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“Growth Up and Inflation Down in China”

By Keith Bradsher and Chris Buckley

From *The New York Times*

Economic Growth in Chapter 2

China’s recent economic growth and its struggle to slow inflation is the main focus of the article. While economic growth is usually a positive factor, the centrally planned economy in China has taken measures to slow growth in order to slow inflation. Despite their efforts, the economy grew to “9.5 percent in the fourth quarter,” while averaging 9.5 percent for all of 2004. Recent measures to improve transportation and electricity bottlenecks may account for some of the growth. The “port delays, power disruptions and food price increases” of last winter had lessened while many companies have learned to work around expected power failures. Since last year, the capacity of many ports has grown 30 to 60 percent, electrical output has increased 14 percent, and “a six-month freeze on converting land to industrial or commercial use expired.” All of these factors and improvements have led to steady economic growth in China.

While inflation has not yet been discussed in any of the early chapters, the article directly reflects the section on economic growth in Chapter 2. This section discusses the possibility of growth through technological change and capital accumulation by foregoing consumption goods and services. Improvements in China’s industrial sector have led to increased productivity and output. Their ports are no longer clogged with ships waiting to unload, so more resources can come into China quicker and easier which allows for higher production levels. While blackouts haven’t been completely eliminated, the increased electricity output has decreased their length and frequency so more factories and industries can produce at longer hours and therefore increase their supply. And since the six-month freeze has expired, more land (or natural resources) can be used for capital accumulation rather than consumption goods and services. A large portion of China’s resources have been devoted to technological change and capital accumulation, or rather capital *improvement*, which has allowed for the expansion of China’s production possibilities curve.