The growth of China and the global community

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A major market success story, China is flexing its economic muscles as it weighs the pros and cons of playing by the rules. “China has deep ambivalence about integrating into a global system of powers it formally viewed with suspicion and which made the rules it is not sure it wishes to follow,” said Glenn Shive at an International Executive Roundtable hosted by UC Denver’s Institute for International Business.

“China’s behavior at the (Dec. ’09) Copenhagen Climate Summit showed its concern for sustaining economic growth regardless of environmental consequences and the interests of other global players.” Consequently, a new discussion is emerging, Shive said: “How do we incorporate a big China, an assertive China, into the global system?” With China’s resurgent pride in its 5000-year-old civilization and its current economic achievements, it’s clear they don’t want to be told what to do or how to behave. “America says that it wants China to be a responsible stakeholder in the global community. But the Chinese leadership does not appear to fully understand or accept the new responsibilities that come with their country’s elevated place in the world.”

China is a paradox of conflicting realities, Shive said.
• “China is a developed and also a developing economy;
• “China is both a very developed society and a very poor society;
• “China is a vast new market sector by virtue of its population and also a limited market because of purchasing power disparities and tight state controls.” Nevertheless, China’s growing economy has created benefits around the world. “Many multinational companies have made a lot of money from low manufacturing costs in China which in turn have brought down retail prices and enabled global consumers to enjoy low priced goods.”

Eye on the value chain
For decades China had something that few other countries could match: an abundance of cheap labor. This has been particularly true in the Pearl River Delta (PRD) region, the location of choice for foreign manufacturers and outsourcing companies which have accounted for 33 percent of China’s exports. But the region’s fortunes may be changing.

The Pearl River Delta is losing some of its luster due to new labor laws and environmental regulations that have made production of low-margin goods less profitable, said Shive. “Now the PRD is looking at moving up the value chain; it no longer wants to be just a huge plantation full of factories where migrant laborers come down from the countryside, work, live in the dorms and send money back home.”

The PRD – a network of cities that covers nine prefectures of the province Guangdong including Hong Kong – sees its future in high-tech and research-driven new products and services. So it is looking for people with specific skills to make that happen. “There are more PhDs in Shenzhen as a percentage of the population than anywhere else in China.”

A potential problem for the PRD: increased competition from within. About 750 miles up the eastern coast from Guangzhou in the PRD, “Shanghai is booming and competing with this South China region to be the preferred manufacturing site for foreign investors,” said Shive, adding, “I think it’s friendly competition that can only spur greater economic success for both.”

Dramatic adjustments
It would seem that the world was caught unaware by China’s transformation from market seeker to market leader. “The momentum of China’s growth has unbalanced the global economy, requiring dramatic adjustments among international organizations,” said Shive. He added, “Around the world concerns have been raised about the role that China will play in the global system.”

China has seized the advantage, “operating as a major player in the international theater due to its new political face and resultant policy leverage. This is so particularly in East Asia.” Typically, China would assure its regional neighbors of its peaceful intentions even as the country expanded its military budget. “But most recently China was very aggressive in pressing a claim with Japan regarding territorial rights to the Senkaku/Diaoyu Islands which currently fly the Japanese flag. So we see a new trial-and-error process in China as they try to figure out where their new military power fits into their global positioning.”

“Inside China there is a perception that the country’s economy is bigger than America’s. And on the other side of the globe, America seems to have gotten the impression that China is growing as we’re sputtering along in our recession and being left behind. Many in China accept as inevitable that America is now on the decline and that China will be the new global leader by mid-century or sooner,” said Shive.

In the meantime China is taking steps to ensure it doesn’t lose any of the momentum going forward. “The country has moved progressively to acquire oil and other natural resources from around the world to maintain its global energy consumption,” said Shive. “And it recognizes that the higher level of goods and services it wants to provide requires a greater, more sophisticated higher education system.”

The number of universities in China has more than doubled in the last decade, he said. “In 1998 there were a thousand universities and 10 years later there are 2000 universities. Chinese students are on the move, going abroad in record numbers and contributing to the globalization of higher education.”

However, what appears to be a rosy picture has an underside. “The quality of the faculty in classrooms and the student-teacher ratios are not good. So China is putting the brakes on creating more universities.”

Shive is optimistic about the US-China educational relationship which has burgeoned since 1980 when it first started. “It is enormously valuable to both sides because these are two societies that have to understand each other in a deeper way than we are frankly capable of doing alone.”