

An Overview of the Chinese Economy

Foundation Part: Macro-economy of the Mainland



The Chinese economy has been growing rapidly for years. Has it reached the level of the developed countries? What indicators can we use to measure the economic performance of a country? And what are the factors which affect the economic performance of a country?

Is China still an agricultural society? Which industry does most Chinese people engage in? Which industry should China further develop in order to enhance its economic development?





Lead-in Activity: Why should we understand the economy of China?

Students can understand the recent economic development of China in this lead-in activity. In addition, teachers can also know about students' understanding of the concepts like "GDP", "three strata of industry" to facilitate the coming discussion.



Siu Ming, we will graduate from university next year. Do you plan for your career? I am very worried about it as there is a keen competition in the job market in Hong Kong.

May

I major in Economics and Finance and I intend to look for a job in the mainland after graduation. It is because in 2010, the GDP of China surpassed Japan and became the second largest economy in the world. Various sectors like industry and commerce, finance and infrastructure are booming in the mainland, which definitely has a greater potential for development and it provides more job opportunities compared to Hong Kong. In addition, I think that working in the mainland can help broaden my horizon and enhance my competitiveness.



Ming



In fact, I have read some news reports about working in the mainland before. According to the latest statistical report released by the Census and Statistics Department of the HKSAR, there are about 200,000 Hong Kong people working in the mainland and most of them work in the import trading and manufacturing industry.

May

More than 85% of Hong Kong people who work in the mainland are now working in the Guangdong Province, and all of them are "Managers and Administrators" or "Professionals and Associate Professionals". May, you understand the economic situation of our country so well. I have to get myself well-prepared and learn more about the economic situation of China in order to enhance my adaptability in the coming future.



Ming

Think About It

1. What are the major industries which support the current economic development of China?
2. Is the distribution of industries in the mainland the same as that of Hong Kong?
3. Currently, the GDP of China ranks second in the world. But does a higher GDP mean better economic performance? Are there other indicators to measure the economic performance of a country?



Knowledge Content

: Gross Domestics Product (GDP)

Gross Domestics Product

GDP is defined as the total value of all final goods and services produced by a country (or region) in a given period of time, reflecting the general scale of the economy of a country (or region).

Worldwide GDP (2011)

Country / Region	Rank	GDP (Billions of US\$)
US	1	15,094
China	2	7,318.5
Japan	3	5,867.2
Germany	4	3,570.6
South Korea	15	1,116.2
Hong Kong, China	37	243.7
Singapore	39	239.7

Source: World Bank

As shown in the table above, the GDP of China is one of the highest in the world. In 2011, the GDP of China was second to the US and higher than some developed countries like Japan, Germany and the UK. However, it does not mean that the living standard of the Chinese is better than those countries and this will be further discussed.

Worksheet 1: Economic performance of China



Source 1

Economic performance of China in 1980



Gross Domestic Product (GDP) is the total value of all final goods and services produced by a country (or region) in a given period of time. In 1980, the GDP of China was only US\$189.4 billions, ranking twelfth in the world.

For per capita GDP, it is the average value calculated by dividing the GDP by the total population of a country (or region). In 1980, the per capita GDP of China was US\$193 which ranked 142 among 146 countries listed by the World Bank. At that time, China was a country with very low per capita GDP and its level of economic development was rather low.



Source 2

The economy of China grows steadily

In 2000, the GDP of China was US\$1,198.5 billions, while its per capita GDP was US\$949, ranking the 6th and 135th in the world respectively.



Source 3

Per capita GDP of China ranked 84th in 2011

According to the World Bank, the GDP of China was US\$7,318.5 billions in 2011, ranking the second in the world.



From 2000 to 2011, the GDP of China jumped from the sixth to the second in the world. It had surpassed many developed industrial countries and its growth was surprisingly fast. However, despite the GDP kept rising, its per capita GDP was only US\$5,445, which ranked 84th in the world.

Source 1 to Source 3: China Statistical Yearbook 2011



Answer the questions below based on the above information

- With reference to the information above, fill in the blanks with the information showing the economic performance of China during 1980 to 2010.

	1980	2000	2011
GDP (billions of US\$)	189.4	1,198.5	7,318.5
Per capita GDP (US\$)	193	949	5,445

- Describe the change of economic performance of China during the period from 1980 to 2011 with reference to the information above.

GDP is an indicator measuring the economic performance of a country. As we can see from the above information, both the GDP and per capita GDP of China kept rising. In 1980, the GDP of China was US\$189.4 billions. In 2011, the GDP of China was US\$7318.5 billions, ranking the second in the world.

Think About It

- What are the differences between the quality of material life of citizens in China, Japan and the US?
- Can GDP reflect the quality of people's material life?

3. In 2011, the GDP of China (US\$7,318.5 billions) ranked second in the world, and its per capita GDP (US\$5,445) ranked 84th. In the same year, the GDP of Japan (US\$5,867.2 billions) ranked third in the world, and its per capita GDP (US\$45,903) ranked 18th. Why the per capita GDP of China is much lower than that of Japan?

Gross Domestic Product (GDP) is the total value of final goods and services produced by a country (or region) in a given period of time. As for GDP per capita, it is an average value calculated by dividing the GDP by the total population of a country (or region). Although the GDP of China is 1.25 times of that of Japan, it has a population of 1.3 billion which is approximately 10 times of the population of Japan. As a result, the per capita GDP of China is lower than that of Japan.



Knowledge Content : Per capita GDP

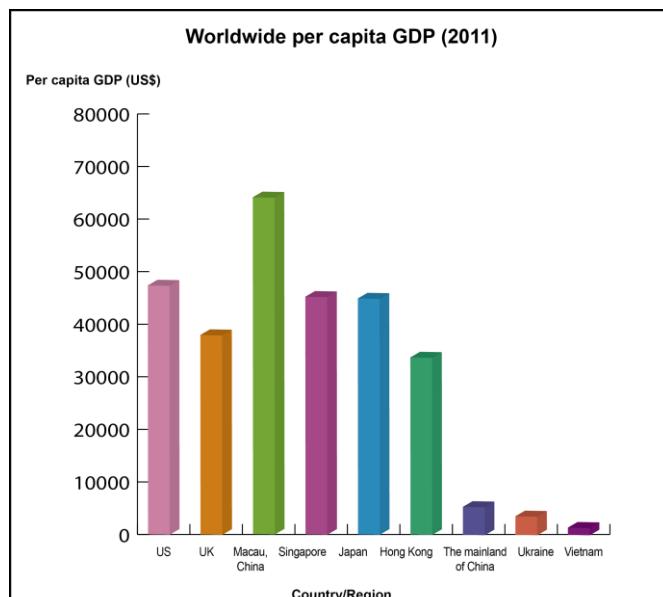
Per capita GDP

Per capita GDP is an average value calculated by dividing the GDP by the total population of a country (or region), which helps us understand the average income level of the citizens in a country (or region). According to the statistics of the World Bank, the per capita GDP of China was US\$5,445 in 2011.

Worldwide per capita GDP (2011)

Country/Region	Per capita GDP (US\$)
US	48,442
UK	38,818
Macau, China	65,550
Singapore	46,241
Japan	45,903
Hong Kong	34,457
The mainland of China	5,445
Ukraine	3,615
Vietnam	1,411

Source : World Bank



From the above table, we find that the per capita GDP of China is still at a low level, which means China is still a developing country. It shows that the per capita income level of Chinese citizens is lower and the goods and services available for the Chinese citizens are less compared with their counterparts in developed countries.

When we analyze the level of economic development of a country, we have to understand the GDP as well as the per capita GDP of the country in order to have a clearer picture of the country's economy.



Extended Activity: Factors affecting GDP

From 1980 to 2010, the ranking of the GDP of China climbed from the 142 to the second. Why did it grow so fast? It was closely related to the reform and opening up policy of China in 1978. Try to analyse some possible reasons for its fast growing with the use of the following information.

1. Try to summarize the factors contributing to China's GDP growth with reference to the information below.

A

China has a population of 1.3 billion, which ranks first in the world. In 1993, our country issued the "Outline for Education Reform and Development" and formally introduced nine-year free education in order to enhance the education level as well as productivity of Chinese people.

Growth factor: **A higher education level boosts the productivity of labour and economy.**

B

In addition, many factories have been established in China since the economic reform. In order to enhance productivity, advanced technology and equipment are introduced to enhance efficiency.

Growth factor: **The increase of capital (machinery) boosts the productivity and efficiency of labour.**

C

China has lower production cost than other countries in the world. In terms of expenditure on factories, machinery or labour, China is regarded as at a low level in the world. Foreign enterprises move their production line to the mainland and export their products overseas in order to lower the cost .

Growth factor: **The low production cost increases the demand for its export products.**

D

Since 1978, China has been adopting the opening up policy, attracting tremendous foreign investment, which helps boost the economy.

Growth factor: **A large amount of foreign investment**

E

Since the reform and opening up in China, people have the freedom to choose occupation, can own their private properties and their income is linked to their effort paid.

Growth factor: **A greater incentive for people to work hard which boosts the productivity.**

F

Since the reform and opening up in China, a large amount of foreign capital has been pouring into China to establish joint ventures. Most of the foreign corporations come from developed countries. For corporate management, they have introduced mature management skills from their countries, greatly enhancing production efficiency as well as quality of management.

Growth factor: **Enhanced Quality of management boosts production efficiency.**

Besides learning the growth of the GDP of China over the period of time, teachers can further explain to students the factors affecting the GDP in an extended learning activity. For students with higher ability and strong interest, (Economics) teachers can further elaborate that items C and D boost the economic development of China from the demand side, whereas items A, B, E and F boost the economic development of China from the supply side.

2. Some international organizations forecast that the GDP of China will surpass the US and rank first in the world. Do you agree with this forecast? Try to express your opinion. <Hint: You may consider it from the aspects of production technology and resources (including natural resources, capital and labour), or from the aspect of social and economic issues facing China (like the rich-poor gap).>

Any reasonable answers are acceptable. / Agree. The industries of China still depend a lot on labour. If more capital and technologies can be input, the GDP of China should surpass the US in the near future. / Do not agree. China encounters various difficulties currently, such as, the difference in the level of development between urban and rural areas and the gap between the rich and poor, which will adversely affect the stability of economic development.

Think About It

1. What are the difficulties/obstacles that prevent the GDP of China from ranking first in the world? How can it overcome the obstacles?
2. Is ranking first so important to China? Does China have other development targets?
3. Apart from GDP, what are the other indicators that show (measure) the level of economic development of China?



Challenge

Answer the questions with reference to the information below.



Source 1 : GDP for the year 2011

Country/ Region	GDP (billions of US\$)	Per capita GDP (US\$)
The mainland of China	7,318.5	5,445
Hong Kong	243.7	34,457
Japan	5,867.2	45,903
US	15,094.0	48,442
India	1,848.0	1,489
Brazil	2,476.7	12,594
Russia	1,857.8	13,089
Vietnam	124.0	1,411

Source: Website : World Bank



Source 2 : Brief introduction of Brazil, Russia, India and China

Brazil

Working population: 105 million
Unemployment rate: 6%
Gini Coefficient: 0.519
Inflation rate: 6.6%

Russia

Working population: 75 million
Unemployment rate: 6.6%
Gini Coefficient: 0.42
Inflation rate: 8.4%

India

Working population: 488 million
Unemployment rate: 9.8%
Gini Coefficient: 0.368
Inflation rate: 8.9%

China

Working population: 796 million
Unemployment rate: 6.5%
Gini Coefficient: 0.48
Inflation rate: 5.5%

Source: CIA Factbook on 30 Oct 2012

Question

The GDP of different countries and regions in 2011 are listed in Source 1. Nowadays, India, Brazil, Russia and China are known as the “BRIC” countries. Some international investors anticipate that they will soon become economically powerful countries. Try to forecast which country will become China’s biggest rival? Why?

Any reasonable answers are acceptable.

- 1) Let the students discuss what additional information is required for the estimation.
- 2) Ask students to investigate it through “Project learning”. (Analysis can be made from the aspects of labour supply, development trend, products produced, markets scrambled for and raw materials for production required by different countries, etc.)



Worksheet 2: What can China learn from the economic problems facing Japan?



China overtakes Japan as World's second-biggest economy

According to the latest figures released by Japan, Japan was not the second largest economy in the world anymore as it had been replaced by China. According to the figures released by Japanese Government, after converting into US dollars, the GDP of Japan was US\$404.4 billions less than that of China in 2010. Japan ranked lower than the US and China and became the third in the world. According to Kyodo News, the slow growth of the GDP of Japan was caused by factors like aging population and deflation. Moreover, as the global economy declined, which resulted in gloomy exports, the economy of Japan was stagnant while the manufacturing industry of China flourished. According to current growth rate, it is estimated that China will surpass the US and become the largest economy in the world in ten to twenty years.

Source: BBC Chinese : 14 February 2011

1. According to the information in 2010, in terms of GDP, what were the three largest economies in the world?

First: : US

Second: China

Third: Japan

2. Summarizing the above reasons for the slowdown of the economic growth of Japan, do you think that China will face the same problems in the future?

The decline of the GDP growth of Japan is caused by its aging population and deflation. Apart from that, the decline in global economy which resulted in reduced demand for exports in Japan and the keen competition from other countries are also the main reasons. For China, it will face the problem of aging population in the coming future and the labour force will fall. Hence it will lower the production capacity and further slow down the economic growth. Under the impact of global economic downturn, demand for China's exports generally falls, which will slow down the economic growth of China. In addition, China will have to face competition from the exports of other countries. Nowadays, the production costs in many developing countries (such as Vietnam, Cambodia etc.) are lower than China and many foreign enterprises have moved their production line to these countries.

Production can be classified into the following three types:

1. Primary production (named “primary industry” in the mainland)

Primary production refers to direct extraction of natural resources or production activities utilizing natural resources. Agriculture, fishing, mining are examples of primary production. People who engage in primary production, for example, farmers and fishermen are known as primary producers.



2. Secondary production (named “secondary industry” in the mainland)

Secondary production refers to production activities involving processing of raw materials and converting them into semi-finished products or finished products. Manufacturing and construction industries are both examples of secondary production, and workers like textile workers and construction workers are known as secondary producers.



3. Tertiary production (named “tertiary industry” in the mainland)

Tertiary production refers to the provision of all kinds of services. For example, retail, tourism, education are all examples of tertiary production. Salespersons, tour guides and teachers are all known as tertiary producers.

Note: The classifications introduced above are commonly used in Hong Kong. The classifications adopted by the National Bureau of Statistics of the People’s Republic of China are slightly different from that in Hong Kong.



Distribution of industries in China

Industries in China can be classified into primary industry, secondary industry and tertiary industry. According to the Provision of Three Strata of Industry by National Bureau of Statistics of People's Republic of China, primary industry includes agriculture, forestry, animal husbandry and fishery; secondary industry includes mining and quarrying, manufacturing, production and supply of electricity, gas and water, and construction. Tertiary production refers to all other industries not included in primary industry and secondary industry, which includes traffic and transportation, telecommunications, wholesale and retail trade, accommodation and catering trade, financial industry, real estates, education, social security and social welfare, cultural, sports and entertainment industry, etc.

Contribution of the three strata of industry to GDP and employment of China in 2009

	Primary industry	Secondary industry	Tertiary industry
Gross output value (billion) (RMB)	3,523 (10.3%)	15,764 (46.3%)	14,764 (43.4%)
Number of employed persons (million)	297 (38.1%)	217 (27.8%)	266 (34.1%)

Source: China Statistical Yearbook 2010

According to the above data, although secondary industry and tertiary industry are relatively more important in terms of their contribution of GDP in China, there is a large proportion of employed persons in primary industry. Therefore, primary industry cannot be neglected in China.



Worksheet 3: Distribution of industries in China



Source 1 : Classification of the three strata of industry

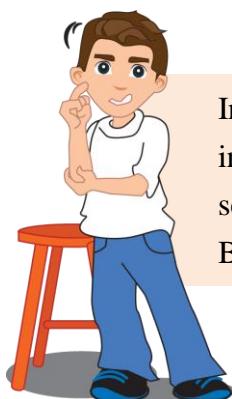
(Remark: This term is adopted in the mainland.)



Miss, the GDP of our country ranked second last year. That's great!



Yes, do you know which industry contributes most to the GDP of our country?



Industry? I know there are three strata of industry, namely primary industry, secondary industry and tertiary industry. But I do not know how to classify them.



Then you have to check this out:

According to the “Provision of Three Strata of Industry”, primary industry refers to agriculture, forestry, animal husbandry and fishery. Secondary industry refers to mining and quarrying, manufacturing, production and supply of electricity, gas and water, and construction. Tertiary production refers to all other industries not included in primary industry and secondary industry, including traffic and transportation, inventory and postal service, etc.



1. According to the definitions above, name the industries that the following persons engage in.
(Primary industry, secondary industry, tertiary industry)
- a. Worker at Foxconn producing iphone **secondary industry**
- b. Registration receptionist at Shangri-La Hotel **tertiary industry**
- c. Rice farmer in Guizhou **primary industry**
- d. Owner of a newspaper stall in Shenzhen **tertiary industry**
- e. Manager of a listed company in Beijing **tertiary industry**
- f. Porter in a mainland supermarket **tertiary industry**
- g. Tailor in a garment factory **secondary industry**
- h. Fishman working in Fujian **primary industry**



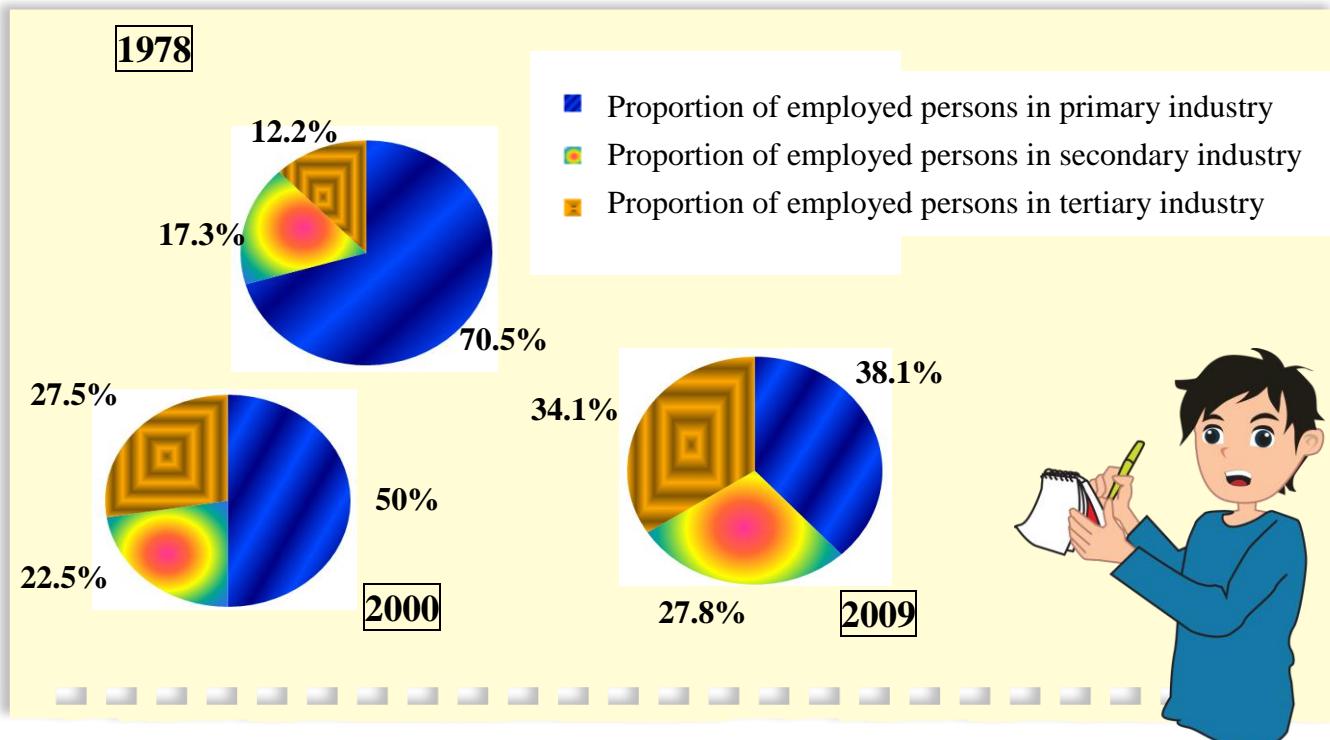
Source 2 : Contribution of the three strata of industry to the GDP of China during 1978-2009

	1978	2000	2009
Primary industry	28.2%	15.1%	10.3%
Secondary industry	47.9%	45.9%	46.3%
Tertiary industry	23.9%	39.0%	43.4%

Source: China Statistical Yearbook 2010



Source 3 : Proportion of employed persons in different strata of industry during 1978-2009



Source 4 : How will the industries further develop in China?

In 2011, it was proposed in the Twelfth Five-year Plan for National Economic and Social Development of China that it has to enhance the competitiveness of industries in order to enhance the quality of manufacturing industry. Meanwhile, it has to develop emerging industries and to speed up the development of service industry.

Analysts pointed out that the Twelfth Five-year Plan implied that China will soon introduce innovative policies to promote structural adjustment of industries. Therefore, it is forecasted that there will be enormous opportunities for the emerging industries and tertiary industries.

2. Based on the information provided in source 2, 3 and 4, try to explain whether China is still an agricultural society.

According to the above information, China is no longer an agricultural society because the contribution of primary industry to GDP and its proportion of employed persons kept declining.

China's economic development will stress on emerging industry and service industry.

3. With the data in source 3, calculate and compare the proportion of the sum of the employed persons of secondary industry and tertiary industry in all strata of industry in 1978 and 2009.

In 1978, the percentage of the employed persons of secondary industry and tertiary industry was 29.5%. In 2009, the percentage rose to 61.9%, which doubled the value in 1978.

4. Based on the above information, try to describe the change in figures of primary industry in order to weigh the relative importance of agricultural, industrial and service industry to the economy of China.

From 1979 to 2009, primary industry's contribution to GDP and total employment dropped significantly, meaning that the relative importance of agricultural industry was declining. For secondary and tertiary industry, the percentage of persons employed in both industries were doubled. However, the contribution of secondary industry to GDP was more or less the same, this showed that the relative importance of secondary industry was almost unchanged; the relative importance of service industry was increasing as reflected by the continuous increase in its contribution to GDP.

5. Forecast which industry China should give priority to in the coming ten years. Why?

Any reasonable answers.

(Possible answer: China will focus on secondary and tertiary industry, especially some high tech, high value-added industries to meet the need of sustainable development of the economy of China.)

7. Can China only develop secondary and tertiary industries to achieve economic growth?

Primary industry cannot be neglected in China. Although secondary industry and tertiary industry are relatively more important in terms of the contribution to the GDP in China, there is still a large proportion of employed persons in primary industry. Therefore, primary industry cannot be neglected in China.

OR

Primary industry cannot be neglected in China because the three strata of industry are inter-dependent. China has to supply food to its large population and provide raw materials for the secondary and tertiary industries. Hence, a balance of development between the various industries is important.

Concept map of An Overview of the Chinese Economy

