bring the challenges of inflation and high unemployment in the long run. A close watch in the Chinese economy reveals that the inflation rate has increased to 4.9 percent in January 2011 compared to the 1.5 percent in the previous year (Economist). In the current Chinese market, the wages of the labors are increasing at a faster rate than productivity. Though the inflation rate is not tremendously high, if it grows at a similar rate it is bound to increase the price of the exports causing cut offs in the trade and investments which are the main factors of economic growth in the country.

The fast-paced industrialization has definitely served for the development of the country by creating millions of jobs, improving infrastructures, fostering technological advancement, moving the agricultural workforce into industries and above all causing the economy to grow. Rapid industrialization does not always serve for good; major problems may arise when the regulatory forces may not be able to resist and control rapid expansion in the industrial sector. Moreover, environmental degradation and pollution come along with industrialization. "Pollution has made cancer China's leading cause of death", the Ministry of Health says. Ambient air pollution alone is blamed for hundreds of thousands of deaths each year and nearly 500 million people lack access to safe drinking water (Kahn, Joseph, and Jim Yardley). It is ironical how the country's biggest accomplishment has turned out to be its greatest burden.

Another challenge China will have to face is the undistributed economic growth within the country. Be it in the case of different parts of the nation or between the people, the gap must be reduced to even the growth in the long run. The industrialization and developmental activities

are focused only in the coastal areas rather than the interiors creating a fragmented nation. The urban coastal areas are getting more and more developed due to high demand of labor to foster industrialization while the rural areas are left unconcerned for. Similarly, the gap between the rich and the poor is constantly increasing. With the economic reforms, the rich are getting richer and the poor even poorer. A survey found the poorest fifth of urban residents received only 2.75 per cent of total income in urban areas, whereas the richest fifth commanded 20 times as much (The World Today). Though the GDP of China is one of the highest in the world, the per capita GDP of USD 7,600 remains below the world average of USD 11,200 indicating the significant difference between the rich and the poor in the nation (CIA).

China has quadrupled its GDP since 1980 ranking as the strongest economy after the United States. If China's economy continues to grow at such a fast rate, over a few decades, we might well shift the ranks of the United States and China as the superpowers. But, will the Chinese economy continue to grow? Disregarding the political and social uncertainties, the skilled manpower and well educated youth comprising the major portion of the population i.e. 73.6 percent (CIA) suggests positive outcomes in the future economic growth. The highly skilled, well-educated and enthusiastic youth might be considered the major asset of China for upcoming economic growth.

On the other hand, problem of inflation is sure to arise if the growth at such a fast rate continues without wise economic planning by the government. Inflation would then further cause the problems of high unemployment ultimately causing the economic growth to come to a halt.

### **Foreign Investment in China: An opportunity or a threat?**

China has been emerging as the magnet for Foreign Direct Investment (FDI) in today's world. This is primarily due to large domestic market, cheap and highly skilled labor, appropriate infrastructure and lower risk of failure. Foreign investment in China seems to be a golden opportunity for the other nations to exercise the benefits of outsourcing. While this seems to be the major cause of economic growth of China, it may pose as a problem for the other nations in the long run.

When nations outsource to China, jobs are created not in their home country, but in China causing the problems of unemployment in the country. Since creation of jobs is controlled largely by the firms that outsource, if proper government policies are not implemented to regulate this flow, jobs would be hard to find in the home country. Furthermore, the GDP of the home country is bound to go down if their goods are produced in China. Investing in China might also cause the other nations to neglect investment in their own country which would in turn restrict its growth and development.

### **China's emergence as the world's superpower; Challenges faced by the world**

It might not be surprising to see China as the world's superpower within a few decades. China emerging as the superpower may be beneficial or harmful depending on how China uses its powers. The well-being of other powerful countries will depend largely on China due to high investment on China and the strong trade relations. Apart from the economic perspective, social and political aspects are to be analyzed to view the global challenges faced by the rising economy of China. The combination of a large and prosperous economy, a modernized and

advanced military and a Communist regime determined to stay in power has the potential to offer considerable security challenges to the West (Hynes). American officials are also worried about China's construction of the world's first anti-ship ballistic missile and development of a Chinese stealth fighter. The reaction of U.S. Defense Secretary Robert Gates to this was, "They clearly have potential to put some of our capabilities at risk" (Fish). The Chinese threat to the world economy can be self-explanatory through the expression:

In history, Chinese leaders have believed in force. Force worked in Tiananmen. It intimidated the intellectuals, and that paved the way for economic growth and political stability. It is realpolitik. And in the Chinese value system, sovereignty, national unification, and preserving the regime have always been higher than peace (Hynes)

Not only is there a threat of China being the superpower but also its economic failure. If the economy of China collapses, it severely affects the economies of the nations investing in it.

### **China's steps towards success**

China's emergence as one of the world's economic powerhouses has created immense opportunities of advancement in the global economy but has posed serious challenges as well. China's economy is highly dependent on Foreign Direct Investment and trade. The overdependence on trade might position China on the verge of a collapsing economy. The miraculous economic boom of China is the result of its selling millions of cheap labor directly into the hands of foreign multinational companies fostering trade. Therefore, when trade collapses, the whole Chinese economy collapses. China at such an economic stage should take initiatives to reduce trade, and instead develop internal economy to strengthen its position in the

global market. Reducing trade does not imply halting trade, but gradually reducing the overdependence on trade for economic growth. China must also take strategic actions to develop better research and development tactics to reduce its dependency on other nations for transfer of technology and innovation.

China must also regulate plans and policies to develop the rural areas of the country and not merely focus on just the urban development. Decentralizing the developmental activities to the inlands or the less developed areas would help in creating a uniform growth of the country. Similarly, another major concern of the Chinese economy must be to reduce the gap between the rich and the poor. Following a communism model, distributing the wealth equally must be the primary goal of the nation. This can be achieved from tax reforms by taxing the wealthier and providing benefits to the poorer.

With rapid economic growth, China's economy has been expanding and its contributions to the world economy are on the rise. With the advent of reformed economic policies in the 1980s, China has embarked on a path of development and served as an example that efficient leadership and policies is the only way desired status can be achieved on its own means. The expanded economy of China has proved to be a boon for the nation and for the world economy but analyzing its prospects in the future, it might as well cause threats to itself and the global economy. The choice is simple, whether China addresses its growth for the welfare or all or creates threats as the next superpower.

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