#### The New Pattern of Chinese Growth

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Keynote presentation at the 18th CLSA China Forum Beijing, China

# 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)

# 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 reemphasis 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.

# 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.

## 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.

## 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 labourintensive products.

## 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.

## 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.

## 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.