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## Evolution of China since it was a pure communistic regime, until today

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**Abstract:** *In this paper, we discuss the evolution of China from a purely communist regime with limited engagement with the global economy to its current status as a major player in global trade and investment. In addition, China's global involvement and the benefits it is reaping from both a peaceful East Asia and a world economy that is becoming more interconnected. Then, we discuss the challenges that face Chinese Business Today.*

*The result is, that China has advanced much in the integration of the global economy and internationalization of its businesses, but it also faces a complex array of challenges in the global operating environment*

**Keywords:** *Challenges, Communism, Global Leadership, Global Economic System, Financial Sustainability, Reforms, and Financial Regulations.*

### **Introduction:**

Starting in 1979, China implemented several trade liberalization and economic reforms. Up until that point, the nation's policies had kept the economy concentrated, stagnant, and essentially isolated from the rest of the global economy. Since 1979, China's economy has experienced a 9.5% annual GDP growth, lifting 800 million people out of poverty and establishing the world's largest economy, manufacturing sector, merchandise trade, and foreign exchange reserve, thanks to its rapid economic progress. China is also the largest foreign holder of U.S. Treasury securities, which help fund the federal debt and keep U.S. interest rates low (Every CRS Report, 2019).

## **The Evolution of China**

The evolution of China from a purely communist regime with limited engagement with the global economy to its current status as a major player in global trade and investment has been remarkable. This transformation has brought both opportunities and challenges for Chinese businesses in the context of global operations.

Despite the ruling dynasty's power, China's reputation as the center of Confucian culture and Sinitic civilization in East Asia remained strong, with Mongols and Manchus being northern peripheral invaders who adopted the Han Chinese's political, economic, and cultural structure.

In the 19th century, the regionalized era of international relations ended as Western countries challenged China's dominance in its neighborhood. China refused to accept diplomacy based on the formal equality of sovereign states and resisted Western efforts to promote commerce based on mutually beneficial free trade.

### **China's Global Engagement:**

Deng Xiaoping's economic reforms in the late 1970s led China to transition from a centrally planned to a market-oriented economy, making it more accessible to international investment and trade, and facilitating further economic integration. China had earned significant and increasing benefits by the early 21st century from its interaction with a tranquil East Asia and an increasingly globalized global economy. Chinese economic expansion benefited consumers in many countries, increasing their purchasing power (Goldstein, n.d.).

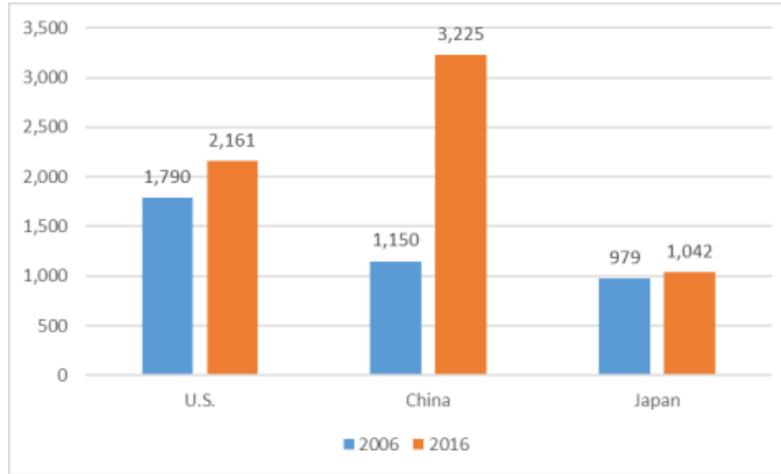
China's rapid economic growth is primarily driven by large-scale capital investment, financed by both foreign and local funds, and rapid productivity growth. It seems that these two elements went hand in hand. Economic changes strengthened the economy's efficiency, which raised output and provided more funds for further economic investment (Every CRS Report, 2019).

### **China as the World's Largest Manufacturer**

The World Bank claims that China is now the biggest manufacturer in the world. In contrast to the US, China's economy is significantly more dependent on manufacturing.

Figure 1: The report provides estimates of the gross value added of manufacturing in China, the United States, and Japan in U.S. dollars between 2006 and 2016.

Figure 1. Gross Value-Added Manufacturing in China, the United States, and Japan: 2006 and 2016, (\$ billions).

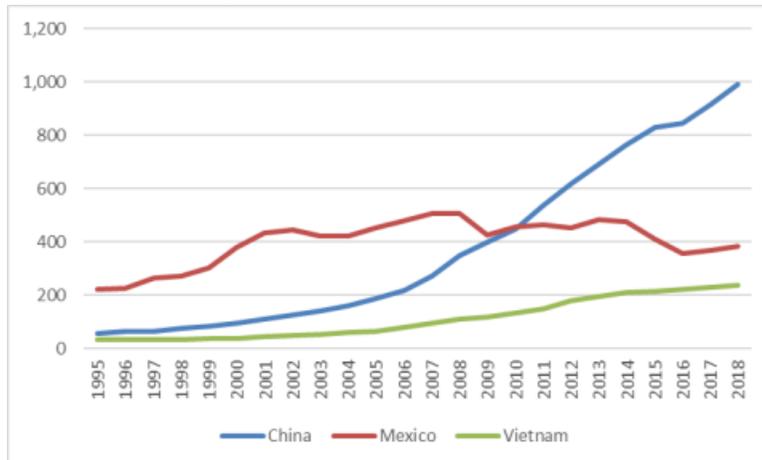


*Adopted from: Every CRS Report. (2019, June 25). China’s Economic Rise: History, Trends, Challenges, and Implications for the United States. Source: World Bank.*

### Wage and Labor Cost

According to AmCham China's 2019 Business Climate report, rising labor costs rank second among the most difficult issues for US companies operating in China. China's unit labor production costs increased from 42.3 percent of US levels in 2000 to 75.5% of US levels in 2018, which is illustrated in Figure 2, (Every CRS Report, 2019).

Figure 2: Labor Cost Index for China, Mexico, and Vietnam Relative to those in the United States: 2000-2018. (U.S. level =100)



*Adopted from: Every CRS Report. (2019, June 25). China’s Economic Rise: History, Trends, Challenges, and Implications for the United States. Source: World Bank.*

### **Foreign Direct Investment (FDI)**

In recent years, Chinese businesses have increasingly pursued outbound investment strategies to expand their global footprint, acquire foreign assets, access new markets, and acquire advanced technologies and know-how.

China's investment environment remains restrictive due to key sector prohibitions and unpredictable regulatory enforcement, with ownership caps, joint venture partnerships, industrial policies, licensing, and technology transfer pressures.

### **Belt and Road Initiative (BRI)**

China's Belt and Road Initiative (BRI), launched in 2013 by President Xi Jinping, is an ambitious infrastructure project aimed at linking East Asia and Europe through physical infrastructure (McBride and Others, 2023). Later, the initiative was extended to South America, Africa, and Oceania, greatly increasing China's sphere of influence in both politics and the economy.

Xi Jinping's ambitious expansion of the Belt and Road Initiative (BRI) across former Soviet republics, Pakistan, India, and Southeast Asia, including a vast network of railroads, highways, energy pipelines, and faster border crossings, is seen as a key part of his bolder Chinese statecraft (McBride and Others, 2023).

### **Made in China 2025 Initiative**

The "Made in China 2025" initiative, announced in 2015, aims to make China a dominant global technology manufacturer by 2049. The strategy aims to enhance competitiveness, promote Chinese brands, encourage innovation, and reduce reliance on foreign technology, transforming China from a manufacturing giant to a world manufacturing power (Every CRS Report, 2019).

### **Challenges for Chinese Business Today**

As of today, Chinese businesses face a myriad of challenges stemming from both domestic and international factors. These challenges impact various aspects of business operations, including economic growth, trade relations, regulatory environment, technological innovation, and geopolitical dynamics. China's economic growth appears to be slowing down for the first time in decades, causing concern for the global economy that relies heavily on its nearly 1.5 billion people for development (Engelland, 2024).

The key challenges for Chinese businesses as of today include:

1. **Geopolitical Tensions:** Growing geopolitical tensions between China and other major economies, particularly the United States, have led to trade disputes, tariffs, export controls, and geopolitical risks, creating uncertainties for Chinese businesses operating in global markets. China will likely have to pay more for geopolitical rivalry and economic hazards in 2024, maybe as a result of President Xi's lessening

foreign policy thrust amidst unstable domestic politics.

2. **Trade Tensions:** Trade tensions with the United States and other countries have escalated, leading to tariffs, trade restrictions, and geopolitical uncertainties. Chinese businesses are facing challenges in navigating the evolving trade landscape, managing supply chain disruptions, and adapting to changing market dynamics. In 2018, China imposed tariffs in response to Trump's trade war and began to isolate itself from US goods. In January 2020, Trump and Xi Jinping announced a cease-fire, and China pledged to increase US imports by \$200 billion. However, China failed to meet this target, and US exports to China barely reached pre-trade war levels by 2021 (Bown and Wang, 2023).
3. **Technological Innovation:** With an emphasis on biotechnology, renewable energy, and artificial intelligence, China hopes to move from being known as the "world's factory" to becoming a global leader in technical innovation. However, Chinese businesses face challenges in developing indigenous innovation capabilities, protecting intellectual property rights, and overcoming barriers to international collaboration and market access. China, an emerging tech giant, is gaining traction in manufacturing, digital platforms, societal problem-solving apps, and basic science R&D. New apps and small-scale financial transactions, as well as the reorganization of already-existing companies and the use of technology like unmanned convenience shops and bike share apps, are the main drivers of this expansion. Technological competition requires a multidisciplinary approach, considering diplomatic and security issues, and economic aspects like assessing technology as a public good. Technology can have significant ripple effects on companies and economies (Schoff and Ito, 2019). Despite a large trade deficit with China, the Trump administration and Congress place a high priority on protecting US technology and opposing Beijing's state-sponsored efforts to control global markets (Schoff and Ito, 2019).
4. **Regulatory Environment:** Chinese businesses must contend with a complex regulatory environment characterized by government intervention, bureaucratic inefficiencies, and compliance requirements. Regulatory reforms aimed at addressing issues such as market competition, financial stability, and environmental sustainability pose challenges for businesses in terms of compliance costs and operational constraints. As part of a cycle of tightening regulations, China is presently enforcing industry-specific, data security, and anti-monopoly laws. As a result, market volatility and China's policy uncertainties have become more of an investment concern. Assessing the degree to which businesses fit with China's long-term strategic goals is crucial since China's ultimate objective is to achieve equilibrium among social equality, sustainable prosperity, and security. Most sectors are affected by regulatory changes,

however not all businesses in a given industry are equally impacted by policies.

5. **Financial Risks:** With fast expansion, China now has the largest financial system globally. That being said, the risks have increased concurrently. China's financial system faces risks related to debt levels, shadow banking, and asset bubbles, which could potentially undermine financial stability and economic growth. Chinese businesses are exposed to risks such as credit tightening, liquidity constraints, and market volatility, particularly in sectors with high levels of indebtedness or speculative investment. China's regulatory environment is intricate and opaque, and its government has been uncooperative with foreign oversight and intervention. (Kreston, 2023). To advance integrity and transparency in financial reporting, the Public Company Accounting Oversight Board (PCAOB) was founded in the US following corporate accounting scandals in the early 2000s (Kreston, 2023).

Some of the financial risks are:

- Banking sector, rising nonperforming loans (NPLs), The amount of outstanding non-performing loans (NPLs) at UBS Bank doubled from 2014 to 2016. The NPLs were mostly concentrated in the manufacturing, wholesale, retail, and micro-small business sectors, as well as smaller banks (Su and Others, 2017).
  - Political agenda, Under President Xi's leadership, financial instability has become a political priority in the past six months, with significant efforts being made to protect financial security.
  - Debt Levels: China's rapid credit expansion has led to concerns about the sustainability of its debt levels. High levels of corporate, government, and household debt raise the risk of default, particularly in sectors with overcapacity and inefficient use of capital.
  - Currency Risks: Fluctuations in the value of the Chinese yuan (RMB) against major currencies, such as the US dollar, can impact trade competitiveness, capital flows, and foreign exchange reserves.
6. **Environmental Sustainability:** Environmental issues that China faces include habitat degradation, deforestation, and pollution of the air and water. These issues have a big impact on ecological preservation, public health, and sustainable development. Chinese businesses are under pressure to comply with stricter environmental regulations, adopt cleaner technologies, and promote corporate social responsibility. China's commitment to transforming into a green, low-carbon, and circular economy will make green compliance increasingly crucial for businesses operating in the country (Zhou,2022).

Finally, businesses seeking inspiration from China can think about taking the following steps:

1. Lead from your China team: Empower your China teams to help create a global strategy. To change your worldwide plan, educate yourself on local strategy in China.
2. Expose your best: Send your best to China to learn from new ideas and expand their sense of possibilities.
3. Stay informed at China speed: Stay updated with trendspotters and on-the-ground resources. Travel may come in second to video updates that highlight experiences and trends for CEOs throughout the world.

China is becoming a more significant competitor and consumer in the global economy; thus, the relationship is not zero-sum. But its biggest advantage in the arms race of innovation is its unique and adaptable populace, which must be acknowledged (Dychtwald, 2021).

### **Conclusion:**

In conclusion, China has made great progress toward internationalizing its enterprises and integrating the global economy, but it also faces a wide range of difficult obstacles in the global marketplace. Addressing these challenges will require Chinese businesses to adapt to changing market dynamics, enhance their competitiveness, and demonstrate a commitment to responsible business conduct and sustainable development to thrive in the global marketplace.

China is spearheading two enormous infrastructure projects with global reach: Made in China 2025 and The Belt and Road Initiative.

Also, most of the sectors are affected by regulatory changes, however, not all businesses in a given industry are equally impacted by policies and other regulations.

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