The Real Economy in the Long Run

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**Introduction**

Founded by Bill Bowerman and Phil Knight in 1964 and headquartered in Beaverton, Oregon, the Nike Company has grown since its founding to employ over 44,000 employees, be valued at $19 billion, and regarded as the most valuable brand among sports businesses today (Nike, Inc. 2016).

However, in order to maintain this supremacy over emerging competitors Under Armour, our team recommends placing our new manufacturing plant in China to align our strategic plan with enhanced growth and investment in new labor opportunities.

**Factors that determines China’s Productivity**

First, it is essential to consider the three factors that determine China’s overall productivity; labor, productivity of the land, and low cost of living. As an emerging global economic power, China’s growth of gross domestic product (GDP) per capita averaged above 8% per annum over the past three decades (Knight, 2011). This is significant for Nike in that China’s GDP growth has effectively raised more than 300 million people raised out of dollar-a-day poverty (Knight, 2011). For this new manufacturing plant, Nike will primarily employ these Chinese laborers and the company would benefit from this new class of citizens seeking a higher standard of living.

Secondly, compared to the United States, China has a significantly greater amount of land capable of supporting new manufacturing. This is important for Nike to consider in productivity in China is enhanced by a much lower cost of living. In recruiting the necessary talent to grow in China, this lower cost of living may be an attractive option as China’s broader economy only continues to grow.

**Recent Chinese policy encourages productivity growth**

Operating under a communist regime, the Chinese government has not historically promoted policies that have been conducive for growth. However, as China’s economy has grown, it’s governmental policies have evolved to meet this demand. Nike is in an excellent position to take advantage of this shift in policy.

In 2014, the Chinese government announced that - in order to maintain its steady upward trajectory - it would need to “roll out policies that spur businesses' vitality, effectively increase demand and boost jobs” (BBC Business, 2014). Since this announcement, the government has increased the number of railways by 18% to the central and western regions of the country and set targets for annual manufacturing production (BBC Business, 2014). With both of these initiatives, Chinese policy has maximized its geographic area and placed manufacturing at the forefront; both key considerations for Nike to consider.

**China’s financial relations to Macroeconomic Principles**

 In spite of China’s annual growth and the government’s continued support, many economists have been somewhat guarded in their forecasts for China’s financial future. Evidenced by recent downturns and market volatility, there is a concern that China’s financial success is unsustainable and not necessarily a wise choice for foreign investors.

While we recognize these risks and will address some of them in the next section, our team believes that China’s strong financial relations with the United States still make it an attractive option for offshore investment. In 2016, the White House officially reaffirmed that the U.S. and China “recognize their shared interest in promoting a strong and open global economy, inclusive growth and sustainable development, and a stable international financial system” (The White House, 2016). As the world’s two largest economies, the continued collaboration between the U.S. and China is a key factor for Nike to consider as an American company looking to expand its reach in a global market.

**Risk reduction in relocation**

Despite these positive signs, there are significant risks that our team believes Nike should consider. The four ways to reduce risk are to avoid, mitigate, transfer, or accept. While we have already acknowledged that Nike is accepting some risk in relocating to China, our best strategy is to mitigate.

Specifically, the Chinese market is somewhat limited for Nike - as a sports organization – in that there are “no opportunities similar in scale to those in Europe exist, and the more popular sports in China, i.e. football and baseball, have limited appeal in urban areas” (Trefis, 2015)*.*  In Chinese culture, sports still have somewhat of a limited appeal and education is still valued much higher. Therefore, Nike would need to mitigate the risk of limited growth.

Therefore, to mitigate and thereby reduce our risk in relocating to China, we would need to ensure that Nike has researched a specific location for the manufacturing plant. While our main goal is manufacturing, we want to ensure that the new plant is in a location that is accessible to China’s growing labor force and well-advertised to overcome this gap in sports appeal.

**Current and Five-Year projected unemployment of China**

A final but important consideration for our relocation is China’s current and projected unemployment rates. Unemployment statistics presented by the National Bureau of Statistics lists a rate of 4%; however, the data gathered in this survey were collected from only urban regions of the country (Belsie, 2012). In utilizing the National Bureau of Statistics numbers of “4%, inflation rate, and the current Gross Domestic Product rate, it is projected that the unemployment rate in China over the next 5 years will remain at the 4% rate” (National Bureau of Statistics, 2012).

For Nike’s purposes, the unemployment rate among citizens without college degrees, younger people, and females in China represents the highest demographics in the Nation and could present a prime targeted work force within the country. With the number of newly enrolled students in public universities rising steeply in 2006 to roughly seven million in 2016; limited quality jobs with a higher educated workforce will create an excess of motivated and highly qualified employee pool for a new facility.

**Conclusion**

In conclusion, our team has determined that Nike should relocate its new offshore manufacturing plant to China by taking advantage of the labor surplus in China’s emerging economy. In comparing Nike’s strategic plan for aggressive growth with China’s previous success and economic projections, we believe that China offers the right elements for a wise investment opportunity. Although there are certainly risks to this endeavor, our research has shown that China’s labor productivity, governmental reforms, financial relations with United States, and unemployment projections will successfully mitigate these risks and a new Chinese manufacturing plant will further advance Nike’s strategic goals.

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