

# Edexcel (A) Economics A-level

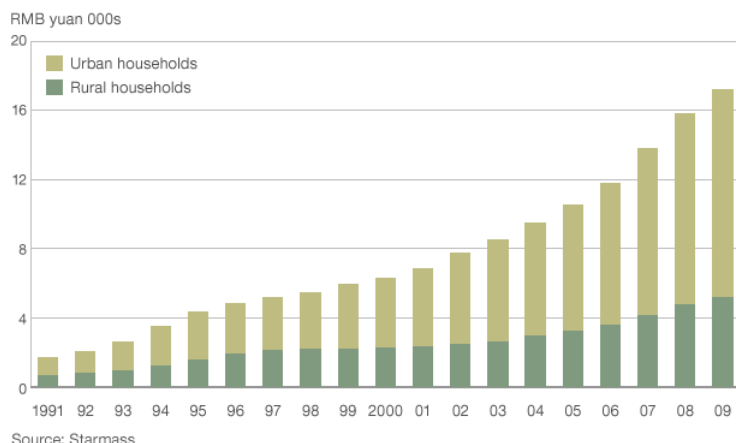
## **Theme 4: A Global Perspective**

### 4.1 International Economics

#### **China Country Profile**

#### **Notes**





China overtook Japan in 2011 to become the world's second-largest economy. It is the world's fastest-growing economy but problems such as growing inequality, pollution, rural poverty, an inefficient state sector and low domestic consumption still exist. There needs to be investment in social services, pensions, and healthcare, since the population is ageing.

### Trade:

China is one of the world's top exporters and attracts huge amounts of foreign investment. It also invests billions of dollars abroad. Initially, the financial crisis of 2009 and the collapse in international export markets that accompanied it damaged China's exports, but the economy quickly returned to growth. However, the debt crisis in the Eurozone, which is one of the biggest markets for Chinese goods, hindered China's growth by early 2012.

Since China is a member of the WTO, they can gain the benefits of getting access to foreign markets. However, China's relations with trading partners have been strained because of China's trade surplus and the piracy of goods.

China's main exports are manufactured goods, including textiles, garments, electronics and arms.

During the 1990s, economic expansion rose because of mass privatisation and because China opened up to inward FDI. Firms built factories in China and took advantage of the low labour costs. However, some people fear that private enterprises, rather than state-owned, carry social costs such as unemployment and instability.

Cheap labour has reduced prices for many manufactured goods. China is now the biggest investor in Africa, promising to shift the continent's focus away from Europe and the US for the first time in two centuries. China is also the biggest foreign holder of US government debt.

China is now Japan's main trading partner and is increasingly important to companies such as Sony, Honda and Toyota. The yen has been strengthening against other currencies, and the fear is that this might hurt foreign demand for Japanese products.

Chinese demand has caused increases in prices for commodities like copper, for cables in rapidly growing cities and infrastructure. There is demand for Europe's luxury goods makers like Louis Vuitton and Hermes in China's gift-giving culture. Higher standards of living are causing more exports.

### Currency:



China's trade surplus has led to demands for Beijing to raise the value of the Renminbi. This would make the export of Chinese goods more expensive, potentially reducing them. Beijing responded by easing restrictions on trading in the renminbi.

### **Inequality:**

There is an economic disparity between urban and rural citizens, which is among the largest in the world. Recently, many impoverished rural dwellers moved to the cities which have enjoyed a construction boom. By 2012, those in the city appeared to outnumber the rural population for the first time.

High growth has increased the overall wealth of the population. This is especially in cities where factory worker's wages have risen, so they have more disposable income. Earnings of those in the countryside have not risen as quickly, although there has still been an increase in their disposable income.

### **Pollution:**

Fast economic growth led to a rise in demand for energy. China is the largest oil consumer after the US, and the world's biggest producer and consumer of coal. It spends billions of dollars for foreign energy supplies. They have invested heavily in hydro-power, such as on the \$25bn Three Gorges Dam project.

However, there is poor environmental policy. There has been no promise of tough powers for China's environmental authorities. Officials have only promised to reduce pollution.

However, reducing pollution might mean imposing costs on industries that have to become greener. Some of these industries are state owned and are politically influential. Those which are private firms face huge competition and can't afford the extra costs. With higher costs, they might reduce the size of their workforce, which is politically difficult for Xi Jinping. The Party's policies revolve more around rapid economic growth than the environment.

The country has built thousands of extra power stations to provide electricity for all the new factories and growing in cities. This has caused higher pollution levels, especially from the country's numerous coal-fired power stations.

Rapid industrialisation and a building boom saw China overtake the US as the world's biggest emitter of greenhouse gases in 2007. Every year, pollution causes 500,000 to 750,000 premature deaths. Airborne pollution including mercury and lead is carried across borders into neighbouring countries and across the Pacific where it falls on the US West Coast.

### **Corruption:**

As China's economy grew, corruption has become the biggest source of anger against the Party. Measuring its scale is impossible, but corrupt officials are thought to have smuggled \$120bn out of the country since the mid-1990s. There is also resentment against perks of office like banquets, expense accounts and lavish gifts which have become an important extra source of income.



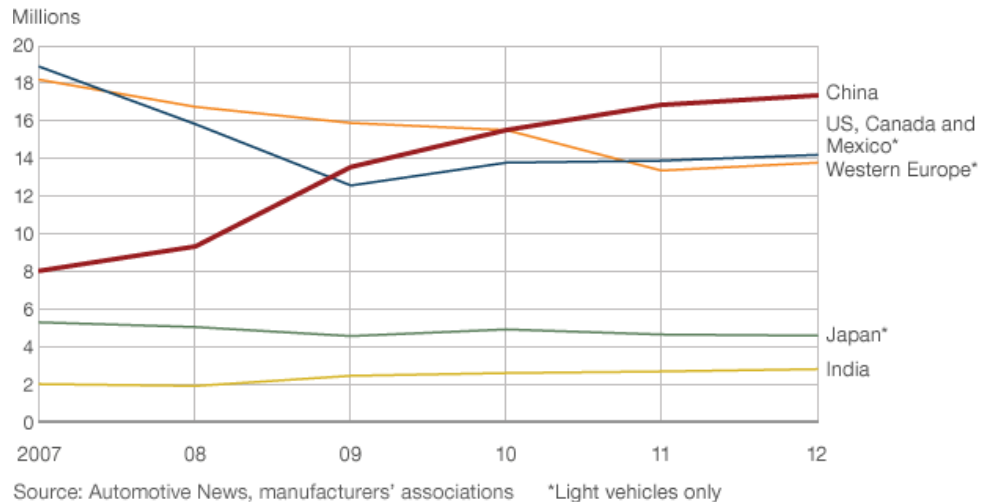
### Standard of Living:

Graph shows car ownership.

A car is a symbol of status in developing countries. As incomes rise, more people own cars.

The consumption of pork has been limited by the weak

spending power of the population. As people's incomes have risen, since the 1990s, the amount of pork purchased has soared.



China is now home to 460m pigs, half the world's total. There is a shortage of land so it is hard to feed them. Farmers have resorted to importing up to 60% of the world's soya bean exports, which raises prices for the rest of the world, and raises fears over the industry's environmental impact.

In the future, there will be more pressure because China will need to feed 21% of the world's population with only 9% of its cultivated land. There are likely to be higher food prices, and more Chinese farmers might buy overseas land.

China's tourists are now the world's third biggest spenders, behind those from Germany and the US, and 70m Chinese travelled overseas in 2011, compared to 4.5m in 1995. Each year about 300,000 Chinese students head abroad, especially to universities in the US and Australia. The wealth that has been created inside China has surged around the world.

Money spent on China's projects might be better spent on welfare for the poor. Despite the fast growth, 200 million people still don't have access to safe water. According to the World Bank, nearly 500 million Chinese people still live on less than \$2 (£1.40) a day. The rural poor have not felt the benefits from China's economic expansion.

### Growth:

There is uncertainty over the economy can keep growing at the same rate as in the past. Some analysts expect it to slow from 10% a year to 6-7%, but they argue that deep reforms are needed if China is to become a rich rather than middle-income country.

Growth should help create the world's biggest middle class, eager to enjoy creature comforts like cars and air conditioning, whatever the environmental cost.

### Foreign Aid:

China has also developed a new international aid policy which means they will become a more prominent player in aid relationships across the developing world. This will be evident across Africa where China has foreign policy interests. China sees Africa as an alternative source of energy and



raw materials that are essential to the continuation of China's economic modernisation process. Chinese FDI into the African continent will grow. This might generate domestic political controversies concerning the returns to local communities from large-scale mining development. Providing aid might also form a new trade link with Africa.

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