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School of Management

MGMT 630: Business Enterprise Environment

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Does the size and growth of the economies of the two nations have any relationship to capitalism and democracy?

China's enormous economic growth has been the most significant developments in the global economy. Chinese economy expanded at an annual rate of 9.4 percent in 1978 to 2004. In the history of world economic no other economy grown so rapidly. In spite of financial debt crisis and havoc in U.S markets over few years, China's economy has rapidly grown. As per World Bank, China's $8.22 trillion economy is the seconds largest in the world when compared to $15.68 trillion U.S. economy. China is the largest exporter and second largest importer across world. In the year 2012, China's per capita GDP was $9,233 compared with $49,965 in the U.S. In future till 2020 China GDP may reach $10,000, one-fifth is projected for the U.S. China's population in 2012 was 1.4 billion, America's 316.5 million. In 2020, China's population will be quadrupled that of the U.S. China's economic growth rate will remain to increase at a higher rate because the base of economy will grow is enormous in comparison. These two great major powers will cooperate or compete.

Today China is the most dynamic capitalist nation. It doesn't have freedom of speech. People are imprisoned if protested and who threaten stability and there doesn't exist civil liberties, labor unions, and centers of political power exterior to communist party. When comes to economics among the world's nations there is no longer between communism and capitalism. It's political. China is a capitalist economy with authoritarian government. For many years, assumption made that capitalism and democracy goes hand in hand. The American policy towards China had key elements to encourage free trade, open markets and direct investment, for China to become more successful and united in the global market. American policymakers thought that China would become democratic. For democracy to be in action they must be centers of power external to government. Capitalism decentralizes economic power, and provides private ground in which democracy can take effect.

China's size and growth of its population, the growth rate and value of its economy had grown drastically and it is the largest global trade. Perhaps China is the only threat to U.S. power as seen widely. Its rise has led to fears that the country will beat its neighbors and replace the United States as a global. But widespread perceptions of China as an aggressive, expansionist power are off base. Although China's relative power has grown significantly in recent decades, the main tasks of Chinese foreign policy are defensive and have not changed much since the Cold War era:

to blunt destabilizing influences from abroad, to avoid territorial losses, to reduce its neighbors' suspicions, and to sustain economic growth. What has changed in the past two decades is that China is now so deeply integrated into the world economic system that its internal and regional priorities have become part of a larger quest: to define a global role that serves Chinese interests but also wins acceptance from other powers. Americans wonder whether China's rise is good for U.S. interests or represents a looming threat, Chinese policymakers puzzle over whether the United States intends to use its power to help or hurt China.

Americans sometimes view the Chinese state as inscrutable. But given the way that power is divided in the U.S. political system and the frequent power turnovers between the two main parties in the United States, the Chinese also have a hard time determining U.S. intentions. Nevertheless, over recent decades, a long-term U.S. strategy seems to have emerged out of a series of American actions toward China. So it is not a hopeless exercise -- indeed, it is necessary -- for the Chinese to try to analyze the United States.

Most Americans would be surprised to learn the degree to which the Chinese believe the United States is a political power that seeks to curtail China's political influence and harm China's interests. This view is shaped not only by Beijing's understanding of Washington but also by the broader Chinese view of the international system and China's place in it, a view determined in large part by China's acute sense of its own vulnerability. In my opinion, during the next 30 years the Chinese will have no desire to enter into a conflict with the U.S. They know they will continue to grow stronger, but they are also aware of how far behind they are technologically. They require continued access to American schools so their students can learn how to reinvent themselves.

What is the impact of the Internet on the two national economies?

To upgrade the Chinese economy to new high tech industries and adopt R&D and innovation, government has made it a vital goal. It has invested lot due to rise in wages and economy is losing the advantage of low cost. With the Internet, China is trying difficult tasks without any tool, if it has to develop homegrown innovations that can compete on global scale. The censorship of China's internet is an disadvantage, Americans don't have any problems in freely accessing whatever they wish moreover, joining in online forums whereas Chinese are not able use it as an creative device. The Internet in China is sprouting. Twitter can be blocked but they have an alternative called Sina Weibo a blogging site. It had great influence on Chinese society by providing information within country. Such sites help them to exchange within China, it doesn't help Chinese to connect to the world. Chinese cant use Internet as out of fear.

According to a study by Boston Consulting Group, the contribution of Internet is more to the American economy. In the year 2010, Internet brought $684 billion, or 4.7% to U.S. economy found by Boston Consulting Group. When considered retail industry alone, e-commerce has contributed 5% of US sales in the same year. The countries having largest Internet economies: the United Kingdom, China and U.S. are bond with Japan. Predictions show that internet will grow about 10% every year through 2016 and it will grow nearly twice as fast in the evolving markets such as in developed economies with India and Argentina will have fastest growth according to a study.

"The U.S. is relatively mature as an Internet economy, whereas some of the developing economies are further behind -- so their growth rates are higher," Field said. Granted, measuring the full impact of the Internet can be a fuzzy matter. In the Boston Consulting Group study, the researchers included the impact of e-commerce, what consumers pay to access the Internet and money spent by businesses and the government on building Internet infrastructure.

In the U.S., the Internet economy accounted for 4.7 percent of the country's 2010 Gross Domestic product (GDP) of $14.5 trillion, or approximately $68.2 billion. That number is expected to pass $100 billion in 2016, when the Internet economy is projected to comprise about 5.4 percent of the country's estimated GDP of $18.6 trillion.

At present, the Internet contributes more of a percentage to America's GDP than traditional industry sectors like information and technical services, construction, education, agriculture, and arts, entertainment, and recreation. And it comprises about 5 percent or $252 billion of all retail.

How do these nations define capitalism in relation to national political policies?

The United States economy is a capitalist economy. It is described as a system in which a group of people who control money, or capital and also make vital economic decisions. The social theorist Karl Marx believe that capitalist economies power goes into hands of wealthy business people, their aim is to maximize profits, socialist economies and on the other hand would be most likely to report control by government, which manages to have political aims. The pure capitalism described ever existed, has long back disappeared as governments in the United States and many other countries have interfered in their economies to limit attentions of power and address many social problems linked with private commercial interests. As a result, the American economy is described as 'mixed economy' where government playing a vital role along with private enterprise. Although Americans mixed economy have been developed and extremely successful.

Communist party managing the capitalism's crisis than democratically electing U.S. government ruled China. Beijing's spent a lot and infinitely was more effective at dealing the slowdown and focused at laying the tracks for economic expansion. China's economy has significant rise, bringing billion of people above poverty and also created world's largest middle class to provide an engine for domestic consumer demand. Beijing is doing effective job when compared to Washington to shaping its economy to meet future challenges. President's state visit to Washington, Chinese surviving the financial crisis is an evidence of their own system and beginning of an era in which no ideas of U.S be dominant. Today Chinese leaders are tending to scold the U.S. China's success in directing the economic crisis was based on ability of its authoritarian political system to make large, complex decisions quickly and build them well in economic policy. Historian Francis Fukuyama made some wrong assumptions that the collapse of the Soviet Union " end of history. He then admitted he was wrong but his apology not for Chinese authoritarianism, the absence of democracy will stumble China's progress. When there are no elections, communist leaders are responsive to public opinions. Leaders never subscribed to historian, on which they were nurtured that there is no depending relationship between capitalism and democracy. And neighbors like Taiwan, South Korea and Singapore to see economic success stories under authoritarian rule. China adopts quickly, making tough decisions and implementing it effectively. Americans pride themselves on constitutional checks and balances, based on political culture that distrusts centralized government. The system has individual liberty and vibrant private sector but now divided and became inflexible. Democracy in America may have essential legality that Chinese system lacks but it wont is much of model to anyone if government itself is divided.

In U.S. political system, and corporations have a supreme court- a recognized right to use their financial strength to promote candidates and policies favorable to their business operations and to resist policies. U.S. system invariably produces either gridlock or mishmash legislation crafted to please the narrow interests of a variety of competing interests rather than the aggregated interests of the economy and society as a whole. Efficient and rational decision making it's not. Nor does it appear capable of tackling long-term problems.

China is opposite, the system is doubtful to give corporations the power to refuse or shape government decision making to suit their bottom lines at the expense of the needs of the system as a whole.

Is there a relationship between economic growth and personal freedom with the two nations?

The imbalanced nature of financial flows and trade between the U.S. and China has complicated their mutual relationship, tightening the economic tangles between the two economies and making them more antagonistic. Rise in Chinese ownership of U.S. debt for the relationship between the two countries. The U.S. has become less dependent on China's financing of its scarcities, in particular to the U.S. private saving rate has gone up and the current account deficit has fallen.

The two nations have continued to increase its trade and the U.S. is one of China's major export markets. In the year 2000, Chinese exports to the U.S. rose from $100 billion to $296 billion in 2009, while imports rose from $16 billion to $70 billion. The rising volumes of trade between the two economies have made them more important as mutual trading partners. Exports to the U.S. accounted for a relatively stable share of about 21 percent of China's overall exports from 1998 to 2006. During 2007-2009, the share of China's exports going to the U.S. fell to about 18 percent. The share of U.S. exports going to China has risen gradually over the years but is still under 5 percent. Furthermore, direct investments in China have remained at about 3 percent of the U.S. global total.

In the United States manufacturing activity has declined, but it is not a simple process of moving production facilities to China. Instead, many American firms have shifted away from the prior model of large integrated production units in order to focus on product design and marketing. Thus, they contract with firms that are part of the regional production network in Asia, and undertake little of their own production. Apple computing is a leading example of such a company: it owns large production facilities in the United States, and contract with companies in Taiwan and Korea who assemble the products in China. In addition, from China's perspective, the United States is an important but not dominant export market. Exports to the United States were 20 percent of the total in 2011, about the same as the US share of global GDP, but the proportion of China's trade going to the United States has fallen substantially since 2001 when it accounted for 29 percent. The bilateral trade flow is of reduced importance to a rapidly growing China with potential for growth with other emerging markets. China has a large trade surplus with the United States, but many of the exports are in the processing sector where the value added benefits to China are limited. At last, there is a relationship between two nations economic growth. China has grown because it invested its large exchange reserves in U.S. bonds. However, the growth is primarily due to continuous growth in imports from China that is now three times larger than U.S. exports to China. The magnitude of the difference in trade was large and continued to rise even though U.S. exports to China are increasing speedily than imports. As a result the economic growth of two nations has significantly increased.

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