China’s Growth Miracle: Past, Present, and Future

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China’s Growth miracle

- 2nd largest economy by GDP (nominal and PPP terms);
- The GDP per capita reached to $6075 in 2012, up from $205 in 1980;
- the largest exporter and second largest importer;
- accumulated $3.3 trillion in foreign exchange reserves, ranked top in the world;
- the largest recipient of foreign direct investment (FDI) among the developing countries for the last two decades;
- No.5 outwards FDI exporting country;
- a major driver of the global growth, the incremental contribution of China has surpassed that of the U.S.
Growth performance
China’s share of GDP in the World

- 25%, from AD 1 to the middle of 19th century
- 33%, around 1820, rose to a record high level over the past two millenniums.
- 4.6%, in 1950, resulting in a decline of its relative GDP size vis-à-vis the world and a record low level
- 5.2% in 1980 to 17.5% in 2008
GDP based on PPP, share of world total (%)

Advanced economies

Emerging market and developing economies
contribution to world growth (%)
Catch-up of GDP per capita (1990 Int. GK $): US = 100
Changing needed

- the most impressive, lasting, and complex in terms of institutional changes and constraint conditions in the human history of economic growth.

- such miracle is by no means costless.

- It is highly needed to reexamine the characteristics of China’s 30 years growth, and to promote the transformation of growth mode towards a well balanced and sustainable development path.
I. Main factors determining China’s economic growth
1.1 Gradual economic reforms

- The success of China’s economic growth attribute to gradualism strategy.
- The main character of the strategy is to incrementally introduce the market institutions without drastically damaging the vested interests.
- In the process, the elements of the market permeate the traditional planning system through the effects of ‘trickle-down’.
Most important reforms

- Fiscal reforms: the de facto fiscal federalism introduced
- Financial reforms: from single bank (PBC) in 1978 to a modern financial system
- In 1994, China started adopting a managed floating exchange rate system after unifying the four different rates.
- A market-based macro prudential system
- Private sector development
- Transforming the functions of the government, and promoting the construction of legal system.
Thanks to the above reforms, China’s economy experiences impressive changes in favor of marketization. In fact, as far back as 1996, 81% of the production materials, and 93% of retail sales, had already been traded according to the market pricing mechanism.
Marketization

China's Marketization Index

Output (state sector)
Employment

State sector's contribution to employment
Tax contribution

State sector’s contribution to tax revenue

Investment

State sector’s contribution to FAI
1.2 Constant opening-up

- also guided by the principle of gradualism
  - space structure: from the special economic zones, ......and finally the whole China;
  - industrial structure: from the advantaged manufacturing industry, to the less advantaged agriculture and service industries.
- a milestone: entry into the WTO in 2001:
  - the opening up transformed from selective policy bias to widespread and deep institutional arrangements.
  - integrated into the labor division of the global market system, under which China and the rest of the world benefit from each other.
export structure

- High-technology exports (% of manufactured exports)
- Manufactures exports (% of merchandise exports)
applied tariff rate
FDI net inflows (% of GDP)
1.3 Industrialization & urbanization

- Industrialization and urbanization are major drivers of China’s development.
- By changing the industrial and spatial structures, both the two processes improve the allocation efficiency of the production factors in China.
1.3.1 industrialization

- Over 1960-1969, the industrial value-added accounted for only 35.2% of China’s GDP.
- In the 1970s, the share of industry rose to 44.5%, and since then remains stable. The share of service sector constantly increases at the expense of the decline of agriculture sector.
- In India, a relatively small industry sector, and large service and agriculture sectors.
- We believe that for a developing country, bigger size of industry tends to help absorb more labors and support the urbanization, and thus can be viewed as an advantage.
Industrial structure: China (value-added as % of GDP)
Industrial structure: India
(value-added as % of GDP)
## Comparison of China-India industrial structure

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<td><strong>India</strong></td>
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<td>46.5</td>
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1.3.2 urbanization

- another driver of China’s economic growth.
- 2011, the urban population accounted for 50.5% of the total.
- Since 1978, the relative size of urban population tends to gain one percent each year, and to accelerate from the 1990s.
Potential driver of development

- The urbanization level in China still remains low: 2000-2011, the urban population only accounted for 43.2% of the total, slightly higher than the half of the average for the developed countries and lower than the average for the developing countries.

- Such low urbanization level also implies that China has large potential for supporting its future growth through this driver.
Urbanization process
## International comparison: Urbanization

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<td>30.6</td>
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<td>Developing countries</td>
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<td>44.5</td>
<td>49.3</td>
<td>41.8</td>
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</table>
1.4 saving & investment

- savings is a major determinant of long run growth.
- high savings as successful experience supporting China’s rapid growth
- the average rate of the world is slightly higher than 20%, less than half of that in China, which is averaged 47.4% over the past decade
International comparison: Gross savings

- China, Mainland
- Hong Kong, China
- Singapore
- Korea, Rep.
- Japan
- High income: OECD
- Low & middle income
International comparison: Gross capital formation
Gap between savings and investment
High saving rate

- The tremendous amount of savings strongly supports the investment which spurs the long run rapid growth, without triggering severe inflation.
- The savings rate remains generally higher than the investment rate over the reforms era. This phenomenon helps explain China’s accumulated trade surplus and a large amount of holdings of foreign assets.
II. The future of China’s growth
2.1 Reform

- The key is to properly deal with the relationship between government and markets. The latter will be expected to play the fundamental role in the allocation of economic resources.
Market-oriented reform

Regarding the market-oriented reforms, the key is to promote the marketization of production factors, which encompasses the reforms in

- land system
- interest rate & foreign exchange rate
- Multi-levels capital markets
- the integration of urban-rural markets
Government reform

- On the one hand, the government needs to reduce its intervention in the micro-level economic activities, promote deregulation and administrative decentralization, break up monopolies, and improve the efficiency of functioning.

- On the other hand, the government should take responsibility for the non-profit public investment, education, and other public goods and services.
2.2 Opening up

- **In view of the TPP, TTIP, and the recent Japan-Europe trade talks, new rules of global markets are forming.**

- **Under these external pressures, China needs to keep promoting marketization reforms, which support the long run growth.**
2.3 industrialization & urbanization

☐ Looking ahead, China’s industrialization will follow a new path characterized by green industry, information technique, intelligence, and servicization.

☐ Meanwhile, China’s urbanization will focus on the coordinated urban-rural development, modernization of agriculture, and equalization of public services around the country.
2.4 Investment

- In the future, both the savings and investment rates seem to remain high compared to other countries.
- China should make more effort to improve the efficiency of investment. China will balance its demand structure by boosting domestic consumption.
Contribute to rebalance

- From an international perspective, the narrowing of China’s investment gap is associated with the narrowing of China’s trade surplus, thereby benefiting the rebalance of the global economy.

- It has actually happened since 2011.
Global imbalances (% of world GDP)
### Scenario analysis: Growth accounting for future growth in China

<table>
<thead>
<tr>
<th>Period</th>
<th>α</th>
<th>1- α</th>
<th>Potential growth rate of GDP (%)</th>
<th>Capital growth (%)</th>
<th>Labor growth (%)</th>
<th>TFP</th>
<th>Effects of energy saving and emission reduction</th>
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<td>2011-2015</td>
<td>0.7</td>
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<td>2016-2020</td>
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<td>5.7-6.6</td>
<td>9-10</td>
<td>-1</td>
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<td>-1</td>
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<td>2021-2030</td>
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<td>0.5</td>
<td>5.4-6.3</td>
<td>8-9</td>
<td>-0.5</td>
<td>0.4</td>
<td>-0.5</td>
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</table>
Currently, Chinese government and scholars are studying the key steps and domains, as well as the road map and planning of the reforms for the next 5-10 years. This task is expected to be finished by the end of this year.

We believe that as the reforms advance, China will witness its fourth decade of impressive economic growth of high quality.
Thank you!