

**Prospects for promoting China's  
internal demand:  
Some issues calling for clarification**

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# Outline

- *Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding consumption?*
- *Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*
- *Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

*Question 1:*

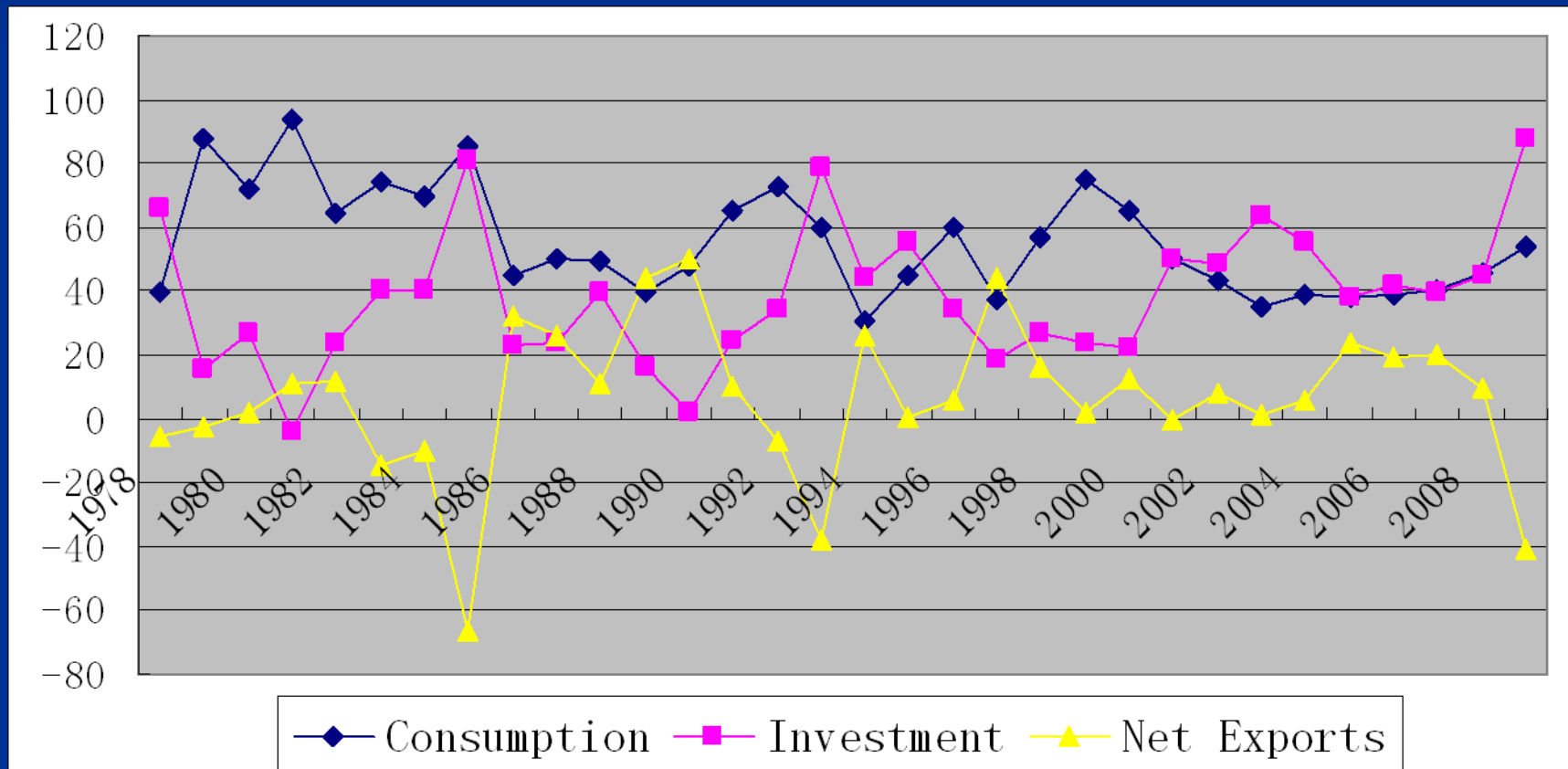
*Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

*Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

*① To deal with the financial crisis, China is stimulating investments, but the abrupt increase in the contribution rate of investment to GDP growth is only temporary and does not mean a fundamental change of China's economic growth route in the long run.*

# Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?

Contribution rate of consumption, investment and net exports to China's real GDP growth (%)



*Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

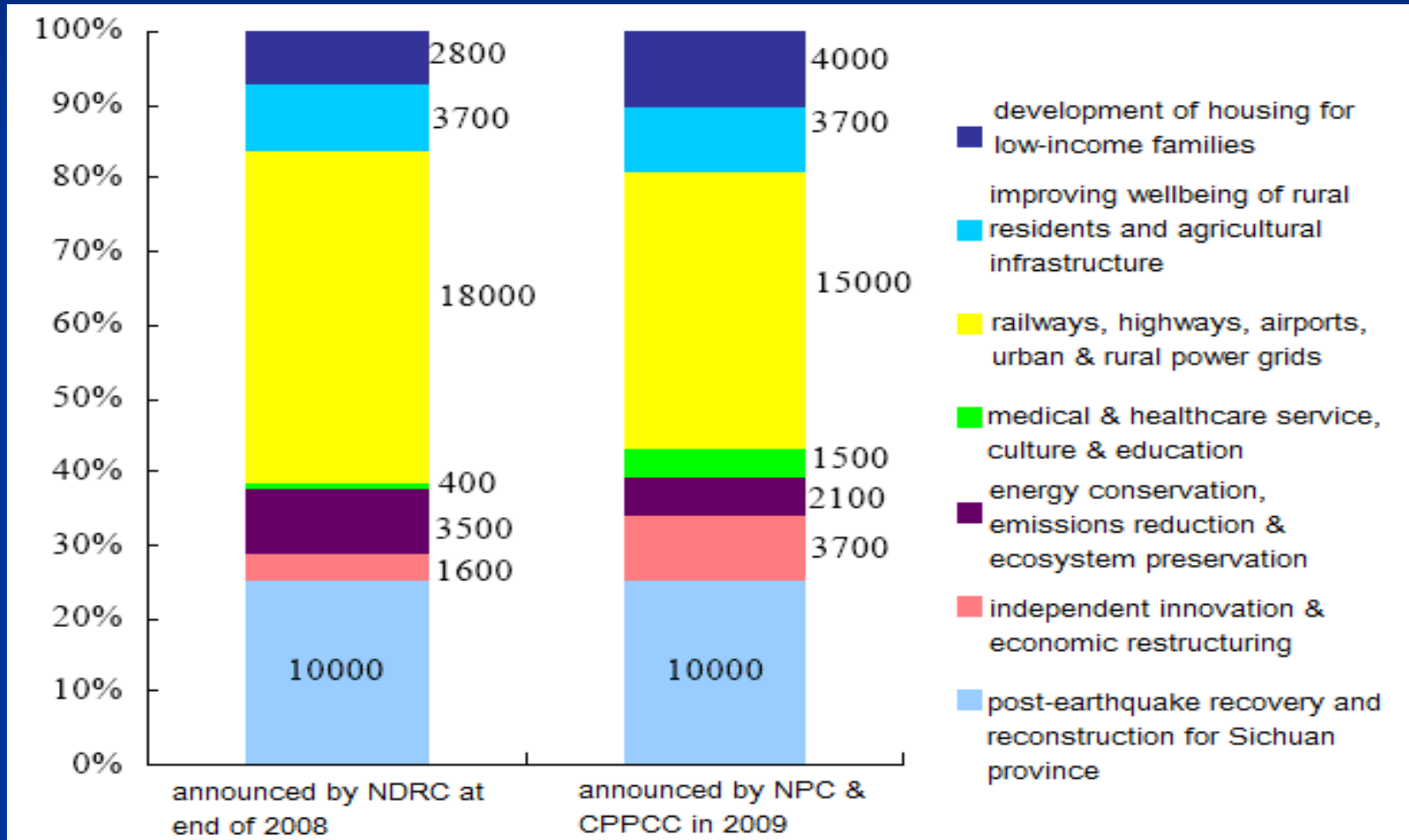
*② Transformation of economic development mode is a strategic decision made by the Chinese government based on the recognition of the unsustainability of China's current development mode. This decision does not and will not change due to the financial crisis.*

*Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

*③ Judging from actions, expanding consumption demand is no less important than stimulating investment in China's counter-crisis measures.*

# Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?

Composition of the 4 trillion Yuan Economic Stimulus Package for 2009 and 2010 (RMB 100 million)



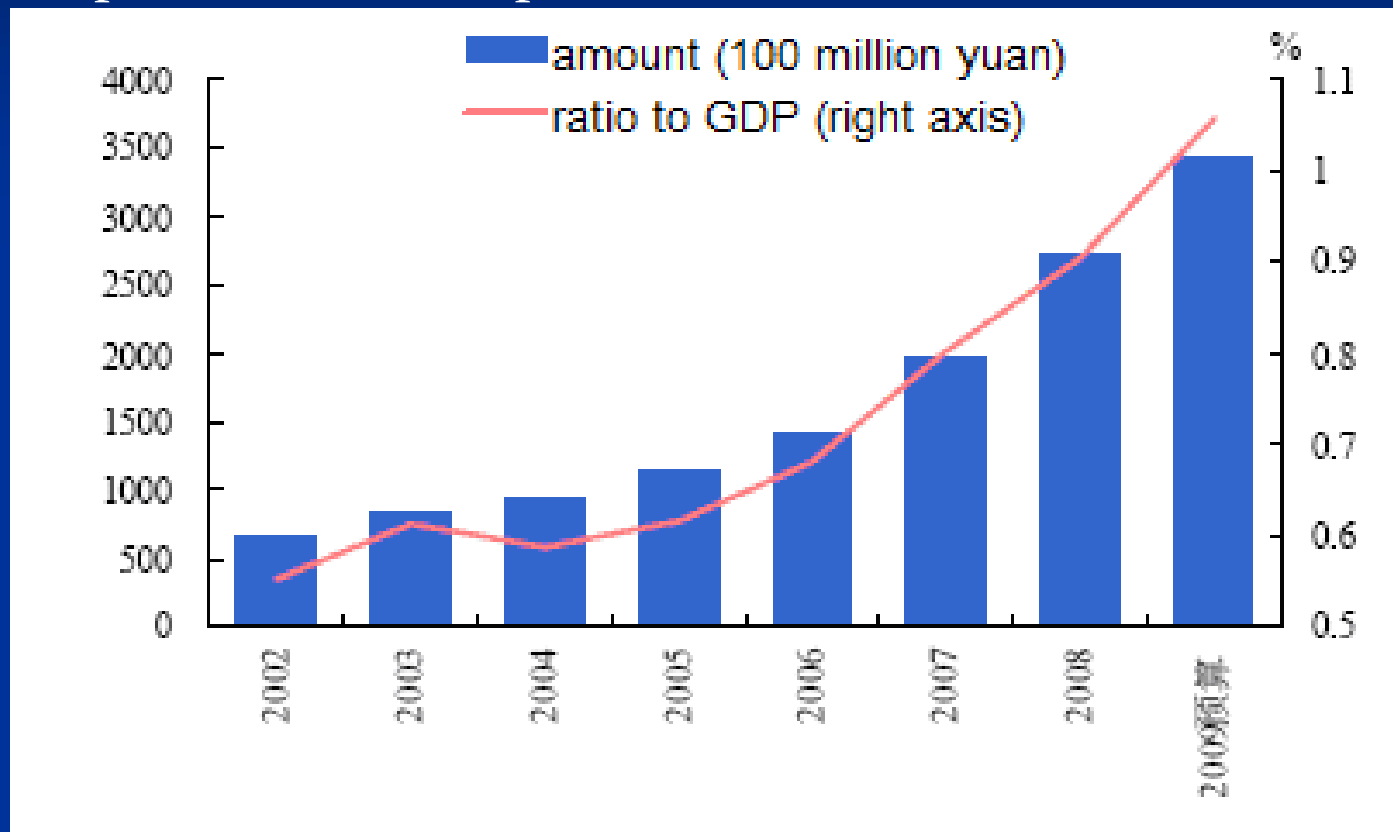


*Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

*④ The financial crisis has actually promoted the reform in the key fields of medical and healthcare service system, culture and education system and social security, which will weaken the residents' motivation to make precautionary savings and promote consumption in the mid- and long- term.*

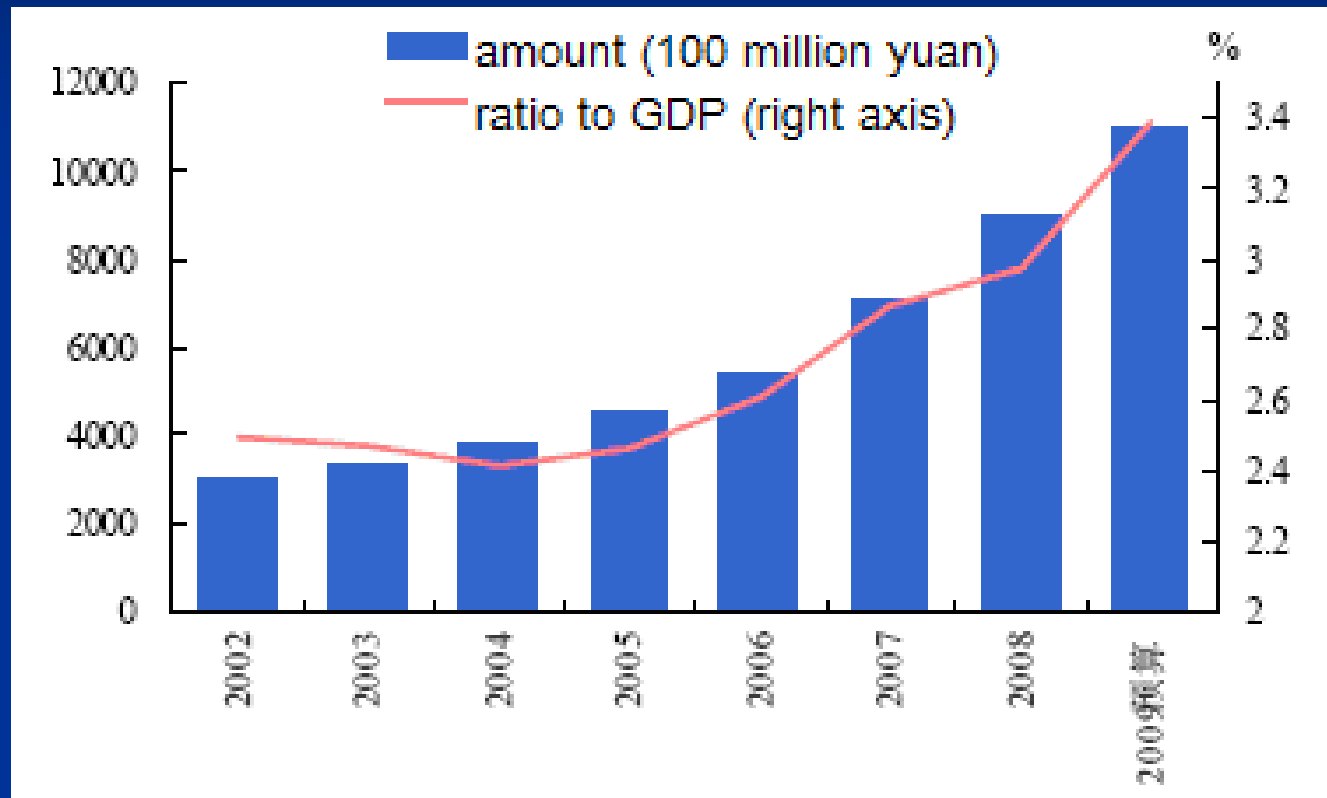
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National public finance expenditure on medical and healthcare service



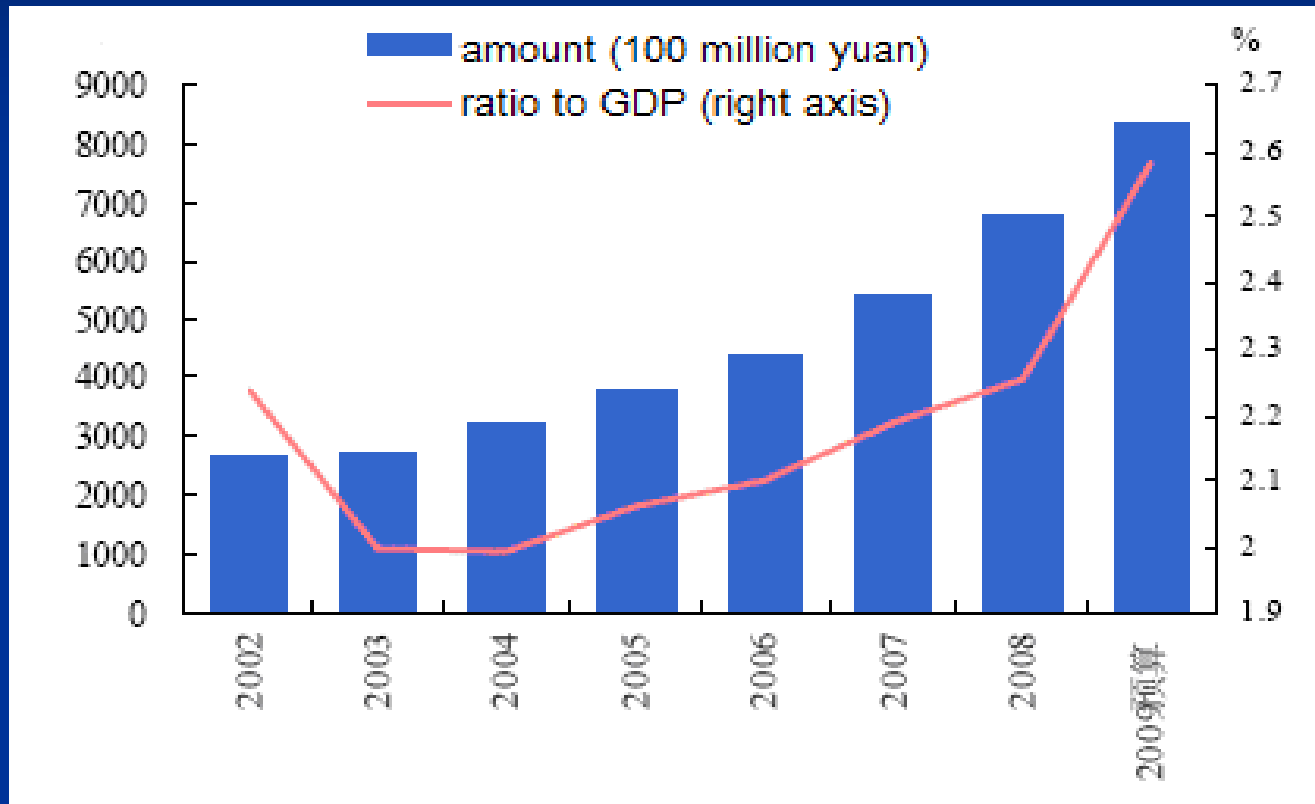
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## National public finance expenditure on education



*Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

National public finance expenditure on social security and employment



*Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

*⑤ Against the backdrop of the crisis, other reforms to expand domestic consumption are also being promoted.*

*Question 1: Will China's anti-crisis measures of boosting investment hamper it from expanding domestic consumption?*

□ *Answer to Question 1*

**The financial crisis has not changed China's long-term policy target of expanding domestic consumption.**

*Question 2:*

*Will a rebalancing between the economies of the US and China be achieved in the near term?*

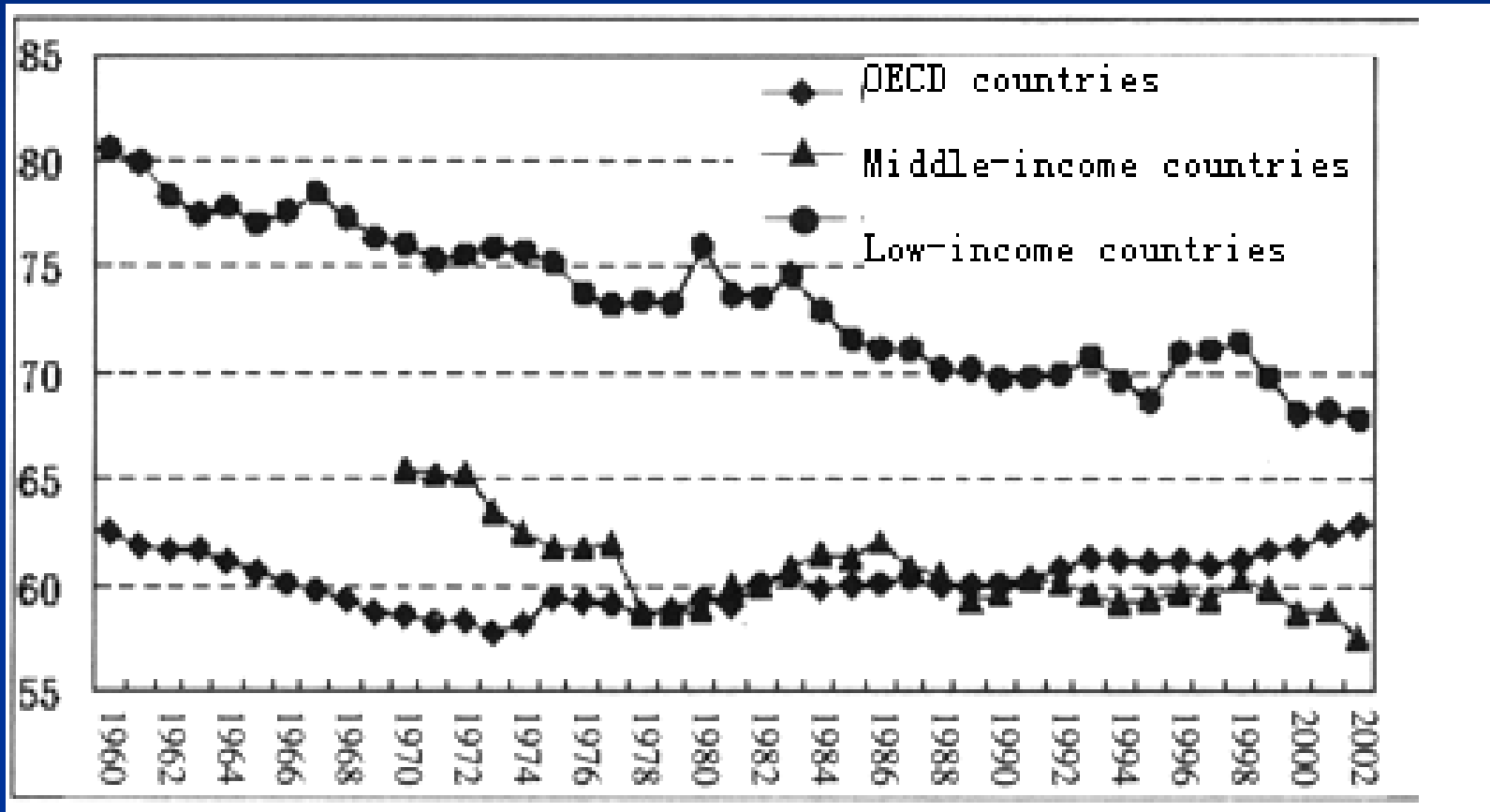
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*① Basically, consumption is decided by peoples' income level. China's per capita income is still low although it has increased a lot since 1978.*



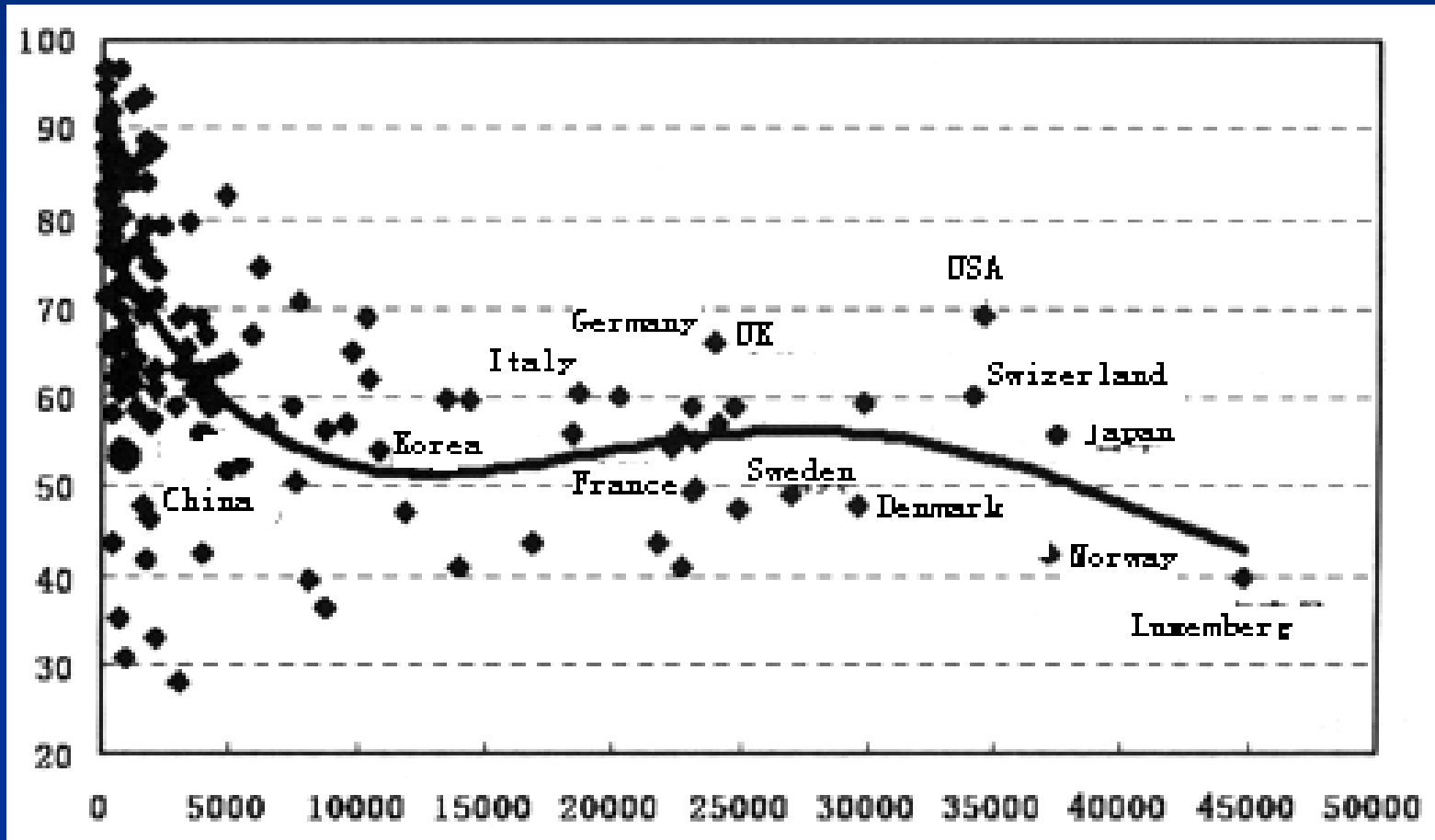
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Characteristic of the changing patter of consumption rate



*Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

Relationship between per capita GDP and consumption rate

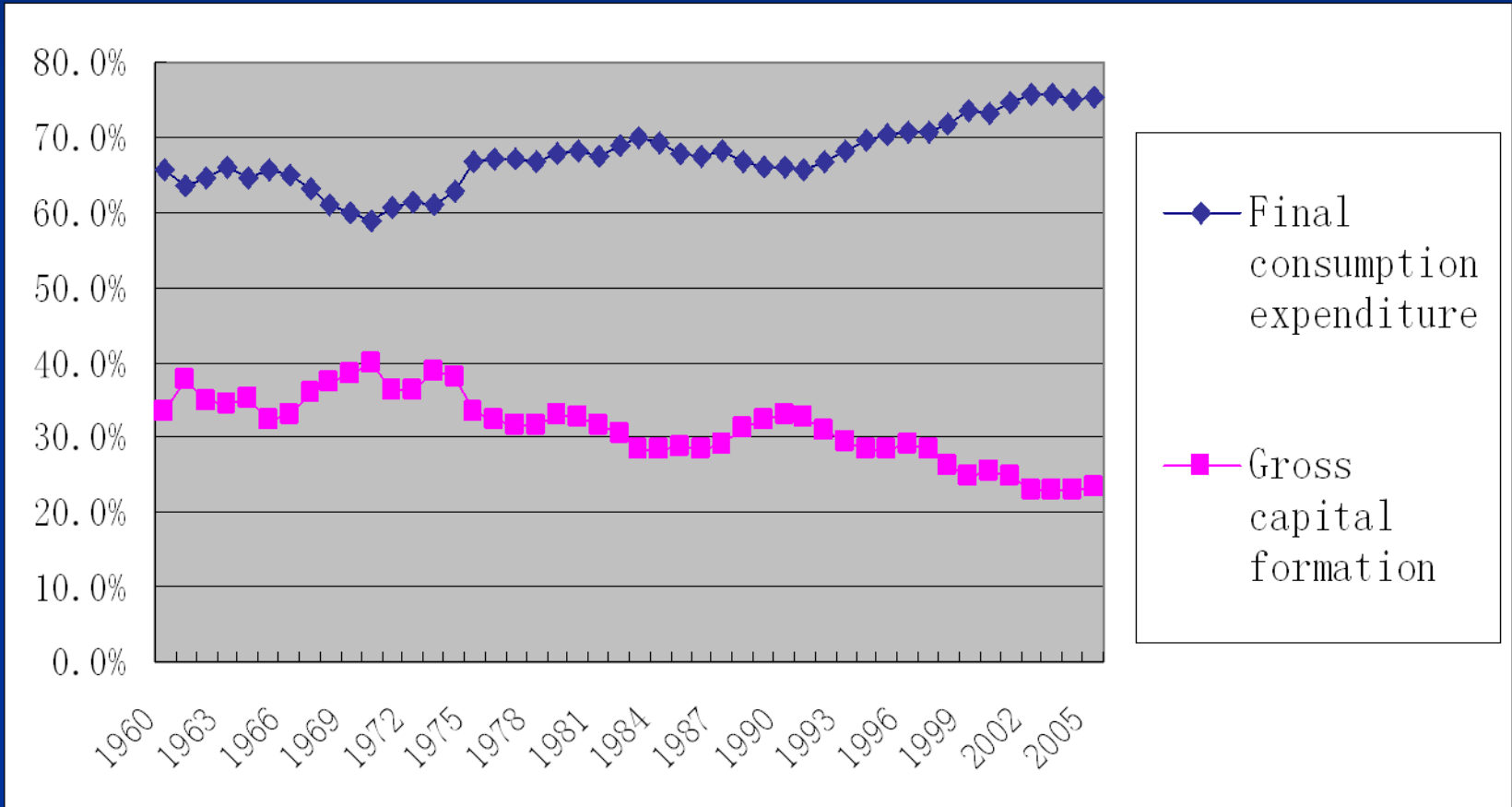


*Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

*② It is a common phenomenon that investment rate goes up and hence drags consumption rate down during the process of industrialization. The process of industrialization has not been completed in China.*

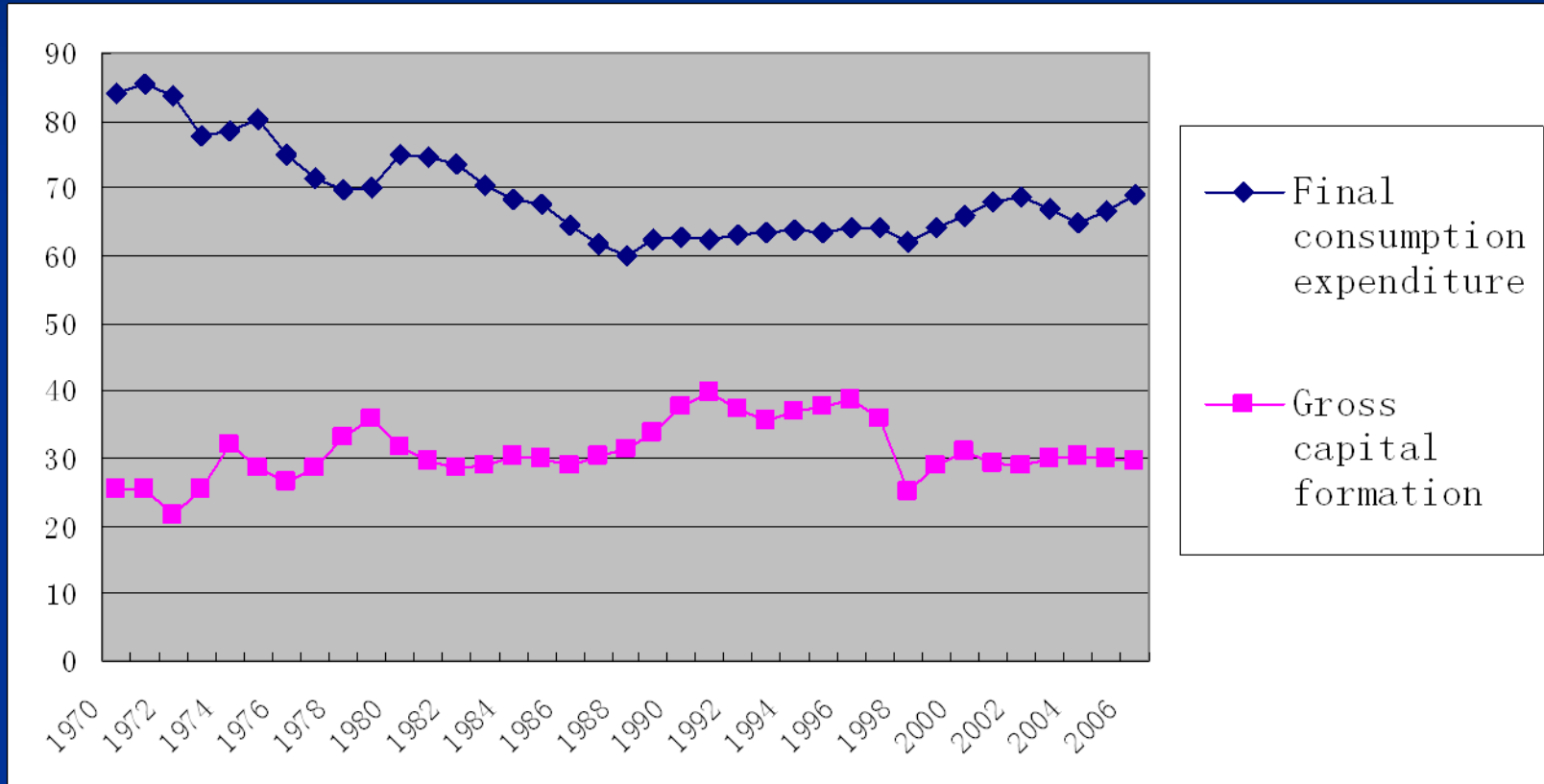
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## Investment rate and consumption rate of Japan



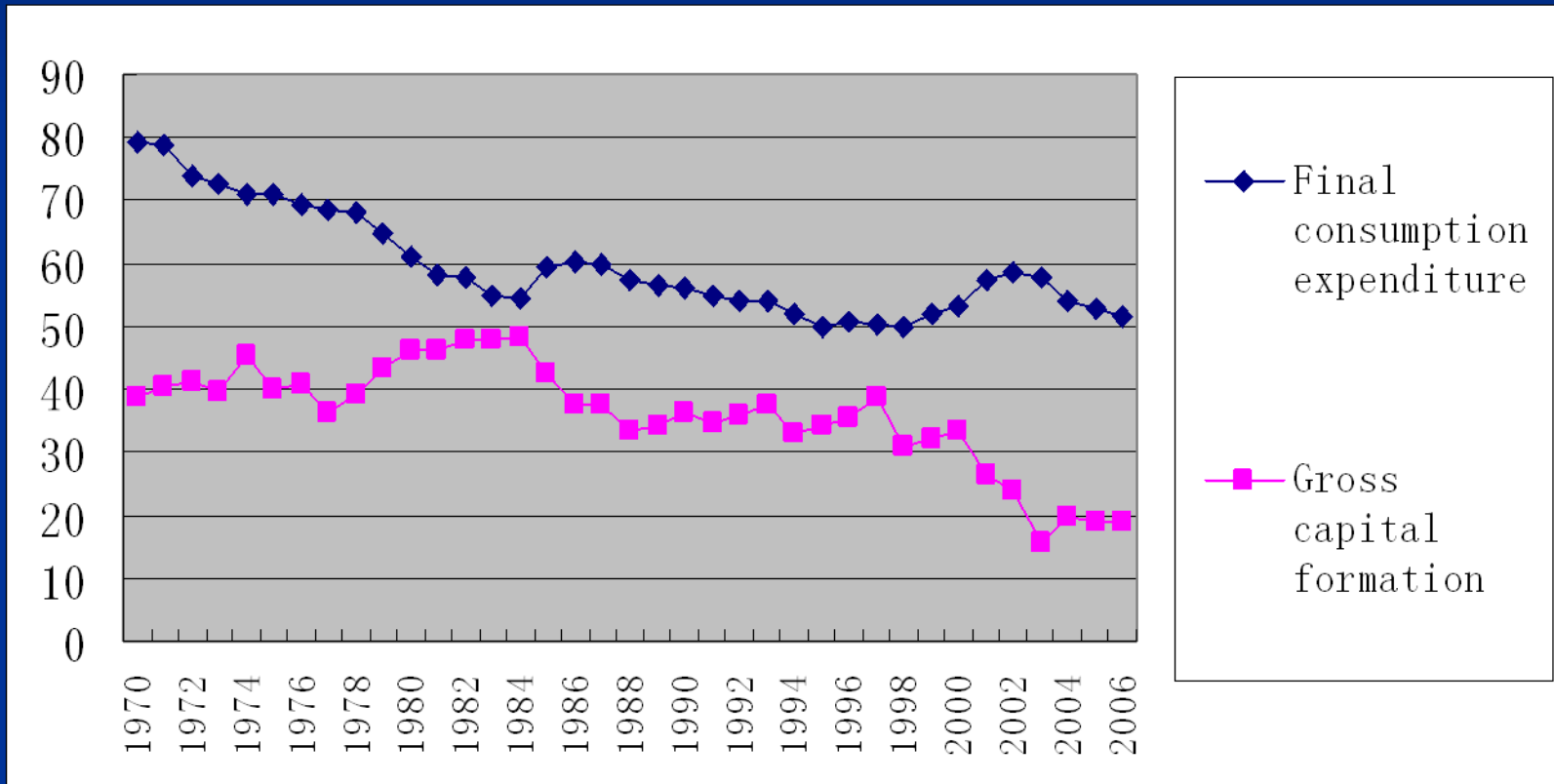
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## Investment rate and consumption rate of Korea



*Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

## Investment rate and consumption rate of Singapore



## *Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

### Highest level of the share of industry in GDP

	Share (%)	Year			Share (%)	Year
UK	36.3	1970		Brazil	35.5	1984
Germany	39.1	1970		Israel	24.7	1984
Australia	30.1	1970		Taiwan Province of China	43.4	1986
Japan	38.8	1970		Mexico	31.4	1987
Sweden	30.9	1974		Korea	34.5	1987
Italy	32.0	1976		Singapore	32.2	1988
France	28.4	1978		Poland	43.4	1990
Canada	30.5	1979		Russia	39.7	1991
Switzerland	26.1	1980		India	22.7	1995
South Africa	45.2	1980		Malaysia	45.9	2006
United States	29.3	1981		Thailand	41.4	2006
Hungary	37.9	1982		<b>China</b>	<b>43.5</b>	<b>2007</b>
New Zealand	27.2	1982				

## *Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

### Comparison of China's export structure with developed countries (%)

	China				Korea	Germany	Japan	US
	1996	2001	2005		2004	2004	2004	2004
			Total	Processing trade				
<b>Primary products</b>	10	7	4	1	2	5	1	9
<b>Resource-based products</b>	11	9	8	3	10	12	7	14
Agro-based	5	4	3	1	3	6	2	6
Other	6	5	5	1	8	6	5	8
<b>Low-tech manufactures</b>	45	40	31	11	10	12	6	10
Textiles, garment & footwear	30	25	18	6	5	3	1	3
Other	15	15	13	5	4	8	5	7
<b>Medium-tech manufactures</b>	19	20	23	12	41	51	59	39
Automotive	1	2	2	1	13	18	22	9
Process	6	5	6	2	12	11	11	10
Engineering	11	13	14	9	17	22	27	20
<b>High-tech manufactures</b>	15	24	33	28	37	20	27	29
Electronic and electrical	13	22	31	27	35	12	22	16
Other	2	2	3	2	2	9	5	13

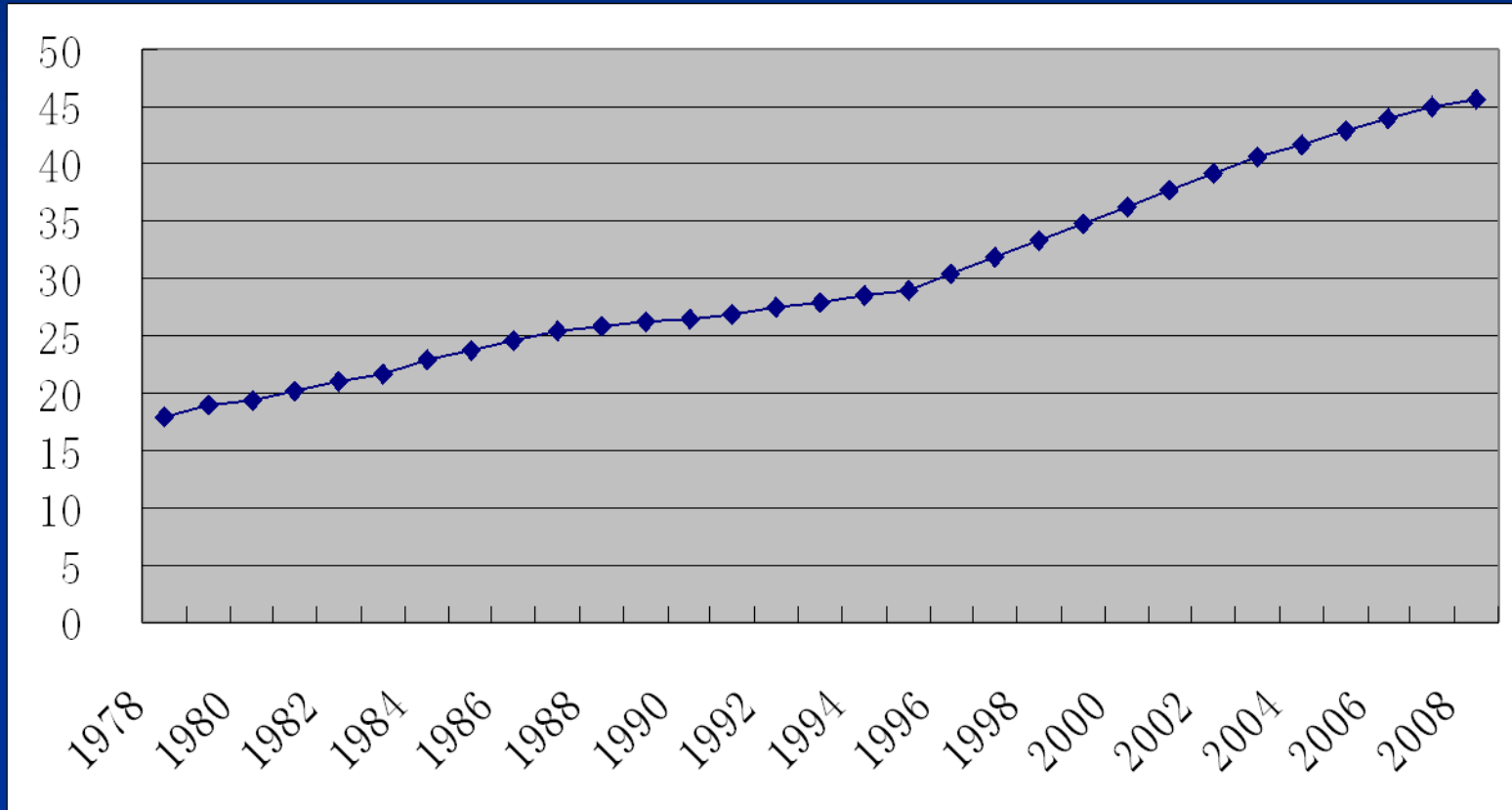


*Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

*③ Due to the fact that China's urbanization process is far from complete, and the reform of China's housing allocation regime, Chinese people will have to save a large portion of their income in order to buy houses. Therefore, the savings rate of the country will remain at a high level in the coming years.*

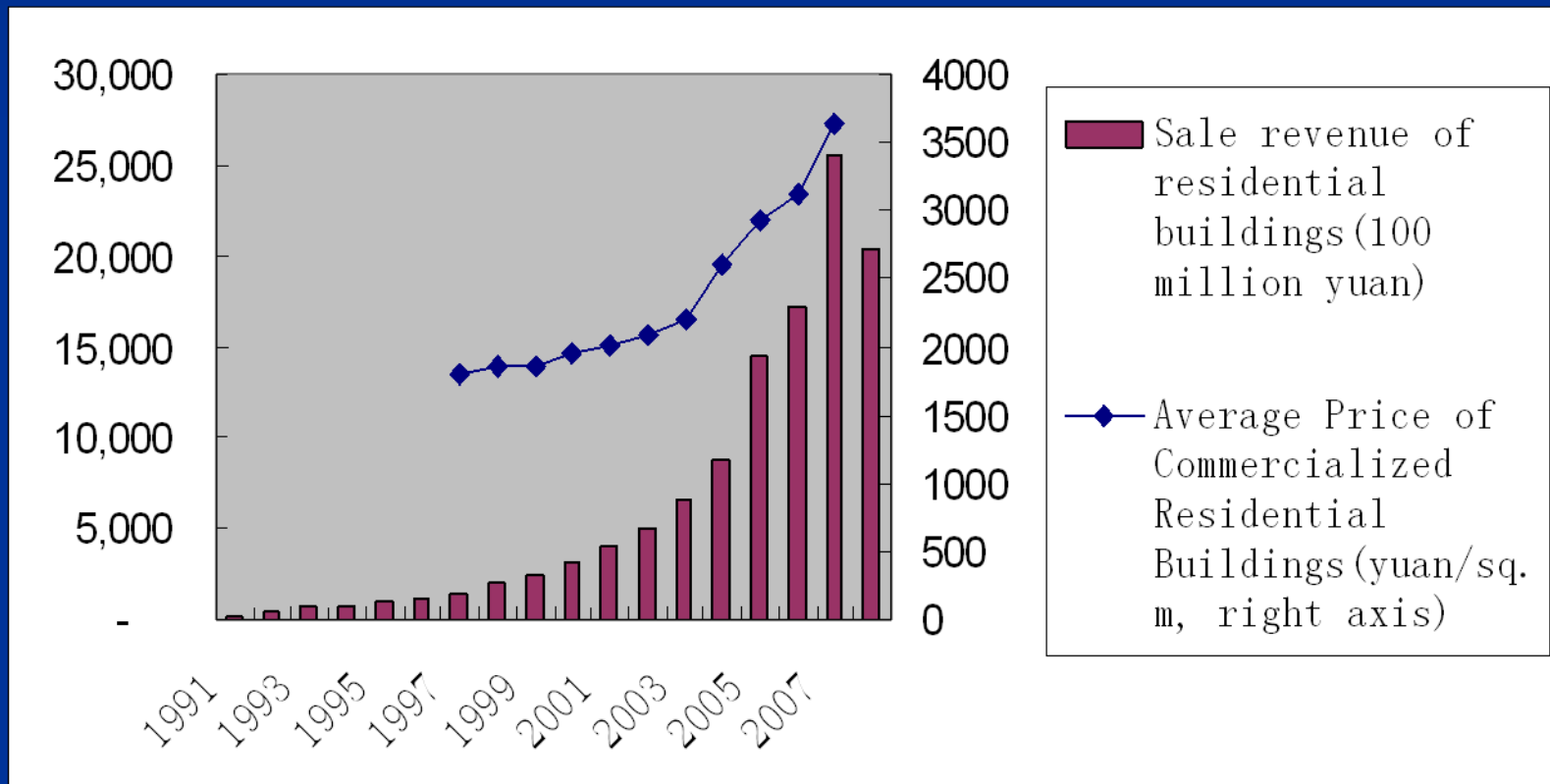
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Ratio of China's urban population to total population



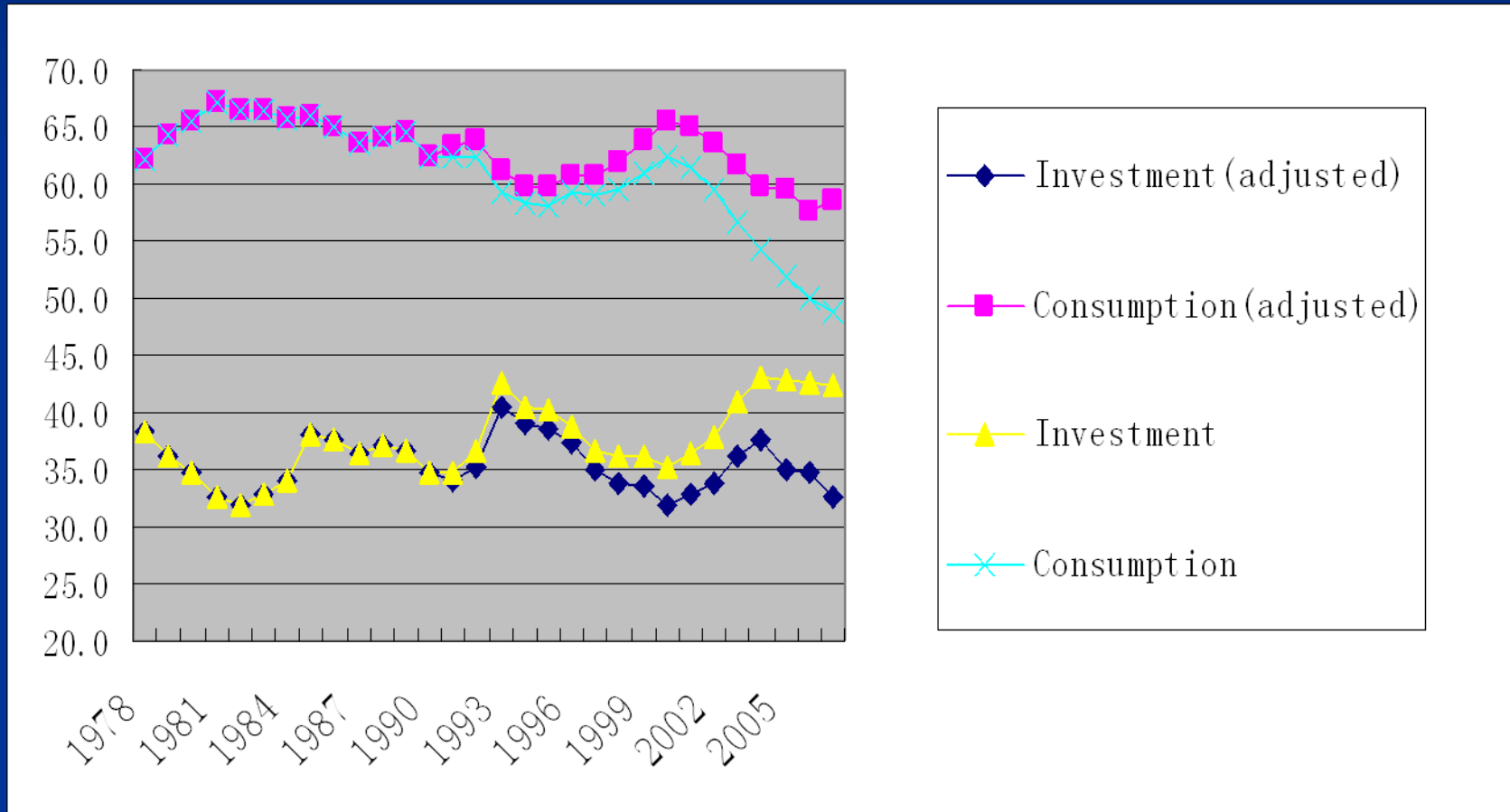
## *Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

### Sales revenue and average price of Commercialized Residential Buildings in China



# *Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

## Experimental Adjustment of consumption and investment rate of China



*Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

*④ China will continue to promote the development of its export sector due to the heavy dependence of its employment on exports. This means net exports will continue to be a major contributor to GDP growth in the coming years, although its relative importance would be decreasing.*

*Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

## Growth rate of China's exports and imports



*Question 2: Will a rebalancing between the economies of the US and China be achieved in the near term?*

□ *Answer to Question 2*

**It is unrealistic to expect China to complete the mission of shifting its economic development mode in three or five years. .**

*Question 3:*

*Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

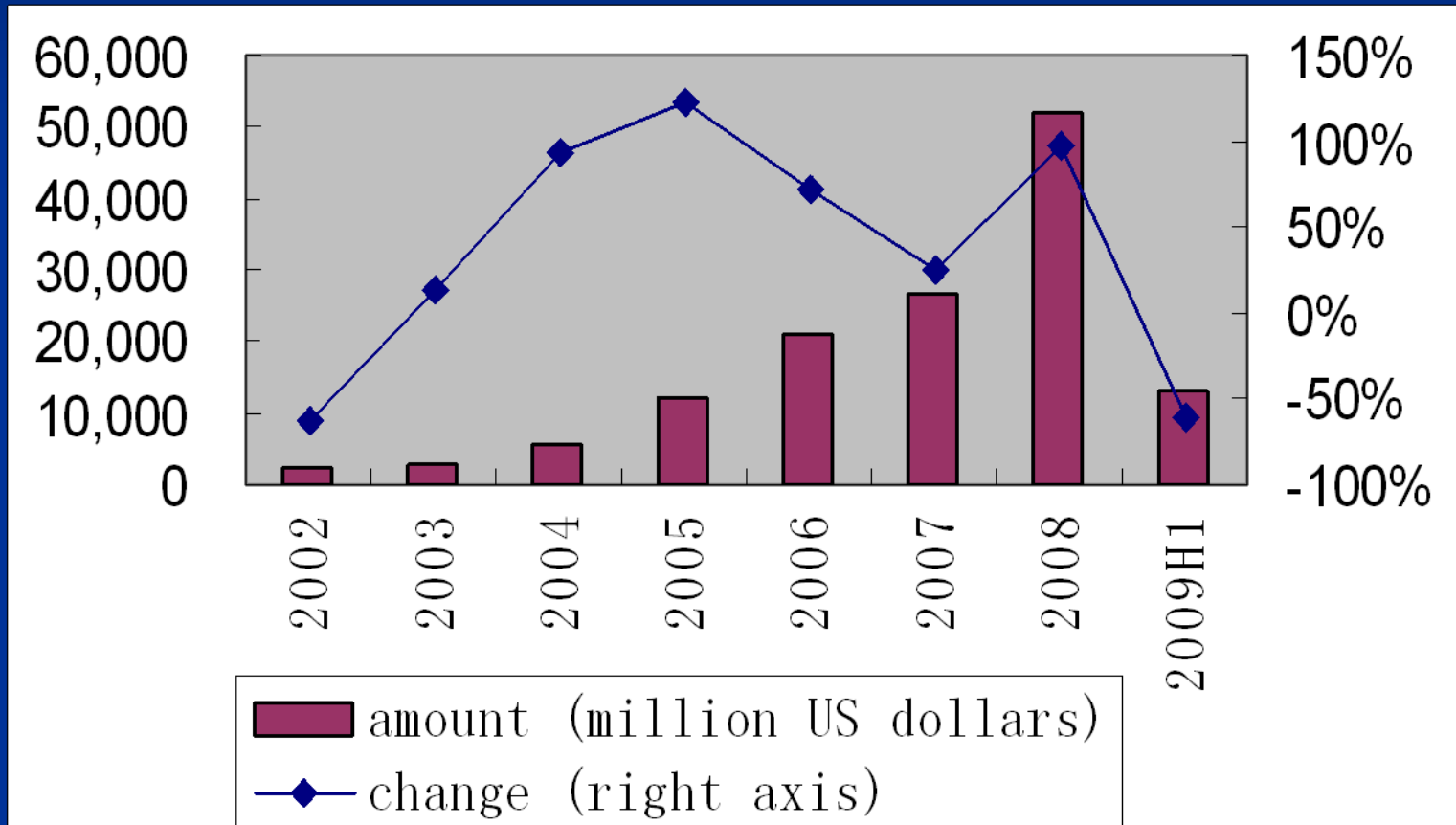


*Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

*① The abrupt drop of China's FDI outflows in the first half year of 2009 was mainly a result of the market factors. There is no change in Chinese government's policy to encourage enterprises to invest overseas.*

*Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

## China's FDI outflows



*Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

*② It is the objective requirement of economic development rules for Chinese enterprises to increase overseas investment.*

*Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

*③ Accelerating China's outbound FDI is an important approach for China to switch its economic growth mode and an inevitable choice for China to realize sustainable development.*

*Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

*④ Supporting the enterprises to invest overseas and thus pulling up exports is also an important part of China's counter-crisis measures.*

*Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

*⑤ China's reform to promote overseas investment management mechanism has not stopped. On the contrary, it has picked up speed. Several key deregulation policies are promulgated in 2009 .*

*Question 3: Will China change its policy of promoting outward FDI due to the need to expand domestic demand?*

□ *Answer to Question 3*

**The Chinese government will continue to actively promote its “go global” strategy.**

*Thank you!*