Is People's Republic of China poised to dominate the world trade in the near future?

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Abstract

China's great potential from large domestic market, low cost labor, improved infrastructure, and attractive environment for foreign direct investment, large amount of export and import and political stability are the keys to China's successes. China's strengths provide the country to dominate the global trade in the future. Nevertheless, Chinese government has to consider issue such as rural and urban disparities, banking system, taxation, corruptions, safety and labor standard and other competitors; these issues are obstacles in China. The government has to deal properly with all kinds of complicated situations in order to maintain excellent economic growth in the near future.

Key Words: International business, Economic growth, China

Introduction

The argument of China's international trade is proving increasingly popular, since China's reform and opening up policies. These days, China's international trade is playing an important role in the world. This article explores the pros and cons of China is expected to dominate the world trade in the near future. China's economic reforms and the institutional changes promote China to dominate the global trade and to become a global economic power. China's economic growth is due to enormous human labor-power, material resources, international trade and direct foreign investment. Moreover, through joining the WTO, China improves technology and gains profit. In addition, foreign corporations into China's markets provide more job vacancies in China which reduce unemployment rate. However, the future contribution of international trade on economic growth in China is seen in two different views. This paper investigates to the various agreements to analyze the challenges of China and then considers eliminating limitations of economic growth in China. The government has to overcome those problems which are resulting from rapid economic growth and changes, to arrive a dominant player in the world.

Pros: China's potentials

1. International trade

China becomes the largest exporter and second importer in the world in 2010. China's role in world trade has risen faster than its GDP over the past two decades. China's trade surplus is US$196.1 billion in 2009. In 2009, exports were worth US$1.20166 trillion and imports US$1.0056 trillion. China's major export commodities are machinery, electrical and electronic products, apparel, steel and iron, medical and optical equipment, and data processing equipment. China's key export partners includes Japan 13.02%, European Union 12.71%, ASEAN 10.61%, South Korea 10.2%, United States 7.7%, Taiwan 2.04%, India 1.36%, Hong Kong 0.87%, other South and West Asia countries 1.64% and other countries 13.54% in 2009. China's key import Commodities are machinery and equipment, oil and mineral fuels, plastics, optical and medical equipment, metal ores, organic chemicals. In 2009, China's major import partners includes Japan 13.02%, European Union 12.71%, ASEAN 10.61%, South Korea 10.2%, United States 7.7%, Taiwan 2.04%, India 1.36%, Hong Kong 0.87%, other South and West Asia countries 1.64% and other countries 13.54% (Mergent, 2010).

The export of textile and furniture goods dramatically squeezes other competitors. For instance, China has long been a major textile exporter to the US, holding 11% share, which result in damaging US textile business and increase unemployment rate in textile industry. This impact is from foreign manufacturers shift to China. WTO predicts that China grab 50% share of the US clothing market in the near future. Chinese government has made a liberalization monetary system by allowing the domestic currency to be fully convertible. Chinese government reformed their foreign exchange control and open up policies to improve balance of international payment which cause China's international trade more liberated(Yu & Wang, 2010).

2. Economic growth

Since China began an economic reform, China became the fastest growing country in East Asia. China survived the East Asian currency crisis relatively unscathed; China has made a successful economic transition from a command economy to a market economy. Some economists expect by 2012, China will be the nation with the highest GDP in the world, even higher than the United States. From 1991 to 2010, the economic average growth rate approximated to 10%. During Asia's economic crisis period, China's economic growth rate was over 7% which is the highest in the world (Deneen & Gross, 2010). Compared GDP growth rate of China to Taiwan, Hong Kong, Japan, Korea, Singapore and American from 1991 to 2010, China is the highest. China's government has emphasized raising personal income and consumption and introducing new management systems to increase productivity. Moreover, the government has focused on international trade as a major vehicle for economic growth that helped the GDP increase.

There are several industries that promote the economy of China such as agriculture, industry, energy and mineral resources (Li, Chen, & San, 2010).

2.1 Agriculture: China is among the world's largest producers of rice, potatoes, sorghum, millet, barley, peanuts, tea, and pork. Major non-food crops, including cotton, other fibers, and oil seeds, furnish mainland China with a large proportion of its foreign trade revenue. Agricultural exports, such as vegetables and fruits, fish and shellfish, grain products, and meat products, are exported to Hong Kong. Yields are high because of intensive cultivation. China hopes to increase agricultural production through improved plant stocks, and technology and fertilizers.

2.2 Industry: China's major industries are iron, steel, coal, machine building, light industrial products, armaments, and textiles. These industries completed a decade of reform with little substantial management change. The automotive industry is expected to grow rapidly in the coming decade, as is the petrochemical industry. Machinery and electronic products have become China's main exports.

2.3. Energy and mineral resources: Over the past decade China has managed to keep its energy growth rate at just half the rate of GDP growth, a considerable achievement. Although energy consumption slumped in absolute terms and economic growth slowed during 1998, mainland China's total energy consumption may double by 2020 according to China's projections. China is expected to add approximately 15,000 megawatts of generating capacity a year, with 20% of that coming from foreign suppliers (Kim, 2011). Beijing, due in large part to environmental concerns, would like to shift China's current energy mix from a heavy reliance on coal, which accounts for 75% of China's energy, toward greater reliance on oil, natural gas, renewable energy, and nuclear power (Fair, 2010).

2.4 Foreign trade: China has experimented with decentralizing its foreign trading system and has integrated itself into the world trading system. China joined the Asia-Pacific Economic Cooperation (APEC) group that helps free trade, economy, trade and investment. In 2001, China served as APEC and hosted the annual APEC leaders meeting. Through fifteen years negotiation, China successfully joined WTO in December 2001. International businesses gained the right to import and export products without going through a government middleman. In addition, China worked on multilateral WTO accession package in order to increase exports. And the government has pursued policies such as fostering the development of foreign-invested factories, which assemble imported components into consumer goods for export.

2.5 Foreign direct investment: China has made significant improvement in providing a business environment to persuade the investors and conducive to FDI since the major change of economic reform in1978. Foreign direct investment has played an important role in China's economic development. The foreign investment in China increase over 30% in 2010 (Daying, Junjie & Bing, 2010). After global financial crisis Chinese were worried about the slowdown of foreign investments in China, the actual utilized foreign investments in China was US$90.3 billion US dollars in 2009, which is US$24 billion decrease under the previous year (Mergent,2011).

However, China maintained the largest recipient of foreign direct investment in the world, since China's enactment of the Law on Sino-Foreign Equity Joint Ventures in July 1, 1979. China has successfully attracted foreign direct investment and has kept the stable growth momentum for 25 years (Anwar, 2010). China has gained several benefits from FDI such as: (1) Contribute FDI to GDP and raise GDP growth by adding more capital. (2)Build new branches of industry and wide ranges of goods and services. (3)Transfer new knowledge and technology. (4)Develop the infrastructure. (5)Provide an employment opportunities (6) Expand China's international trade.

3. Accession of WTO: China joined the World Trade Organization (WTO) in 2001. China has made commitment about international trade and direct foreign investment upon accession to the WTO. General commitments include nondiscriminatory treatment of foreign and domestic enterprises, adherence to WTO rules on intellectual property rights, and elimination of various requirements on FDI, including foreign exchange and trade balancing, technology transfer, local content, and export performance. After China joined the WTO, China's economy has become more transparent, which meaning more access to China's markets. China advanced its legal and governmental reforms, which grew China's gross domestic product every year, and the total trade volume of China's international trade is still growing (Fudge, 2011). The rapid increase in trade volume and average import tariff rate which is attributable to the improved trade environment following China's WTO entry (Caryl, 2011). The past trading instability brought by bilateral negotiations has been written off by a more stable multilateral trade framework. Many of the quota restrictions of other countries have been lifted on Chinese products with comparative advantages (Connolly, 2011). The multinationals have become more confident in investing in China after China entered WTO. Moreover, the foreign investment has increased rapidly. It is estimated that the total foreign investment influx into China will keep increasing, making the country the largest foreign investment destination in the world. China WTO entry makes its trend to integrate its economy into the global economic framework; therefore, foreign investors are confident of investing in China (Harpaz, 2010).

Another change brought by China's WTO entry is that China's private enterprises obtained legal status. In the past some private enterprises have been barred from direct foreign trade operations (Ji & Huang, 2011). And there are various policies restricting the private enterprise form financing blocks their smooth growth. After China's WTO entry, the WTO equal treatment principle requires the government to grant equal rights to all enterprises. All private enterprises are able to engage independently and freely in foreign trade.

Chinese consumers gained a greater economic efficiency after join WTO. The liberalization policy actually brings advantages to China.

4. Manufactured goods

Chinese manufactured goods exports have raised since 1990s. Recently, most of the world's telephones, refrigerators, video monitors, washing machines, air conditioners, and televisions are made in China. Foreign manufactured factories shift to China because of China's abundant human labor-power, cheap material resource. However, scholars argue China is poise to dominate the world trade in the near future, because Chinese manufactures import large high-technology products such as Boeing and Airbus aircraft, Intel microprocessors, GE turbines else. While China become a rapidly growing domestic market, China is continues to generate demands form imports (Lee, 2010). For example, if China's exports triple over the next 20 years, which is reasonable to assume, its manufacturing import will probably grow in the same proportion. In addition, growth of technological competence is hard to excess other developing countries. China's labor cost in lobar- intensive industry, such as textiles and shoes, is gradually growing, therefore, the labor-intensive industries will move to other developing countries.

The domestic industry grew very fast in China, while the industry grew slightly in West. Also, China rapidly expanded its internal business and made a great impact on globe. China attracted attention form western people. Therefore, Chinese products rapidly entered west as long as China has its advantage to make low price on products (Heras-Saizarbitoria, 2011). While Western people admire Asian produces, China has large opportunity to increase exports. Resources limited causes each country concentrates to produce competitive advantage products and market to all over the world. International business brings advantage for every country (Baldwin, 2011). Chinese can concentrate on producing most of the daily commodities, electric equipment, entertainments, while developed countries concentrated on high-technology products. China should consider to improve product quality and to create the effective marketing way to satisfied customers from different region. At the same time, China should keep learning high-technology skills and promote education, according to its strong human labor-power and natural resource; we believe China will dominate the world trade in the near future.

Cons: China's limitations

China has a potential to dominate world trade in the near future, China is in facing challenges from trade liberalization and fast economic growth. Chinese government has to overcome several obstacles to maintain the good economic performance and move to the first position in the world (Bhala, 2011).

1. **Political system**

China is one of the world's oldest living civilizations. The Chinese take pride in their long history, nation, and its influence on other nations. Although China's economic growth improve its international businesses, the government has begun to consider that rapid economic growth has negatively affected the country's traditions and environment. China politic system is the oldest communist, soviet systems whereas the economic system is move to liberalization system. The government has revised policies to implement problems of equitable distribution of resources, but the result is insignificant (Park & Shin, 2010). China's legal and regulatory system has been criticized that it's lack of transparency and consistent enforcement. Moreover, it opens a way of corruption by government authorities. Corruption remains widespread in China. Banking and finance are the sectors that most afflicted by corruption. Moreover, offering and receiving bribes are both crimes under Chinese law, but if giving a bribe to a foreign officer in another country is unclear that is a crime. However, the government implements the high-profile anti-corruption efforts and harsh penalties for those convicted of corruption.

In addition, China's economy rises rapidly, but Chinese government's policy and infrastructure could not meet its economy growth speed, and that causes a variety of problems occurs, such as, unemployment, WTO impact, higher bad debt, and so forth. These problems are very important issues and can destroy china itself. Thus, Chinese government already executed a number of restrictions on domestic lending and real estate investment, banking system, and so on in order to discourage its economy and overheating. China and ten Southeast Asian countries agreed to create the world's largest free trade pact that lead to cut tariffs on 4,000 categories of goods to between zero and five percent by 2015. The development of bilateral trade pacts, increased investment in energy and raw materials producers, expanded tourism and educational exchanges.

2. **Unbalanced Socioeconomic**

China is an enormous country in terms of side and population; it is very diverse country with a several cultures and tradition. The regional imbalances have to be managed and prevented its uneven growth pattern from jeopardizing not only cohesion, but long-term economic stability too. Growth was concentrated in urban areas which result in large number of migration from rural to the major city (Smick, 2010). By focusing on specific regions and manufacturer zone, the growing income disparity between the coastal and inland provinces increase year-by-year. Some part sectors of society were not possessed of benefiting from rapid economic growth. Therefore, Chinese government should consider developing both the central regions and local areas by attracting FDI and domestic investors to all areas through increased investment in infrastructure.

3. Financial institutions system

China's four main financial institutions continue to dominate the economy, holding over 80% of assets in the banking system which is technically monopoly. Thus, the bank system is not serve the liberalize trade system. In addition, if one of the banks faces the financial crisis, the other banks have to hold that bank bad assets which will cause serious bankrupts (Orlik, 2011). Besides, in a free market economy, banks make loans based on their own credit risk and reserve requirements imposed by regulators. In China, loans are designed to support failing local enterprises, which means that Chinese banks distribute welfare funds for the state. (Lu & Ito, 2010) Therefore, the government should open door to foreign investors to invest in the banking industry to gain more competitive advantage and distribute the risk.

4. Taxation

A complex and biased tax incentive system is one of the government challenges. The tax incentive system is heavily targeted at foreign enterprises. China's system of enterprise income tax has become increasingly complex and nontransparent. Moreover, China causes the loss of government revenue. Sometimes, foreign investors may have to negotiate incentives and benefits directly with the relevant government authorities. The incentives included significant reductions in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure services.

5. Inflation

Chinese government executed a number of restrictions on domestic lending and real estate investment.

The data on inflation are encouraging, meanwhile, consumer prices was increased 2.7% in December 2010. Fixed asset investment growth is slowing. Fixed asset investment surpassed $800 billion in 2004 (Mckinnon, 2010). The government struggles to prevent its economy overheating.

6. Labor standard

Safety and labor standard is another concern by international organization. The working conditions in China are tough; as workers stay in crammed dormitories inside industrial zones to work more than12 hours a day. They are not allowed to form their own associations at national or regional level. Though, this is appropriate for employers to take advantage from employees but it may not last long, as workers are becoming conscious of their rights and their work condition they deserves (Mantzopoulos & Shen, 2011).

7. Competitors

In terms of capacity of market, and low-wage labor, India, Southeast Asia, Latin America and Africa are the main competitors. India is hi-light to be one of the destination of investors and important China's rival. India has individual liberty, political pluralism, and the institutional framework to take advantage of globalization. Moreover, India is the nation that widely use of the English language, availability of world-class scientific, technical, managerial and professional manpower. India is well-known from global outsourcing that lead to efficiency gains for high-technical industries by allowing Indian the opportunity to emphasize in their core competencies. However, it is constrained by mass poverty, lackadaisical government, growing fiscal problems, and a poor physical infrastructure. In addition, China's trading system faces one of its most serious challenges as a group of developing nations today is set to join others seeking to prevent China from dominating worldwide apparel and textile markets (Trimarchi, 2010). Therefore, not only country surrounding and high competitive in domestic market, China has to face with the other nation competitors (Malik, 2011). Thus, one of the alternatives is cooperation between each other to survive and it will relieve the heat of market competition.

Conclusion

China has ability to dominate the world trade in the near future, despite economic and infrastructure challenges. China has changed its economy, politics, infrastructure, and education gradually, even if China has a dramatically economy growth. China has almost 13 billion nations which is the biggest consumer market in the world. Therefore, China has attracted for foreign companies to investment its market, and that China serves as a major global economic power with a very bright future. China's great potential from large domestic market, improved infrastructure, and attractive environment for foreign direct investment, large amount of export and import and political stability are the keys to China's success. China's strengths give the country's opportunities to dominate the global trade in the future. However, economic growth hardly image in the future. Nevertheless, Chinese government has to consider issue such as rural and urban disparities, banking system, taxation, corruptions, safety and labor standard and other competitors; these issues are still being the obstacles for China to maintain excellent economic growth and top rank country. Moreover, China must establish a modern financial system, and conform to international norms for protecting property rights. Chinese government executes to these problems are watched by international organization and other countries all over the world because the next pace of China is influenced the whole world economy.

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