

# China and the Global Economy

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Remarks at the 20<sup>th</sup> Anniversary of the  
University of Science and Technology

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# Outline

- I. China's achievements in the past 20 years
- II. Prospect for China's growth in the coming 20 years.
- III. Challenges of China's growth
- IV. China and the Multi-polar growth world

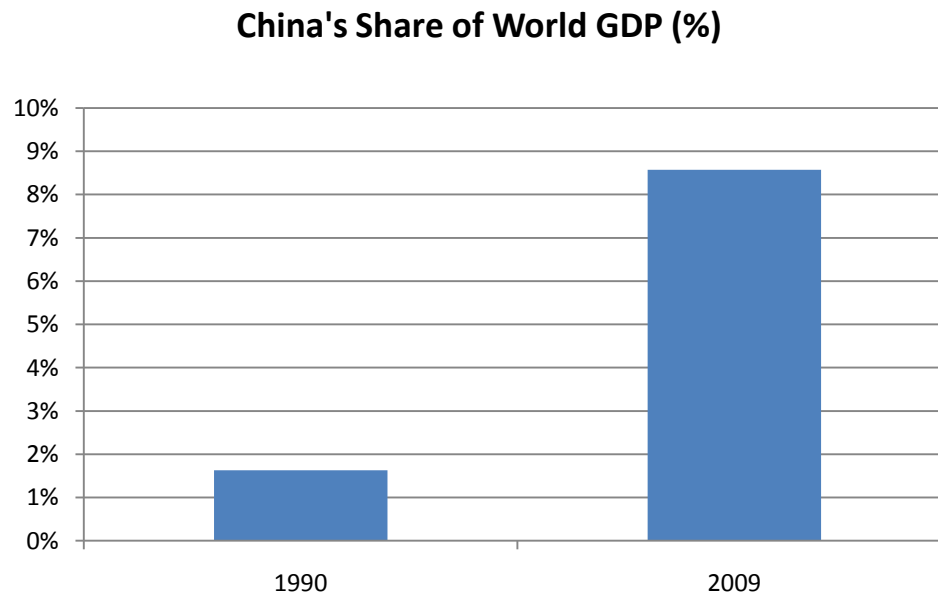
I  
**CHINA'S ACHIEVEMENTS IN THE  
PAST 20 YEARS**

# 1. Maintained 20 years' of Rapid Growth

- From 1979 to 1990, China grew by 9 percent per year.
- In 1990s, most people doubted that China could continue to grow that fast.
- To everyone's surprise, from 1990-2010, China's annual growth increased to 10.4 percent.
- Such an extended period of high growth in such a populous country is a miracle in the world's history.

## 2. The 2nd largest economy in the World

- In 1990, China barely registered on the global economic scale...
  - Now it is the world's second largest economy.

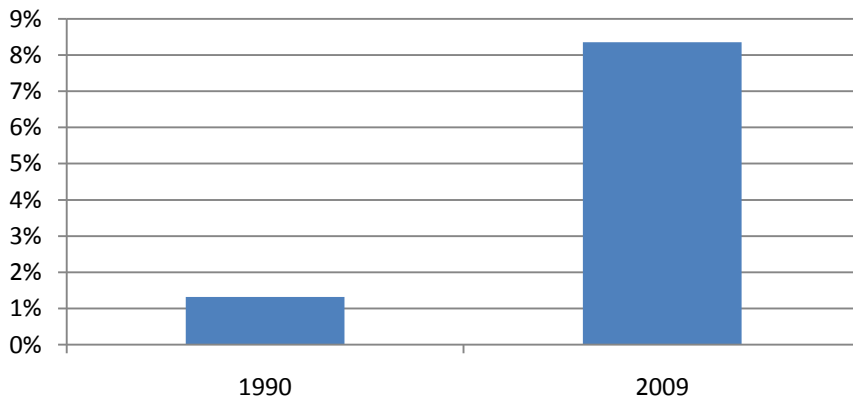


Source: World Development Indicators

# 3. The largest exporters

- In 1990, China's trade played an almost negligible role in world trade...
- With export growth at an annual rate of 18%, now China is the largest exporter of goods in the world.

**China's Share of World Exports of Goods and Services (%)**



Source: World Development Indicators

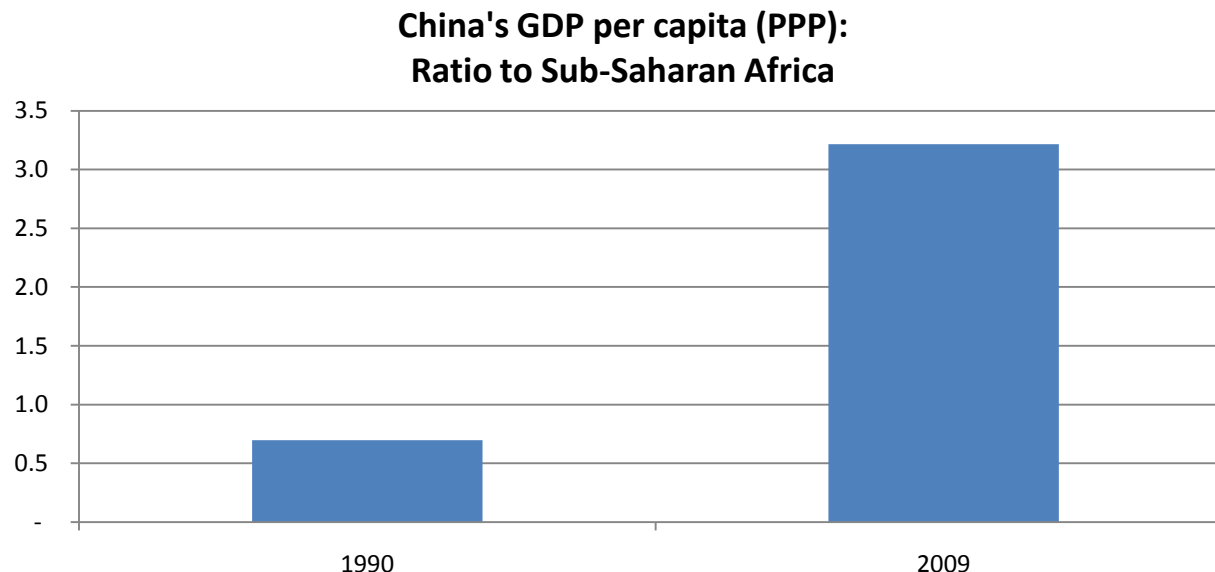
**Merchandise Exports (\$, trillions)**

	2009
China	1.20
Germany	1.13
United States	1.06
Japan	0.58

Source: World Development Indicators

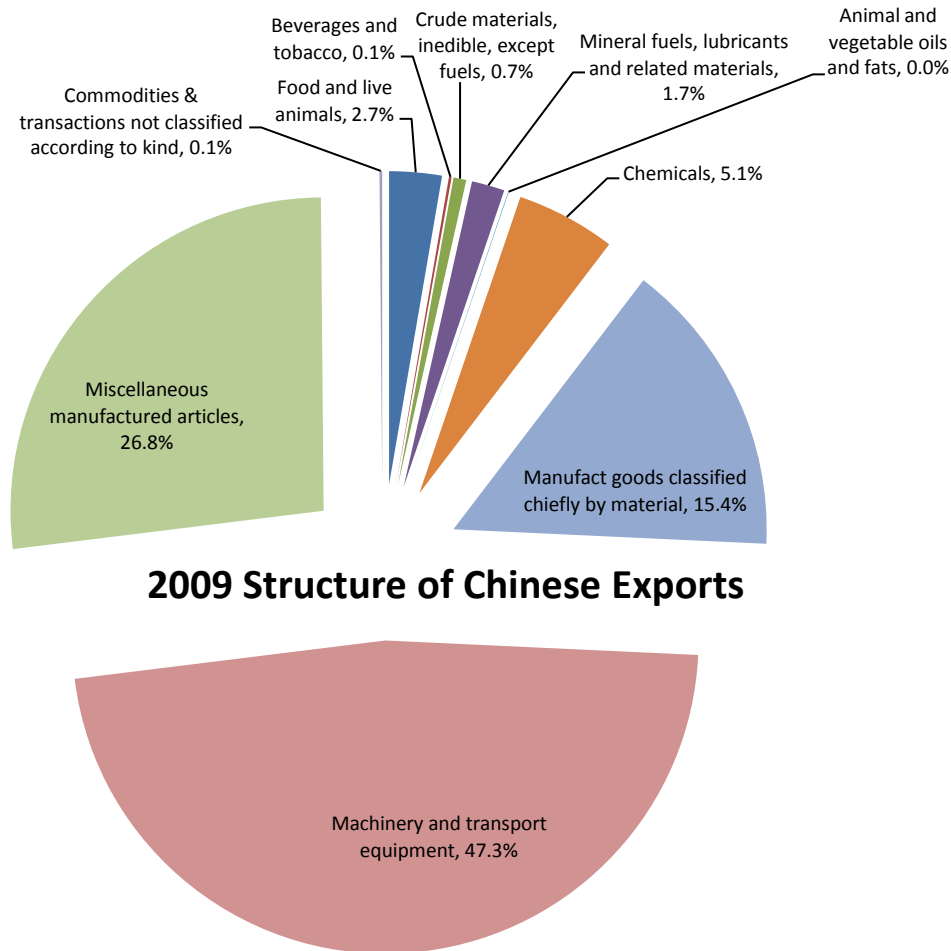
# 4. A solid middle-income country

- In 1990, China was still a low-income country. Its income per capita was lower than Sub-Saharan Africa...
- Now China's per capita income is more than three times the level of Sub-Saharan Africa.
- With an income per capita of \$4,500, China is firmly in the middle-income category.



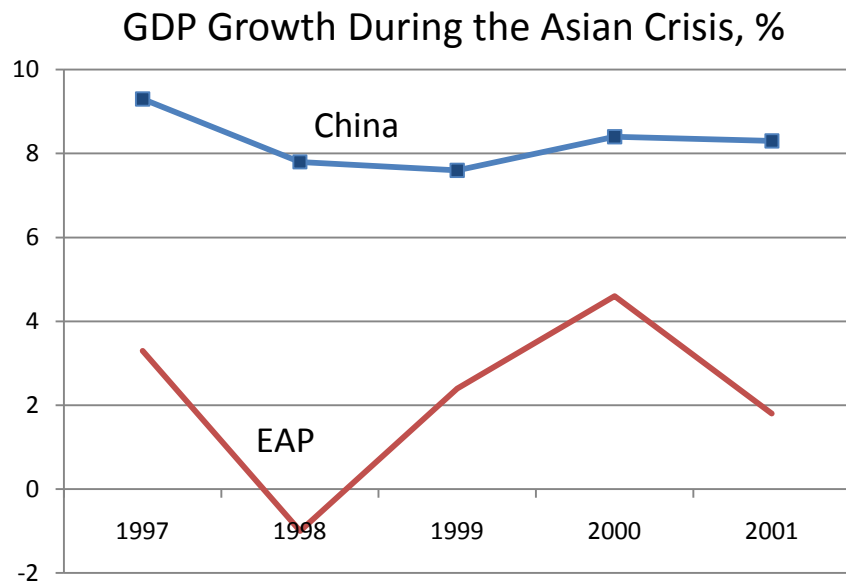
# 5. The World's factory

- Structure of trade has been transformed...
  - From limited trade in a few commodities....to a global leader in manufactures!

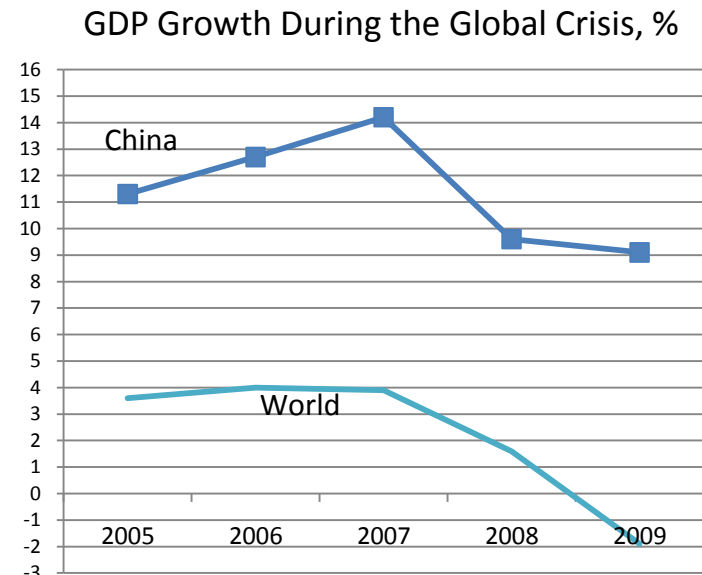


# 6. The Driving force for the recovery of regional and global financial crises

- China escaped both regional and global financial crises and contributed to the recovery...
  - Regional in 1998 and global 2009.



Source: WDI



Source: WDI

# Reasons for the success

1. China adopted a dual-track approach to reforms:
  - Stability and dynamism simultaneously achieved.
2. China was a latecomer, developed according to its comparative advantage, and tapped into the potential of the advantage of backwardness.

II

# Prospects for China's Growth in the Coming 20 years

# China may maintain 8% growth rate for the coming 20 years

- China's per capita income in 2008 was 21% of US per capita income measured in purchasing power parity
- China's current relative status to the US is similar to:
  - Japan in the 1951, Korea in 1977 and Taiwan, China in 1975.
  - **The annual growth rate of GDP: 9.2% in Japan between 1951-1971, 7.6% in Korea between 1977-1997, and 8.3% in Taiwan between 1975-1995.**
- China's development strategy after the reform in 1979 is similar to that of Japan, Korea and Taiwan, China. China has the potential to achieve another 20 years of 8% growth.

# China may become the largest economy in the world by 2030

- After 20 years' rapid growth from the basis of 21% of US's per capita income
  - Japan: 65.6% of that of U.S. in 1971
  - Korea: 50.2% in 1997
  - Taiwan, China: 54.2% in 1995
- China's per capita income measured in purchasing power parity may reach 50% of U.S.' per capita income by 2030
- Measured by purchasing power parity, China's economic size may be twice as large as the US; and measured by market exchange rates, China may be about the same size as the US.

# China may become a major technological leader in the world

- As a middle-income country, China increasingly will have comparative advantage in sectors where higher income countries have graduated or are close to graduating.
- If China wants to maintain leadership in those sectors, China needs to do the technology/product innovation by herself and thus China can become a global technological/industrial leader in those sectors.
- There are also some new sectors, such as green technology, which China may be a leader due to its large domestic market.

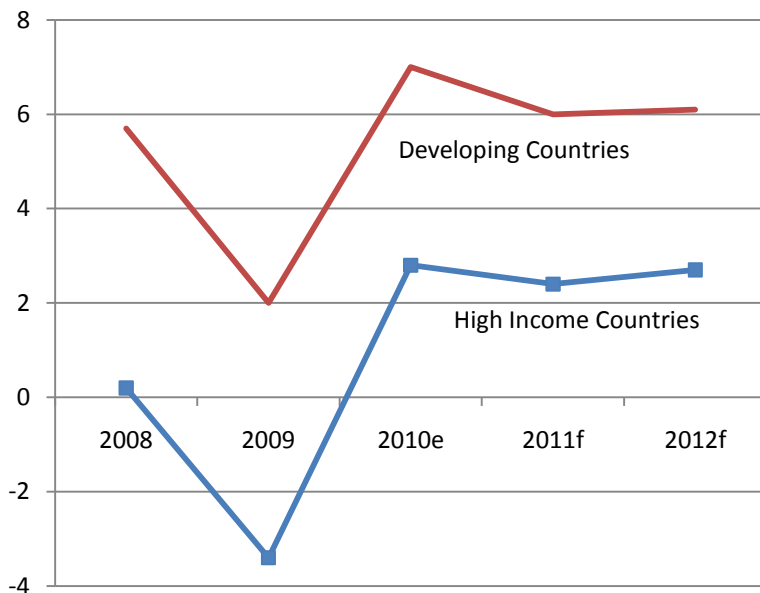
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# III CHALLENGES OF CHINA'S GROWTH IN THE 12<sup>TH</sup> FIVE YEAR PLAN

# Global crisis and the new normal

*Two-speed Economic Recovery....*

Faster Growth in Developing Countries (%)



*...and the risk of the  
“new normal” :*

The combination of lower growth, high unemployment, low capacity utilization and lower returns on investment in high-income countries

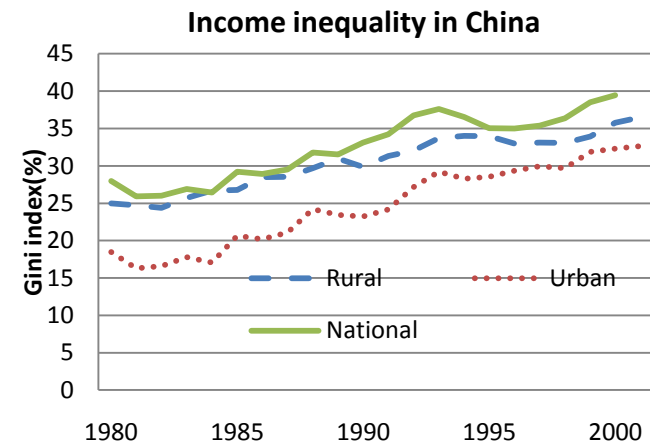
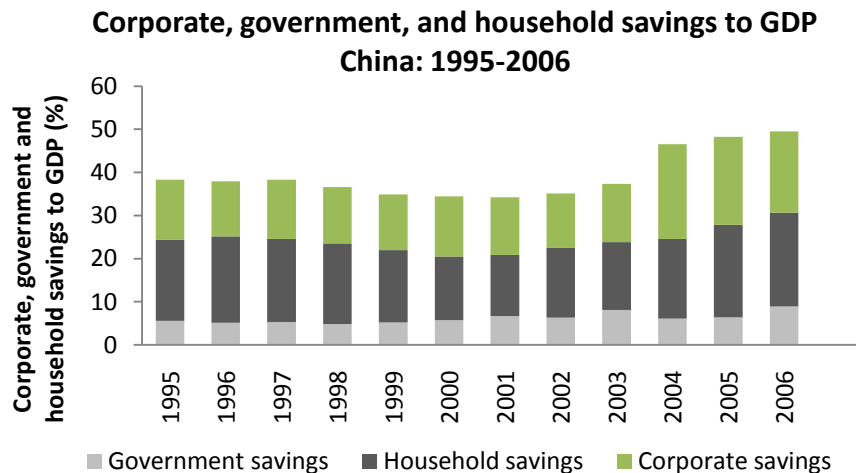
Source: World Bank *Global Economic Prospects 2011: Navigating Strong Currents*

# The challenge of triple imbalances

- With a less favorable external environment and the need for global rebalancing, there is the need to rebalance towards domestic demand.
- China also needs to rebalance income distribution to address the issue of increasing income inequality for maintaining social stability
- Another form of rebalancing is required for short-term growth and long-term environment sustainability
- How can we engineer this triple rebalancing?

# The income disparity is the root for internal and external imbalances

- Data show that a disproportionate share of China's national income accrues to corporations as well as rich people.



- Such income distribution increases investment and production capacity while represses domestic consumption, leading to large current account surplus
- Shifting more income towards workers can rebalance income between rich and poor and between corporate and workers. Such redistribution will also reduce external imbalance.

# Distortions and income disparity

- The concentration of income in the corporate sector and rich people is a consequence of dual-track reforms, which retain certain distortions that favor large corporations and rich people. There is the need to finish the transition towards a market economy.

The reforms include:

- Financial structure
- Natural resources
- Monopoly

# The Environment and rebalancing the short-term growth and long-term sustainability

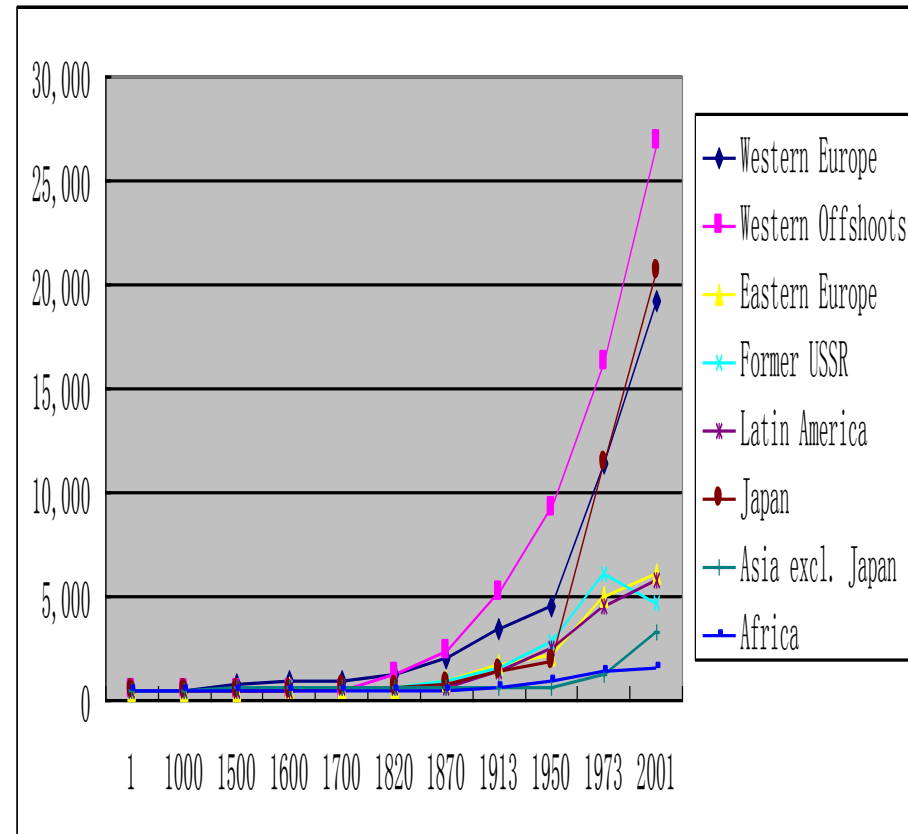
- Pollution and global warming are real challenge for long-term sustainability. China is a continental economy and environmental externalities from economic activity are internalized within China's borders.
- Challenge: China is still on a high carbon phase of development.
- *Opportunity*: China may have the opportunity to become the technological leader of green growth
  - The necessity
  - The market size
  - The resources

The above reforms are the main items in the 12th Five-year Plan!

**IV**  
**CHINA AND THE MULTI-POLAR  
GROWTH WORLD**

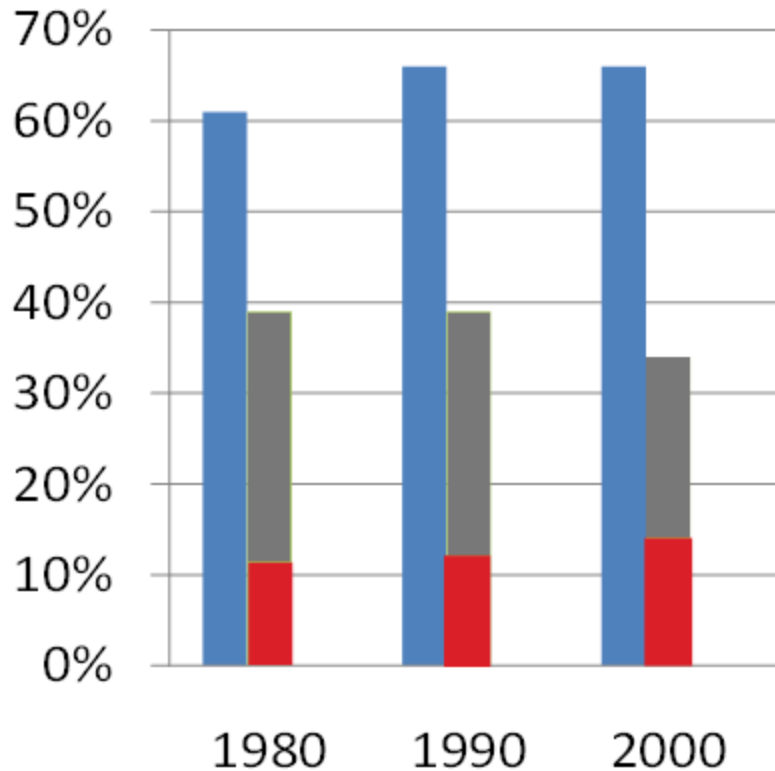
# The World Economic Landscape

- After the Industrial Revolution, the world was polarized.
- Growth in industrialized countries accelerated.
- A few developing economies in East Asia were able to accelerate growth and caught up with industrialized countries.
- Most other developing countries failed to have sustained and accelerated growth.
- As a result, there is a great divergence between the developed and developing countries

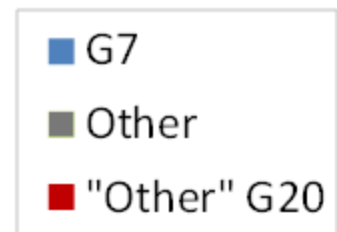
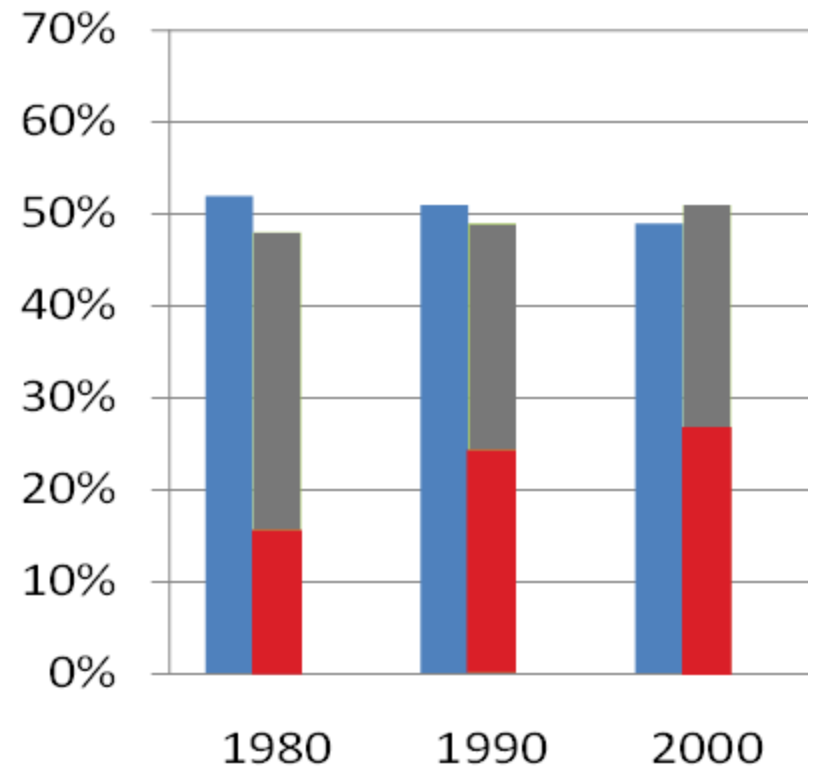


# The Global Economic Landscape was Dominated by the G7 before 2000

Share of global GNI (USD)

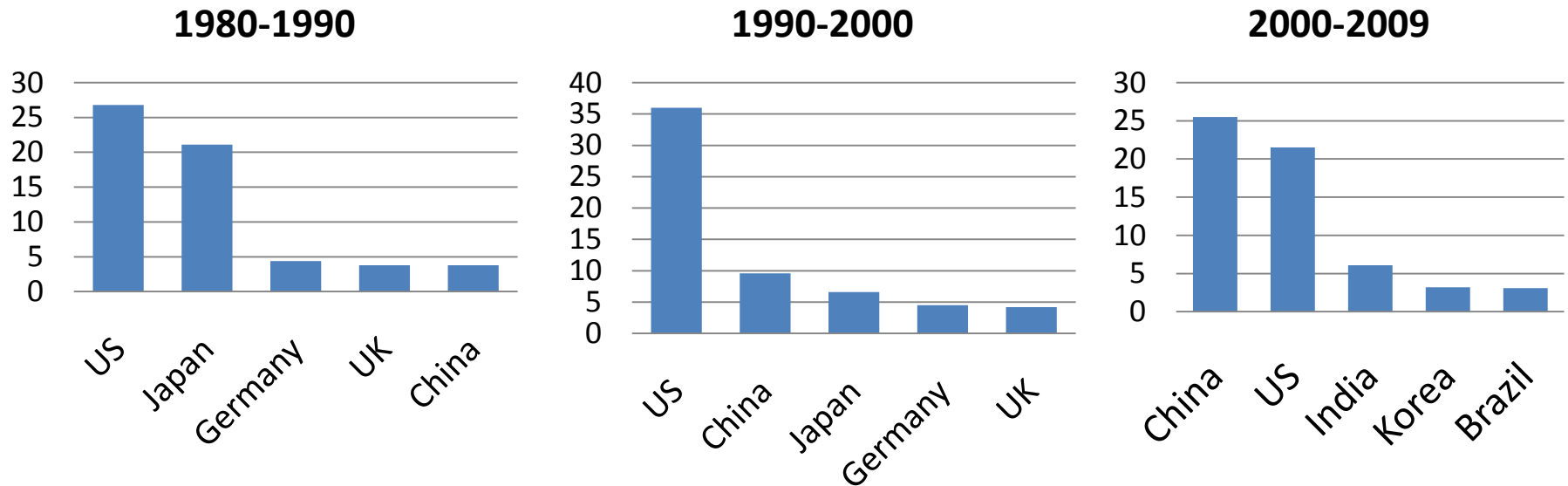


Share of global GNI (PPP)



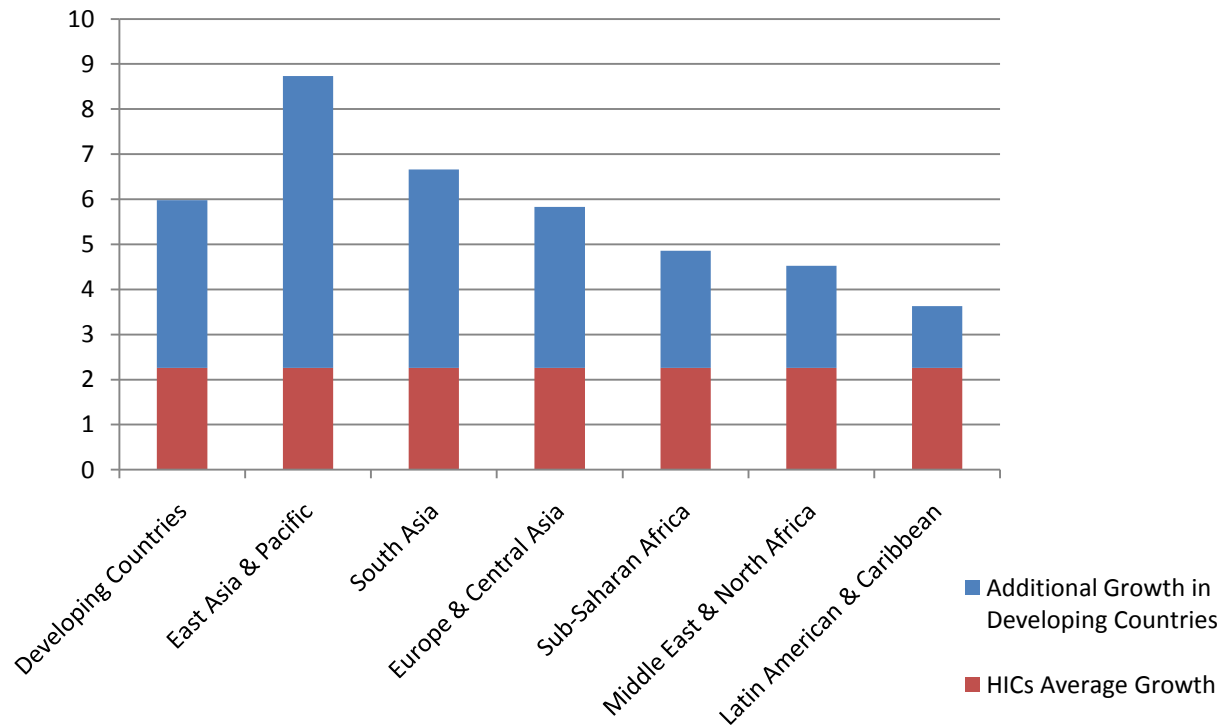
# China and the Emergence of a multi-polar growth world

## Top 5 Contributors to World Growth by Decade (%)



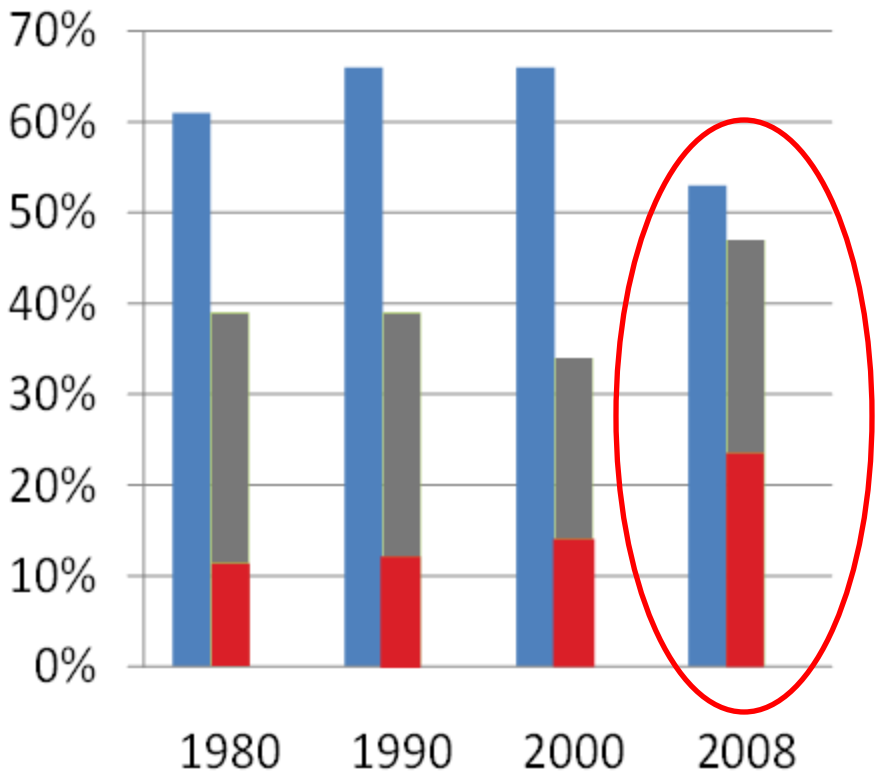
# There was Growth Acceleration in almost all Developing Countries After 2000

**Gap between developing country growth  
and HIC growth**  
(% points, avg. for 2000-2008)

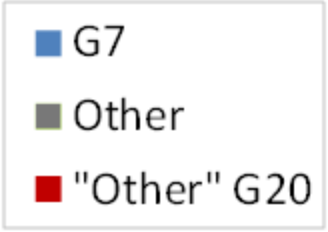
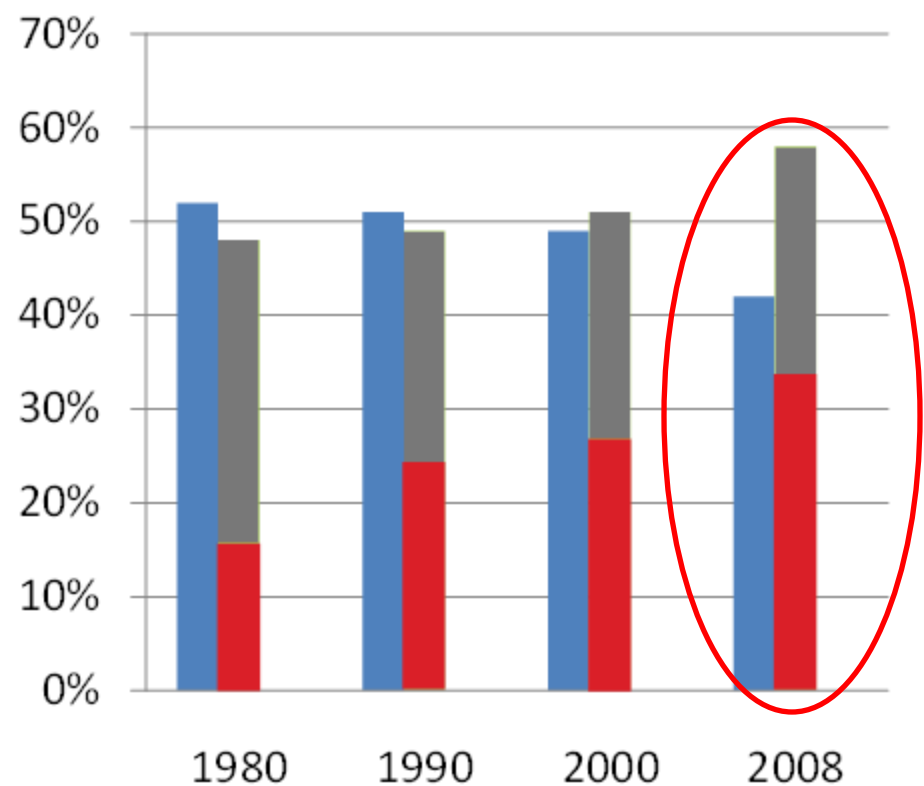


# Rebalancing of the Global Economic Landscape

Share of global GNI (USD)



Share of global GNI (PPP)



# China's Contributions in the Multi-polar Growth World in the coming 20 years

1. China will expand the markets for high-income countries' capital goods /intermediate goods exports.
2. China's rapid growth will support adequate prices for commodity prices.
3. Chinese government investment overseas and Chinese firms' investment overseas provides financing for development in emerging markets and low income countries.
  - In particular, growing role in the Africa region.

# China's Contribution to the Multi-polar Growth World in the Coming 20 years

4. China will become a leading dragon for other developing countries' Industrialization:
  - As China upgrades to more sophisticated product markets, China will leave a huge space for other low-income countries to move into labor-intensive industries.
5. China and the new global economic architecture
  - Leadership Role in the G20?
  - Gradual emergence of new global reserve currency?

# China and Economic Thinking

- Since the birth of modern economics in the late 18<sup>th</sup> century, marked by the publication of Adam Smith's *Wealth of Nations*, modern economic theories are based mostly on the experience of the industrialized nations.
- China's and other East Asian economies development did not follow the policy recommendations based on the existing dominant theories.
- China's and East Asian economies' experience provides a golden opportunity for rethinking of the fundamental issues about economic development.
- **This is a great opportunity and challenge for the Business School/econ dept at HKUST to be a top global academic institution!**