

Managing China's Growth

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Managing China's Growth

- 1. Current state of the Chinese economy**
- 2. New growth strategy**
- 3. Challenges and prospects**

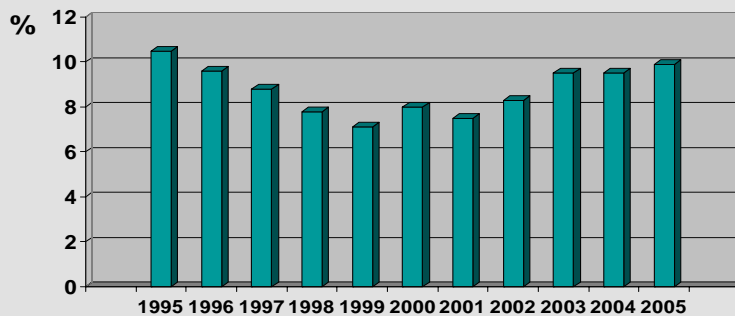
Current state of the Chinese economy

Achievements

- High rate of growth
- Economic reform
- FDI and export performance
- Productive capacity and infrastructure
- Poverty reduction

Current state of the Chinese economy

GDP annual growth rate



Source: ADB

Current state of the Chinese economy

Average annual GDP growth for the period 1978-2005, revised by China's State Statistical Bureau to 9.88% (from 9.496%)
(under-reporting of private and government consumption expenditures)

Current state of the Chinese economy

Symptoms of stress

- Structural imbalance : balance of payments, reliance on fixed capital investment for growth
- Underdevelopment of financial system and capital market
- Income distribution and regional disparity
- Unemployment (CASS estimates: annual labor demand gap 15 million, 100 million underemployed rural labor)

New Growth Strategy

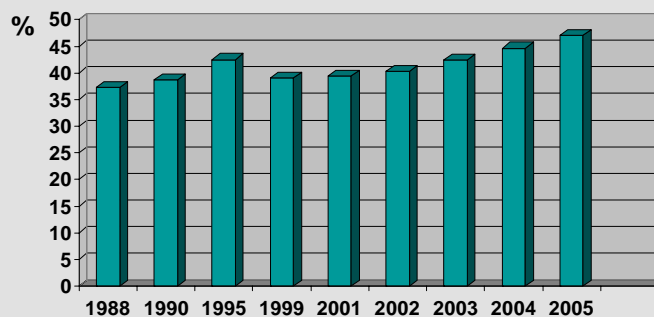
China's *Eleventh Five-Year Plan* (2006-2010) - changing nature of FYP, not a centralised mandatory plan but indicative and guiding principles

A shift in growth strategy announced in December 2004 : more reliance on expansion of domestic consumption to reduce reliance on investment and export-driven development; rural development; and the objective of attaining social harmony and long term sustainability.

The ultimate aim is to move away from the extensive model of economic development to a more sustainable basis for continuing economic growth

National saving rate

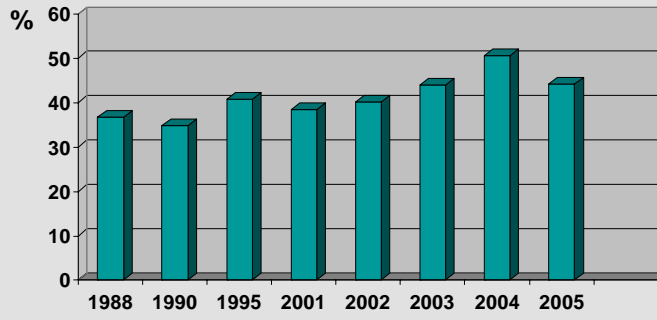
Gross domestic saving as % of GDP



Source: ADB

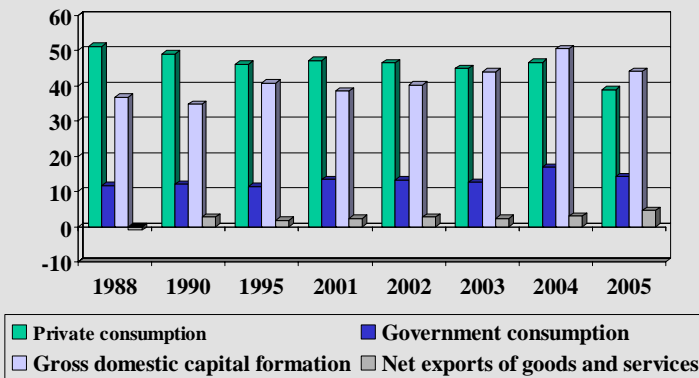
National investment

Gross domestic capital formation as % of GDP



Source: ADB

Structure of Demand (% of GDP at Current Prices)

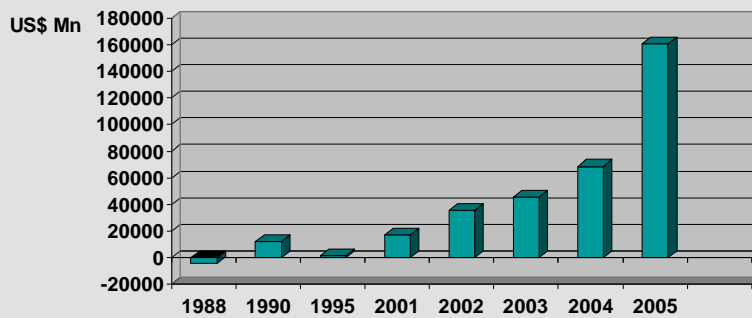


International Balance of Payments

	2001	2005
Current Account	17.4 (1.5%)	160.9 (7.2%)
Capital Account	-0.54	4.1

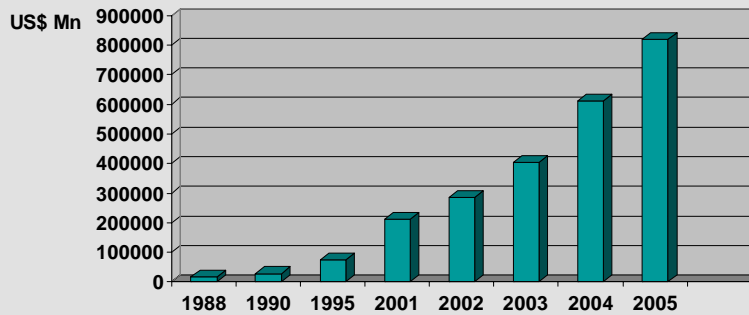
Number in brackets = % of GDP
Source: ADB

Current account balance



Source: IMF

Foreign exchange reserves

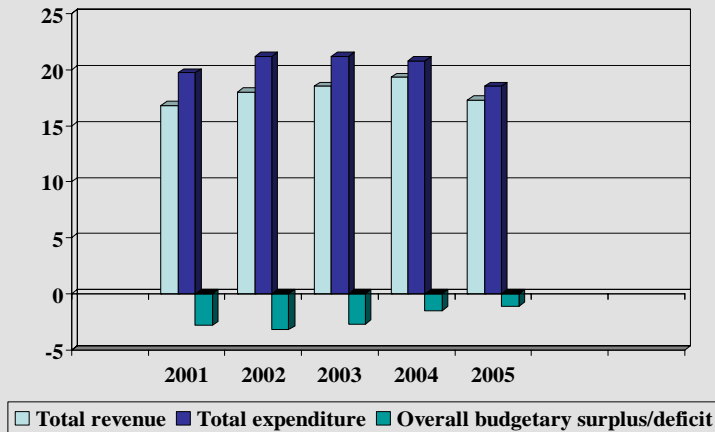


Source: IMF

New growth strategy

- **Raising household consumption – need to address some of the fundamental factors for maintaining high saving rate**
- **Raising government consumption**
 - Improving social security, health and education, welfare, rural infrastructure, etc
 - Reducing government investment
 - Raising taxes (+ introduce dividend payments from state owned enterprises)

Government Finance (% of GDP)



New growth strategy

- **Development of the financial system**
 - More diversified and high quality financial products to improve allocative efficiency, returns, and risk management
 - Less reliance on bank finance for companies
 - Further reform of regulatory environment over the development of capital market
 - Exchange rate system reform

China's banking system deposits and loans 2005

	Year end balance (Billion RMB)	Percentage change over previous year
Total Deposits	30,021	18.2
Enterprise deposit	10,175	13.8
Household savings deposit	14,705	16.5
Total Loans		
Short term	9,116	6.5
Medium-long term	9,294	16.2

Source: PBC

Challenges and prospects

Chinese government view consistent with majority of domestic and international analysis and opinions.

That is, there is a need to rebalance and adjust the previous growth strategy to continue growth in an economically and socially sustainable way.

Challenges and prospects

- Debate over Chinese enterprises performance and retained profit as investment funding source (Weijian Shan, Newbridge Capital)
- Financial system weaknesses and policy measures to improve its efficiency
- Fault lines (C. Wolf) : unemployment, poverty and social unrest, HIV/AIDs and epidemic disease, water resource and pollution, energy, FDI decline, Taiwan/other potential conflicts
- Ending of WTO transition

Challenges and prospects

Alternative view

No need to make drastic changes to the current path. Fan Gang argued that China will maintain its comparative advantage in labor-intensive manufacturing for the next few decades and that the resolution of rural issues employment, and the development of low-income groups could be based on this.

Conclusion

- **Structural rebalancing of drivers of growth**
- **Better coordination of policies on FDI, external trade, industry policy, and the overall pace of marketisation**
- **Higher standards of public governance and corporate governance are required to achieve the new growth strategy.**