

China – Economic Phenomenon

The second half of the 20th Century saw China emerge from war-racked poverty to Asian economic superpower. We take a look at this economic phenomenon and ask if trade links and investments between the UK and China are developing at a rate that reflects this huge economic growth.

In December 1978, the Chinese Communist Party (CCP) announced an 'open door' policy, setting in motion one of the fastest periods of economic growth in world history. Then CCP leader, Deng Xioping, wanted to capitalise on western investment and technology therefore 'opening the door' to foreign businesses. Previously operating under a strict centralised political system, the 'open door' policy shifted China's economy from a centrally controlled financial system to a

system, under the tight leadership of the CCP regime, slowly introduced the characteristics of a western-style market economy.

Although the heights of industry remain state controlled, economic decisions have gradually been decentralised and in 2003 China's economy was one of the largest in the world, second only to the US, boasting one of the highest average annual growth rates at around 8% per annum.

of the largest exporters of mineral fuels. China's main custom comes from the US, Japan, Hong-Kong, South Korea, Taiwan, Germany, Netherlands and the UK. In April this year, the World Trade Organisation announced China as the third largest exporter behind the US and Germany. ▶



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more market-oriented, or what is more commonly known as a *socialist market economy*. This meant that a hybrid economic

Producing valuable fibre crops and silks, China has one of the largest textile industries in the world, employing 7.5 million workers. Clothing, footwear, toys, electrical products and 20% of the world's supply of tea constitute China's key exports. Plus, with rich mineral deposits providing large deposits of coal, petroleum and iron, China is one





Country of contrasts

However, despite this staggering economic growth, China is, in per capita terms, still poor. The modernisation of China highlights stark contrasts with millions of people being left on the margins of the country's new found prosperity. Furthermore, as a result of its hybrid economic system, China has experienced the worst aspects of both socialism *and* capitalism. With bureaucracy, inertia and economic corruption combined with high rates of unemployment and income inequality, the Chinese government has struggled on several counts. Shielded from competition by subsidies for decades, China's large state-run enterprises and rural economies have struggled to stay afloat in a socialist market economy, resulting in the loss of tens of millions of jobs, leaving a disillusioned workforce without the life-long jobs and pensions once promised under communist rule.

With China's economic growth has come a surge in its energy demands. This in turn has produced deterioration in the environment such as soil erosion, flooding and most notably air pollution. As a developing nation, China is not yet required to reduce its CO2 emissions. However, as the second biggest emitter of energy related CO2, a 1998 World Bank report found that China is home to 16 of the world's 20 most polluted cities and is blamed for air pollution in neighbouring Korea and Japan.

Trade and investment links

Despite strict Communist control, the economic influence of non-state organisations and individual citizens has steadily increased. Many overseas companies are taking advantage of considerable trade and investment opportunities. Priority sectors for investment are telecommunications, power generation, agriculture, transport and food processing. As its strengths complement these priority sectors, the UK provides a wide range of products and services to all major sectors in China. As a result, the UK is the biggest European investor in China, with over 3000 British-invested joint ventures.

In terms of exports, the UK's strengths match China's growing consumer needs and UK exports include petroleum, general industrial machinery, electrical appliances, organic chemicals and scientific control equipment.

Complementing this is China's massive investment into the UK. Ernst and Young's European Investment Monitor recently found that the UK is the largest recipient of Chinese Foreign Direct Investment (FDI) in Europe, with over 50% of all Chinese investment into Europe having come to the UK since 1997. London alone accounts for one third of all Chinese investment into the UK. China's largest fixed telephone line operator, China Telecom Corporation, for example, has based its European headquarters in the capital in an effort to target international business across Europe.

Michael Charlton, Chief Executive of Think London, recently commented: "London is being targeted increasingly as an essential European headquarters location by Chinese companies with a global expansion strategy. They recognise that London's offer is unrivalled anywhere in the world. The combined opportunity of a leading international financial centre, the world's best gateway to European, Middle Eastern and African markets and the most vibrant and cosmopolitan city on earth is too good to miss. Access to world-class design and marketing services, R & D expertise and a listing on the London Stock Exchange are also strong attractions."

To further encourage trade, investment and tourism, two more UK trade offices were opened at the beginning of the year – one in the capital Beijing and the other in Shanghai.

Hoping to ensure that its reformed, socialist market economy continues to flourish, China became a member of the World Trade Organisation in 2001. Its economic development has not only made China rich, but has also profited those developing trade and investment links with the country. It is forecast that if this economic trend continues, China will be the largest economy in the world by the middle of this century. ■