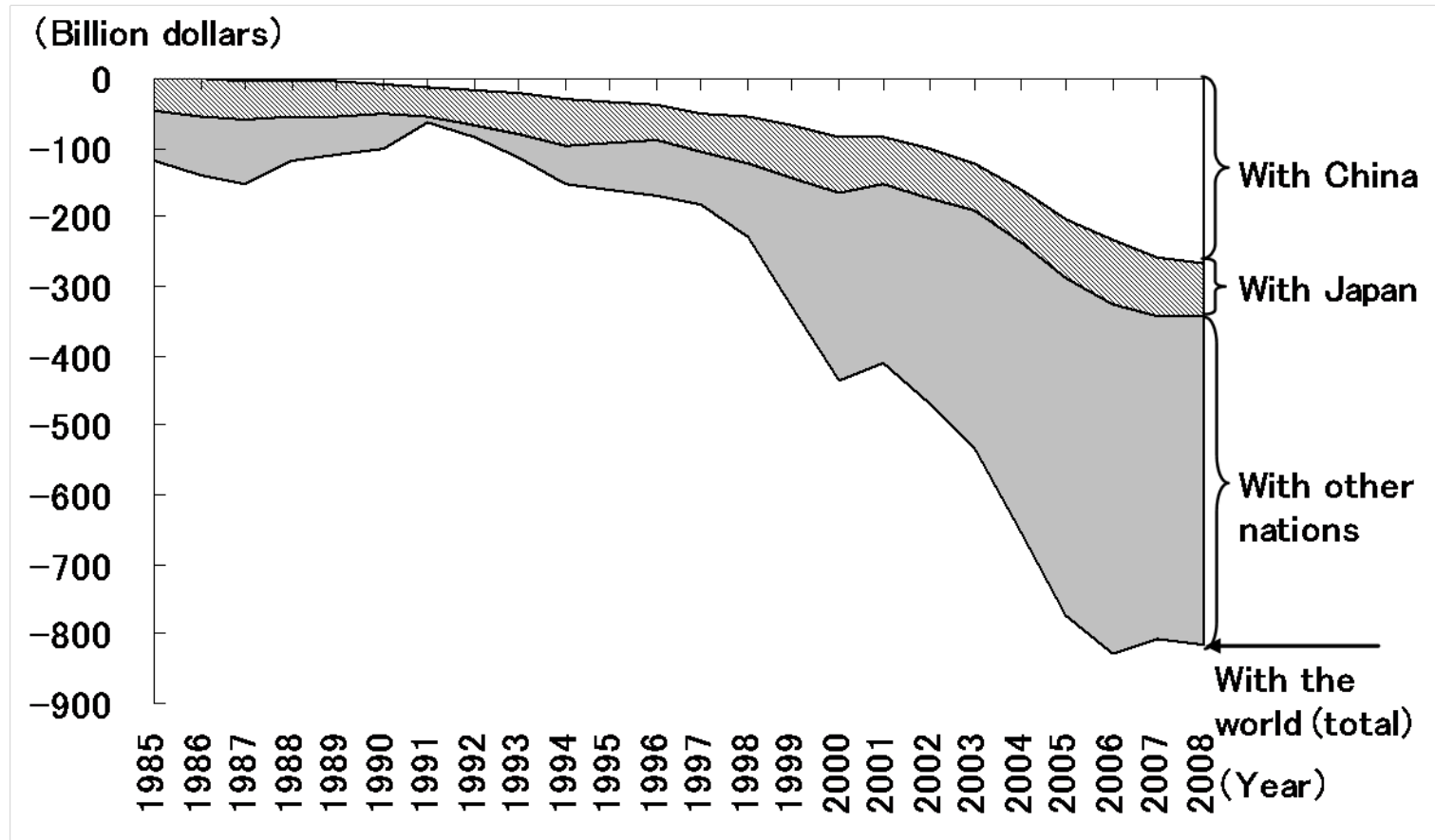




**Comments on Professor Gang Lu's Paper
Prospects for Promoting China's Internal Demand:
Some Issues Calling for Clarification**

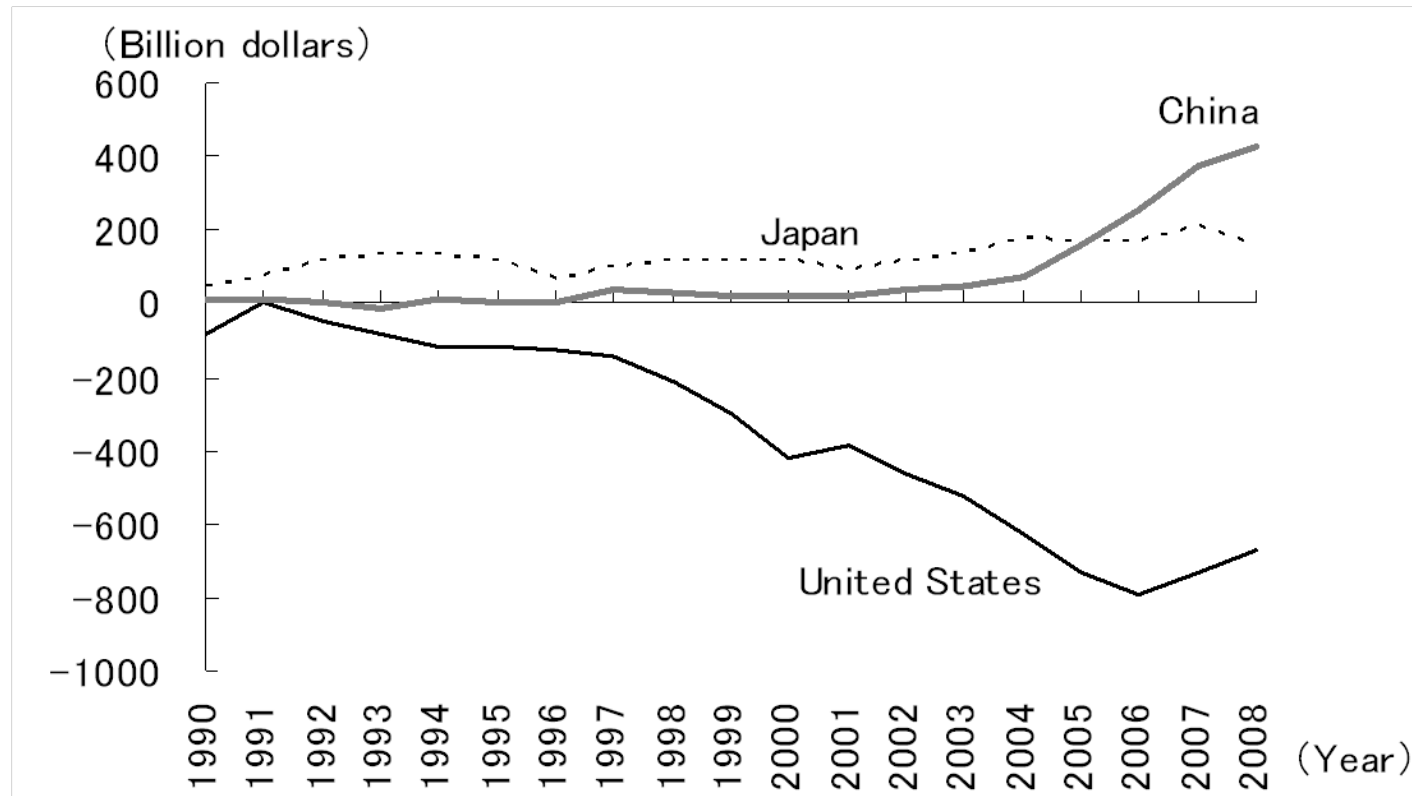
C. H. Kwan
Nomura Institute of Capital Markets Research
November 17, 2009

Increasing U.S. trade deficit with China, Japan, and the rest of the world



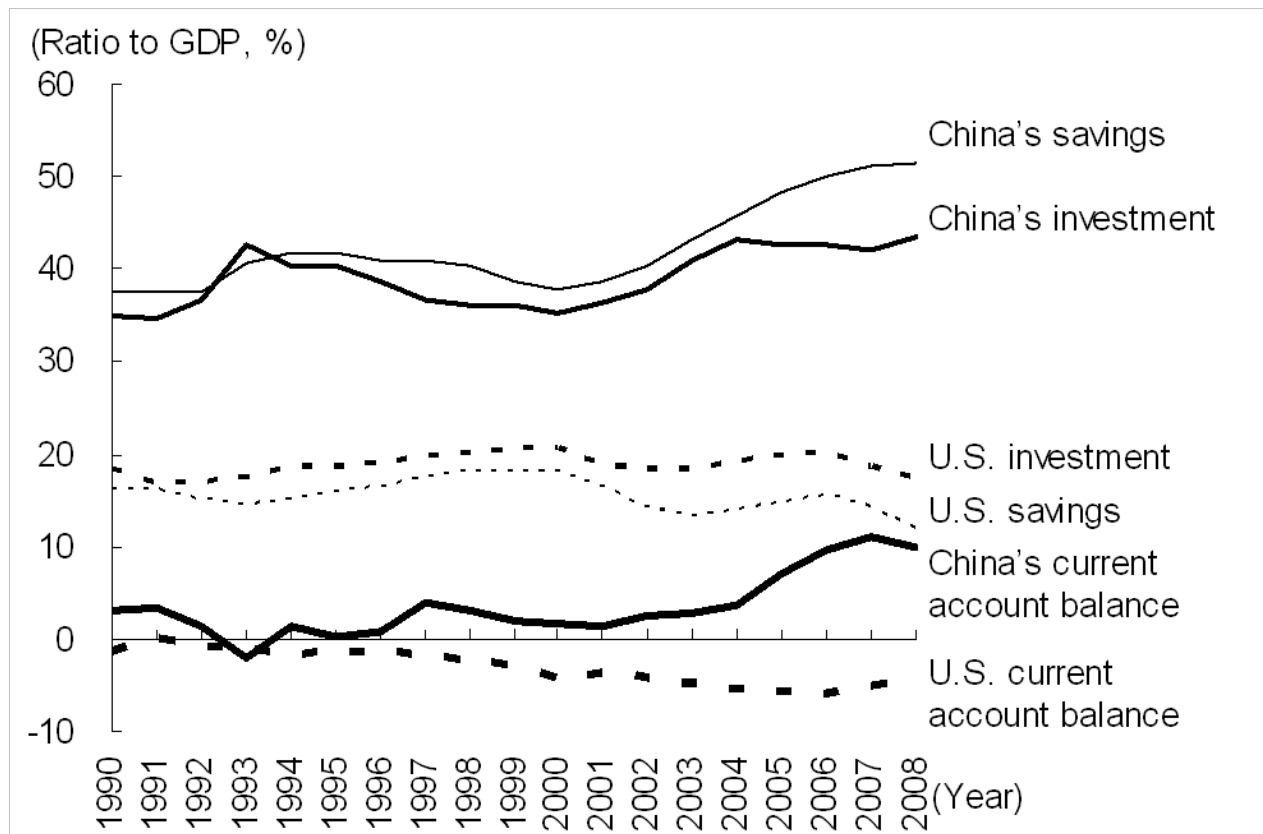
(Source) Prepared based on Foreign Trade Statistics, U.S. Census Bureau

Changes in the current account balances of Japan, the United States, and China



(Source) China's statistics based on *China Statistical Abstract* 2009; Statistics for the U.S. and Japan based on the International Monetary Fund's *World Economic Outlook Database*, April 2009

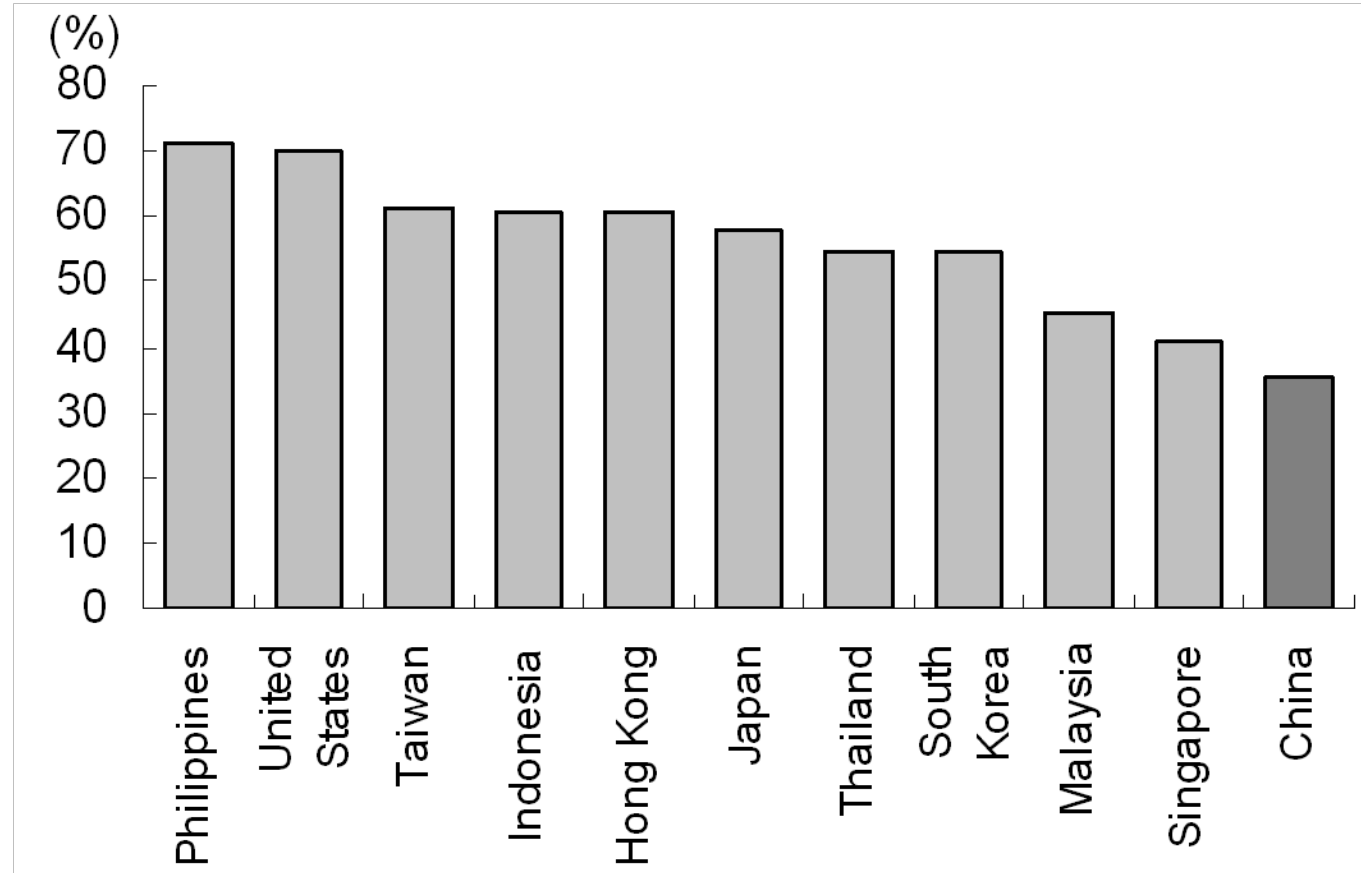
Changes in current account balances in China and the United States reflecting the savings-investment balance



(Note) Current account balance = savings - investment

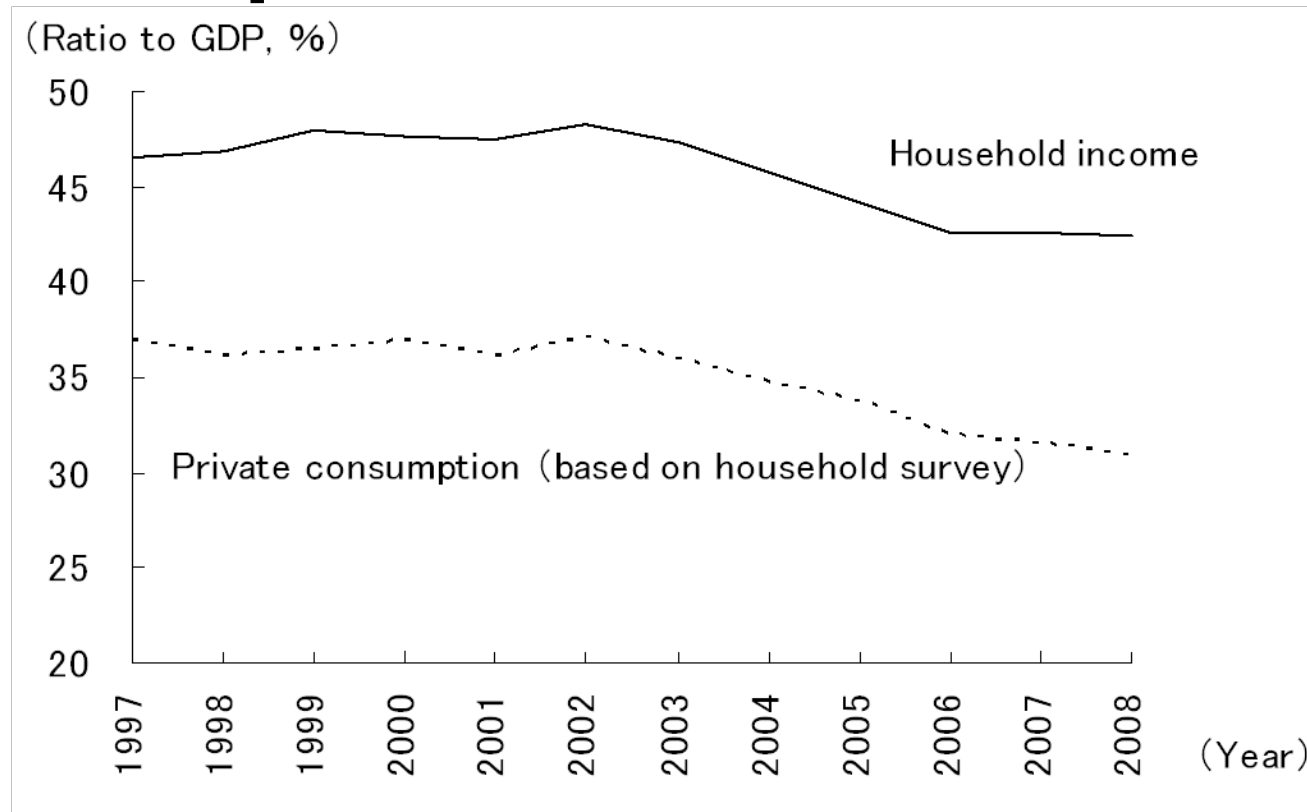
(Source) China's statistics based on *China Statistical Abstract* 2009; Statistics for the U.S. and Japan based on the International Monetary Fund's *World Economic Outlook Database*, April 2009

International comparison of private consumption in relation to GDP (2008)



Source: Official statistics for China, Japan, and the U.S.; Asian Development Bank (ADB) *Key Indicators for Asia and the Pacific*, 2009 for other countries and regions

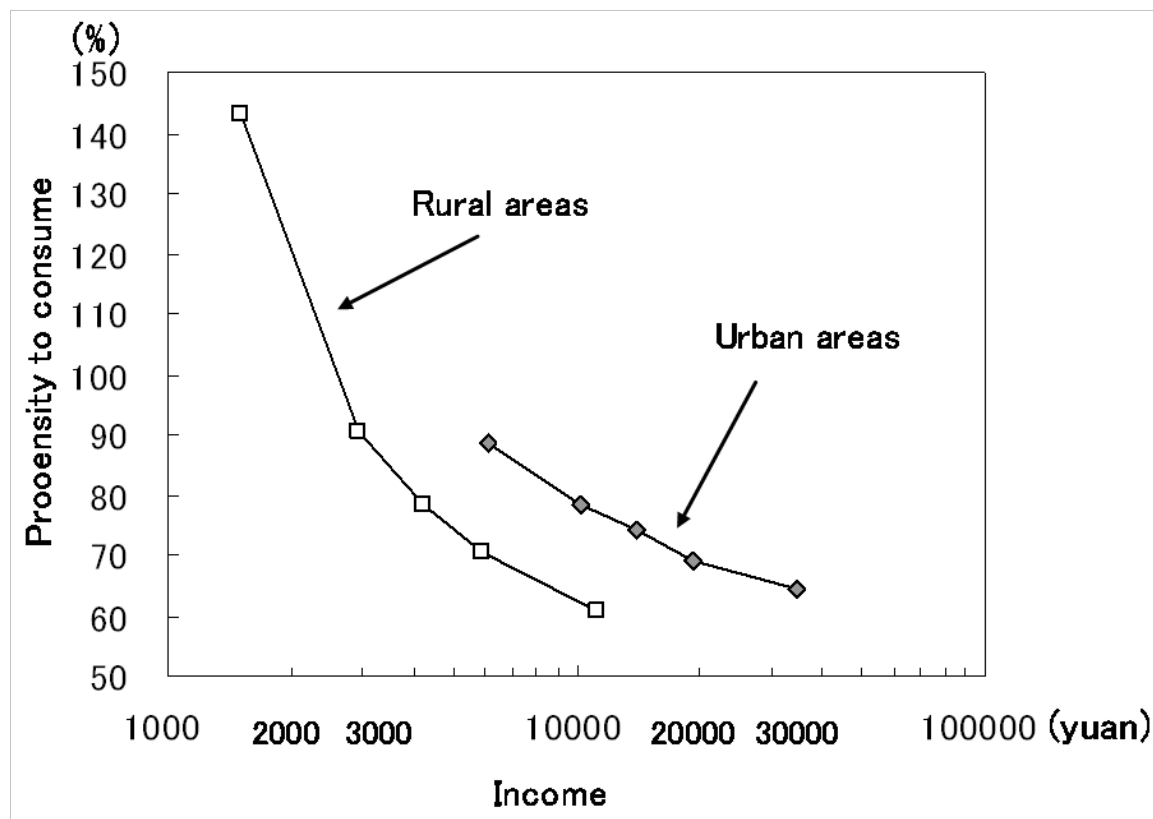
Household income vs. private consumption



(Note)
$$\frac{\text{Private consumption}}{\text{GDP}} = \frac{\text{Household income}}{\text{GDP}} \times \frac{\text{Private consumption}}{\text{Household income}}$$

(Source) Prepared based on annual editions of *China Statistical Abstract*

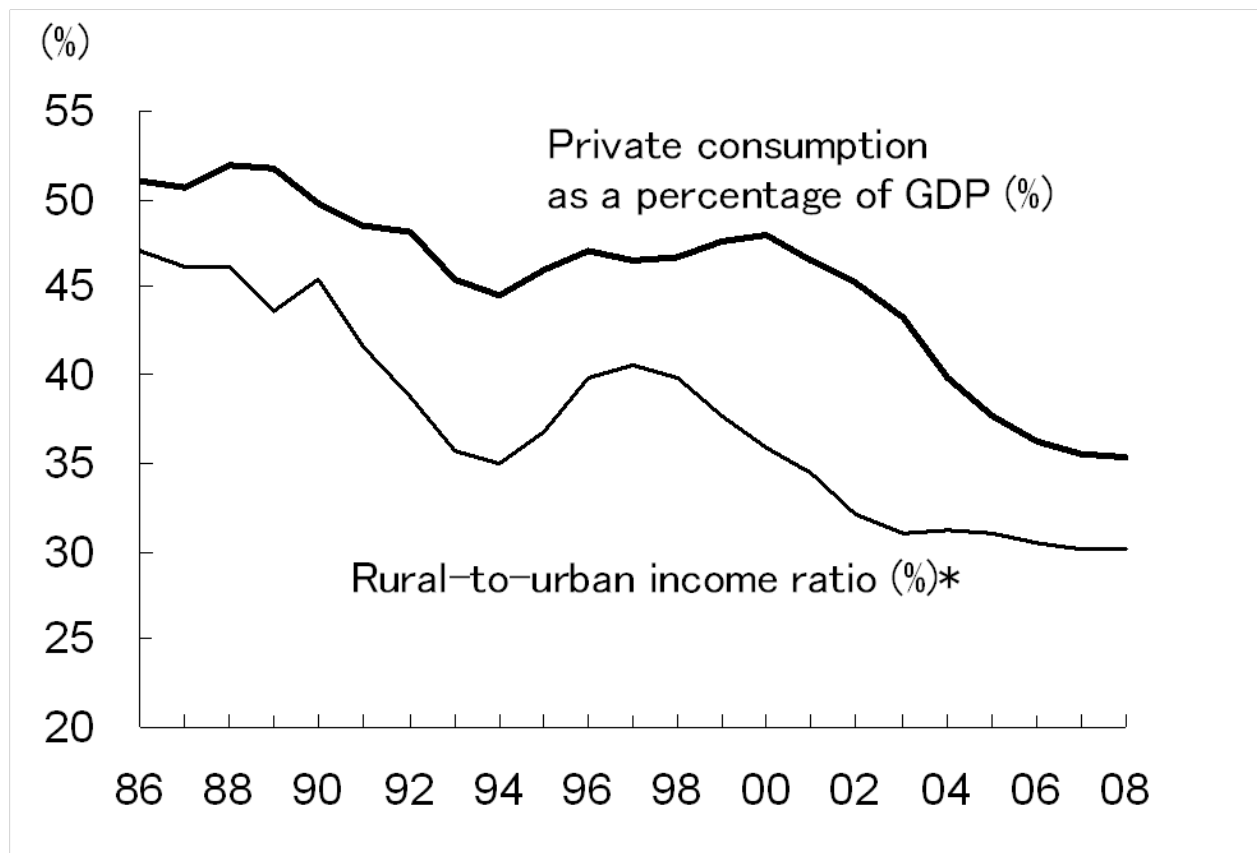
Propensity to consume inversely proportional to the income level (2008)



(Note) Five income groups for urban and rural areas in order of increasing household income. Each income group accounts for 20% of the total number of households living, respectively, in urban areas or rural areas.

(Source) Prepared based on *China Statistical Abstract 2009*

Dwindling private consumption amid widening income disparities



* Per capita disposable income and per capita net income are used to measure urban and rural income, respectively.

Source: *China Statistical Abstract 2009*



Redressing China's regional disparities

- Domestic FTA

- Dismantling barriers impeding the mobility of labor (e.g., household registration system), goods, and capital to form a unified domestic market

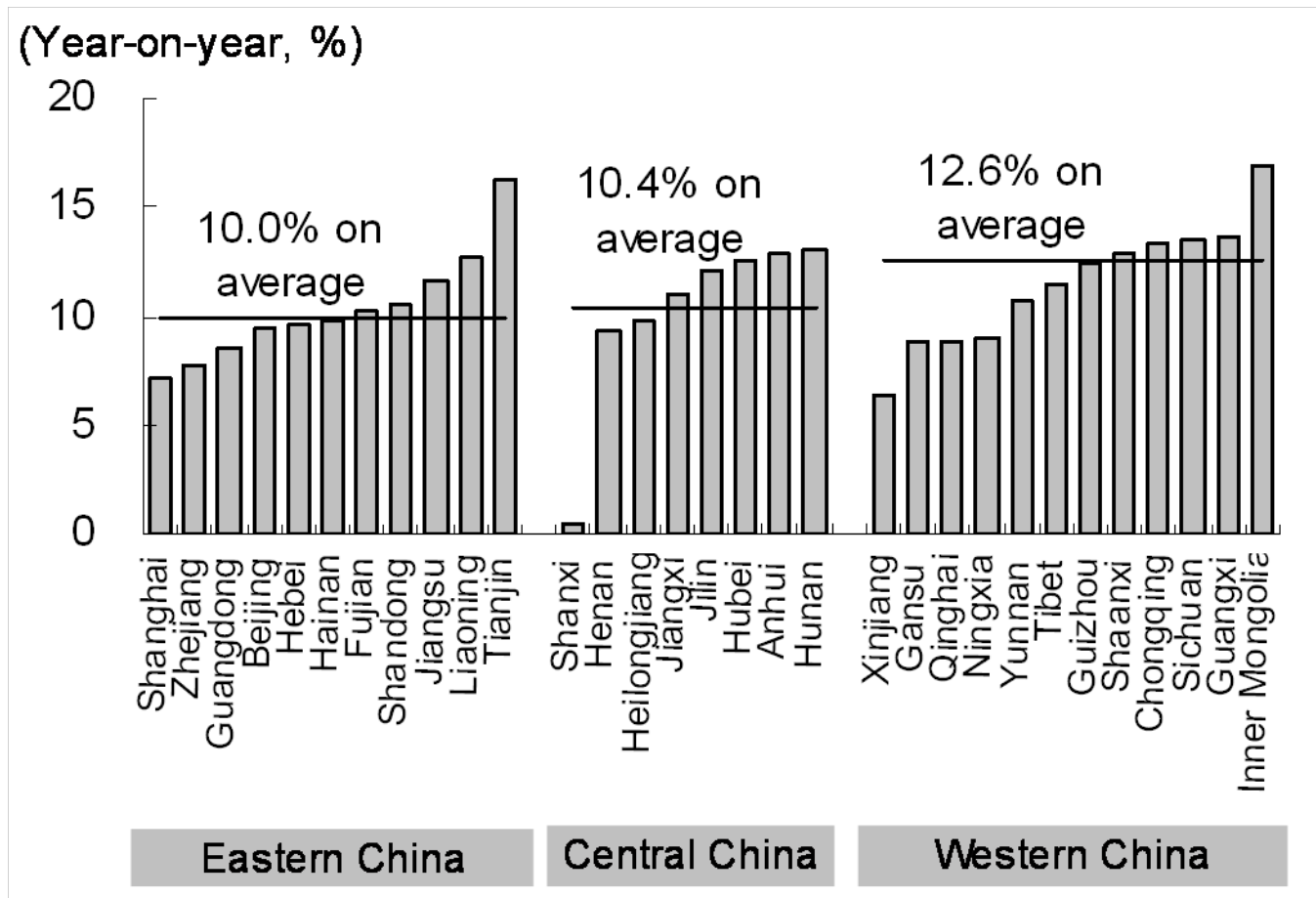
- Domestic Flying Geese

- Investment flow from high-income to low-income regions

- Domestic ODA

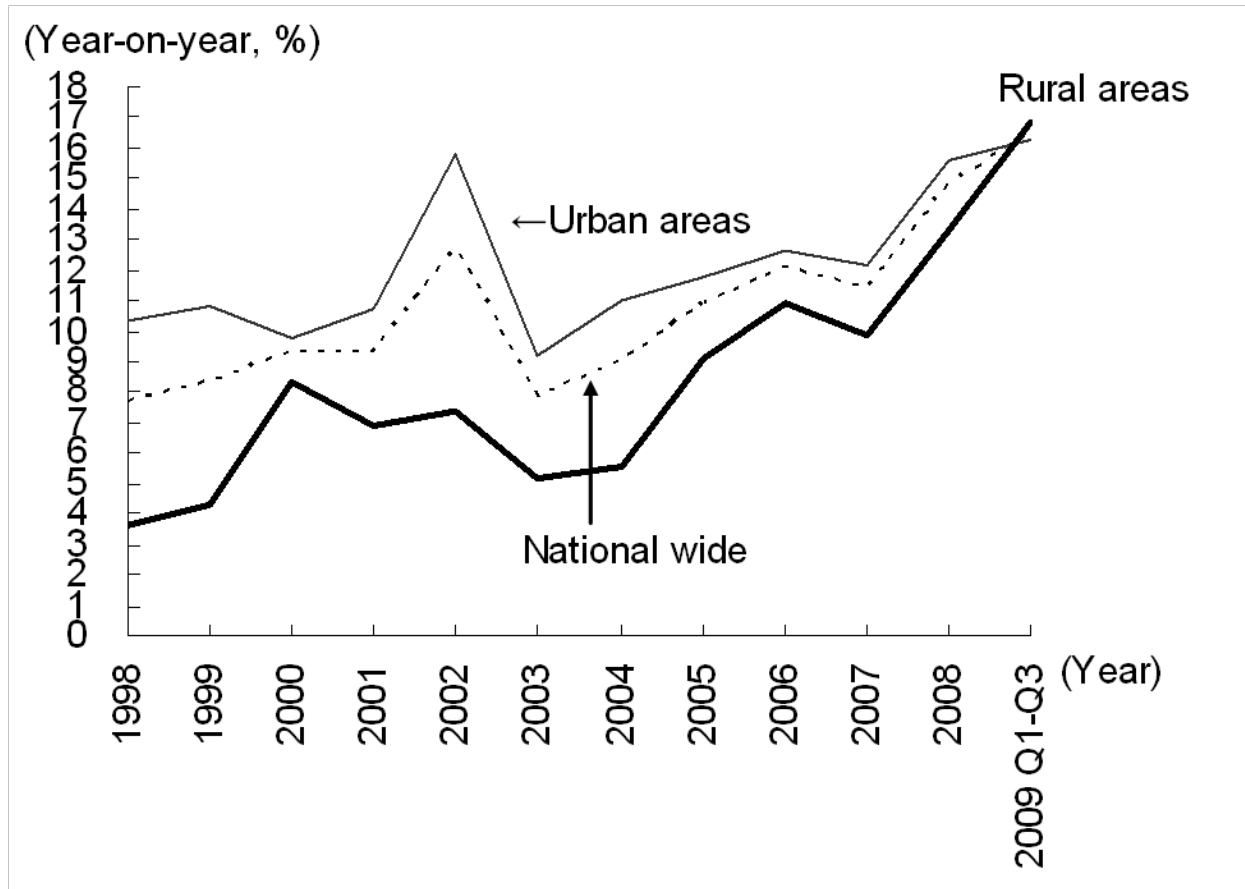
- Japan's local allocation tax as a model

Higher growth rates in Western China (2009Q1-Q3)



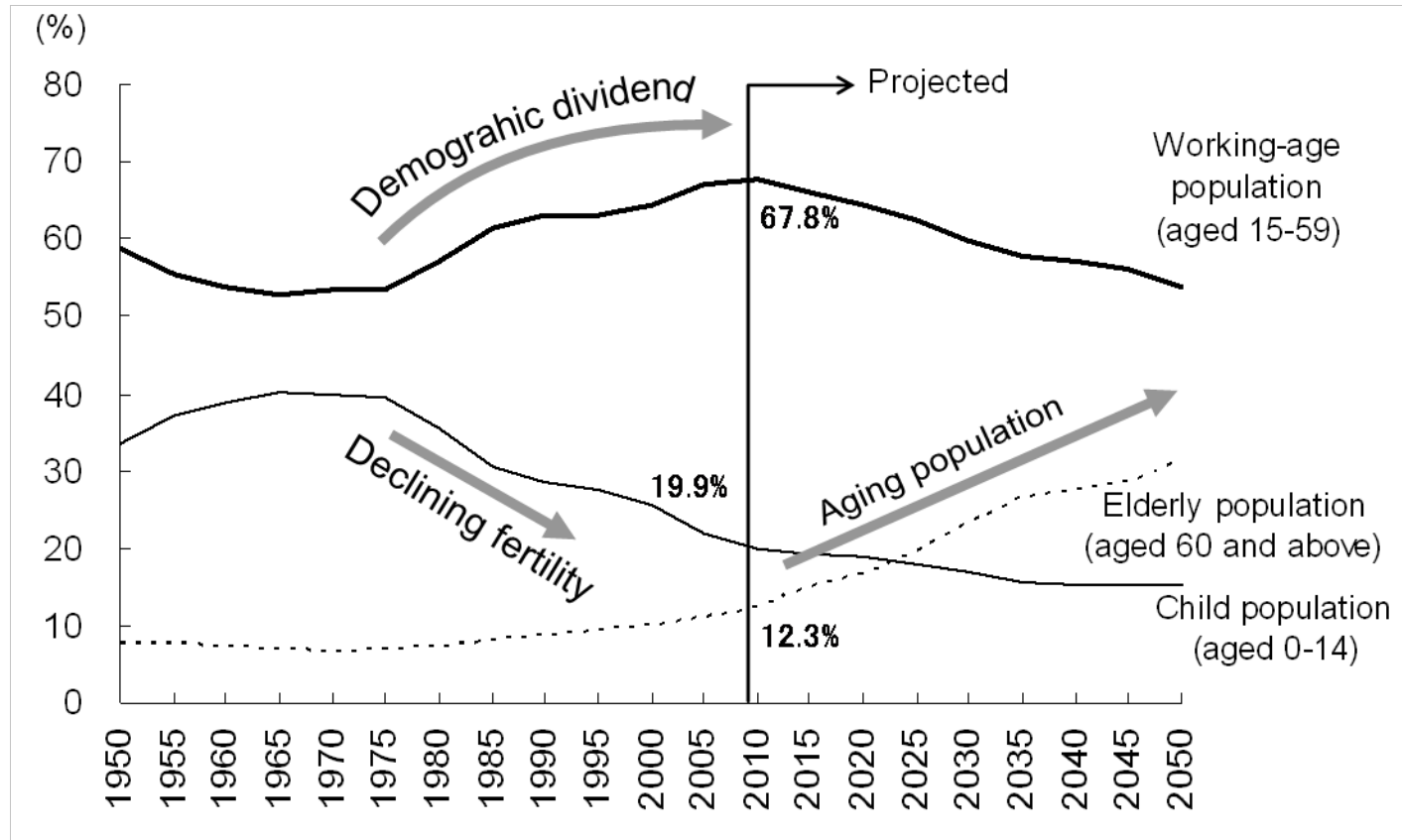
(Source) National Bureau of Statistics of China

Retail sales growing faster in rural areas than in urban areas



Note: Retail sales are in real terms, using respective consumer price indexes as deflators
 Source: National Bureau of Statistics of China

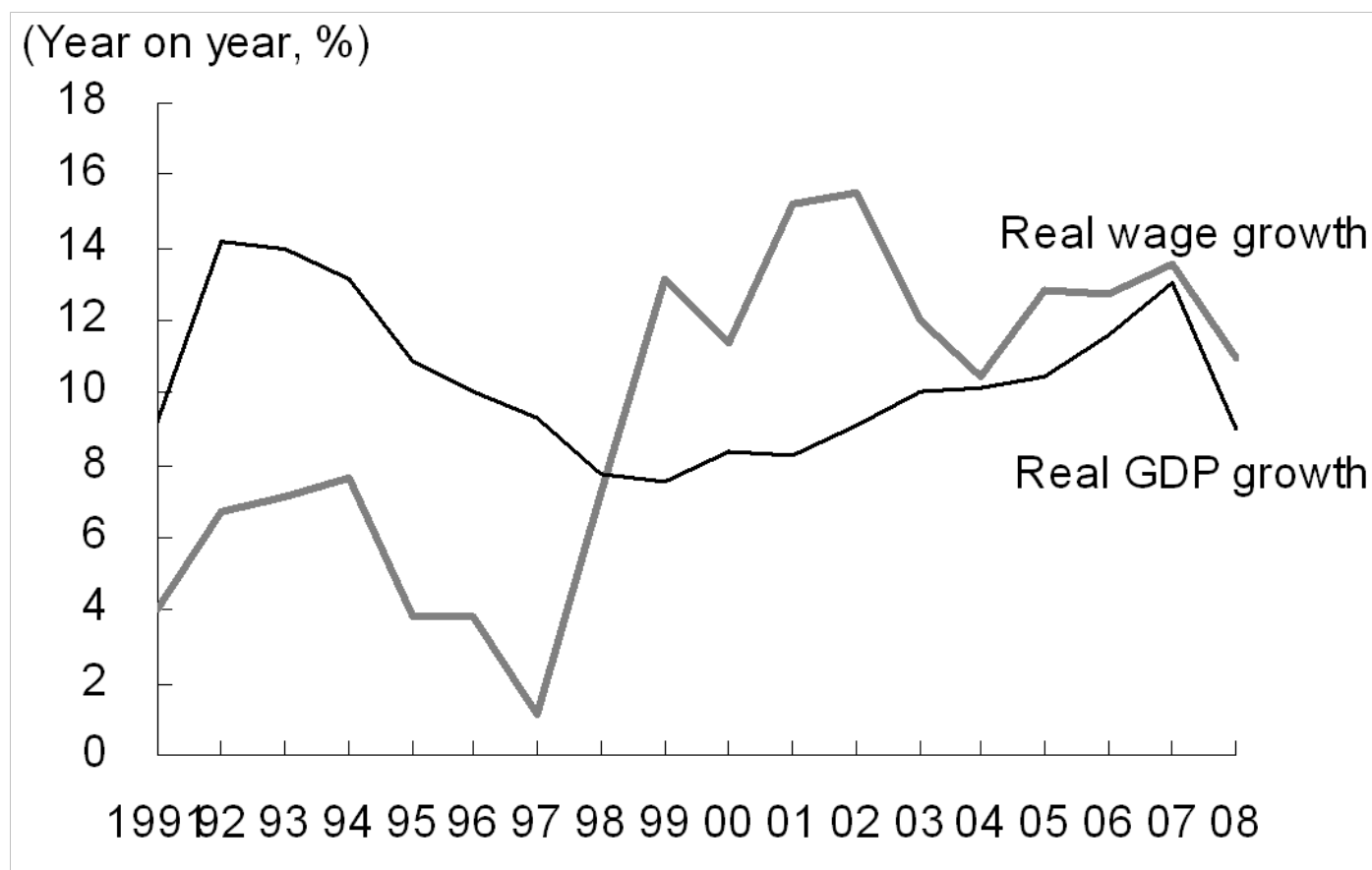
Changes in the age composition of China's population



(Note) United Nations projections

Source: United Nations, *World Population Prospects: The 2008 Revision*

Real wages growing faster than GDP as the Chinese economy approaches the "Lewis turning point"



Source: *China Statistical Abstract* 2009.