China's Economic Development Prospects

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Presentation outline

- Economic Growth and Structure
- Challenges for Future Economic Development
- Scenario Analysis for Future Economic Development

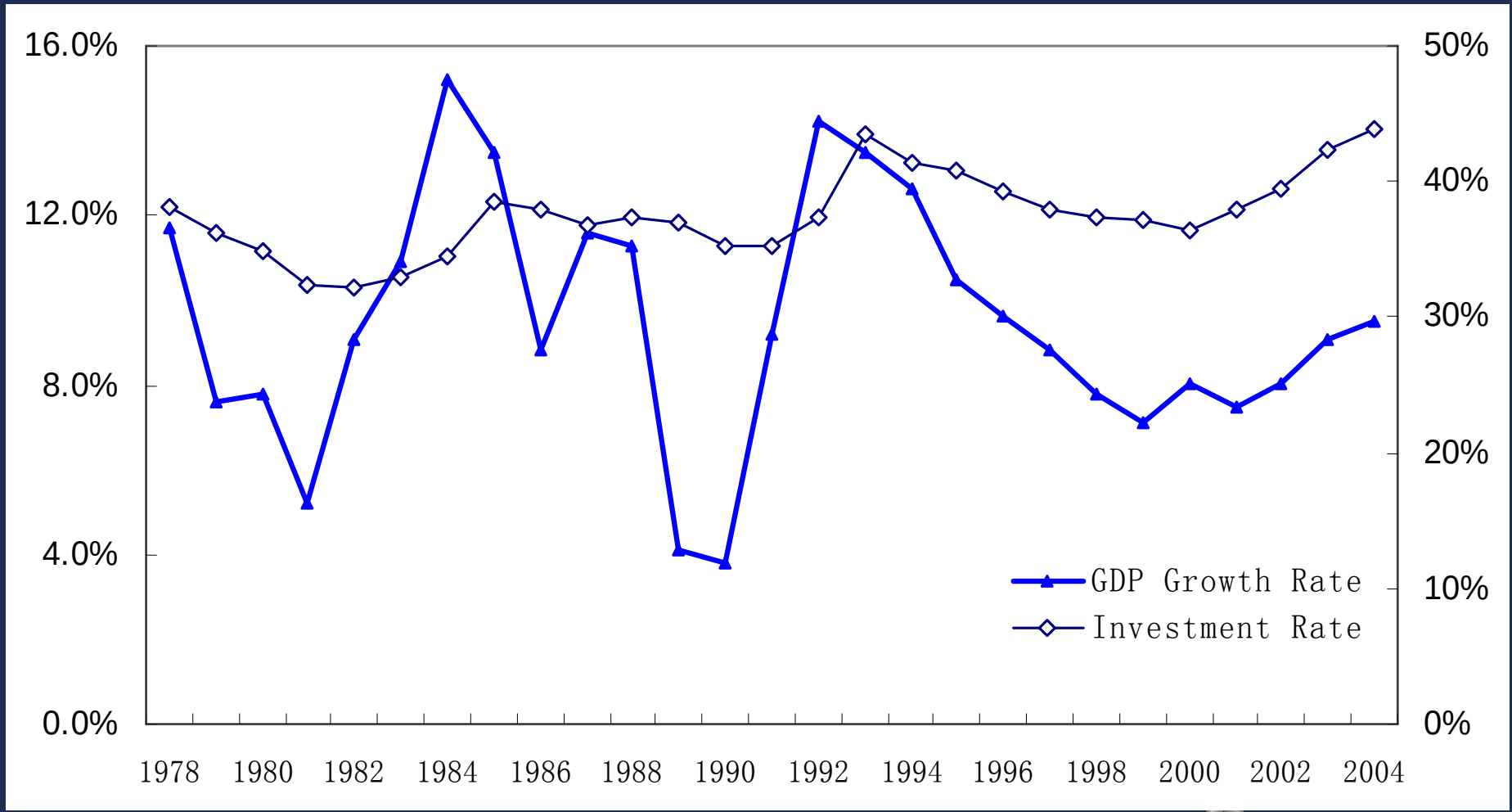
Five Year Plans

- **6th Five-Year Plan (1981-1985)**
- **7th Five-Year Plan (1986-1990)**
- **8th Five-Year Plan (1991-1995)**
- **9th Five-Year Plan (1996-2000)**
- **10th Five-Year Plan (2000-2005)**
- **11th Five-Year Plan (2006-2010)**

First Part

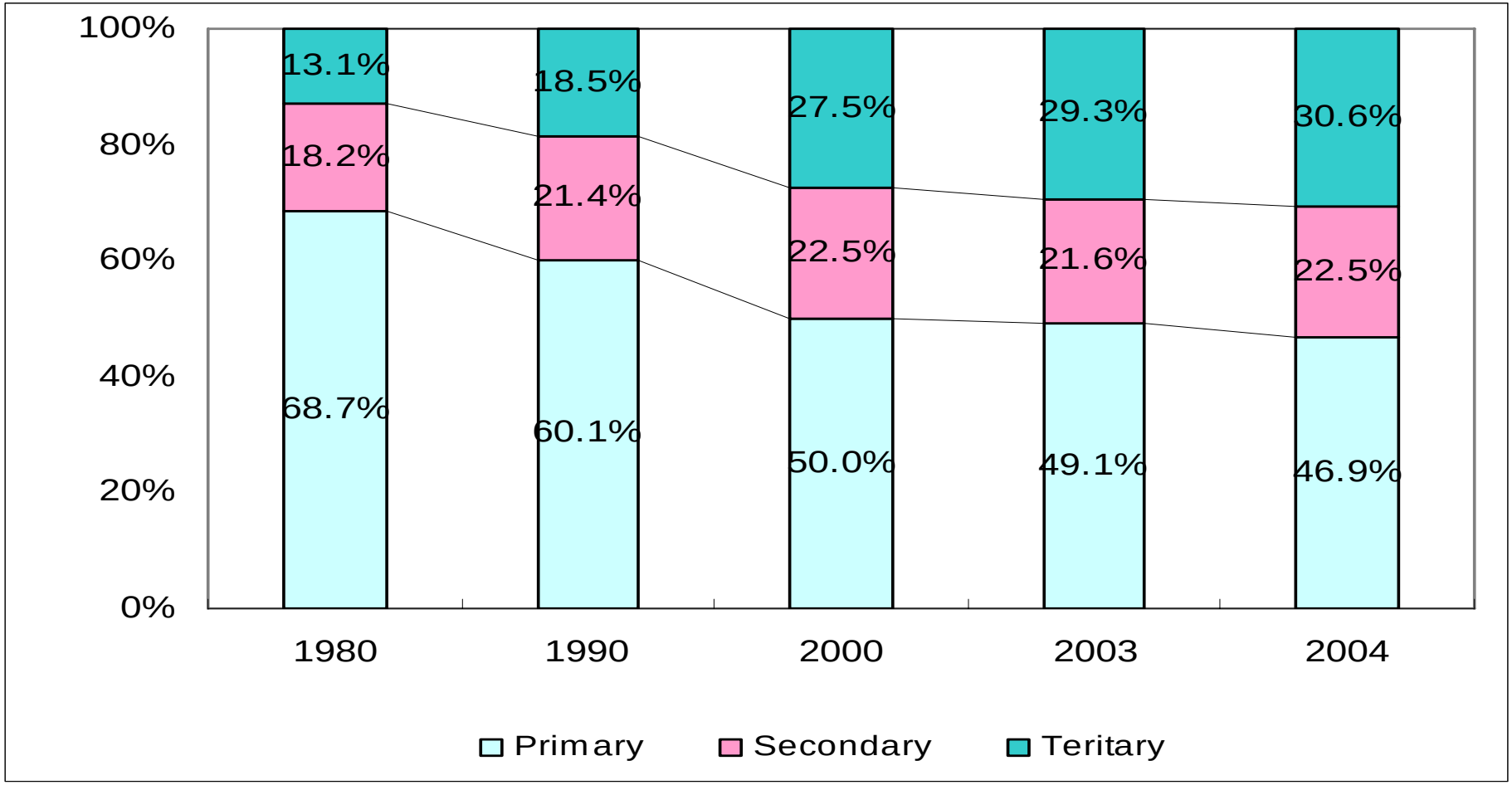
Economic Growth and Structure

China's economy has been growing at a rate of 9.36% annually since 1978



Economic Structure---Share of agriculture is decline since 1978

Employment Structure--The share of agricultural sector in China's labor employment is lower than 50%

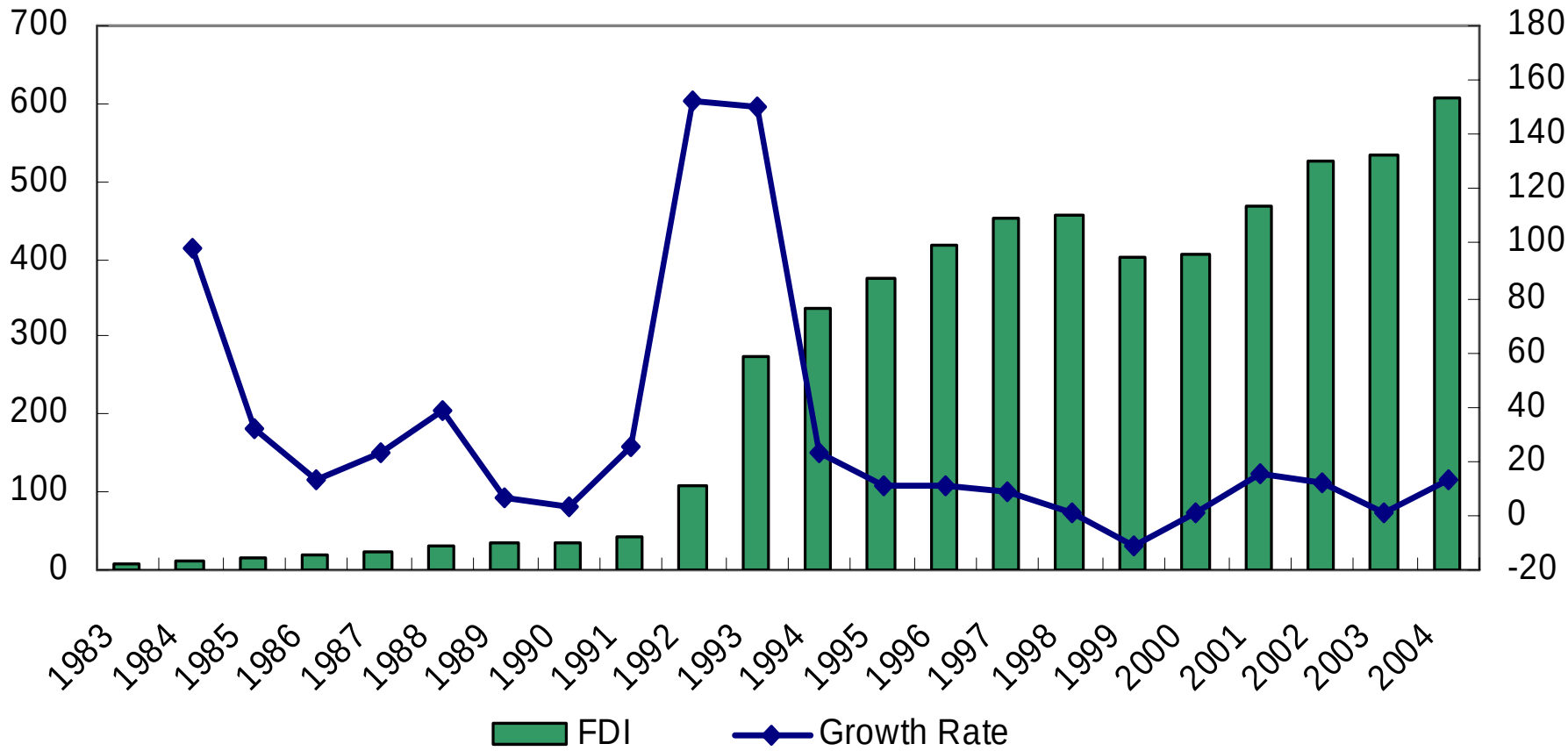


The source of rapid economic growth in China in the last two decades

	GDP[1]	Capital[2]	Labor[3]	TFP[4]
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

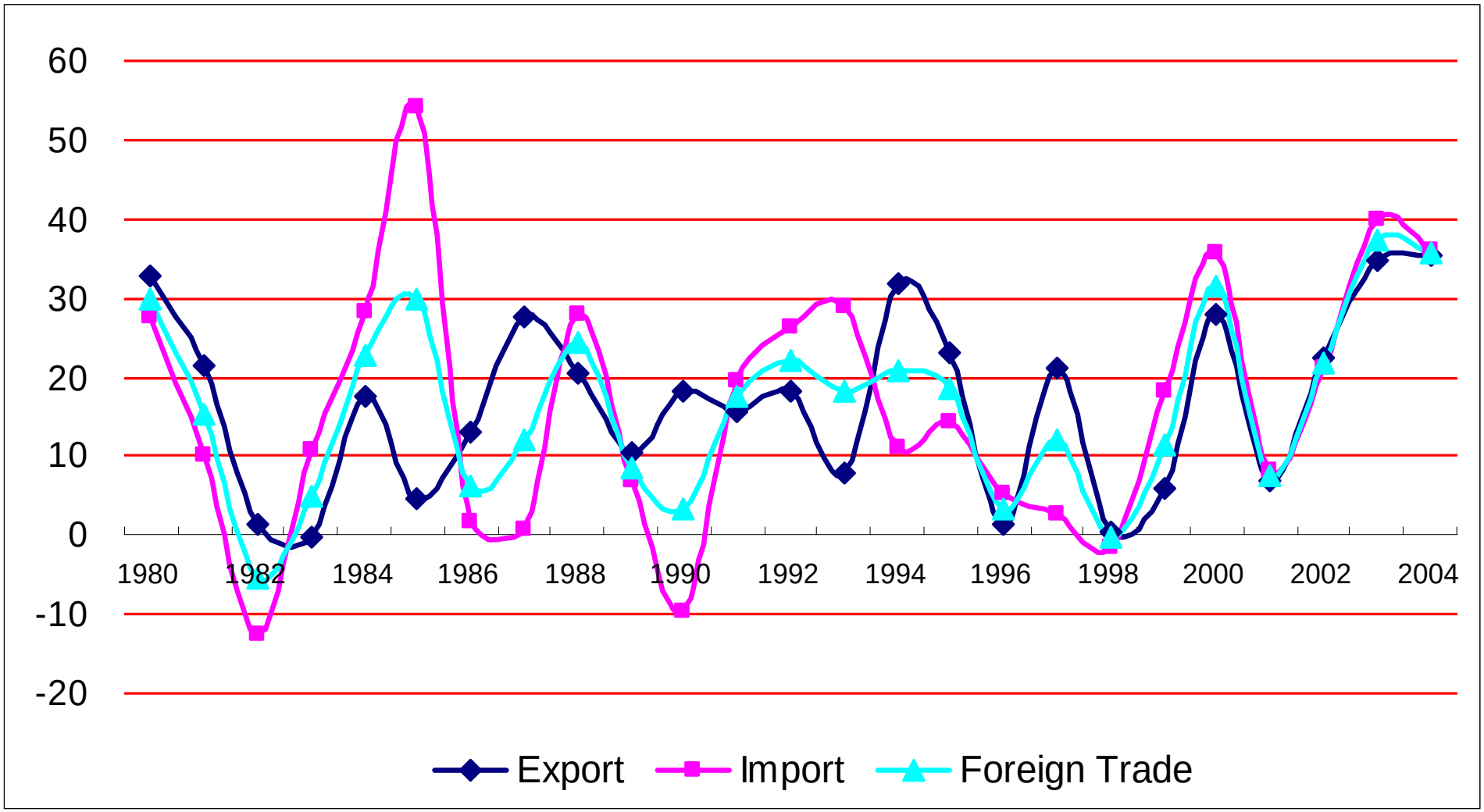
Foreign Direct Investment

- was $53.5 Billion in 2003



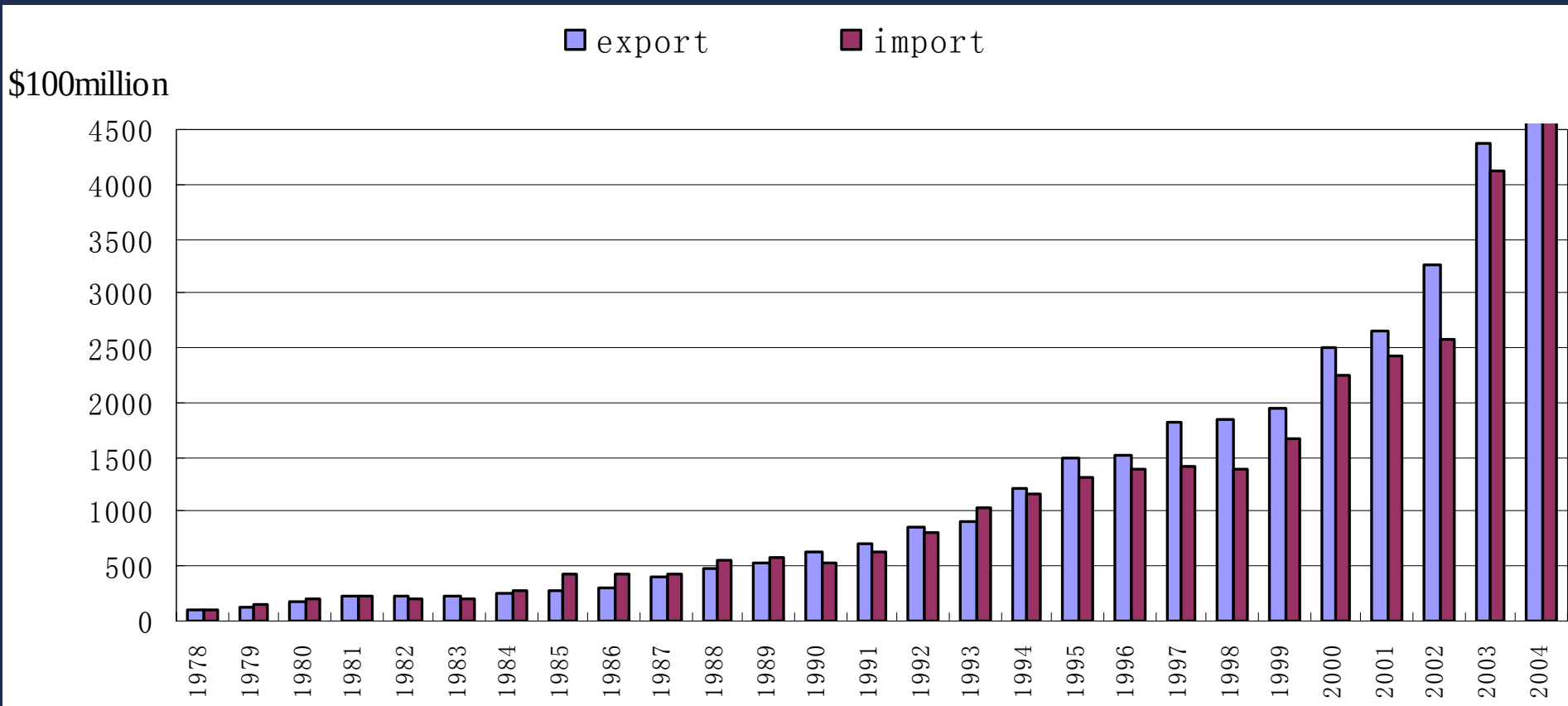
Growth of External Trade

1980-2004, external trade, export and import rose by 30.3, 32.8 and 28.1 times respectively and annual growth rates were 15.3%、15.6% and 14.9% respectively

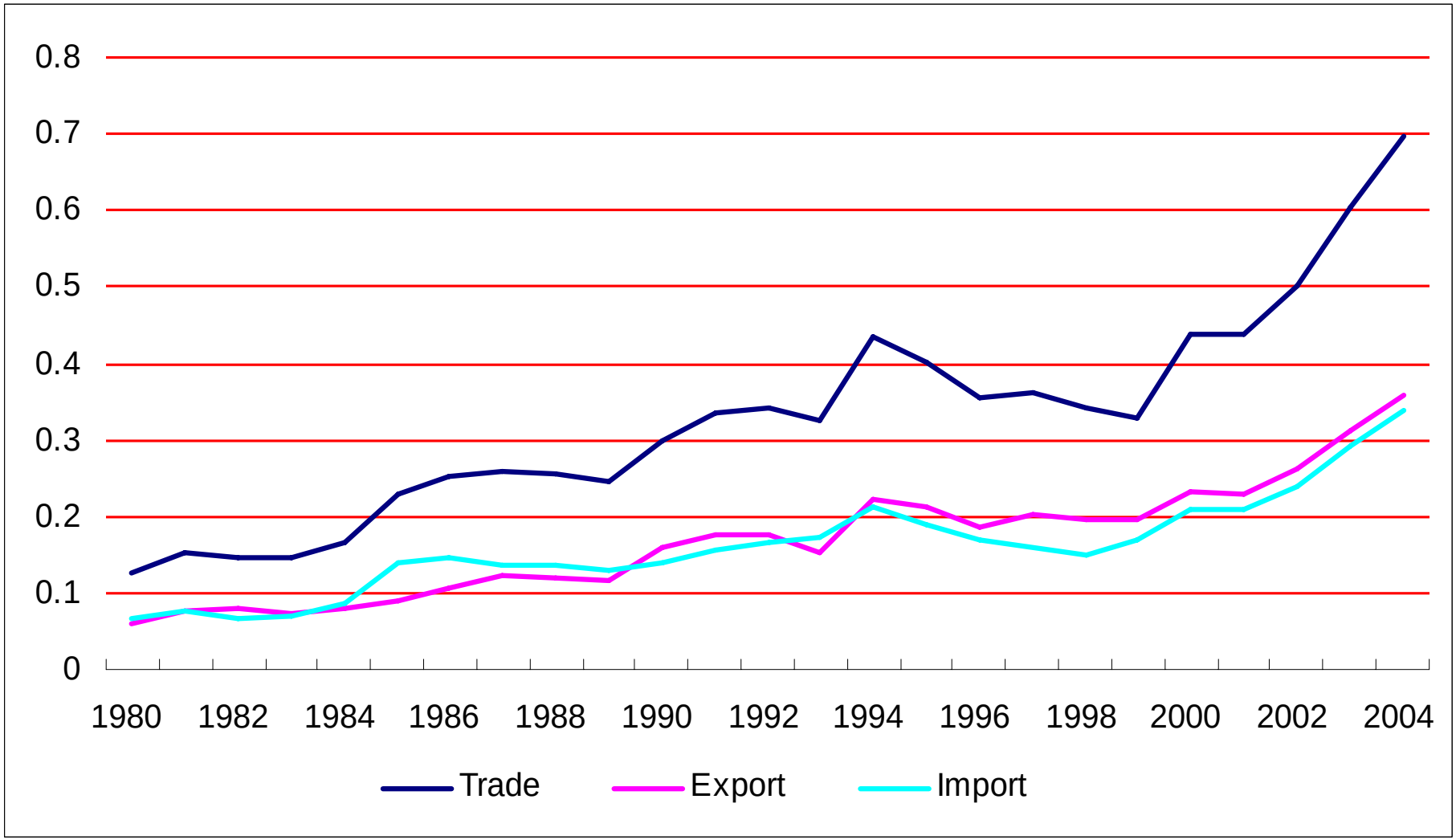


Growth of External Trade

	Export ($100 Mil.)	**Import ($100 Mil.)**
1978	**97.5**	**108.9**
2004	**5933.7**	**5614.2**

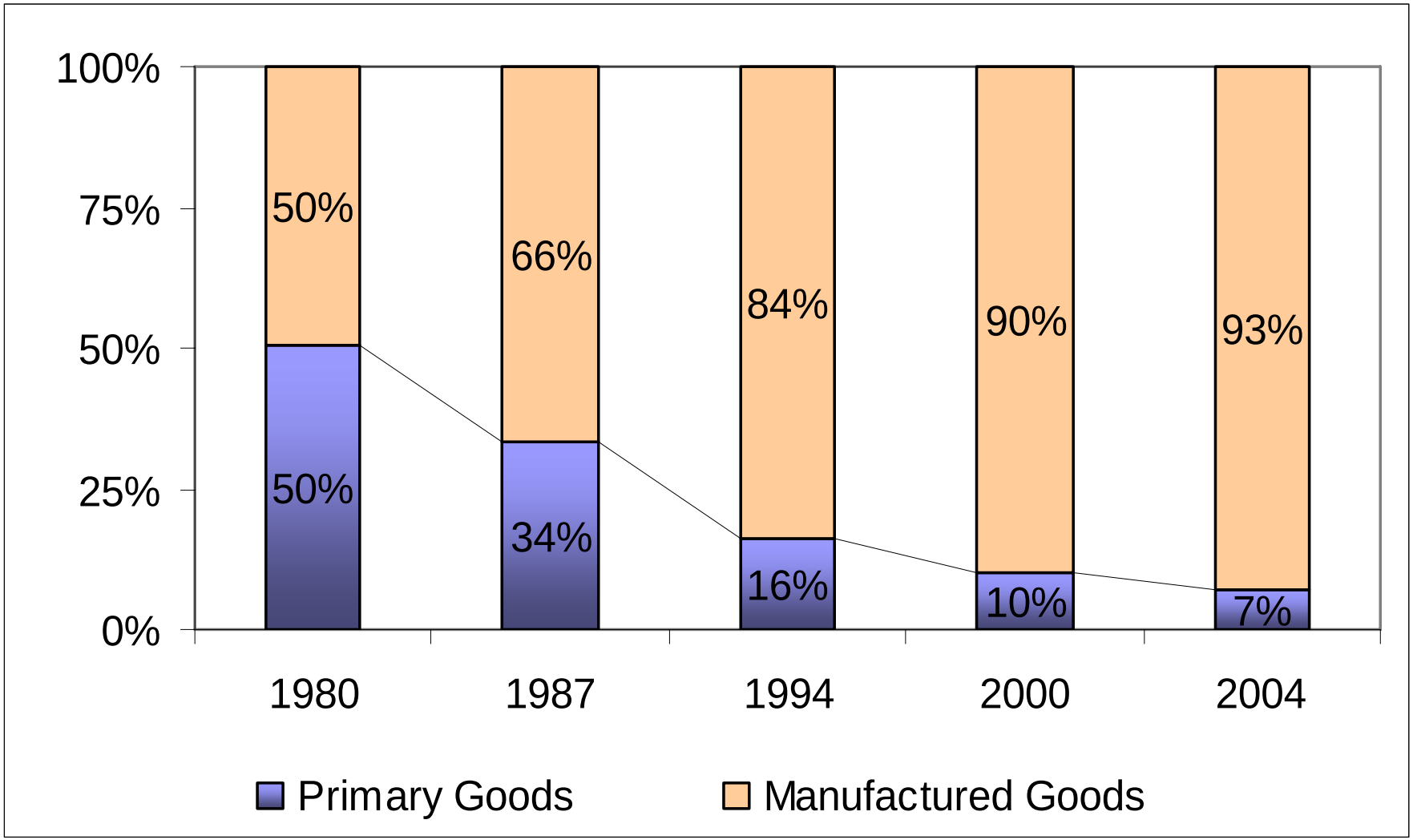


External Trade Dependence Ratio



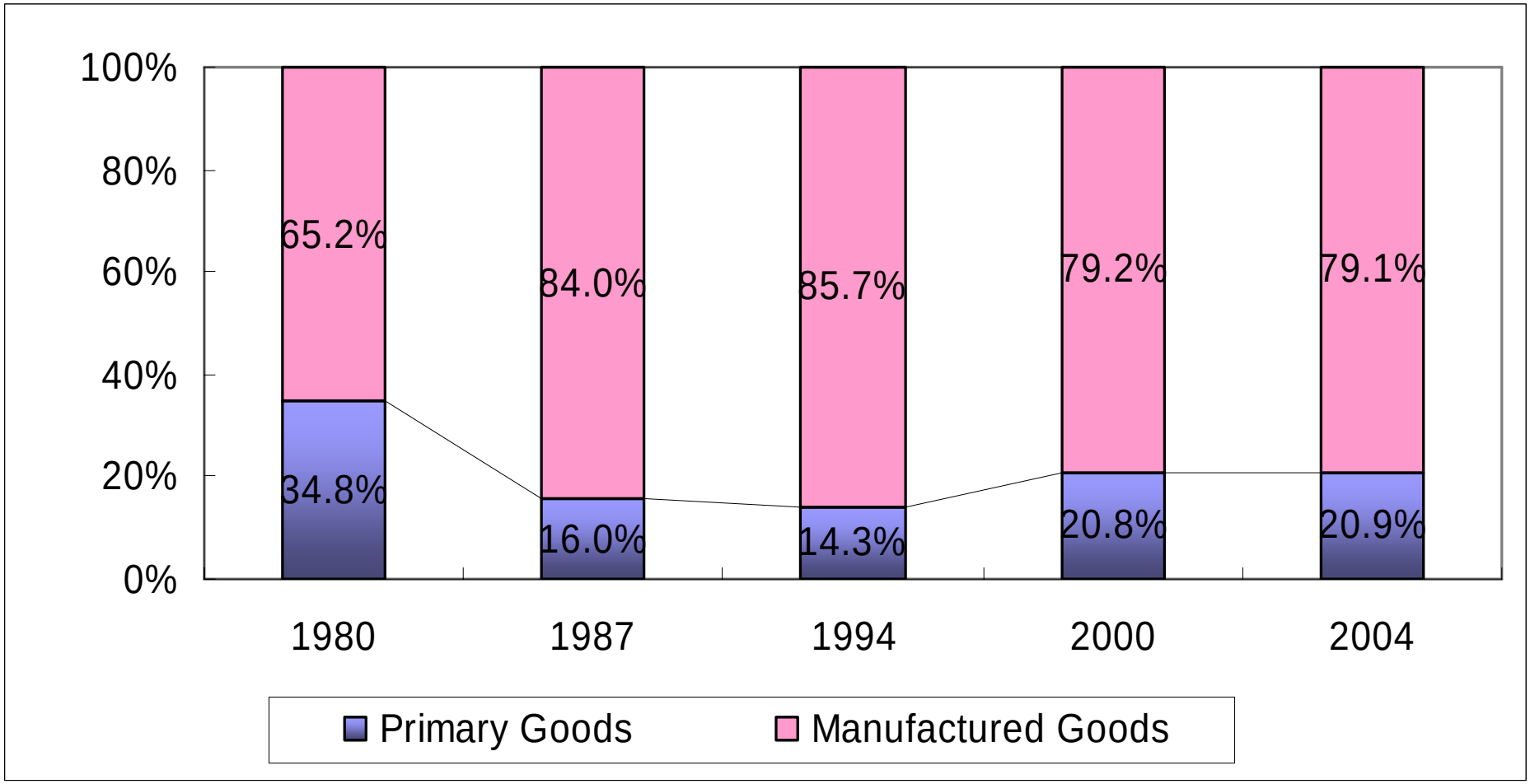
Structural Change of Chinese Exports

	Primary goods ($100 Mil..)	Manufactured goods ($100 Mil)
1980	91.14	90.05
2004	405.5	5528.2

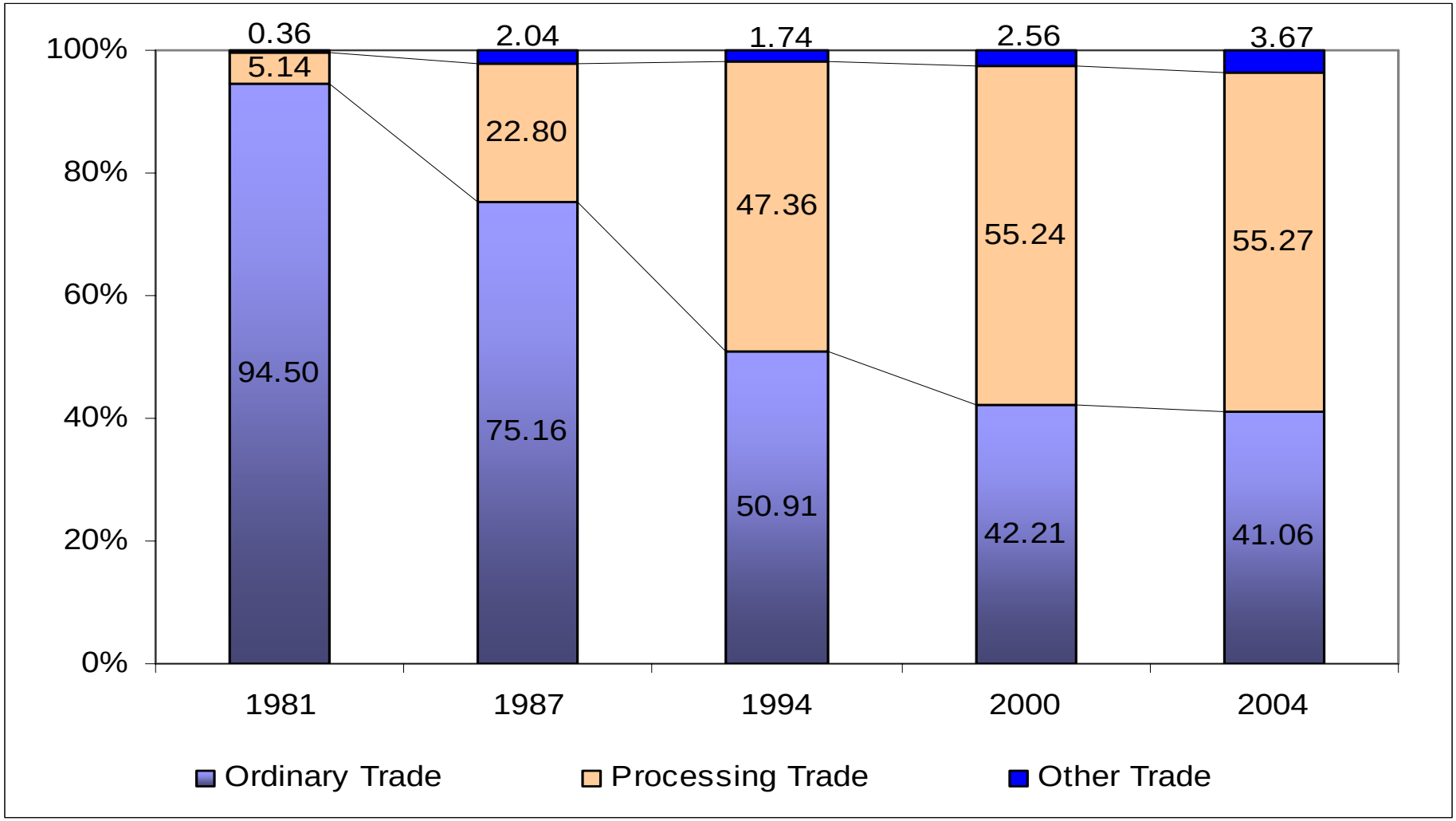


Structural Change of Chinese Imports

	Primary goods ($100 Mil..)	Manufactured goods ($100 Mil)
1980	69.59	130.6
2004	1173.0	4441.2

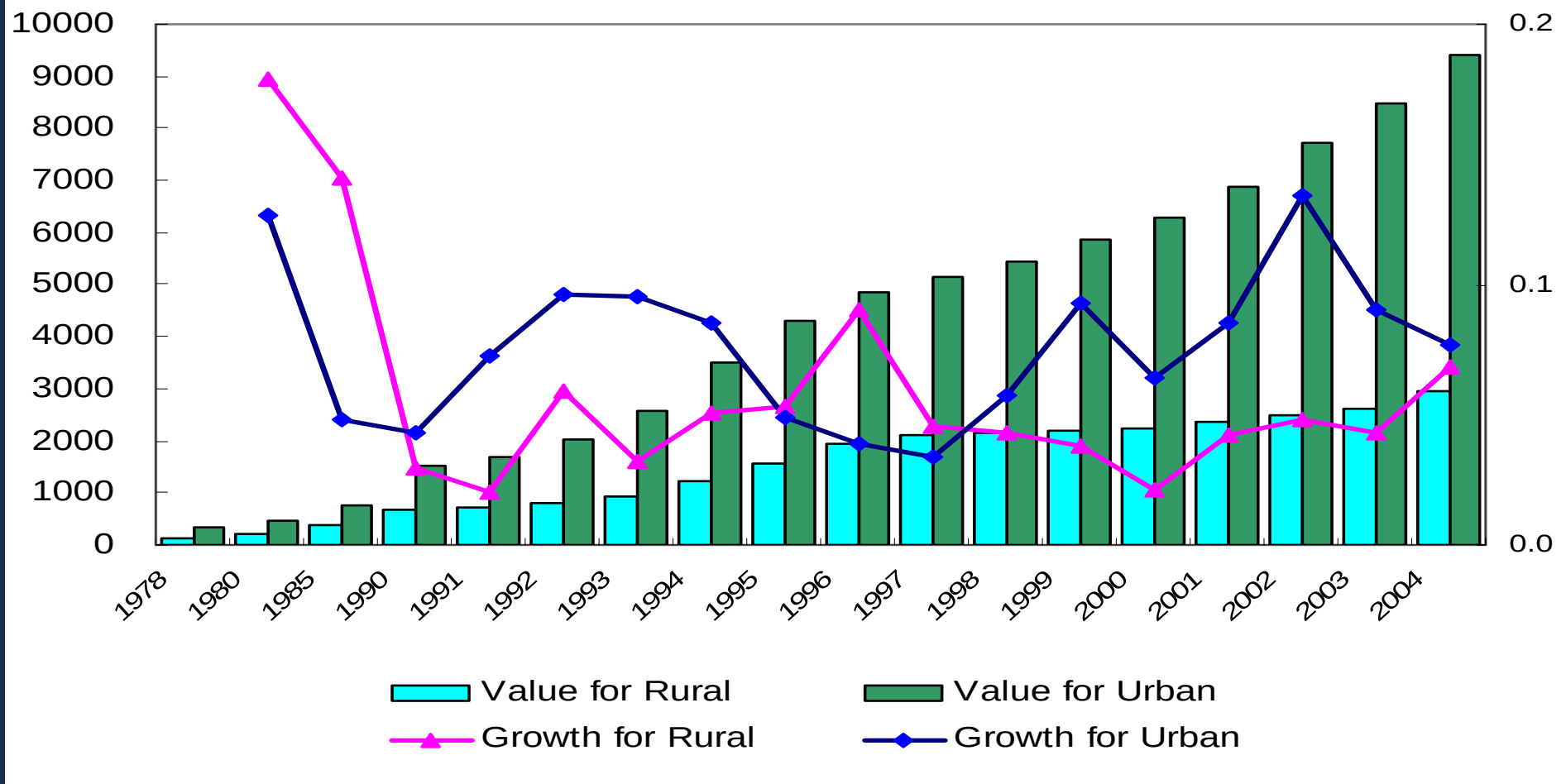


Dualistic foreign trading regimes

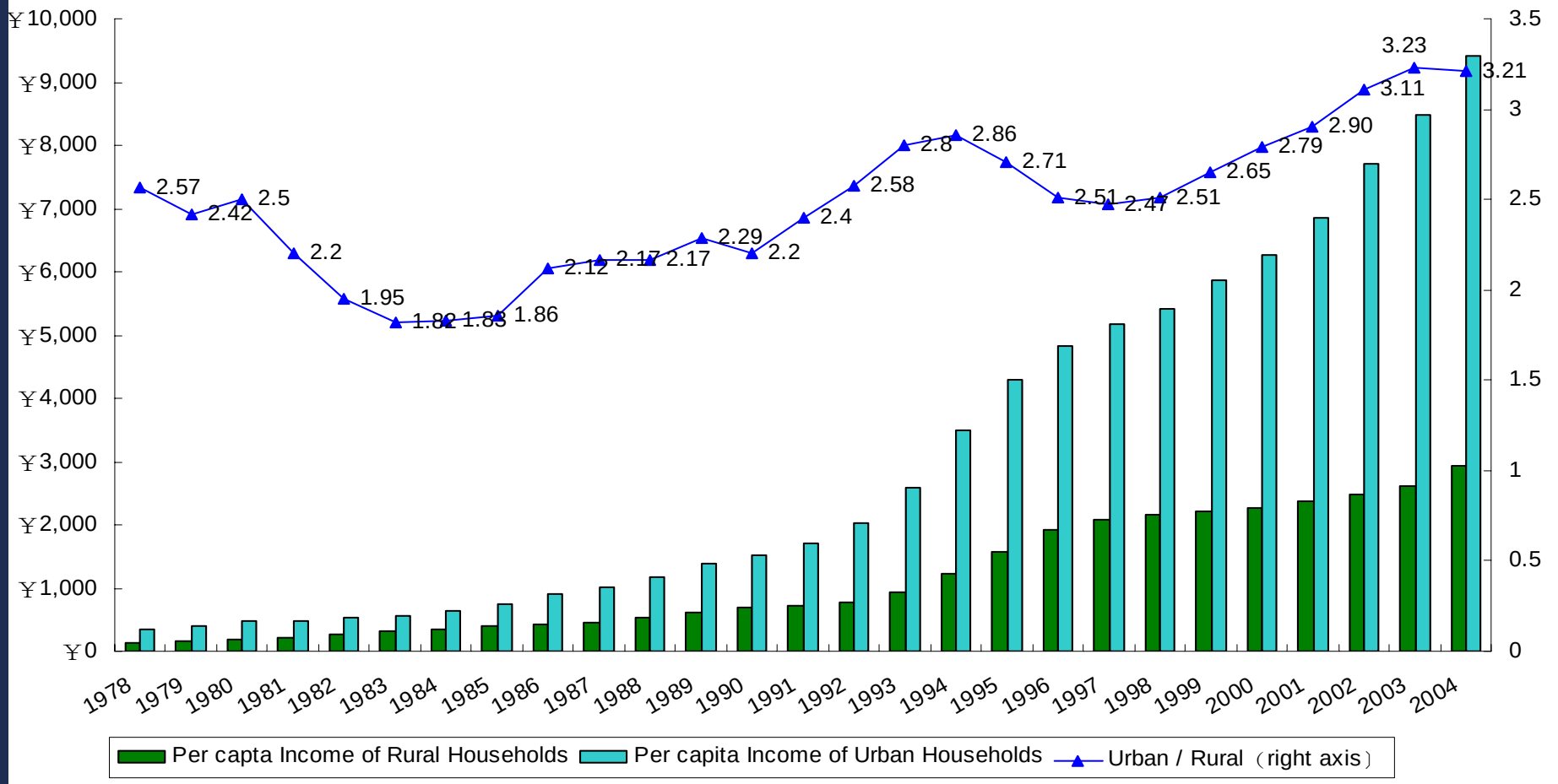


The Inequality in Household Income

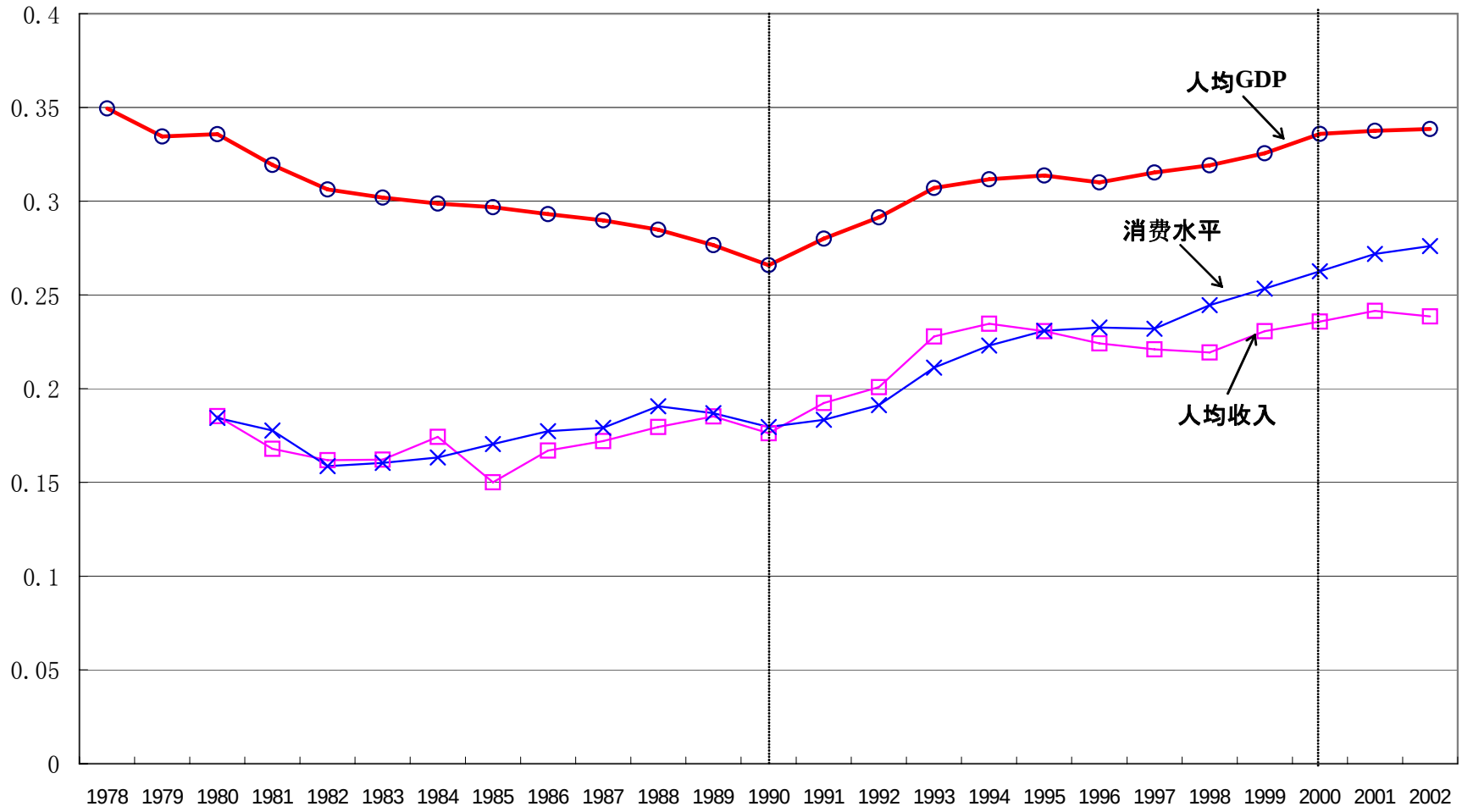
---The income gap between urban and rural households has been widening steadily



The urban-rural income disparity has been increased recently



Regional Income disparity——GINI coefficient



Low Urbanization Rate

	Total Population (million)	Urban Population (million)	Urbanization Rate (%)
1978	96259	17245	17.9
1980	98705	19140	19.4
1985	105851	25094	23.7
1990	114333	30195	26.4
1995	121121	35174	29.0
1998	124761	41608	33.4
2000	126743	45906	36.2
2003	129227	52376	40.5
2004	129988	54283	41.8

The second Part

Challenges for Future Economic Development

The Challenges of Economic Development in the Future

- Global economy is recovering, international market demand increasing, but international trade frictions also increased
- China’s overall integration with global economy will provide better conditions to the economic growth, but may also increase the uncertainty of economic development in the future

cont.

- China’s economy has been growing very fast for more 20 years , but China still has a long way to go to become an large country in terms of economy.
- Capital accumulation will remain the important source for the economic growth, but the changes in population structure and the flow of international capital will make the saving rate and investment rate more uncertain

Top 10 GDP

	2000		2001		2002		2003	
	Country	GDP	Country	GDP	Country	GDP	Country	GDP
1	US	98102	US	100653	US	87202	US	108816
2	Japan	47653	Japan	41414	Japan	39405	Japan	43264
3	Germany	18661	Germany	18461	Germany	21445	Germany	24006
4	UK	14297	UK	14241	UK	14520	UK	17948
5	France	13054	France	13098	France	14239	France	17479
6	China	10800	China	11590	China	11967	Italy	14659
7	Italy	10731	Italy	10888	Italy	9463	China	14098
8	Canada	7066	Canada	6954	Canada	7877	Spain	8361
9	Brazil	5938	Mexico	6178	Spain	6069	Canada	8344
10	Mexico	5801	Spain	5818	Mexico	5880	Mexico	6261

WB's income standard

		Developing Countries			
	China	Low Income	Lower Middle	Upper Middle	High Income
1980	$290	$410	$420-$1410	$1420-$4500	$4510-$26850
1990	$370	$610	$611-$2465	$2466-$7619	$7620-$32680
1994	$490	$695	$696-$2785	$2786-$8626	$8626-$35760
1998	$750	$760	$761-$3030	$3031-$9360	$9361-$40080
2000	$840	$755	$756-$2995	$2996-$9265	$9266-$40080
2002	$940	$735	$736-$2935	$2936-$9075	$9076-
2003	$1100	$765	$736-$3035	$3036-$9385	$9386-

Cont.

- More progress will be made for the tough reform, but reform may become less effective in improving the re-allocative efficiency of resource
- The progress in industrialization and urbanization will drive domestic demands to grow, but the cost for economic growth will rise

The Challenges of Economic Development in the Future

- Change in the mode of economic growth will improve the effectiveness in resource utilization, shortage in strategic resource reserve and environmental capacity will be of increasing constraints to economic growth
- The constrains 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 World (%)	Production	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 third Part

Scenario Analysis for Future Economic Development

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 coordinated
  - Risk scenario
    - emphasizes that the risks and challenges in the process of future economic development
- **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	**8.7**	**8.1**	**7.5**	**6.8**	**7.8**	**7.5**
Source of Growth：						
Labor	**0.5**	**0.4**	**0.2**	**0.0**	**0.3**	**0.2**
Capital	**6.4**	**5.6**	**5.0**	**4.5**	**5.4**	**5.0**
TFP	**1.9**	**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	**8.7**	**8.5**	**8.2**	**7.7**	**8.3**	**8.1**
Source of Growth						
Labor	**0.5**	**0.4**	**0.2**	**0.0**	**0.3**	**0.2**
Capital	**6.4**	**5.6**	**5.1**	**4.7**	**5.4**	**5.1**
TFP	**1.8**	**2.5**	**2.9**	**2.9**	**2.5**	**2.8**

Pollutant Discharge

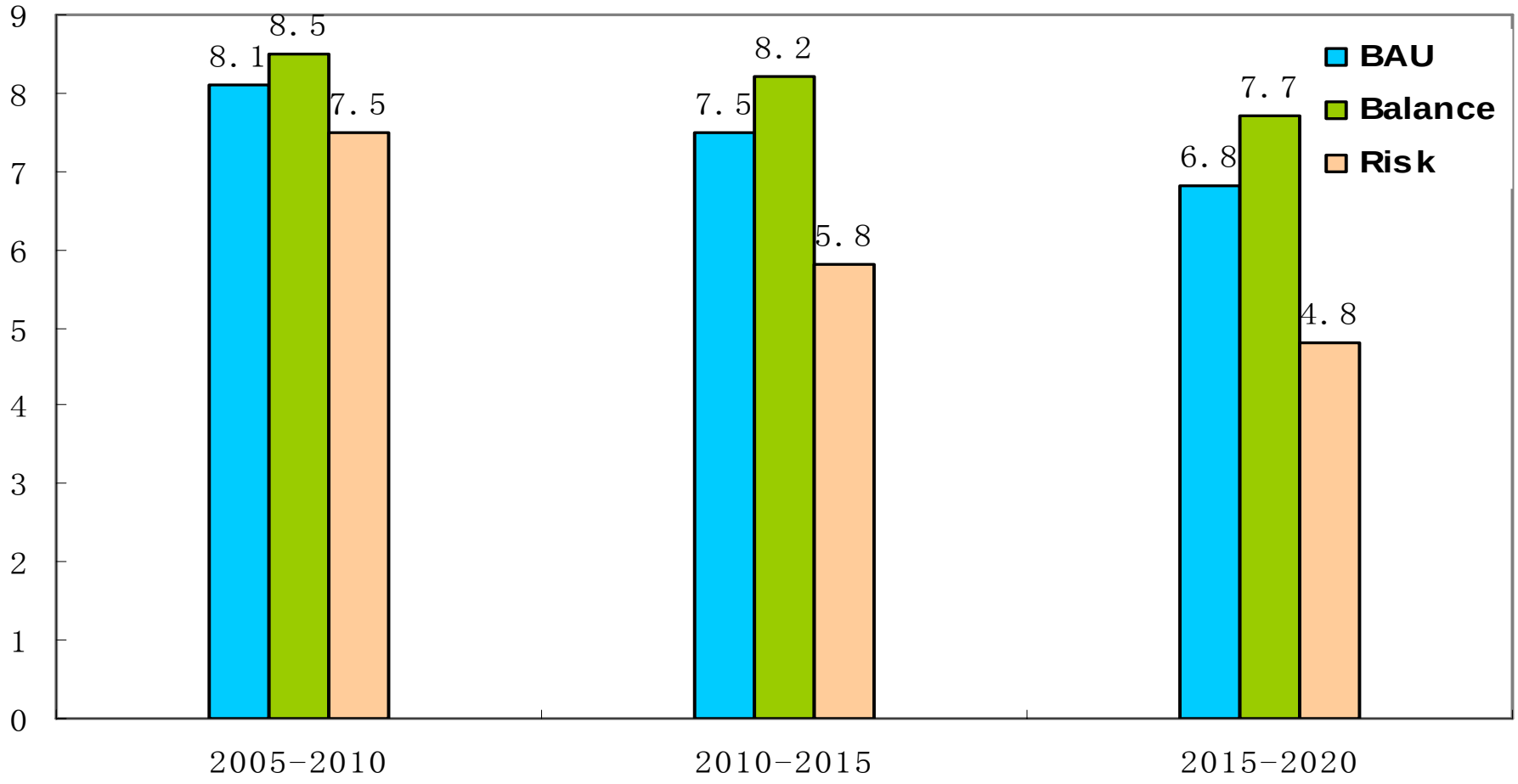
(% change in Balance relative to BAU)

	2010	2020
NO2	-4.5	-11.1
NOx	-3.4	-12.9
TSS	-2.5	-6.6
SOOT	-5.5	-8.3

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

	2000-2005	2005-2010	2010-2015	2015-2020	2000-2020	2005-2020
GDP	**8.7**	**7.5**	**5.8**	**4.8**	**6.7**	**6.0**
Source of Growth						
Labor	**0.5**	**0.4**	**0.2**	**0.0**	**0.3**	**0.2**
Capital	**6.4**	**5.5**	**4.2**	**3.3**	**4.8**	**4.3**
TFP	**1.8**	**1.6**	**1.4**	**1.5**	**1.6**	**1.5**

Economic 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.**

Cont.

- **The economy will continue to maintain a rapid growth during the 11th Five-Year Plan, at an average annual growth rate of about 8 percent. At 2000 constant prices, GDP at 2010 will reach 2.4 trillion U.S. dollars, which will be larger than that of Germany in 2000. The per capita GDP will be about 1,700 U.S. dollars**
  - According to the World Bank data, the countries with a per capita GDP of 1660-2000 dollars in 2000 were Russia ($1,660), Romania ($1670), Jordan ($1680), Guatemala ($1690), Macedonia ($1710), Salvador ($1990) and Thailand ($2010)

Cont.

- **Compared with the 11th Five-Year Plan, the economic growth during the 2010-2020 period will be slightly slower, with an average annual growth rate of about 7%. By the year 2020, the aggregate GDP will be about 4.8 trillion U.S. dollars, surpassing that of Japan in 2000. The per capita GDP will be about 3,200 U.S. dollars**
  - According to the World Bank data, the countries with a per capita GDP of about $3200 in 2000 were Turkey ($3090), Panama ($3260), Botswana ($3300), Malaysia ($3380), Estonia ($3410) and Brazil ($3570)

Cont.

- **The most important driving force of the rapid economic growth during the 11th Five-Year Plan and the 2010-2020 period will continue to be a rapid capital accumulation**
  - Contribution 63.5% (Balance), 67.4%(BAU) and 72.1(Risk)
- **The TFP growth, arising from urbanization, human capital investment, economic restructuring and technological innovation, will be a key to a sustained and rapid economic growth in the future**
  - This contribution rate during the 2015-2020 period will be 10-15 percentage points higher than during the 10th Five-Year Plan

Cont.

- **The industrial structure will continue to be adjusted and become more rational thanks to deepening industrialization and urbanization during the 11th Five-Year Plan and the 2010-2020 period**
  - The main changes : the proportion of the primary industry will continue to decline and those of the secondary and tertiary industries will rise slightly.
  - In 2010: **10.8:54.2:35.1**
  - In 2020: **7.3:52.5:40.2**

Cont.

- **With a coordinated and sustainable development strategy, the damage of economic growth to the environment will be much smaller**
  - In 2020 the discharge of the four major pollutants in the balance scenario will be 7-13 percent lower than BAU.

Cont.

- **In the next 10-15 years, China still faces a possible slowdown in its economic growth.**
  - Trade frictions
  - The lower rate of savings,
  - The slower rate of capital accumulation
  - the higher costs of reform
  - And so on.

THANK YOU VERY MUCH!