

5 What does the writer mean by the term “sprung up like weeds”?

6 What are **yuan**?

7 What type of spending makes a difference to the growth of an economy?

1 What is **GDP**?

2 What three ways are used to **measure** GDP?

3 What has China focused on to **increase** its GDP?

4 What is meant by the term ‘**consumer power**’?

THE ALMIGHTY DOLLAR

GDP and the economy

To grow an economy, you need to raise its income – or Gross Domestic Product (GDP). As the name suggests, GDP is the total of everything produced across a nation in a year: on farms, building sites, factories and in offices, whether they are private or in government control. There are three ways of measuring GDP: adding up everything that’s spent; everything that’s produced; or everyone’s earnings. There are plenty of options for ramping up GDP growth, or, in effect making the economy wealthier. Like identical triplets, no one of these measurements is superior, and each might show small variations. When you’re calculating the output of millions of people and businesses, minor differences are inevitable.

China has focused on industry and manufacturing. It’s all very well churning out the goods, but who’s going to buy them? China’s rising income may mean workers have more consumer power, but its impact is still relatively modest compared to the dollar-waving American market.

During the gold rush, Chinese factories and plants had sprung up like weeds; steel mills were working flat out. China was left producing more than it could sell. This being China, those affected were largely state-owned enterprises. The government was left with a costly headache, and stacks of unsold goods. It had to look closer to home to keep the fires of growth burning. The government decided it was time for the consumer to step up.

The Chinese government wants its people to fork out not just on the basics, such as food and drink but to splash the occasional yuan on treats. It’s that kind of spending that makes all the difference to growth in the economy as a whole. Chinese households have, on average, reached the point where that kind of frivolous spending is becoming affordable. And there’s a huge reservoir to be tapped. Chinese households now earn about \$5 trillion every year.

It’s a huge shift in mindset for both the government and the Chinese

people, and the result is that in China, over the first half of 2016, almost three quarters of growth came from the spending of its citizens. As incomes have risen, premium brands from abroad have become big business in China. Box-office receipts jumped 50% in just one year. Travel abroad became a hot ticket: some 70 million Chinese took a trip overseas last year. China is now the largest carmaker. And it’s the market for SUVs – the shiny gas-guzzlers synonymous with American consumerism – that’s enjoyed the fastest success. What’s more for the most time, in 2015, the service sector – including shops, restaurants and the like – accounted for half the output in the economy.

The USA is also earning from those Chinese tourists, who took advantage of their rising incomes to spend \$250 billion on travel in 2015. Add in spending on education, software licences, finance and some other areas, and China is the fourth biggest foreign buyer of American services.

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8 How much growth came from Chinese citizens in 2016?

9 As incomes in China rise, what are people choosing to spend their money on?

10 What is the **service sector**?

New Vocabulary

11 Explain how the USA also benefits from China’s rising income?