China set to overtake UK

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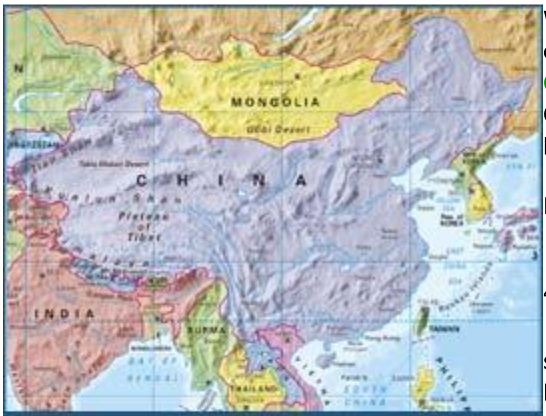

With its economy now growing at 9.1%, China is clearly emerging as a leading Newly Industrialised Country (NIC). If growth continues at this rate, China will overtake Britain and France in 2005 to become the worlds fourth biggest economy.

Figures released recently also report that:

- Imports of raw materials for processing grew by 40.5% in the first nine months of the year
- The amount of economic activity in the country soared to the equivalent of £570 billion over the same period
- Average urban incomes rose by 9% over the same period

The report coincided with an announcement by the Transnational Corporation Ford that it is investing $1.5 bn (£900m) in a branch plant in Chongching. The picture above shows vehicles travelling along Yanan elevated highway in China's financial capital Shanghai in October 2003. Global auto makers are revving up in the country trying to get a slice of the world's fastest-expanding major car market. Car output in China rose almost 90 percent to 1.25 million in the first eight months year on year, just over total sales for all of 2002.

Also over the weekend, Sony announced its level of investment in China has now topped £8bn and, crucially, it expects the nation to become its second biggest market (the US being the largest) within five years.

However, critics have voiced concerns over the economic sustainability of the growth occurring now. Asia has previously witnessed the results of economic 'over-heating', and levels of lending by Chinese banks are beginning to alarm some economists.

A story of self-sustaining growth

China has reached a point in its history that the famous economist Rostow called 'take-off'. A shift towards export-orientated manufacturing has resulted in rapid economic growth and higher wages for workers. As a result, the Chinese workers themselves are now beginning to constitute an important market. Despite its famous 'One Child Policy' (first introduced in 1980, and recently amended to often make provision two children), China is now home to 1.3 billion people. This is one fifth of the world's population and has immense potential as a market for investors.

Much of the growth derives from Foreign Direct Investment (FDI) in the region. This is money invested by Transnational Corporations that want to be nearer to a new market or are seeking to produce goods at a lower cost than in their country or origin where Trade Union action and Equal Pay and Minimum Wage legislation has often raised labour costs.

China is now the world's largest recipient of FDI, with 34,000 new enterprises set up last year. There are around half a million instances of FDI in China. The evidence of this can be seen in any branch of *Woolworths* where toys, Christmas decorations and kitchen utensils increasingly bear the slogan 'Made in China'.

As part of this growth process, cities are growing at a phenomenal rate. In a recent special report on urbanisation, *National Geographic* (October 2002) reported that by 2015 eight cities in China will be home to more than 5 million people. In 1950 there were only eight cities of this size in the entire world.

The connectivity of Chinese cities is also impressive, according to Professor David Walker, who presented a paper on Global Cities at the recent RGS-IBG schools' conference. He reported that Shanghai, Beijing and, of course, Hong Kong (which is now administered by China) have become highly connected and powerful cities. They are home to the offices of many international law firms, banks, advertisers and consultants whom Professor Walker called 'brokers' of globalisation. Indeed, Hong Kong is ranked third in the world, surpassed only by London and New York.

At what cost growth?

Critics point to the costs of unchecked growth in China, both to its own people and to the environment (locally and globally). Social costs include unsafe factory conditions that resulted in 140,000 work-related accidents last year (*New York Times*, April 07 2003). Despite some growth, workers' wages are typically low. According to the World Bank, the average wage is £555, whereas the figure for the UK is £15,300. Concerns over exploitation have led to China being christened 'the world's sweatshop'.

Environmentally, the nation is suffering too. Huge infrastructure projects have concerned environmentalists - the Three Gorges dam project is the worlds biggest engineering project. Growing levels of car ownership are resulting in unacceptably high levels of photochemical smog in Beijing. Unchecked industrialisation of the worlds most populous nation is also certain to contribute to increased carbon emissions, thereby contributing to global warming.

The consequences of growth are felt in the UK and the US too. Recently, the British pottery maker Wedgwood announced that over one thousand jobs were to be transferred from Stoke-on-Trent to China. Citing China's comparative advantage in terms of labour costs, a company spokesman reported that savings of 70% were anticipated.

In America, the Bush administration has publicly linked China's trade policies with the loss of US jobs. The growth of such a 'division of labour'- where manufacturing jobs are decentralised to low-wage economies but head office jobs are retained in the country of origin - is an inevitable aspect of globalisation, and one that is clearly bringing mixed benefits to the Chinese people.