

China's economic growth pattern and strategy



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China's growth strategy

China: Economic growth strategy--some characteristics

Policies (in reform period)

Steady opening up to global economy, emphasis on export promotion

Active role government mobilizing resources

Explicit preference and encouragement of industry and investment

Emphasis on infrastructure

Strength

Strong supply side ? rapid growth without macro tension

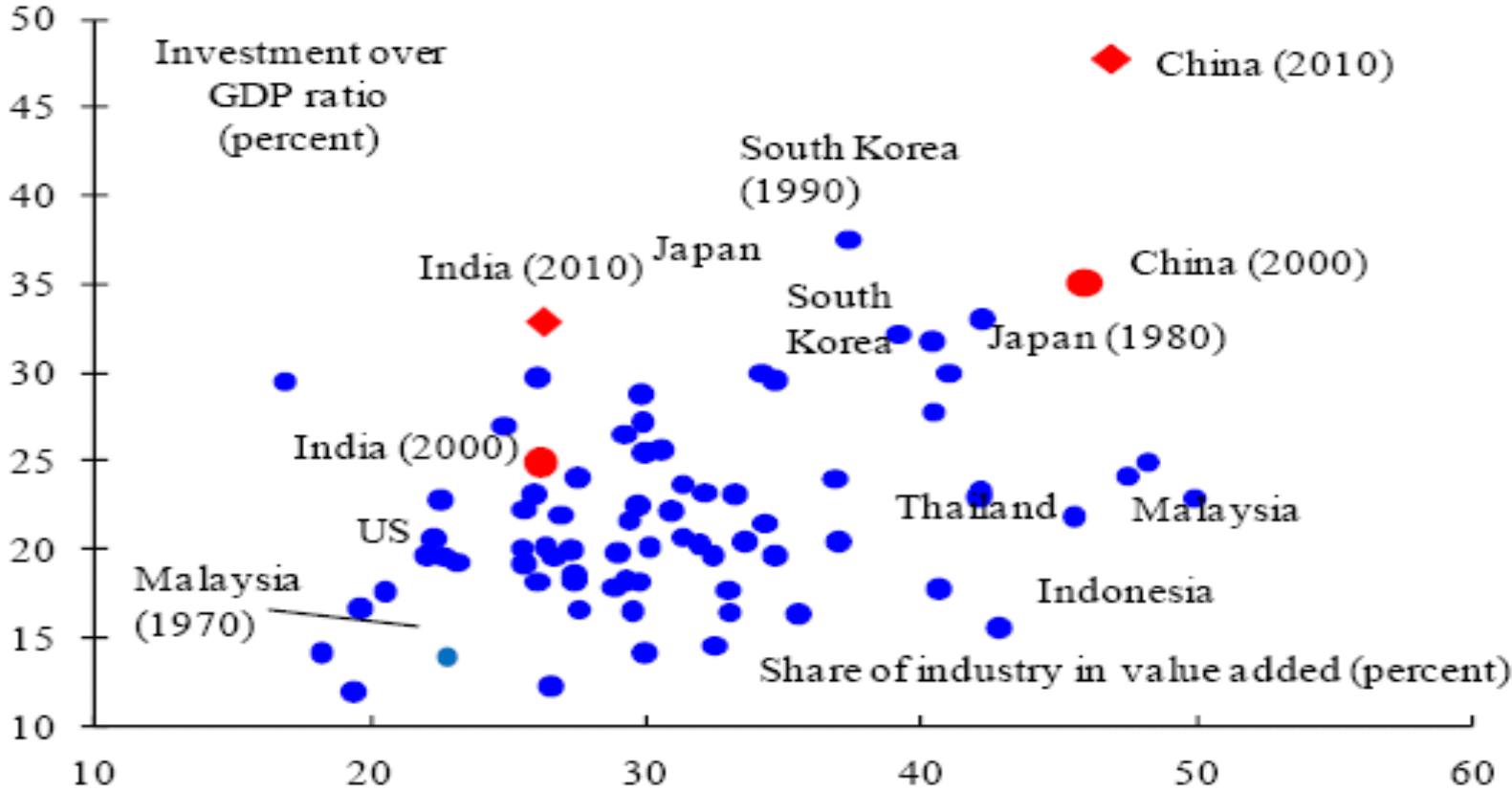
Weakness

Has led to economic, social, environmental and external imbalances

Source: RBS

A particular pattern of growth

Investment over GDP ratio vs share of industry in value added



Source: World Bank, NBS, Statistics India, RBS

Growth accounting

	1978-94	1995-2011
Potential GDP growth */	9.9	9.9
Employment growth	2.4	0.7
Labor productivity growth	7.3	9.1
From TFP growth	3.2	3.1
From higher H/L	0.5	0.6
From higher K/L ratio	3.5	5.3

Source: CEIC, RBS

* Methodology as in Kuijs and Wang (2006).

Adjusting the growth strategy: 12th Five Year Plan (2011-2015)

2 objectives

transform the pattern of growth more towards consumption and services

- industrial upgrading and moving up the value chain

The policy agenda: 2 nexus of reform

improve the allocation of resources, ensuring they are channeled to new sectors, products and processes, and encourage innovation

- support more full migration to the cities, with migrants able to behave and spend like other urban citizens to foster more labor-intensive, services-oriented and consumption-based growth

Obstacles to reform: political economy

What is China's medium-term rate of growth?

(% yoy, unless otherwise indicated)	1978-1994	1995-2011	2012-2015	2016-2020	2021-2025	2026-2030
Potential GDP growth */	9.9	9.9	8.7	7.3	6.3	5.3
Employment growth	2.4	0.7	0.2	-0.2	-0.1	-0.1
Labor productivity growth	7.3	9.1	8.5	7.5	6.4	5.5
From TFP growth (pp)	3.2	3.1	2.7	2.5	2.3	2.1
From higher H/L (pp)	0.5	0.6	0.5	0.5	0.5	0.5
From higher K/L ratio (pp)	3.5	5.3	5.2	4.4	3.6	2.8

Source: CEIC, RBS

* Methodology as in Kuijs and Wang (2006), but with human capital.

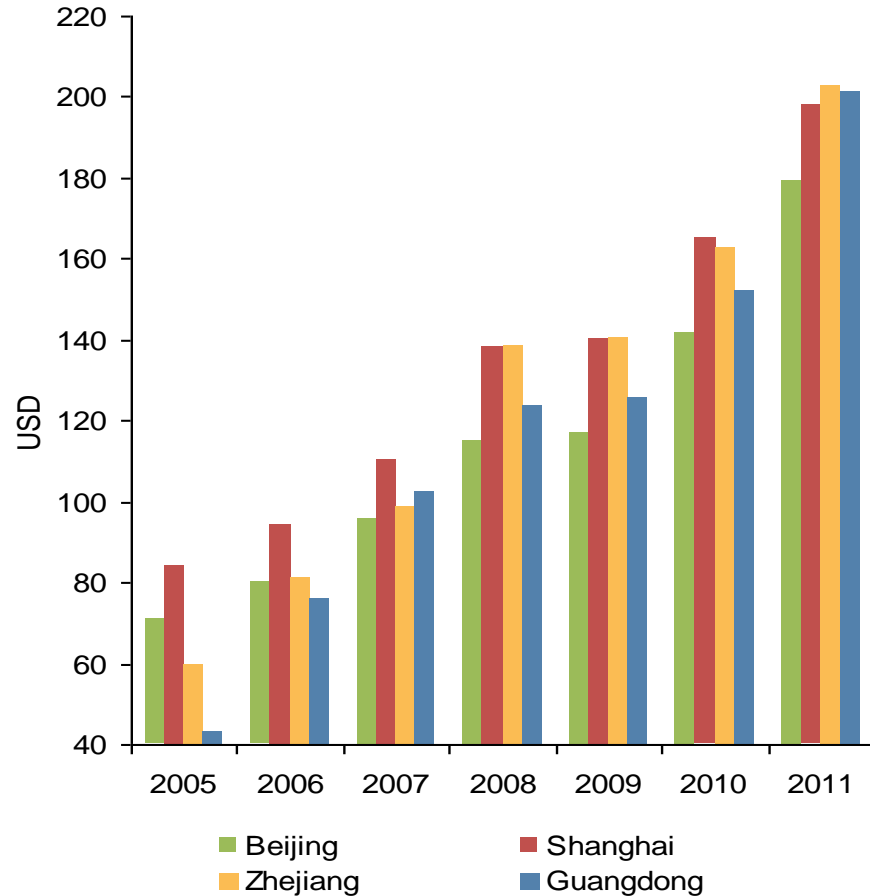
How may the economic structure change?

	1978-94	1995-2011	2012-15	2016-20	2021-25	2026-30
Structure of economy (end of period)						
Investment/GDP		46.4	46	45	42	39
Consumption/GDP		48.6	49	52	55	60
Industry/GDP		46.9	46	44	42	39
Tertiary sector/GDP		43.0	45	49	53	57
Share employment in agriculture		38.1	35	29	22	16
Share employment in services		34.1	37	42	48	54
Urbanization rate		47.0	51	59	63	70
Urban-rural income ratio		3.2	3.2	3.0	2.9	2.4

Source: CEIC, RBS

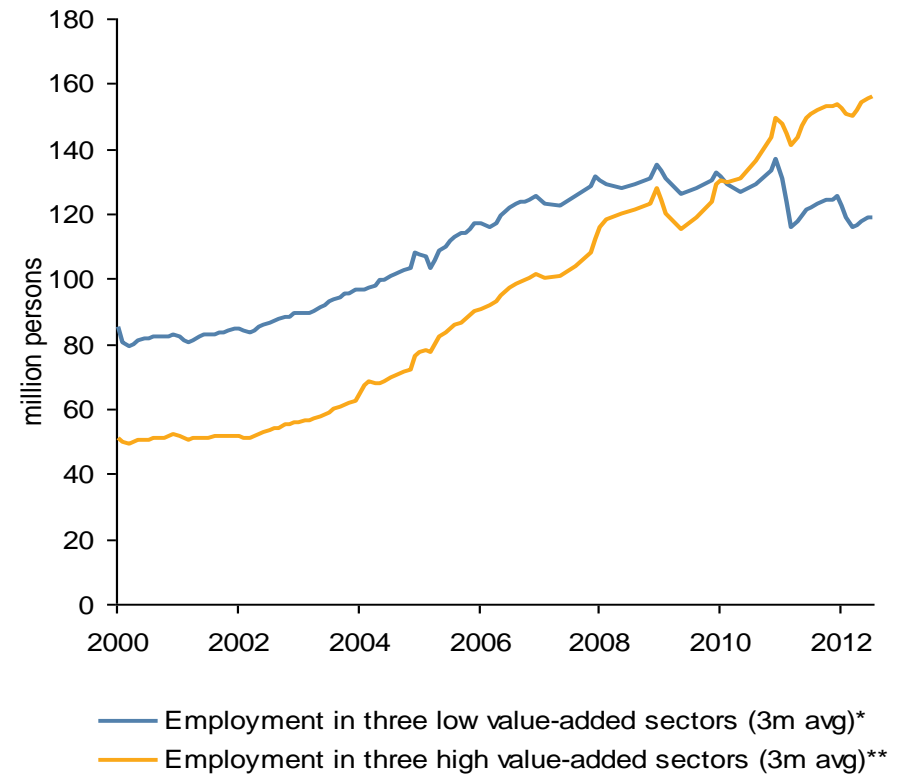
China's upgrading provides opportunities for other countries

Wages have risen very rapidly in China



Source: CEIC, RBS

This has started to lead to movement of lower-end jobs away from China



* Textile, garments and leather.
 ** Transportation, electrical machinery and electronics & communications.

Source: CEIC, RBS

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