

375/01

**ECONOMICS EC5**

A.M. WEDNESDAY, 13 June 2007

(1 hour 30 minutes)

**ADDITIONAL MATERIALS**

In addition to this examination paper, you will need a 12 page answer book.

**INSTRUCTIONS TO CANDIDATES**

Read the information in the case study carefully then answer the following questions.

Answer the questions in the separate answer book provided.

**INFORMATION FOR CANDIDATES**

The number of marks is given in brackets at the end of each question.

You are reminded of the necessity for good written communication and orderly presentation in your answers.

Study the following information and then answer the questions which follow.

## **Article 1 - China will soon be world's biggest exporter**

### **USA and Germany will be overtaken by 2010**

China's explosive rise to economic superpower status was confirmed yesterday by the Organisation for Economic Cooperation and Development (OECD) in a new report predicting that it would leapfrog the  
5 United States and Germany within five years to become the world's biggest exporter. Despite growing social strains and international concerns, the OECD said there would be no let-up in China's breakneck growth.

China is by far the biggest clothing manufacturing country, with wage costs at 40 US cents an hour typically a third of rival countries such as Mexico. Only India of the major clothing producers has  
10 comparable wage costs. A robust education system with universal literacy, huge supplies of labour and huge investment in the country by foreign multinationals have helped to boost growth. It is now a member of the World Trade Organisation and is also believed to be keeping the exchange rate of the renminbi artificially low against the \$US and other currencies.

China already accounts for 6% of world exports and its potential to supply the globe with low-cost  
15 manufactured goods has caused concerns in many countries around the world. The OECD said China's share was on course to rise to 10% by 2010, by which time it would overtake the US.

After 25 years of gross domestic product (GDP) growth at an annual rate of more than 9%, China is expected to overtake Britain, France and Italy to become the fourth largest economy within five years. This week Ernst & Young released a report predicting it would surpass the US as the world's second  
20 largest consumer of luxury goods within 10 years. The accounting firm forecast 10% to 20% annual growth rates in the sector until 2015, by which time sales are expected to exceed \$11.5 bn (£6.4bn), or 29% of the world's total, second only to Japan.

*Adapted from The Guardian, September 17, 2005*

## Article 2 - China's growth surge increases fears of overheating

25 China strengthened its claim to be the engine for global growth yesterday with new figures that showed that its economy surged 9.1% last year. The breakneck pace is the fastest in six years, adding to fears that excess demand may be overheating the economy and the rapid growth may be unsustainable in the long-term.

30 Foreign direct investment in China hit \$53bn (£29bn) as firms such as BP and BMW ramped up production in a country that is established as the workshop of the world. Factories in the Guangdong province are churning out fridges, shoes and clothes for overseas markets at a record pace. Last year exports rose by 35%.

35 According to the latest figures, the average disposable income of urban workers rose 9.3% last year to 8,500 renminbi, while rural dwellers had to make do with a 4.3% increase to 2,622 renminbi. But with 8.5 million new jobs and inflation still low at just 1.2%, officials stressed that the country was on course to achieve the government's goal of a prosperous society.

China's boom is not just based upon exports. It imports more from the rest of Asia than Japan does, and sales of luxury goods such as mobile phones, cars and foreign designer clothes are rocketing.

40 Government leaders have warned that the property, concrete and motor vehicles sectors are reaching the point of overcapacity amid a glut of fixed capital investment, which rose by 27% last year. But with low inflation and an almost unlimited supply of cheap labour, the outlook still looks rosy.

45 Shanghai's population has soared beyond the twenty million mark in the past year as more than three million new job seekers have flocked to the city, which is now seen as the business capital of China. It is drawing millions of peasant labourers to its vast construction boom with its relatively high wages. The average annual income in the city is about £2,900 - many times the national figure. The millions of rural, migrant workers in Shanghai are lucky to get even a fifth of that sum, but this is still far higher than the income in their home villages where many people live on less than the equivalent of 60p a day.

50 Shanghai's growth appears to be only the start of things to come. China's government is promoting rapid urbanisation as a means to improve living standards and productivity. Over the next few years, the world's most populous nation plans to move about three hundred million people from the countryside to urban areas.

Shanghai's traffic is growing at a rate of 25% a year and housing prices are soaring. Earlier this year, the municipal government announced that land was subsiding at a rate of 2.5cm a year because so many new tower blocks were being built and so much water was being pumped from underground to quench the thirst of a growing population.

55 In the latest sign that Shanghai is struggling to cope with the demographic shift, the city council ordered many factories to move to night shifts from this week because energy supplies were unable to meet the soaring daytime demand for electricity. Individuals and private companies have been urged to conserve power, but the rapidly expanding population suggests that reining in energy consumption could prove difficult.

*Adapted from The Guardian January 21, 2004*

## Article 3 - 'Find a couple of spare planets or face global oil war'

Figure 1

### CONSUMPTION OF RAW MATERIALS

China ranks No1 in consumption of:

- Copper**
- Zinc**
- Rubber**
- Cotton**
- Wheat**
- Rice**
- Tin**

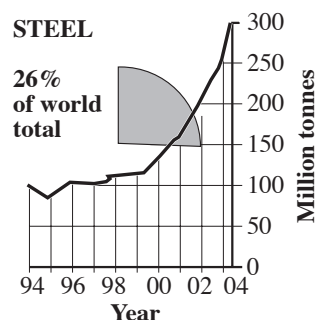
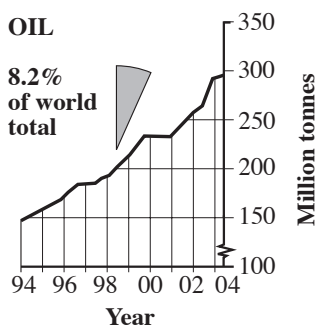
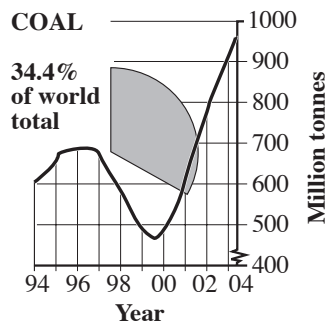
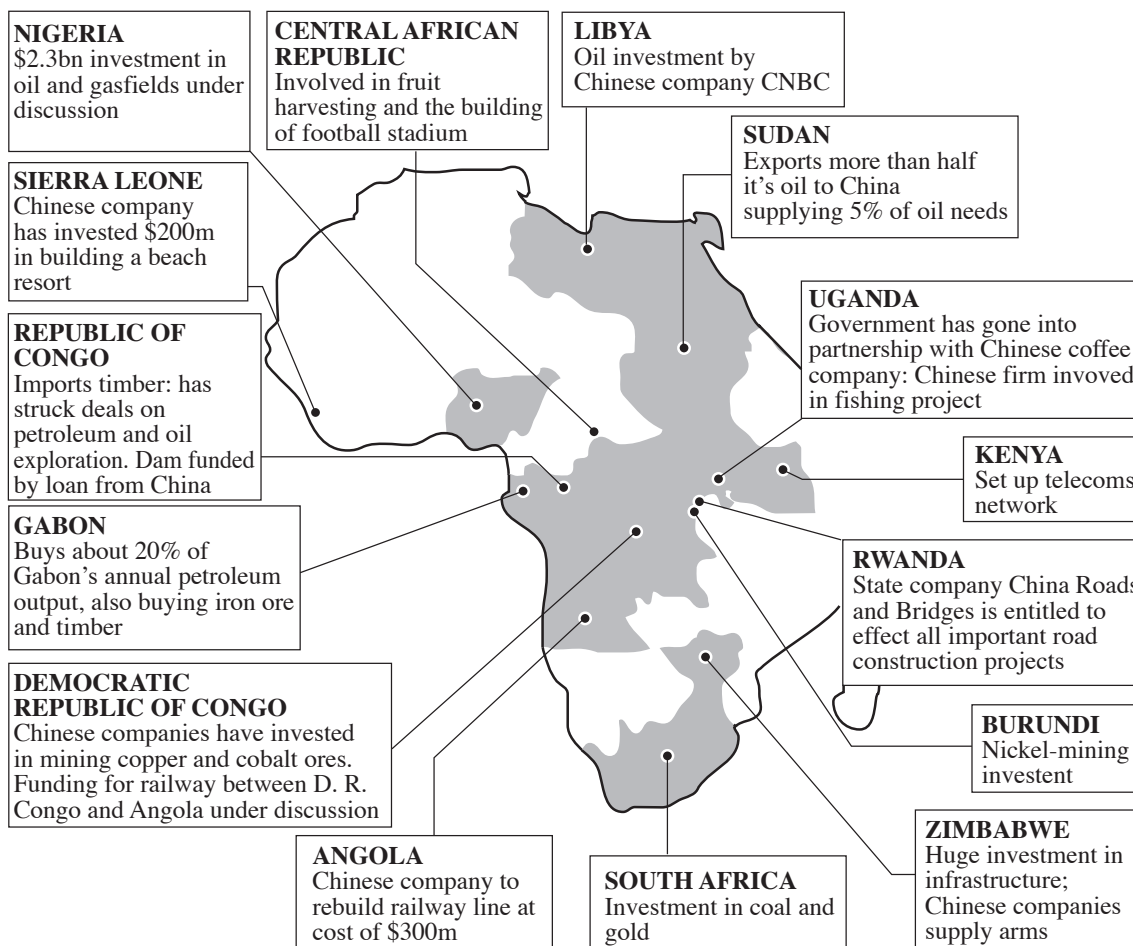


Figure 2

### CHINESE INVESTMENTS IN AFRICA

- In total, 700 Chinese companies operate in 49 African countries



60 The world faces the real threat of a new conflict over oil as China competes with existing world powers for scarce resources to feed its growing economy, according to a report published today. All over the world countries rich and poor are fearful of China's influence upon the world economy and environment.

65 *The State of the World 2006* report, released by the Worldwatch Institute, says that last year China became the second-largest importer of oil, after the US, while consuming 26 per cent of the world's steel, 32 per cent of rice production, 37 per cent of cotton and 47 per cent of cement. China is set to become the world's largest carmaker in the coming decade.

70 While environmentalists are concerned about the impact on the world's climate and the drain on its resources, strategists fear that the competition for energy, particularly oil, could destabilise the planet. According to the Worldwatch report, China was nearly self-sufficient in oil in the mid-1990s. But over the past decade its consumption has doubled and it has now overtaken Japan as the second-largest importer of oil, with 3.2 million barrels a day in 2004.

75 If the economies of China and India continue to grow at their current rate, the world will not be able to produce enough oil to meet demand by 2050, when consumption will have grown from the current 85 million barrels a day to 200 million barrels. "Few geologists believe that output will reach even half those levels before beginning to decline," the report says.

80 "Our analysis shows that if the two countries were to use as much oil per person as Japan does today, their demand alone would exceed current global oil demands. And if their per capita claims on the biosphere were to match those of today's Europe, we would need a full planet Earth to sustain these two countries," Christopher Flavin, the Worldwatch president, says in a preface to the report.

"Unless we find a couple of spare planets in the next few decades, neither of these projections will come to pass . . . We therefore face a choice: rethink almost everything, or risk a downward spiral of political competition and economic collapse," he says.

85 Concerns have also been expressed about China's pursuit of resources in Africa. Trade between China and Africa has soared. Two-way trade leapt 39 per cent in the first ten months of last year to £18 billion. Exports totalled \$15.25 billion while imports reached \$16.92 billion. Between 2002 and 2003, trade soared by 50 per cent to \$18.5 billion – the fastest growth China has seen with any region.

Some African businessmen complain that China is flooding the continent with cheap goods and putting domestic manufacturers out of business.

90 **HUNGRY NATION**

- **China uses 26 per cent of the world's crude steel, 32 per cent of rice, 37 per cent of cotton and 47 per cent of cement.**
- **It is the world's biggest producer and consumer of meat; more than half of the world's pigs are in China.**
- 95 • **It produces 60% of the world's bicycles and over 60% of the world's kettles.**
- **By 2010 China is expected to produce more than half of the world's clothes.**
- **It has overtaken Japan in oil consumption and is now second only to the United States.**
- **It uses twice as much fertiliser as the United States.**
- 100 • **In 1996 China had 7 million mobile phones. This rose to 269 million by 2003.**
- **China is the world's second largest consumer of wood after the USA and has announced a tax on disposable chopsticks as part of a range of measures to protect the country's deteriorating environment.**

*Adapted from The Times, January 12, 2006*

- (a) To what extent has China's "explosive rise to economic superpower status" (Article 1 line 3) been due only to low wages? [20]
- (b) Discuss the view that China's economy 'may be overheating' and that 'the rapid growth may be unsustainable in the long-term'. (Article 2 lines 26-27.) [20]
- (c) Discuss whether other countries should be 'fearful of China's influence upon the world economy and environment'. (Article 3 lines 62-63.) [20]