**CHINA CASE STUDY: Economic Growth and Development**

Since 1978 the Chinese economy has maintained economic growth at an average of nearly 8%. By western standards this is amazing. The UK, by contrast, has grown at an average rate of 2.5%. However, despite the impressive figures there are many serious economic problems resulting from economic growth. China has built its success as being the ‘factory’ of the world and has fully benefitted from the wave of globalization which began in the 1980’s. Large increase in the manufacturing sector have led to large increases in GDP as China have sold products to the rest of the world. This has boosted jobs and created huge waves of migration from rural areas to urban areas.

China has all but eradicated urban absolute poverty. For a country with huge numbers of poor people streaming into its cities, many of whom living initially in conditions of abject misery, this is an extraordinary success. Also China has lifted more people out of poverty than anywhere else in the world: its per capita income in increased fivefold between 1990 and 2000, from $200 to $1,000. Between 2000 and 2010, per capita income also rose by the same rate, from $1,000 to $5,000, moving China into the ranks of middle-income countries. Between 1990 and 2005, China’s progress accounted for more than three-quarters of global poverty reduction and is the reason why the world reached the UN millennium development goal of halving extreme poverty.

In particular, the growth rate combined with a population of over 1 billion has caused serious environmental problems. Pollution is a major problem in many industrialised cities. Increased car ownership has led to problems of smog and worsening air quality. Pollution also occurs from China’s vast industrial sector. Often regulation of pollution is very limited with untreated sewage often been poured directly into rivers.

The growing demand of the Chinese economy has placed great demands on China’s creaking power infrastructure. This has led to the creation of projects like the Three Gorges Dam. This has been criticised for creating environmental and social problems. Environmentalists fear that the dam will severely impact on the natural habitats of many species.

China’s economic growth has benefited the south and eastern regions more than anywhere else. This has created a growing disparity between north and south. The agricultural north has, by contrast, been left behind. Many farmers struggle to make a living. Therefore, this has encouraged a migration of workers from north to south. China has struggled to deal with this regional inequality and political instability is often a concern for the Chinese Government.

It sounds a paradox that the Chinese economy can grow at 8% and yet unemployment is still a problem. The reason is that there are still many state owned enterprises which are arguably inefficient. Therefore, in the process of privatisation and modernisation many surplus workers are being made redundant. There is also a lot of unemployment (and disguised unemployment) in the agricultural sector.

Recently there have been significant crashes on the Chinese stock market which might suggest that the economic growth is unsustainable as China has grown to quickly too soon. Markets are awash with money and a tendency to borrow money and get into debt. All of these factors mean that some worry there will not be enough resources in the future to develop further because it is being used today.

Because the Chinese economy is growing so quickly there are concerns that this could easily lead to inflationary pressures. Wage pressures are already starting to rise. This is particularly a problem especially for very poor families who struggle to buy basic needs. Others argue that the inflationary pressures are pretty low for such strong growth. Therefore maybe this is not such a serious problem for China?

**UNITED KINGDOM CASE STUDY: Economic Growth and Development**

Following the early 1990s recession UK GDP had been rising for approaching two decades. Gordon Brown (Chancellor) and Tony Blair (Prime Minister) in their time in office (1997-2007) regularly referred to the record quarters of consecutive growth the country had experienced. Economically this time period was referred to as the NICE decade, where there was constant expansion but was ultimately non-inflationary which was unusual historically compared to other booms in UK history. For the UK, this was a long period of economic growth – it was the longest period of economic growth in a long time.

Living standards rose from 1997 to 2007 as a result and everyone felt richer. Unemployment rates fell and relative poverty in the UK declined over this period. The increased tax receipts and reduced Government spending on benefits meant there was more money available for investment. One of the successes of the Labour Government of this time was there investment in education and healthcare as a result. However the UK suffered from rising obesity rates and records of depression increased from 1997 to 2007 during the economic boom.

Other issues have been the growing housing property boom in the UK which has led to people taking out large loans and getting into debt difficulties. Young people are priced out of the housing market and have to rent or live with their parents into their 20’s. A rising trade deficit because of the boom has meant higher incomes have sucked in imports and exports have declined since 1997. So far this has been financed by foreign investment into the UK but this is starting to come to an end in 2016 and the worry is, the UK will over stretch itself in borrowing money and this is not a sustainable way forward.

Accusations have been made to suggest the main beneficiaries of this boom during the 2000’s was the South-East of England. The Midlands and North of England did arguably not benefit as much as London and it’s surrounding areas.

This ‘boom’ of the ‘naughties’ changed in 2008-9 when the UK experienced the worst recession since records began following the global financial crisis which started in the USA. The recovery from the fall in GDP was very slow and uncertain; indeed the UK was perilously close to entering a double-dipped recession at the start of 2012, only narrowing avoiding such an event.

Since 2013, the UK was experiencing a much faster recovery and in the third quarter of 2013 GDP was finally above pre-crisis levels. This has still not been achieved by some European countries, although only Italy in the G7 have yet to return to GDP higher than before the financial crisis began.

However, in terms of GDP per capita, the UK has failed to recover to such levels. One reason behind this is that despite increases in GDP, the UK has seen population rise faster than many other economies in recent years. Therefore, once GDP is adjusted for this higher population, GDP per capita is lower than it was before 2008. Other accusations were leveled at the Coalition Government of 2010-2015 (Conservatives and Liberal Democrats) for cutting Government spending during a recession to try and reduce Government debt levels (‘Austerity’).

In 2016, manufacturing in the UK is starting to decline again and with the BREXIT decision in July there are worries that the UK economy is descending into further turmoil.

**EVALUATING ECONOMIC GROWTH**

**Key TERMS:**

* Economic Growth – an increase in output per year, measured via GDP.
* Economic Development – an improvement in living standards
* Boom – growing more than expected
* Recession – two consecutive quarters of negative growth
* Economic Sustainability – growing today and making sure there are enough factor inputs to produce and grow in the future. We are unsustainable if we are using up the majority of our finite resources today which means
* Absolute Poverty – people living with an inability to meet their basic needs (water, food, shelter etc.)
* Relative Poverty – people living in a society where they are unable to meet their needs compared to others in society

**TASK: Using your knowledge from the two articles, provide examples and explanation of the following advantages and disadvantages**

**Advantages of Economic Growth**

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| --- | --- | --- | --- |
| Higher living standards  | Lower unemployment | More money for the Government (reduce budget deficit) – more tax and less spending on benefits | Improved public services |

**Disadvantages of Economic Growth = Sustainability Issues**

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| --- | --- | --- |
| Greater inflationary pressures | Environmental pressures | Poor health issues |
| Greater income inequality | Greater trade deficit | Greater debt? |

What is your conclusion about whether Government’s should pursue economic growth?

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