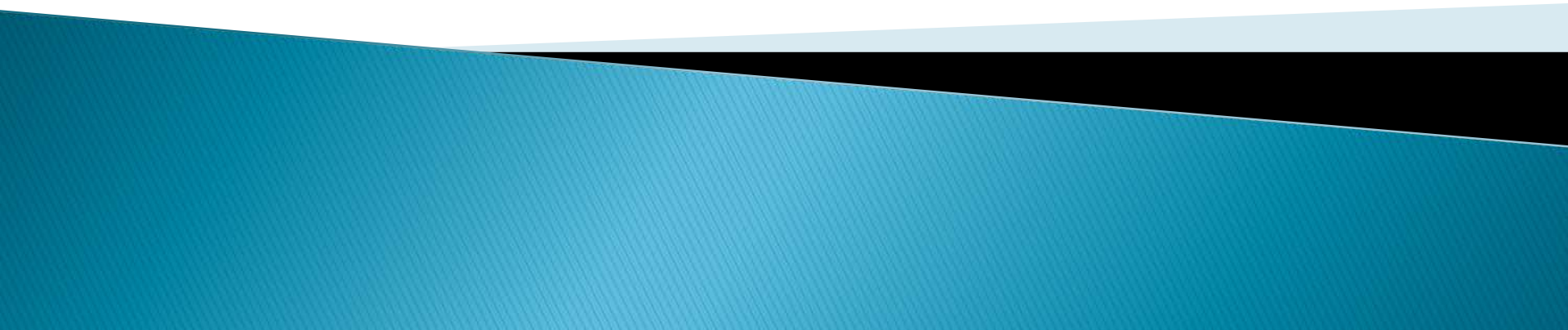


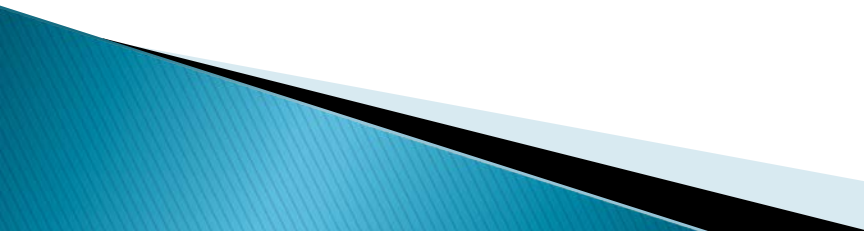
The New Pattern of Chinese Growth

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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)
 - ▶ 1985–2011. Investment and export led industrial catching up. (Uninhibited Investment Expansion)
 - ▶ 2012 to 2030. Rebalancing to complete transition to modern economy. (Transition to Advanced Economy)
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2. Uninhibited Investment Expansion 1985–2011 had several subplots:

- ▶ Finding ideological and political basis for internationally-oriented growth 1985–1992.
- ▶ 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.

3. Characteristics of Uninhibited Investment Expansion

- ▶ 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.
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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.

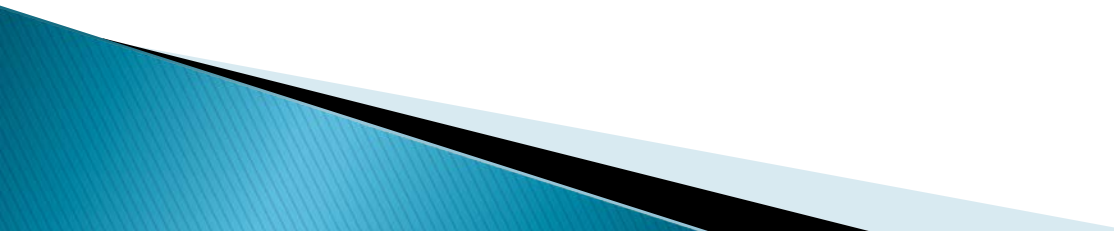
6. Uninhibited Investment

Expansion approaching social and political limits

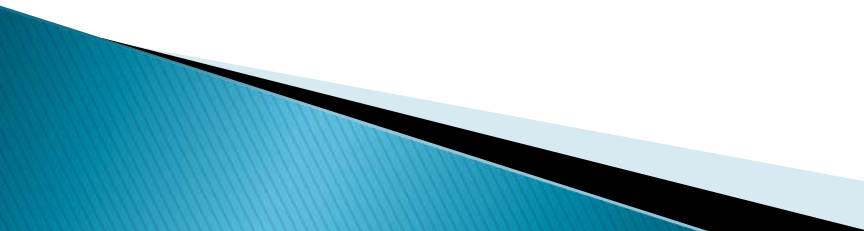
- ▶ Growing tensions about increasing labour/capital and rural/urban income inequality.
- ▶ Growing Gini coefficient measure of inequality 0.479 in 2003 to 0.491 in 2008 (Huang).
- ▶ Growing resentment at Local Government land acquisitions for industrial and urban investment.
- ▶ Growing international 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.
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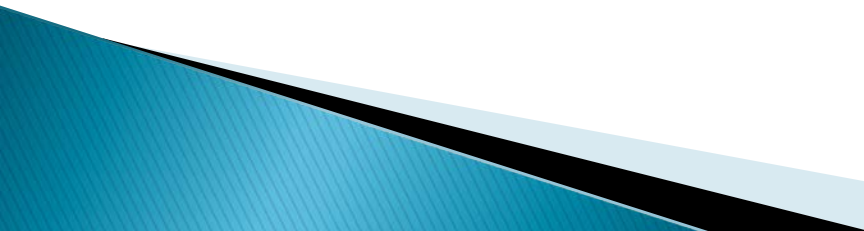
8. The dogs that didn't bark

- ▶ 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.
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9. Characteristics of Transition to Advanced Economy

- ▶ 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.

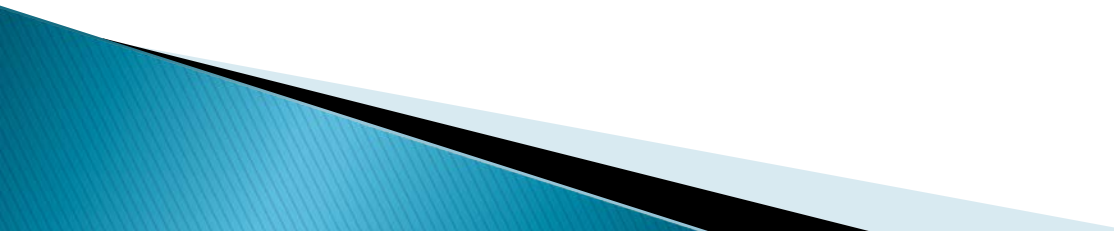
10. Characteristics of Transformation to Advanced Economy continued

- ▶ 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.
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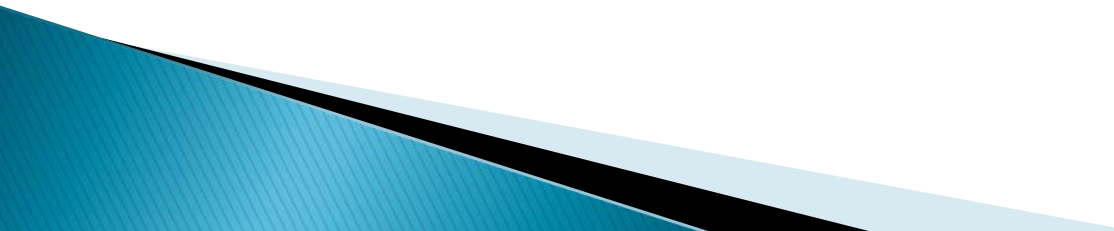
11. Transformation Proceeding Rapidly and Successfully

- ▶ 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 1990, 8.9 years 2010 (Huang)).
 - ▶ R and D expenditures and patent approvals entering range of advanced countries.
 - ▶ Export expansion away from old labour-intensive products.
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13. Sustainability of Transition to Advanced Economy

- ▶ 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.
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14. Implications of Transition for International Economy

- ▶ 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.
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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.
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