The New Pattern of Chinese Growth

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1. China growth is in second structural transformation of reform era

- 1978–84. Agricultural and rural incomes growth to underpin reforms. (Rural Reform)
- 2012 to 2030. Rebalancing to complete transition to modern economy. (Transition to Advanced Economy)
2. Uninhibited Investment Expansion 1985–2011 had several subplots:

- Full steam ahead from 1992.
- Rapid private sector expansion in 1990s but re-emphasis of public investment including large state-owned enterprises after Asian Financial Crisis (1998–9).
- Successful strong Keynesian response to external downturns in AFC (1998–9) and GFC (2008–9) re-emphasised role of State sector.
Urban and industrial investment given priority and investment share near 50% highest any time anywhere.

Real growth fixed assets 13.4% to 1995, 16.9% 2003–07, 33.3% 2009 (Cai Fang).

Deepening integration into global goods, services, investment and knowledge markets.

Rapid productivity growth through catching up with technology, management methods and capital intensification of advanced countries.

Rural migration keeps wages growth below productivity growth.

Virtuous circle as rising profits share reinvested in catching up.
4. Uninhibited Investment Expansion extraordinarily productive

- Average growth over 10 percent and no weak periods from 1992.
- Strongest sustained growth in world economic history (Japan 1950–73 second).
- Per capita income into middle income ranks.
- World’s largest total savings and surplus savings for international investment.
- World’s largest exports.
- Set to be world’s largest economy within a few years (PPP) or by end of decade (national accounts at ruling exchange rates).
5. Uninhibited Investment Expansion approaching economic limits around 2010

- Per capita income $8,000 in 1990 PPP
- Comparable with Japan in 1968, 6 years before 1974 slowdown.
- Turning period in Labour market from 2004 with rapid increases in real wages continuing except for 2009; work-age population decline in 2012 and subsequently.
- International tension about China’s current account surplus (10.8% of GDP in 2007).
- Stagnation in large advanced economies from GFC slows export growth.
6. Uninhibited Investment Expansion approaching social and political limits

- Growing tensions about increasing labour/capital and rural/urban income inequality.
- Growing Gini coefficient measure of inequality 0.479 in 2003 to 0.491 in 2008 (Huang).
- Growing resentment at Local Government land acquisitions for industrial and urban investment.
- Growing international tensions over greenhouse gas emissions (Copenhagen 2009).
- Growing resentment of local environmental degradation at crescendo in early 2013.
- Growing resentment at corruption.
7. Uninhibited Investment Expansion not exhausted but prudent to move to new model in advance of crisis

- Productivity growth and business profitability still reasonable.
- Near full employment of domestic resources.
- Economic forces driving change with rising wages moderating inequality, investment share, environmental impact and current account surplus.
8. The dogs that didn’t bark

- Investment priority led to excessive local debt and correction may cause slowdown but not crisis.
- Expansion of exports outside old developed countries has offset post-GFC stagnation.
- Political tensions did not lead to crisis through 2012 leadership transition.
Gradually easing investment share of GDP and urban and infrastructure growth.

Heavy investment in education.

Institutional upgrading for modern economy (markets, law).

Rapid structural change to technologically sophisticated industry with much more services.

High productivity growth, moderately lower capital intensification, declining labour.

Acceptance of moderate cyclical slowdowns not immense Keynesian response.

Leading to GDP growth in range 6–8 percent rather than 9–10 percent and more.

7 to 8 the norm but acceptance of 6 when the cycle take the economy there.
High priority to environment: energy saving, transition to low–carbon energy.
Gradually rising wage share.
Large transfers to rural education, health, transport, communications, safety net.
Falling Gini coefficient inequality.
Communist Party agony over corruption and political structural reform.
Energy growth markedly lower (electricity growth below 6 percent in 2012).

Energy decarbonisation (almost all 2012 electricity growth renewable and nuclear).

Rapidly rising rural public services and rural transfers (Wong).

Sustained rapid wages growth (minimum wage up 20% average migrant wage 11.8% in 2012).

Gini coefficient of inequality falling (0.491 in 2008, 0.474 in 2012).

Consumption share rising from 2008 and current account surplus now normal (2.6% GDP in 2012, lower than Germany, Japan).
12. Longer Term Human Capital Transformation Bearing Fruit

- Education quality and quantity dramatically improving (over 16s, average 6.24 years in 1990, 8.9 years in 2010 (Huang).
- R and D expenditures and patent approvals entering range of advanced countries.
- Export expansion away from old labour-intensive products.
Continued success makes transition to advanced economy sustainable to late 2020s.
Chinese average incomes then well over half developed countries.
Total economy substantially larger than US and European Union combined.
Black Swans nesting in tensions over political reform and corruption.
Continued strong import growth increasingly focused on advanced services and consumer goods.

Much lower growth in metals and energy imports (and lower world prices) a positive for Europe, Japan, Korea and big negative for resource rich economies.

Lower surplus savings in China and resource rich economies to generate bond market crunch if and when investment growth resumes in developed world.

Carbon transition strengthens possibilities on world’s global warming action.
15. Implications of Transition for Australian Economy

- Immense adjustment to much lower resources investment and terms of trade.
- Much lower real exchange rate, the sooner the better.
- Higher tradables prices must be isolated from domestic incomes and expenditure.
- Immense challenge after longest expansion without recession in developed country history.
- Success depends on massive growth in investment and exports of non-resource tradables.
- China opportunities available outside resources if large real depreciation achieved.