



China's Economic Development Prospects

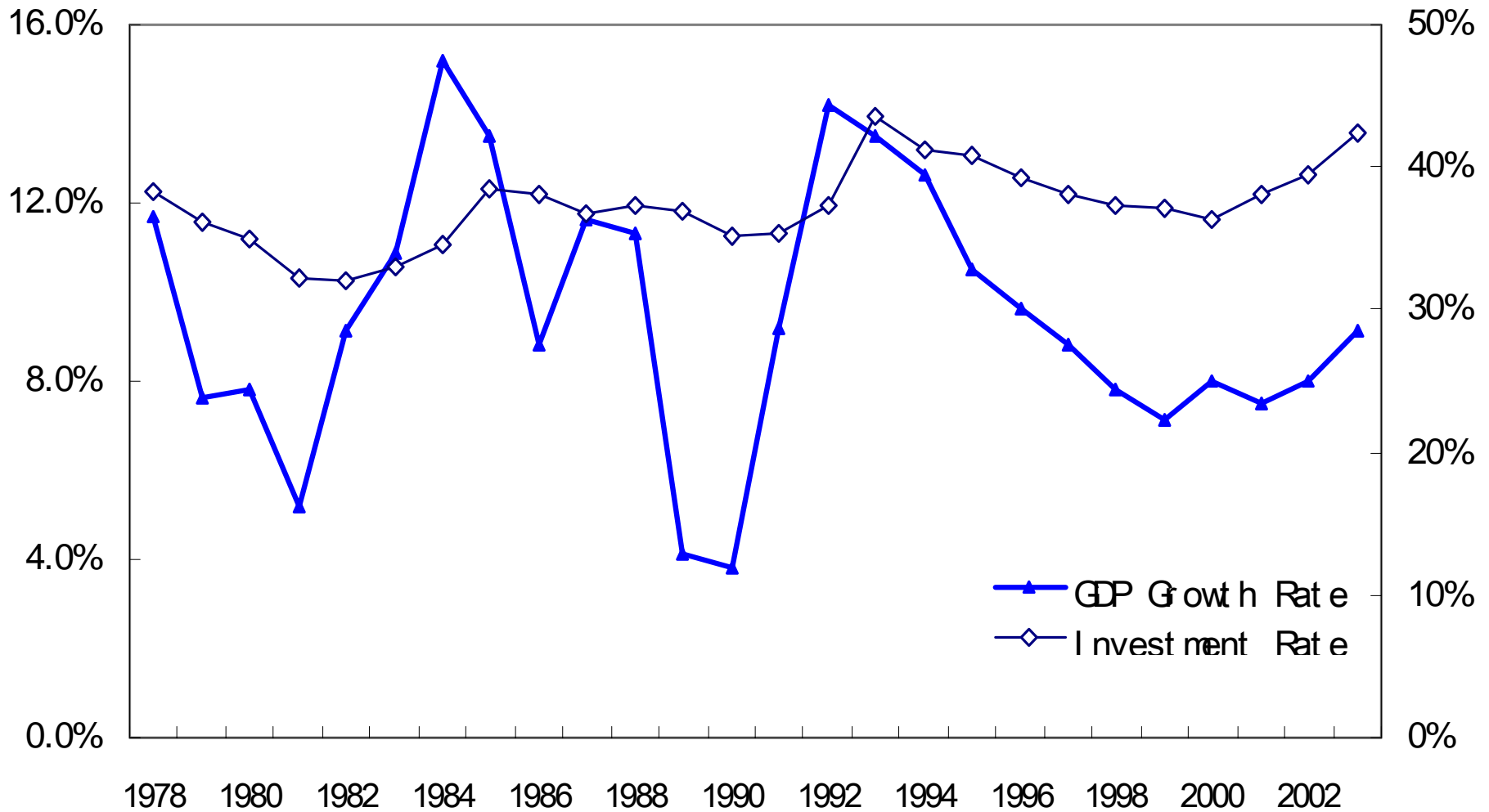
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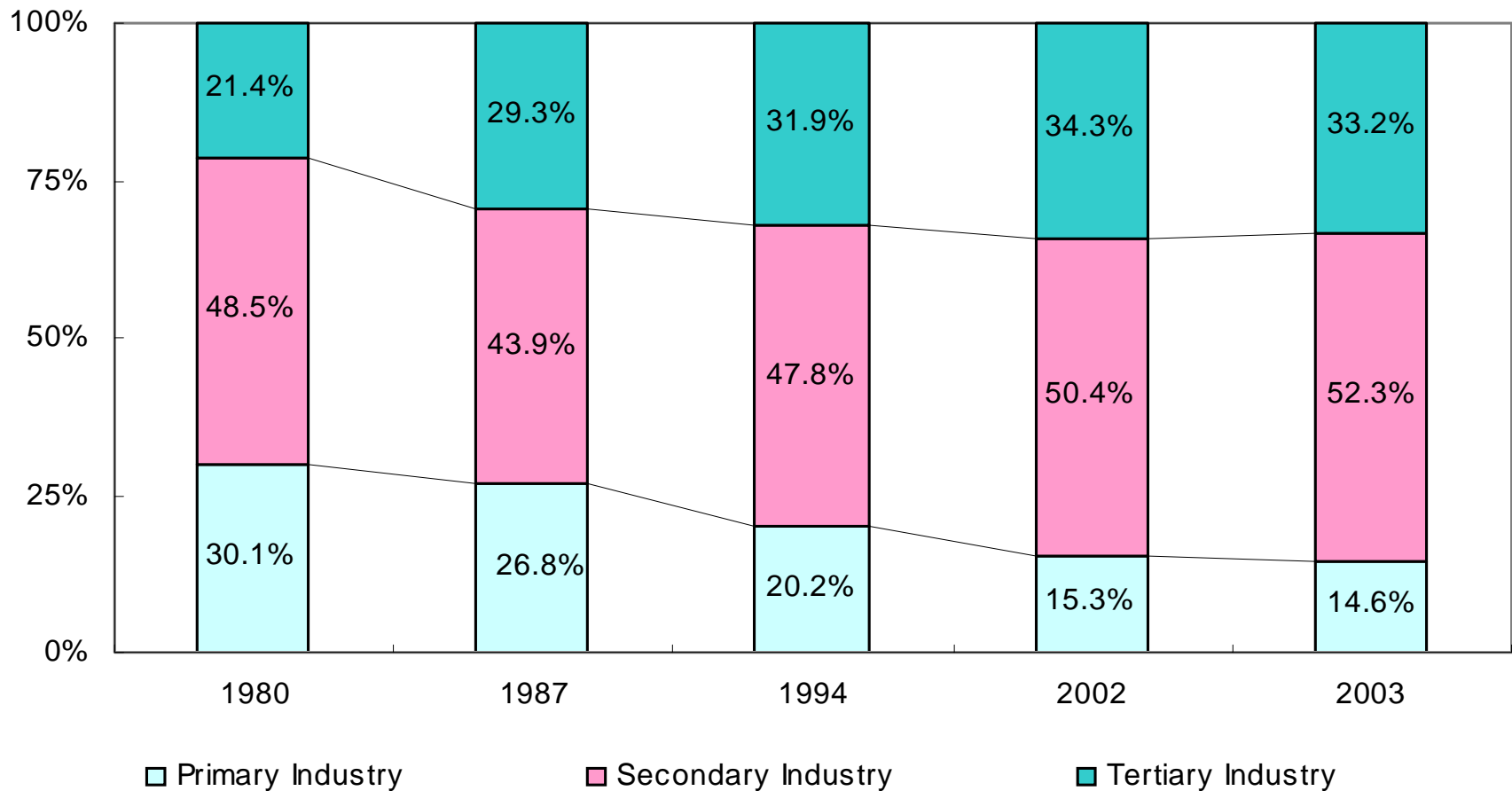


China's economy has been growing at a rate of 9.3% annually since 1978



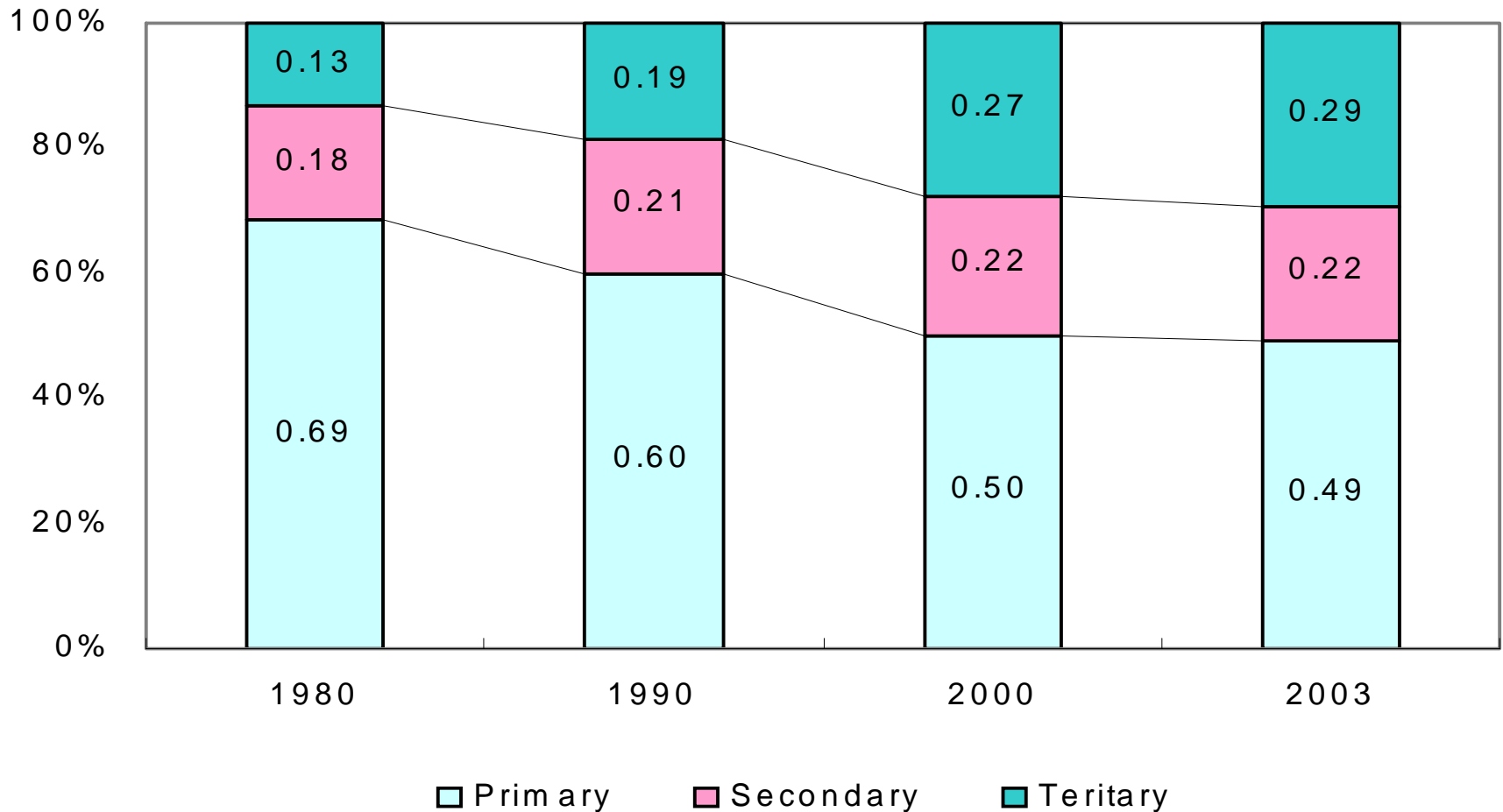
Economic Structure

---Share of agriculture is decline since 1978



Employment Structure

Agricultural sector account for 50% of China's labor employment



The source of rapid economic growth in China in the last two decades

- **The rapid growth in the capital input**
 - high investment rate
 - large inflow of foreign capital
- **Improvement in the productivity**
- **The re-allocation of labor among industrial sectors and regions represents a very important source of growth**

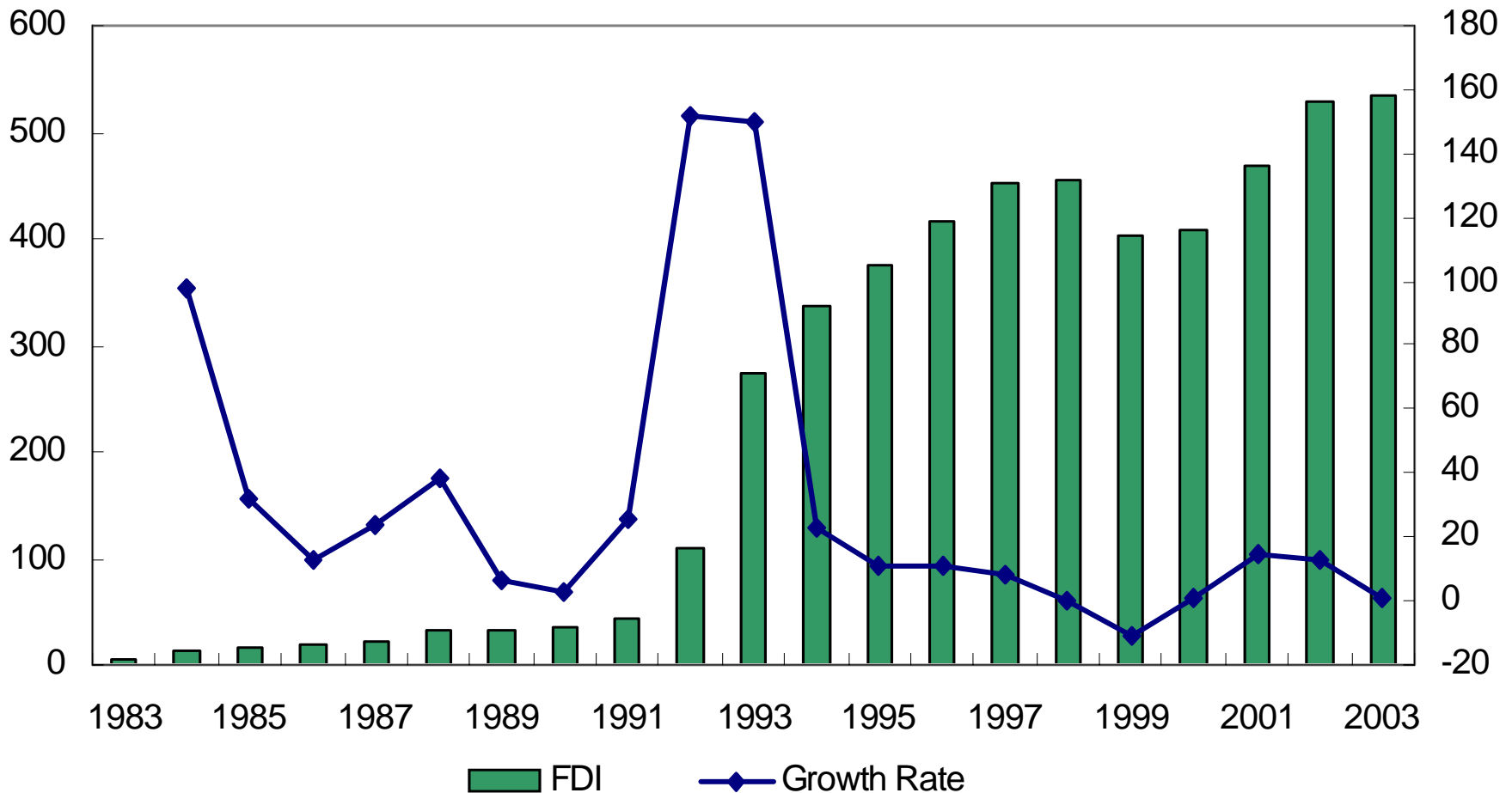


The source of rapid economic growth in China in the last two decades

| | GDP¹ | Capital² | Labor³ | TFP⁴ |
|---------------------------------------|------------------------|----------------------------|--------------------------|------------------------|
| Growth Rate of GDP and Factors | | | | |
| 1978-1985 | 9.8 | 8.5 | 3.1 | 3.5 |
| 1985-1989 | 8.9 | 9.8 | 2.6 | 2.0 |
| 1990-1997 | 11.2 | 11.2 | 1.1 | 4.0 |
| 1997-2000 | 7.7 | 10.7 | 1.1 | 0.8 |
| 2000-2003 | 8.4 | 10.5 | 1.1 | 1.6 |
| 1990-2003 | 9.7 | 10.9 | 1.1 | 2.7 |
| 1978-2003 | 9.4 | 9.9 | 2.5 | 2.4 |
| Contribution of Factors | | | | |
| 1978-1985 | | 52.0 | 12.7 | 35.3 |
| 1985-1989 | | 66.1 | 11.7 | 22.2 |
| 1990-1997 | | 60.0 | 3.9 | 36.1 |
| 1997-2000 | | 83.4 | 5.7 | 10.9 |
| 2000-2003 | | 75.0 | 5.2 | 19.8 |
| 1990-2003 | | 67.4 | 4.5 | 28.0 |

Foreign Direct Investment

- was \$53.5 Billion in 2003



The Challenges of Economic Development in the Future

- **The constraints of natural resources and environment**
 - Non tradable resources, such as land, water
 - Tradable resources
 - Environment problems



The Challenges of Economic Development in the Future

| | China total | Share (relative to the world,%) | Per capita | Ratio to world average (%) |
|--|-------------|-----------------------------------|---------------------------------|------------------------------|
| Population | 12.8 | 20.7 | | |
| Cultivated land (10 ⁴ hectare) | 13004 | 9.3 | 0.101 (hectare/person) | 45 |
| Water Resource (100 million m ³) | 28255 | 7.0 | 2186 (m ³ /person) | 25.4 |
| Forest Resource (100 million m ³) | 124.9 | 2.3 | 9.7 (m ³ /person) | 11.1 |



The Challenges of Economic Development in the Future

Mining Resource per capita

| | Reserves | Ratio to the Product i World (%) | on | Ratio to the World (%) | consumption | Ratio to the World (%) |
|--------------------------------------|----------|-------------------------------------|------|---------------------------|-------------|---------------------------|
| Crude Oil (kg) | 1800 | 11 | 125 | 22 | 181 | 26 |
| Natural Gas (m³) | 1063 | 4.5 | 22 | 4.8 | 16.8 | 4.6 |
| Coal (kg) | 125000 | 79 | 822 | 110 | 990 | 133 |
| Iron Ore (kg) | 9880 | 42 | 187 | 113 | 230 | 129 |
| Copper (kg) | 13.2 | 18 | 0.41 | 20 | 1.06 | 46 |
| Aluminum (kg) | 283 | 7.3 | 6.9 | 33 | 2.3 | 60 |

The Challenges of Economic Development in the Future

- **Aging Problem**
- **Pressure on employment**
 - New labor forces
 - Labor force transformation
- **Limitation of public resources**
 - Basic education
 - Public health
 - Social security system



Aging Problem

| | Total (billion) | Aged 15-60 (billion) | Share in total (%) | Aged 60 and above (billion) | Share in total (%) |
|-------------|----------------------------|-----------------------------------|-------------------------------|--|-----------------------------------|
| 2000 | 1.269 | 0.861 | 67.8 | 0.132 | 10.4 |
| 2005 | 1.322 | 0.925 | 70.0 | 0.146 | 11.0 |
| 2010 | 1.377 | 0.973 | 70.7 | 0.173 | 12.6 |
| 2015 | 1.430 | 0.999 | 69.9 | 0.215 | 15.0 |
| 2020 | 1.472 | 1.004 | 68.2 | 0.245 | 16.6 |

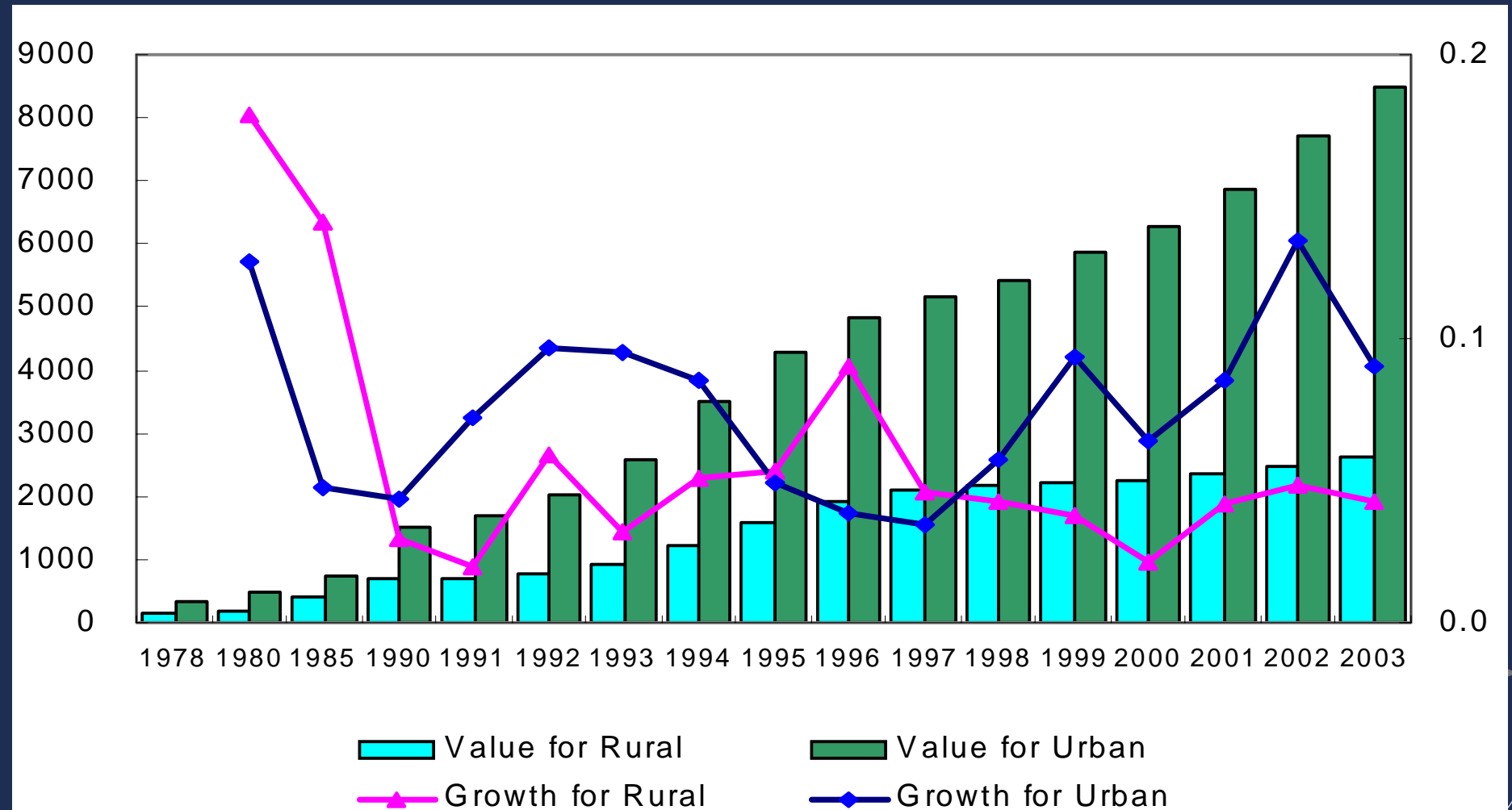
The Challenges of Economic Development in the Future

- **Income distribution**
 - Rural and urban
 - Regional disparity
 - Different groups
 - Poverty (rural and urban)
- **Management**
 - Central and local government
 - National Market integration
 - Banking System

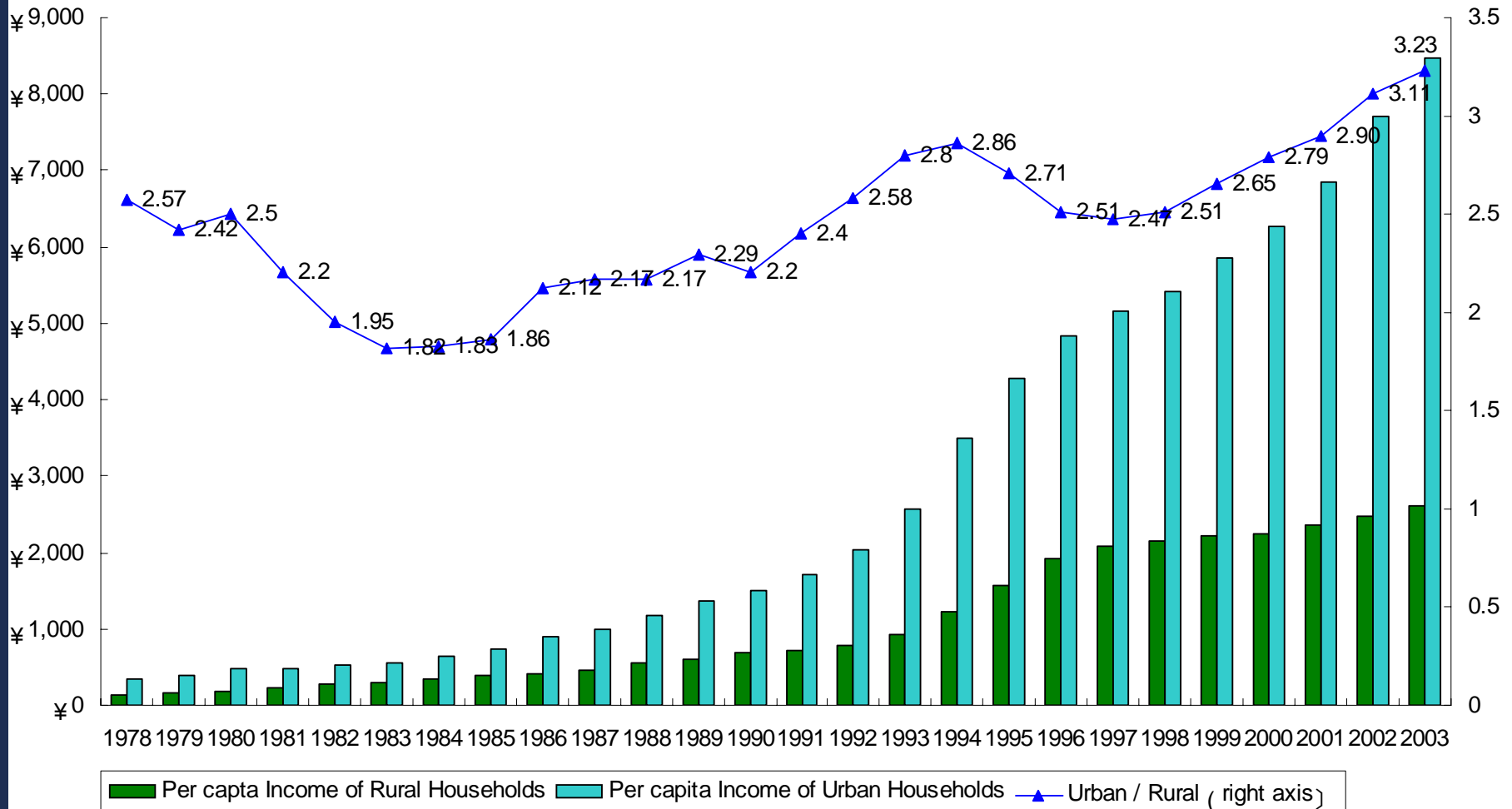


The Inequality in Household Income

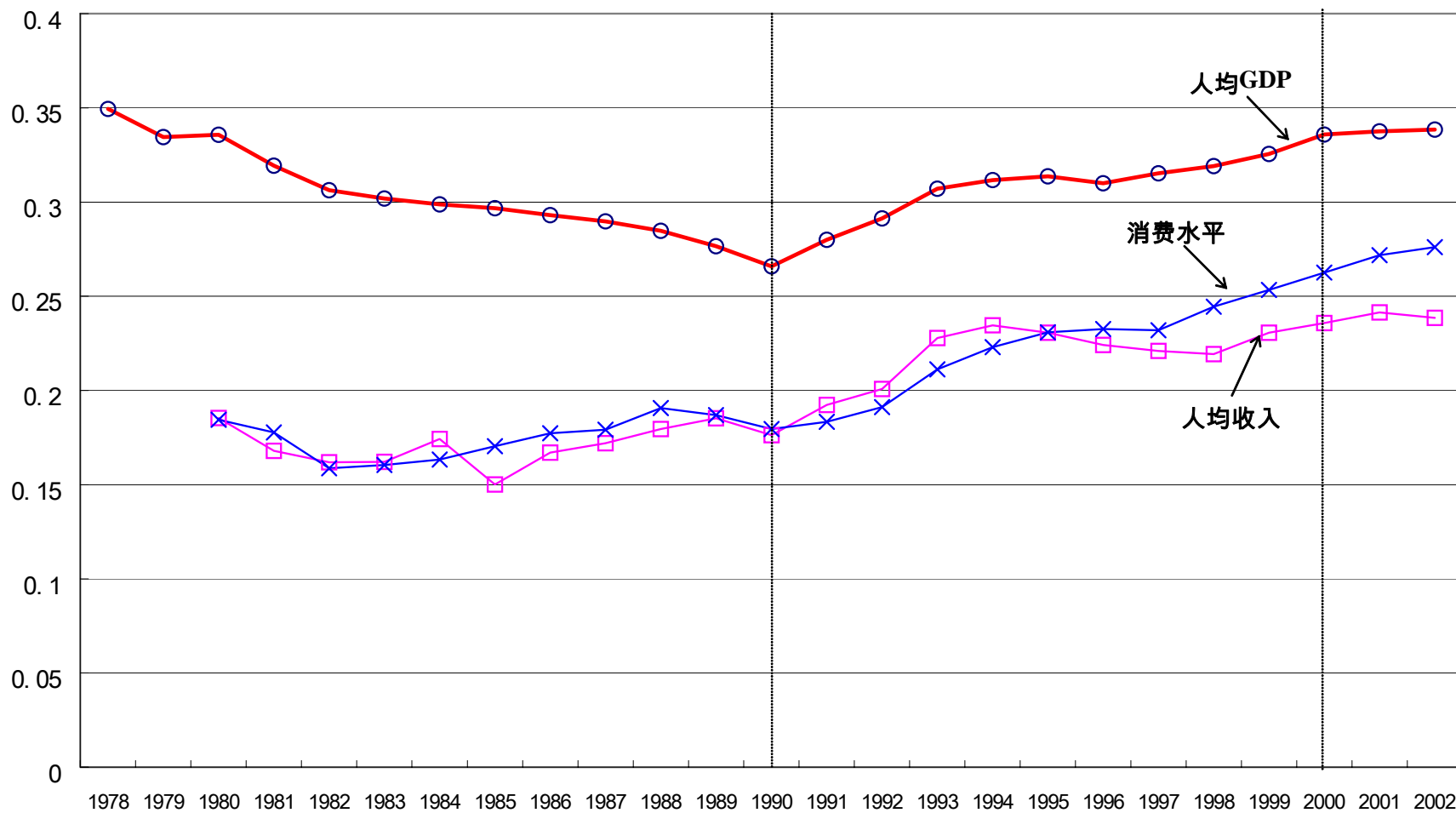
--The income gap between urban and rural households has been widening steadily



The urban-rural income disparity has been increased recently



Regional Income disparity - - GINI coefficient



Scenario Analysis for Future Economic Development

- **Reveal and clarify the basic factors which are likely to influence the future economic growth and development**
- **Facilitate our understanding of risks and uncertainties in our future economic development**
- **The GDP growth rate and other economic indicators should be regarded neither as a forecast, nor as upper or lower limits of the future economic growth rate.**



Scenario Analysis for Future Economic Development

- **Three scenarios**

- Business-as-Usual(BaU)

- ❖ Chinese economy could maintain the past growth performance

- Balanced Policy scenario

- ❖ Chinese economic development could be more balance

- Risk scenario

- ❖ emphasizes that the risks and challenges in the process of future economic development

- **Methodology**

- dynamic computable general equilibrium model

- **Based on the different assumptions about the key underlying factors**



Business-as-Usual

- China will continue to pursue its reform and open-door policies
- Socialist market economy system will be established and perfected step by step
- Agricultural labor force will be constantly transferred to non-agricultural sectors
- The opening to the outside will be expanded and deepened
- The international environment will remain stable
- Total factor productivity (TFP) will keep growing at an annual rate of 2.0% to 2.5 %



Balanced Policy Scenario

- The change trend of the ratio of intermediate input is apt to harmonious development of all industries, i.e. the intermediate demand for service and high technology goods increases, the rate of value-added in high tech. industries increases.
- The efficiency of energy utilization is 0.2 ~ 0.5 percentage point higher than BaU
- labor transfer from agriculture to non-agriculture quickly
- TFP growth rate of service sectors is 1 percentage point higher than BAU in 2005 ~ 2010, 0.5 percentage point in 2010 ~ 2020

Risk Scenario

The Risk-scenario reflects a relatively pessimistic assumption on the future growth

- The banking reforms and enterprise reforms are not entirely satisfactory
- The elementary education has not been popularized and the quality of labor force has been improved slowly
- There are still obstacles for the transfer of agricultural labor force to secondary and tertiary industries with slow progress
- The changes in the mentality of residents have resulted in the reduced propensity to save and lowered level of household savings



Risk Scenario

- While China gradually enters an aging society, the traditional mode of family support for dependents has been gradually disintegrated, while the government has to take considerable responsibility in terms of social security, leading to increased financial deficits and tax burden
- Due to the above factors, the improvement in the productivity could not be maintained at the level as in the last two decades. The annual growth would be only 1.5-2%, along with reduced household savings and slow transfer of agricultural labor force, which would be about the average levels in recent years. And after the year 2010, the public expenditure and the taxation would tend to increase.

Economic Growth and Source of Growth 2000-2020 (% , BaU)

| | 2000-2005 | 2005-2010 | 2010-2015 | 2015-2020 | 2000-2020 | 2005-2020 |
|---------------------------|------------|------------|------------|------------|------------|------------|
| GDP | 8.5 | 8.1 | 7.5 | 6.8 | 7.7 | 7.5 |
| <u>Source of Growth :</u> | | | | | | |
| Labor | 0.5 | 0.4 | 0.2 | 0.0 | 0.3 | 0.2 |
| Capital | 6.2 | 5.6 | 5.0 | 4.5 | 5.3 | 5.0 |
| TFP | 1.8 | 2.1 | 2.3 | 2.3 | 2.1 | 2.2 |

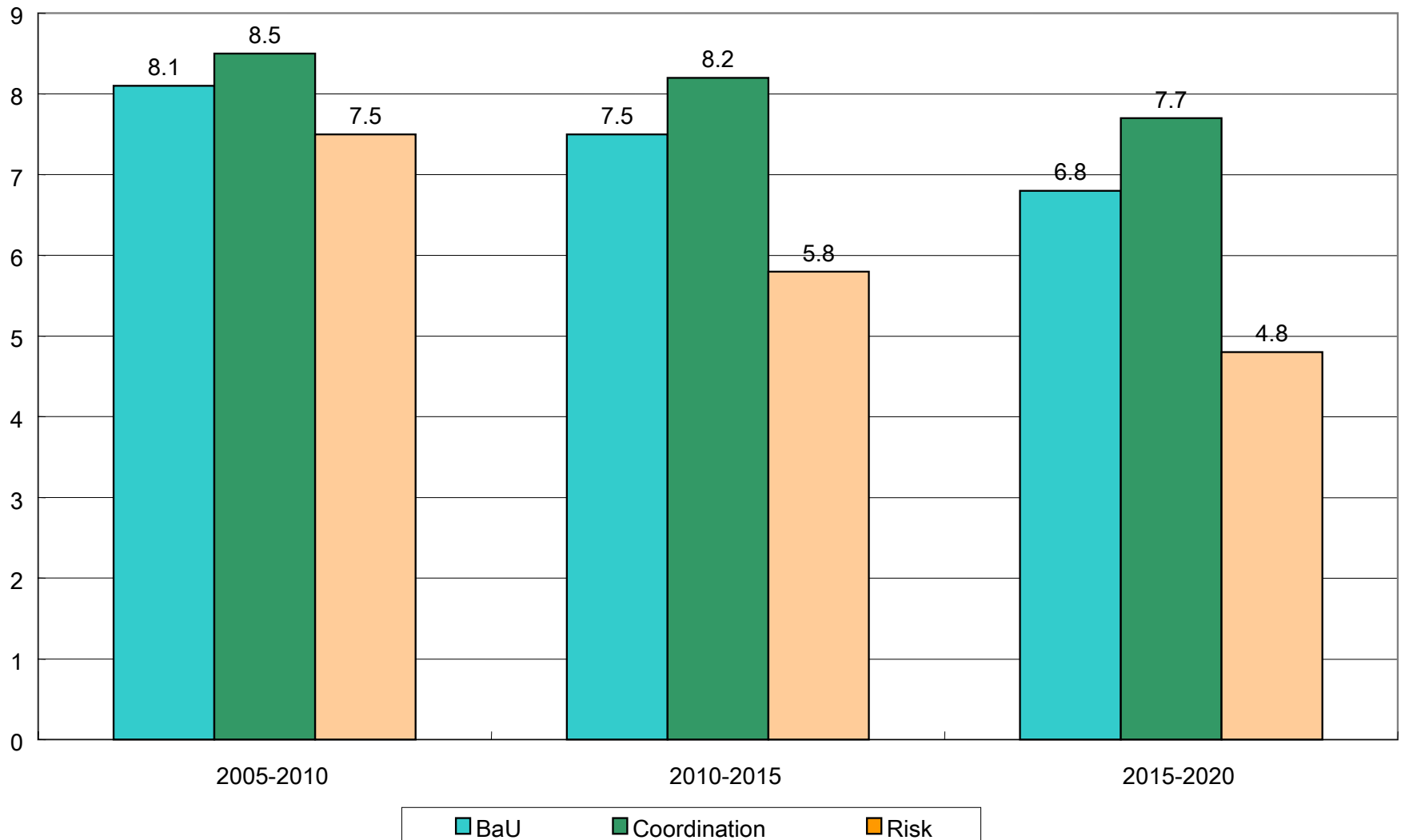
Economic Growth and Source of Growth 2000-2020 (% , Balanced Policy Scenario)

| | 2000-2005 | 2005-2010 | 2010-2015 | 2015-2020 | 2000-2020 | 2005-2020 |
|-------------------------|------------|------------|------------|------------|------------|------------|
| GDP | 8.5 | 8.5 | 8.2 | 7.7 | 8.2 | 8.1 |
| <u>Source of Growth</u> | | | | | | |
| Labor | 0.5 | 0.4 | 0.2 | 0.0 | 0.3 | 0.2 |
| Capital | 6.2 | 5.6 | 5.1 | 4.7 | 5.4 | 5.1 |
| TFP | 1.8 | 2.5 | 2.9 | 2.9 | 2.5 | 2.8 |

Economic Growth and Source of Growth 2000-2020 (% , Risk Scenario)

| | 2000-2005 | 2005-2010 | 2010-2015 | 2015-2020 | 2000-2020 | 2005-2020 |
|-------------------------|------------|------------|------------|------------|------------|------------|
| GDP | 8.5 | 7.5 | 5.8 | 4.8 | 6.6 | 6.0 |
| <u>Source of Growth</u> | | | | | | |
| Labor | 0.5 | 0.4 | 0.2 | 0.0 | 0.3 | 0.2 |
| Capital | 6.2 | 5.5 | 4.2 | 3.3 | 4.8 | 4.3 |
| TFP | 1.8 | 1.6 | 1.4 | 1.5 | 1.5 | 1.5 |

Growth rates in 2010-2020 are lower than in 2005-2010



Conclusions

- It is still possible for China to maintain its relatively fast economic growth in the next 15 years.
- Numerous challenges confronting future development
- The opportunities and challenges in the next 15 years will be not evenly distributed, and the period from 2005 to 2010 will be critical to the reform and development in China.



THANK YOU VERY MUCH!

