



EconoMag

The show that demystifies economics

The Chinese Economy:

The World's Factory©

by Pierre Vercueil

Hi there and welcome back to a brand new episode of EconoMag here on EnglishWaves. Today we conclude our five-part series on some of the world's largest regional economies. Last time we looked at South Africa, and today we turn to China – not only has this Asian giant been the fastest growing economy over the past 30 years up until 2015, but it now also seriously rivals the economic dominance of the US as the world's largest trading nation.

China currently has what we call a socialist market economy, meaning the public sector accounts for a bigger share of the national economy than the private sector. Essentially this means that the government employs a very large percentage of the nation's workers, whereas in places such as the United States this role belongs to the private sector, or in other words, private companies. In China the government therefore accounts for a significant portion of economic activity. France would also be an example of a country with a very large public sector.

How does a public sector get so large? Well the government employs people to work not only in government departments, but usually also in several nationalized industries. For example, China has up to 150,000 state-owned enterprises including banks and mining companies, all falling under the public sector, which employs close to half of the country's 750 million workforce!

What does the Chinese economy produce? China is a global hub for manufacturing, and it is the largest manufacturing economy in the world as well as the largest exporter of goods in the world. The Pearl River Delta stretching from Hong Kong to Shanghai constitutes the world's largest manufacturing zone for light consumer goods such as shoes, toys and furniture. The country is also the largest producer of steel in the world, producing 45% of global output, and the third largest car manufacturer behind Germany and the US, respectively.

Most interestingly, until 2005, the Yuan, China's official currency, was pegged to the US dollar. This meant that its trading value followed movements in the value of the Dollar.

This was largely done to ensure that Chinese goods would be competitive in the US; in other words there would be no risk of a strong Yuan making Chinese goods expensive in the United States. As of 2006, the Yuan has been allowed to largely float with reference to a basket of world currencies. This means that the value of the Yuan is no longer exclusively determined by fluctuations in the value of the US Dollar, but now rather a whole basket of currencies – usually those of major trading partners such as Europe and other nations in the Americas.

Due to China's major international trading activity, the Yuan became the world's 8th most traded currency in 2013, 5th in 2015, and is starting to be considered an international reserve currency in many regions – especially Asia. China's strong economic growth and the increasing usage of the Yuan in international transactions mean the country will continue to establish itself as both a regional and global economic superpower.

That concludes our five-part series on a few of the world's largest regional economies. Join us again next week for a brand new episode of EconoMag here on EnglishWaves.