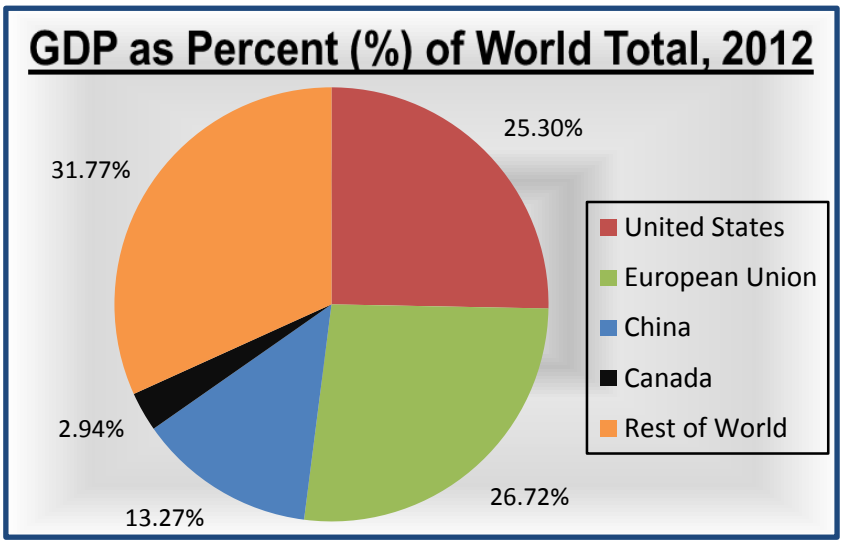
Handout C: China's Economic Rise

China's economic success

Why has China become so successful economically in the past several decades? Take a look at Figure 1 and keep in mind that Chinese GDP as a percentage of global GDP was only 5% 40 years ago!

Figure 1: World GDP, 2012



There are a number of factors behind China's rapid economic growth, one of the main ones being large increases in productivity and efficiency. For example, when China introduced reforms in agriculture in the 1980s, productivity in the agricultural sector increased and fewer workers were needed to perform the same tasks as before. This led to the Chinese government being able to reallocate resources and workers previously used inefficiently to more productive areas, such as manufacturing. Additionally, privatization led to a greater abundance of private firms in China, who were more market-oriented and supply and demand-focused and as a result were more productive, efficient, and profitable (they would produce what and how much of a certain good was needed as determined by consumers, rather than by government bureaucrats).

These economic reforms also opened-up China to foreign investment by the creation of Special Economic Zones (certain Chinese cities or regions) that had much more relaxed government controls, which made it much easier and more profitable for foreigners to invest and do business, as they could invest a minimal amount of money to get back large returns. As a result, foreign direct investment (FDI) skyrocketed and capital began to flow into China from the outside world, which provided the resources necessary to further increase productivity by the building of new factories and plants, investing in new technologies, and eventually higher wages for the workers. Some say that this creates a virtuous cycle of FDI, where good economic performance (brought about in China's case initially by widespread economic reforms and restructuring) attracts investment and this investment further improves the economic performance of the country, which attracts even more investment, and so on. However, the downsides of increased FDI are potentially lower wages and worse working conditions for the workers, as investors are most interested in profitability and not necessarily in the quality of life and living standards for workers.

Questions:

Look at the two graphs below, Figures 2 and 3. According to Statistics Canada, investment into Canada from all other countries totaled $634 billion and investment from Canada into all other countries was $711.6 billion in 2012. Remember that foreign direct investment (FDI) represents 'money being invested by companies and people in one country into companies and industries in another country; it also reflects how optimistic or pessimistic investors in one country are about the future economic growth of another country.'

1. Describe any patterns and trends you see in these two graphs.
2. Why do you think China makes up such a small portion of incoming and outgoing FDI? Should Canada try to change this and attract investment to and from China?
3. Do you think the levels of US, EU, and Chinese investment will change in either graph over the next 10 years? 20 years? 50 years? Why or why not?

Figure 2: Investment from Canada into other countries

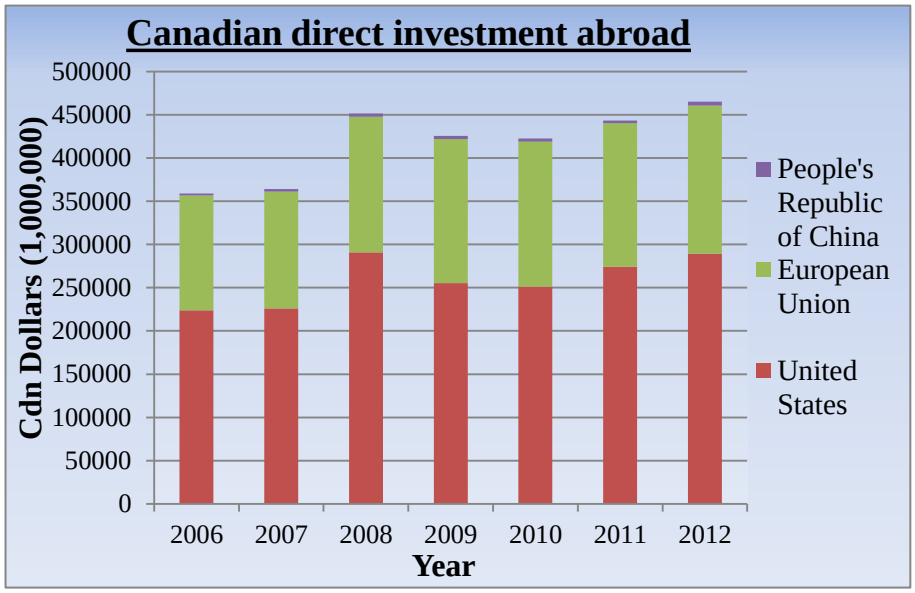
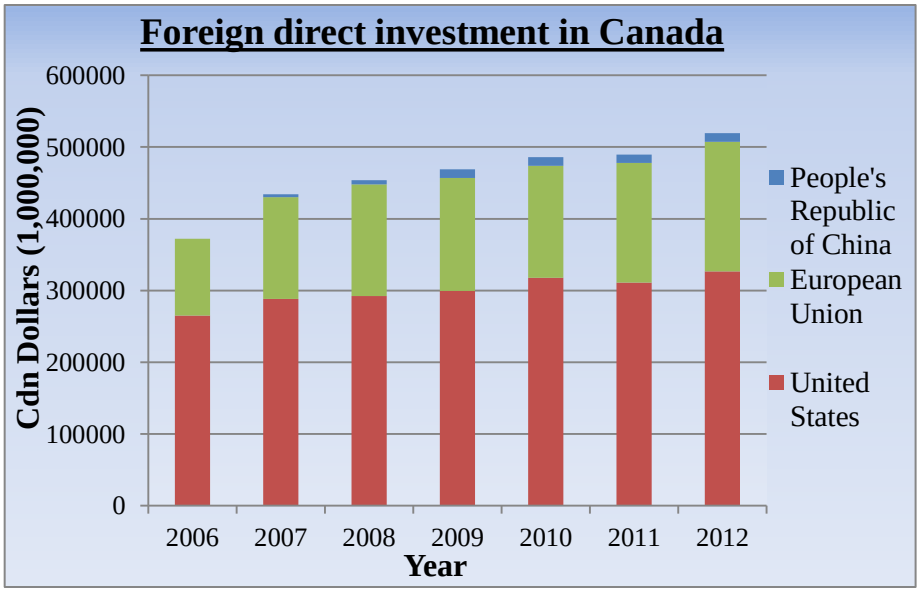


Figure 3: Investment from other countries into Canada



Chinese Trade

Figure 4: China's total trade with the world

Rank	Partner	Value (in billion CDN $)	Share in World (%)
1	European Union	640.3	14.1
2	USA	563.4	12.4
3	Hong Kong	400	8.8
4	Japan	385.5	8.5
…13	Canada	73.3	1.6

Trade is very important to China and the growth of the Chinese economy, as it became the world's largest trading nation in 2013, trading nearly $4 trillion USD worth of goods in 2013, second only to the EU as a whole with $4.4 trillion. Chinese exports make up roughly 12% of total world exports, with the majority going to the US and the EU in the sectors of manufacturing and industry, which accounts for almost half of total Chinese GDP. China and the EU trade over €1 billion daily; trade in goods reached €428.1 billion in 2013, the second largest economic cooperation in the world (EU-US trade was valued at €497 billion in 2013).

The EU and China are economically dependent on each other for imports and exports. For example, if the EU decided to ban a Chinese import due to human rights violations or China decided to stop importing certain luxury goods from EU countries, it would affect both the EU and China in the form of decreased imports/exports, a lower value in total trade, and lower economic growth. As a result, both the EU and China are very apprehensive of adopting any measures which negatively affect EU-China trade, such as high tariffs (taxes in international trade to protect domestic industries), boycotts, or sanctions. Intellectual property rights remain a major area of contention between the EU and China, as due to the high levels of trade, China is the source for approximately 73% of all counterfeit goods seized at the EU border.

In comparison, Canada-China trade is of much less importance to China; whereas China makes up 7.7% of all Canadian trade, Canadian imports and exports comprise of only 1.6% of all Chinese imports and exports. As a result, Canada's relationship with China is asymmetrical, while the EU's relationship with China is much more symmetrical; if China were to lessen or stop trade with the EU, it would hurt itself economically as much as the EU, whereas Canada would be far more affected if China decided to halt trade with Canada than if Canada imposed trade sanctions against China.

In recent years, the government has been working to restructure and rebalance the Chinese economy. Specifically, this means adopting policies to help move the Chinese economy away from export-led growth, which depends on foreign markets, to domestically-led growth, which focusses on sustaining growth from within, through internal trade and development. Additionally, the Chinese population is becoming increasingly more educated, leading to less reliance on other countries for advanced technology imports as they are beginning to be developed and produced within China itself. Rather than simply being the 'world's factory floor,' China is becoming the center of high-technology manufacturing and higher-value production.

Questions:

1. Does the value of trade impact the relations between nations? Would you think that the EU has better relations with China than Canada has with China? Explain your viewpoint.
2. Should Canada seek to increase its trade with China? Why or why not?

Contradictions of the Chinese economy

For many, China's economic development is a puzzle. In many parts of the world, capitalist, or free market, economies are accompanied by liberal democracies, where protection of the free market is thought to go best with limited government involvement, as well as the protection of fundamental rights and rule of law. Many countries in the world are moving in this direction, and the collapse of the Soviet Union was seen as a victory for this kind of liberal economic and political model. China, on the other hand, has proved that it is possible for a non-democratic government, based on communist ideology, to have a very effective and fast-growing capitalist system. However, as we have already seen, because the Chinese government is heavily involved in the economy, it has been called a socialist market economy, being neither a true command nor market economy.

Sources:

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