

Chinese Economy in 2030



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China in the World (Nominal GDP 2011, 2012)

Rank	Country/Region	GDP (millions of US\$)	Rank	Country/Region	GDP (Millions of \$US)
	<i>World</i>	69,983,693 ¹¹²		<i>World</i>	71,666,350
	<i>European Union</i>	17,552,216 ¹¹²		<i>European Union</i>	16,690,383
1	United States	15,094,000	1	United States	15,684,800
2	China	7,318,499 ¹²	2	China	8,227,103
3	Japan	5,867,154	3	Japan	5,959,718
4	Germany	3,570,556	4	Germany	3,399,589
5	France	2,773,032 ¹⁴	5	France	2,612,878
6	Brazil	2,476,652	6	United Kingdom	2,435,174
7	United Kingdom	2,431,589	7	Brazil	2,252,664
8	Italy	2,194,750	8	Russia	2,014,775
9	Russia	1,857,770	9	Italy	2,013,263
10	India	1,847,982	10	India	1,841,717
11	Canada	1,736,051	11	Canada	1,821,424

Source: World Bank.

Compound Growth Math

$$\text{GDP}_{t+n} = \text{GDP}_t (1+g)^n$$

- Rule of 70
 - number of years to double = 70/growth rate
 - g = 10%: double every 7 years
 - g = 2%: double every 35 years
- China's Economy
 - China's economy (US\$8.2 Trillion) is half of the US (US\$15.7 trillion) in 2012
 - If the growth rate difference between China and US is 5% (China 7.5% and US 2.5%)
 - Then China will overtake US in total GDP in 2025

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China and the US in 2030

$$\text{GDP}_{t+n} = \text{GDP}_t (1+g)^n$$

- China's economy (US\$8.2 Trillion) in 2012
 - If growth rate is 7%
 - US\$27.7 Trillion

 - US (US\$15.7 trillion) in 2012
 - If growth rate is 2.5%
 - US\$24.4 Trillion

 - Exchange rate, GDP in PPP
- Can Growth be Maintained?

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The determinates of China's growth

- In a 'virtuous circle' of high investment, high labour participation, high growth
- Developmental state, State Capitalism
- Rapid capital accumulation
 - High investment is difficult to sustain
 - Drastic high investment in public goods eg. infrastructure
- Rapid Private sector growth
 - growth comes from satisfying demand
- Rapid structural change
 - growth of trade
 - shift from state to non-state
 - and shift from agriculture to non-agriculture

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Implications of rural-urban divide

- In the process of moving people out of agriculture into industry
 - translating the low productivity surplus workers into the industrial sector
- The existence of surplus labour
 - unlimited supplies of labour at the subsistence real wage rate
 - Chinese unskilled real wages have remained more or less unchanged during the period of furious growth up to 2005

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Surplus labour

- Slowing down of structural change but far from complete
 - Approaching Labour scarcity but surplus labour is far from being exhausted.
 - About 140 million migrants in urban China in 2005 (40%)
 - There are still at least 200 million more waiting to make this transition
- Transformation cannot be achieved easily through domestic demand alone
 - It provides a real rate of return to set against the losses of FX due to depreciating dollars
 - It provides a political as well economic explanation for the actions of the Chinese authorities

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Potential adverse shocks

- Growth problems
 - Inequality (income and opportunities)
 - Corruption
 - Environmental problems
- Structural problems
 - Reliance on export vs stimulate internal demand
 - Macroeconomic imbalances
 - Extensive vs. intensive growth
 - Weak financial system
 - banking crisis Housing bubble in Beijing and shanghai
- Lagged Political reform
 - The risk of social instability
- Difficult/impossible to measure or predict

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Twin Imbalances

- International trade and current account surplus
- China's official foreign reserve
 - Over US\$ 1 trillion by the end of 2006
 - US\$ 2.1 trillion by October 2009
 - US\$ 3.2 trillion by now
- Export vs. domestic demand
 - Over 50% of exports are processing imports so labour is the crucial element

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Political development

- The philosophical foundation
 - The one party rule and the absolute power
 - The people's democratic dictatorship
- Nurturing a civil society
 - Elite vs. conflict driven
 - Improving the self-organizing ability of the society
- open society
 - Cosmopolitan

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Thank you!
