The Chinese Economy: Near- and Long-Term Prospects

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Underlying Trends

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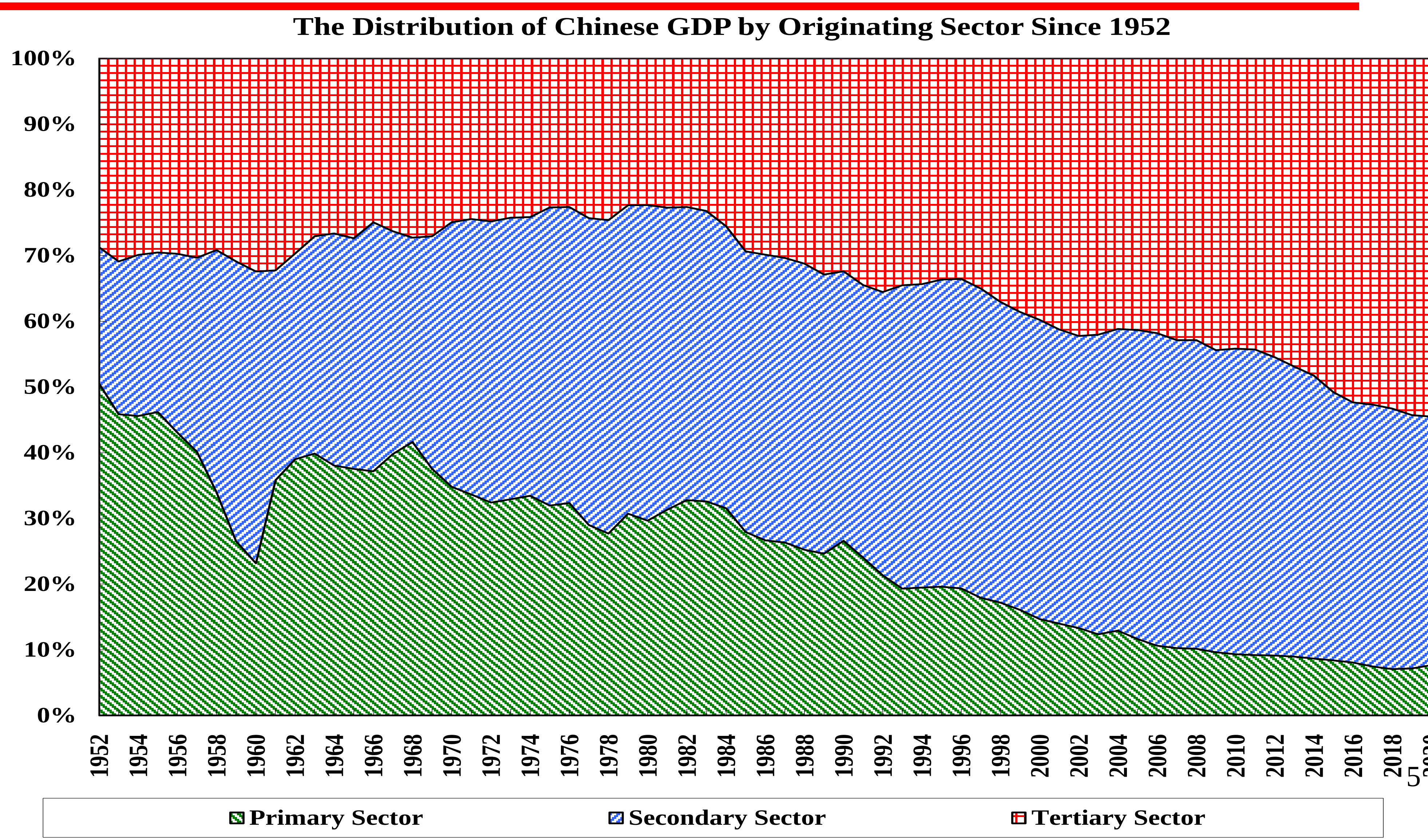
- The Dual-Circulation Economic Development Strategy
- The Peaking of Carbon Emissions by 2030 and the Achievement of Carbon Neutrality by 2060
- The Common Prosperity
- The China-U.S. Competition as the New Normal

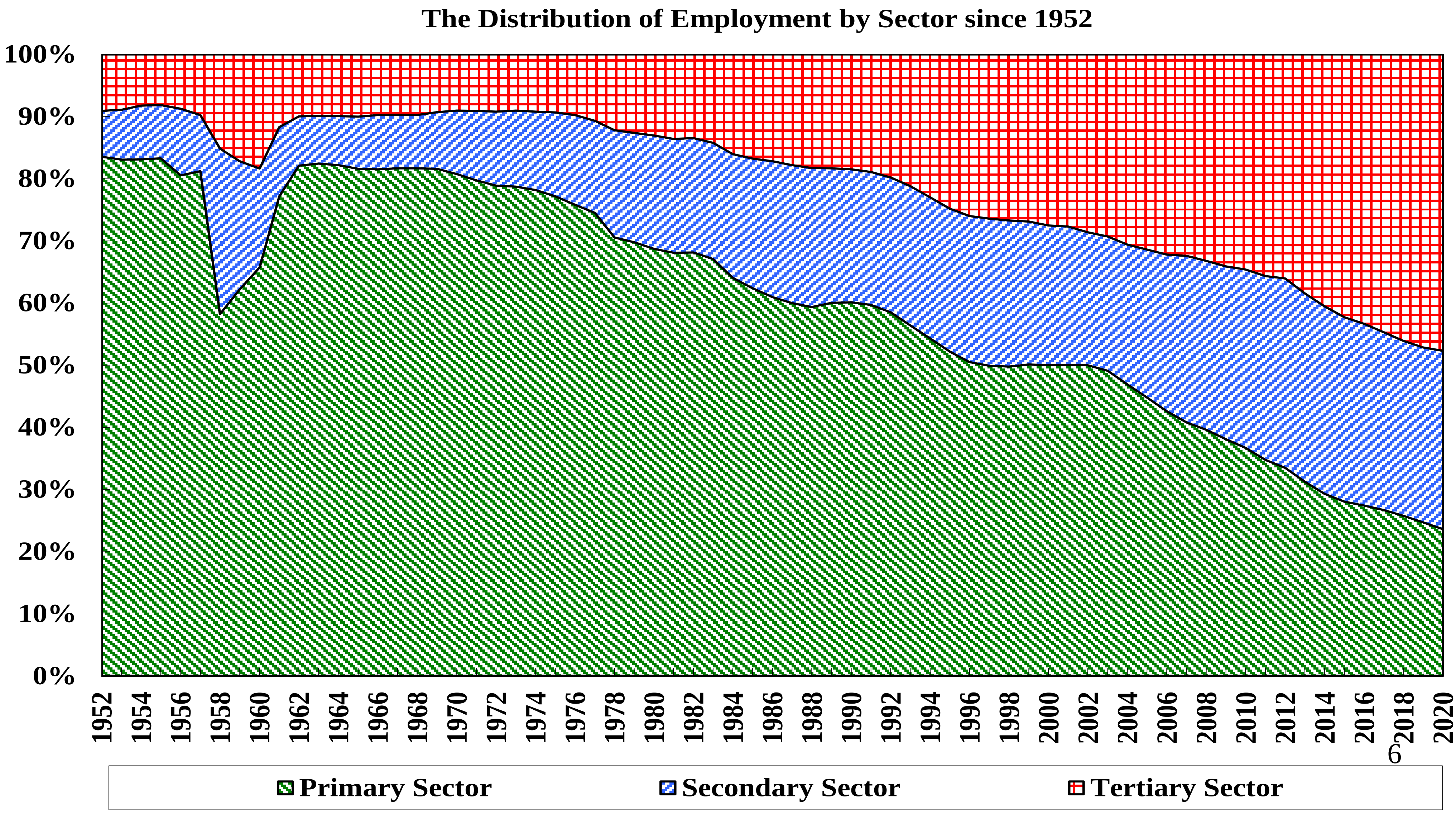
The New Initial Conditions
A Comparison of 1980 and 2020

	1980	2020
The Crude Birth Rate	18.21/1,000	8.82/1,000
The Crude Death Rate	6.34/1,000	7.07/1,000
Population Growth Rate	1.19%	0.15%
Life Expectancy at Birth	67.77	77.3
Literacy Rate	77.19	97.33
Tertiary Education Rate	0.62%	15.47%
Poverty Rate Aaccording to 2010 Standard	96..2%	0%
National Savings Rate	35.15%	45.70%
Primary Sector's Share of GDP	over 30%	less than 10%
Primary Sector's Share of Employment	not quite 70%	over 20%

The Distribution of Chinese GDP by Sector Since 1952



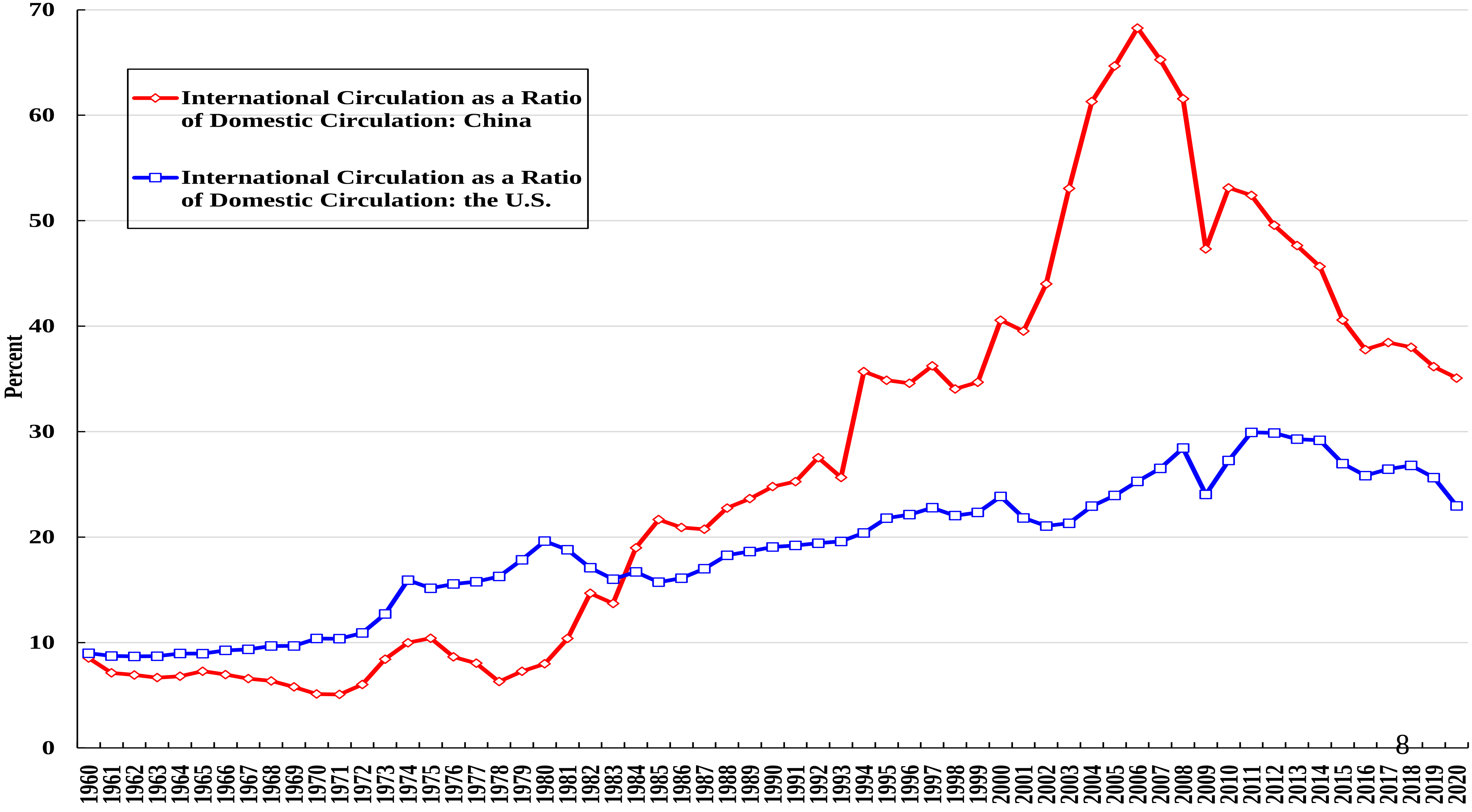
The Distribution of Chinese Employment by Sector Since 1952



The Dual-Circulation Economic Development Strategy

- There is a domestic circulation and an international circulation. They complement each other.
- The Chinese economy is no longer export-driven. It aims to have balanced international trade. It will be domestic demand-driven--household consumption, investment and public goods consumption.
- For example, the construction sector is a major part of the economy and is supported by infrastructural and real estate investments. However, residential investments can be supported by not only owner-occupied housing but also by rental housing. There can be an equilibrium between renting and owning. The ultimate total housing demand is the same whether it is more rental or ownership.

International Circulation as a Ratio of Domestic Circulation: China and the U.S. (%)



The Peaking of Carbon Emissions by 2030 and the Achievement of Carbon Neutrality by 2060

- The growth of electric vehicles
- Internet of things, driverless vehicles and 5G and 6G deployment
- A network of high-speed trains substituting for airplanes
- Renewables, such as hydro, solar and wind power, and nuclear fusion as sources of electricity generation, replacing the fossil fuels
- Ultra-high-voltage transmission of electricity is critical

Common Prosperity

- Common prosperity implies more than simple re-distribution. It genuinely means giving other people who have not gotten rich yet an opportunity to get rich. The establishment of the new Beijing Stock Exchange is an indication that the private sector consisting of small and medium enterprises will be allowed to grow and prosper.
- Eventually, China can use even more stock exchanges, for example in Chongqing and Tianjin.
- Equity finance should be promoted to reduce the overall level of leverage in the economy to ensure economic and financial stability.

The China-U.S. Competition as the New Normal

- National security is just a convenient excuse for the U.S. to impose 強加 unilateral sanctions on China. China actually poses no threat, military or otherwise, to the existence and continued prosperity of the U.S.
- However, it does create a problem for U.S.'s global hegemony, because, as Noam Chomsky, a professor at MIT, once observed, China is one of the very few countries that can say no to the U.S. As the global hegemon, the U.S. cannot allow any country to say no to it and get away with it, because it will encourage other countries to also say no, and fairly soon its global hegemony is no more.
- The (bi-partisan) military-industrial complex in the U.S., first identified by the late U.S. President Dwight Eisenhower in 1961, is intent on continuing to be the global hegemon and will use any and all means necessary to prevent China's rise, until it is finally convinced that the effort is a futile one without incurring unacceptably high costs to the U.S.
- That is why I think China-U.S. competition is likely to be the new normal for the next decade or so. Things will eventually get better, but it will take a while.

The China-U.S. Competition as the New Normal

- Thus, the China-U.S. trade war will not end any time soon. The U.S. is likely to use all the available weapons, legal or illegal, ethical or unethical, at its disposal to prevent China's rise.
- However, it is not going to result in a hot war between China and the U.S., because the casualties and losses will be enormous on both sides. There will be no winners. If the former Soviet Union and the U.S. did not go to war in the last century, it is unlikely that China and the U.S. will go to war.
- However, in order to maintain peace, China must have a minimal effective deterrent against a first strike by the U.S.

The China-U.S. Competition as the New Normal

- De-coupling of the economies is inevitable, but there has been some experience with partial de-coupling. After the 2008 Global Financial Crisis, China and East Asia continued to grow while the U.S. and the West stagnated. So it has proven possible for the Chinese economy to grow without the West.
- Moreover, while the artificial de-coupling of the global supply chains will cause some transitional problems, once a second source is developed, export controls by the U.S. and other countries are no longer useful, and will likely be discontinued.
- The U.S. Dollar hegemony will decline gradually with the rise of own-currency invoicing, clearing and settlement. For example, between China and Russia, and between China and Indonesia.

The China-U.S. Competition as the New Normal

- The problem of capital control is the regulation of the volatile short-term capital inflows and outflows, not the long-term flows. Every country should welcome long-term capital inflows but short-term capital inflows and outflows do not bring any benefit to either the originating or the recipient countries.
- The use of the digital currency, with its distributed ledger feature, at both the retail and the wholesale levels, can solve the problem of capital control by distinguishing short-term and long-term capital flows.
- Similarly, the trading of China Depositary Receipts (CDRs) of foreign firms on Chinese stock exchanges can allow a transitional period for the full lifting of capital controls.
- China will have the largest pool of savings in the world.
- An attempt should be made to distinguish between the U.S. ruling class, which controls the U.S. Government, and the U.S. people.

Near-Term Performance

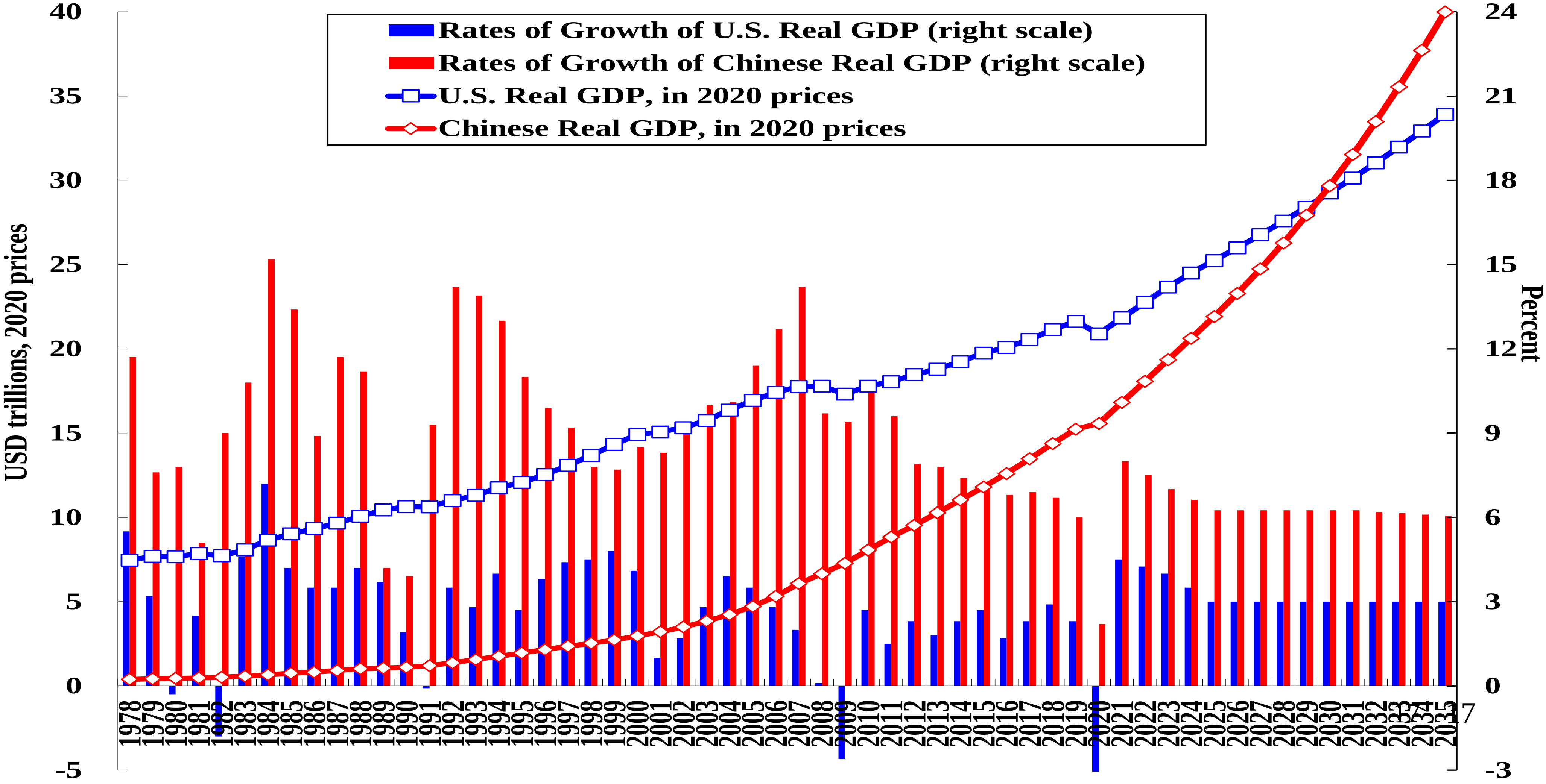
- The rate of growth of Chinese real GDP in the first-three quarters of 2021 is 9.8%, even though the quarterly year-over-year rate of growth has declined from 18.3% in Q1 to 7.9% in Q2 to 4.9% in Q3.
- Even if there is no growth in Q4, the annual rate of growth would have been a very respectable 7.35%. To achieve an annual rate of growth of 8%, the Q4 year-over-year rate of growth only has to be 2.6%. It should be doable.
- For 2022, the general expectation is that the non-mandatory target may be set between 5% and 6%.

Near-Term Performance

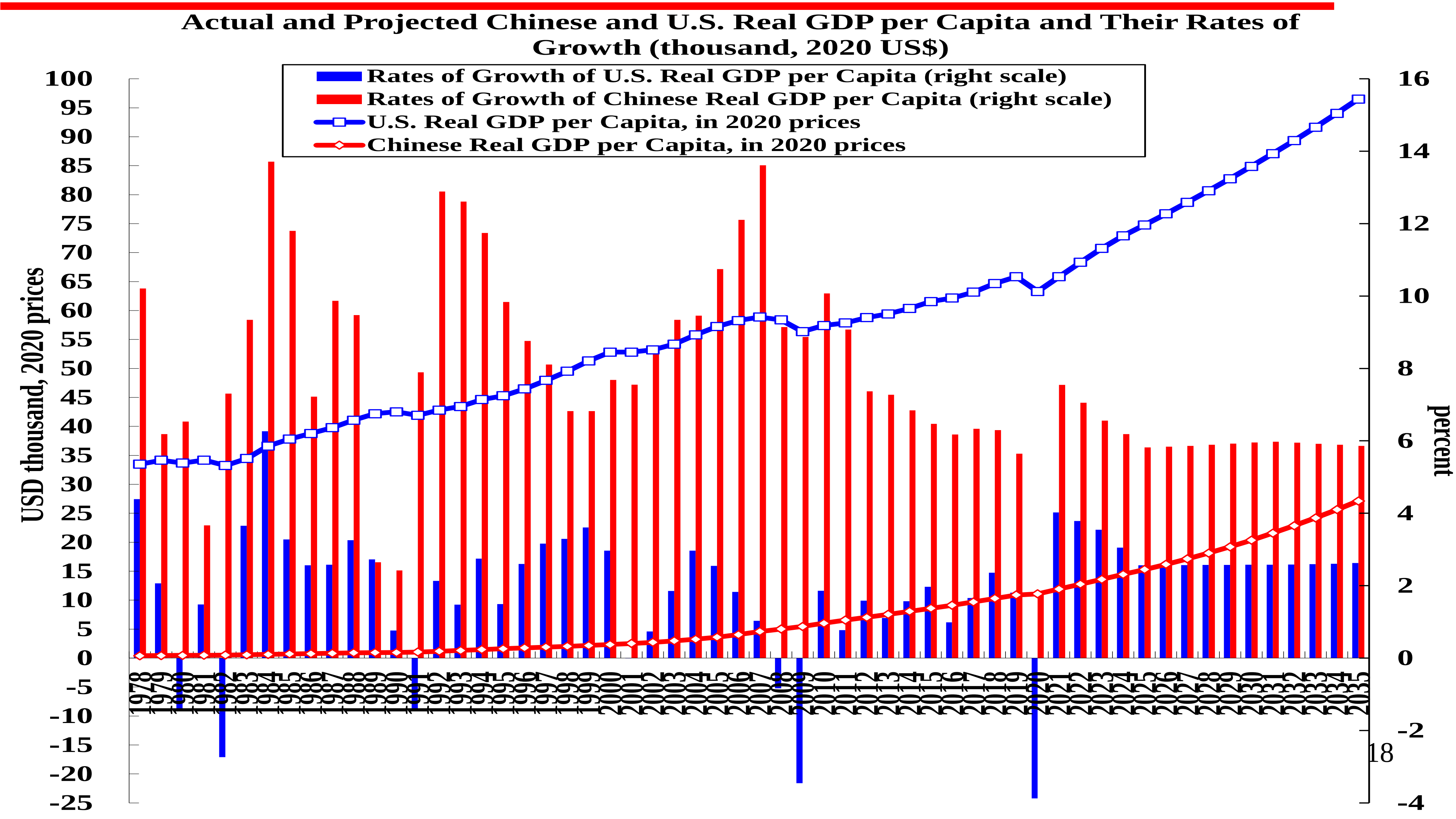
- The rate of growth of U.S, real GDP in the first-three quarters of 2021 is 5.0%, even though the quarterly year-over-year rate of growth has declined from 6.3% in Q1 and 6.7% in Q2 to 2.1% in Q3.
- Even if there is no growth in Q4, the annual rate of growth would have been a very respectable 3.8%. To achieve an annual rate of growth of 4.5%, the Q4 year-over-year rate of growth only has to be 3.0%, which should prove feasible.
- For 2022 and beyond, the general expectation is that the U.S. economy will be able to grow at an average annual rate of 3%.

Comparison of Chinese and U.S. Real GDPs, 2020 US$, 1978-the Present

Actual and Projected Chinese and U.S. Real GDPs and Their Rates of Growth (trillion 2020 US$)



Comparison of Chinese and U.S. Real GDPs per Capita, 2020 US$, 1978-Present



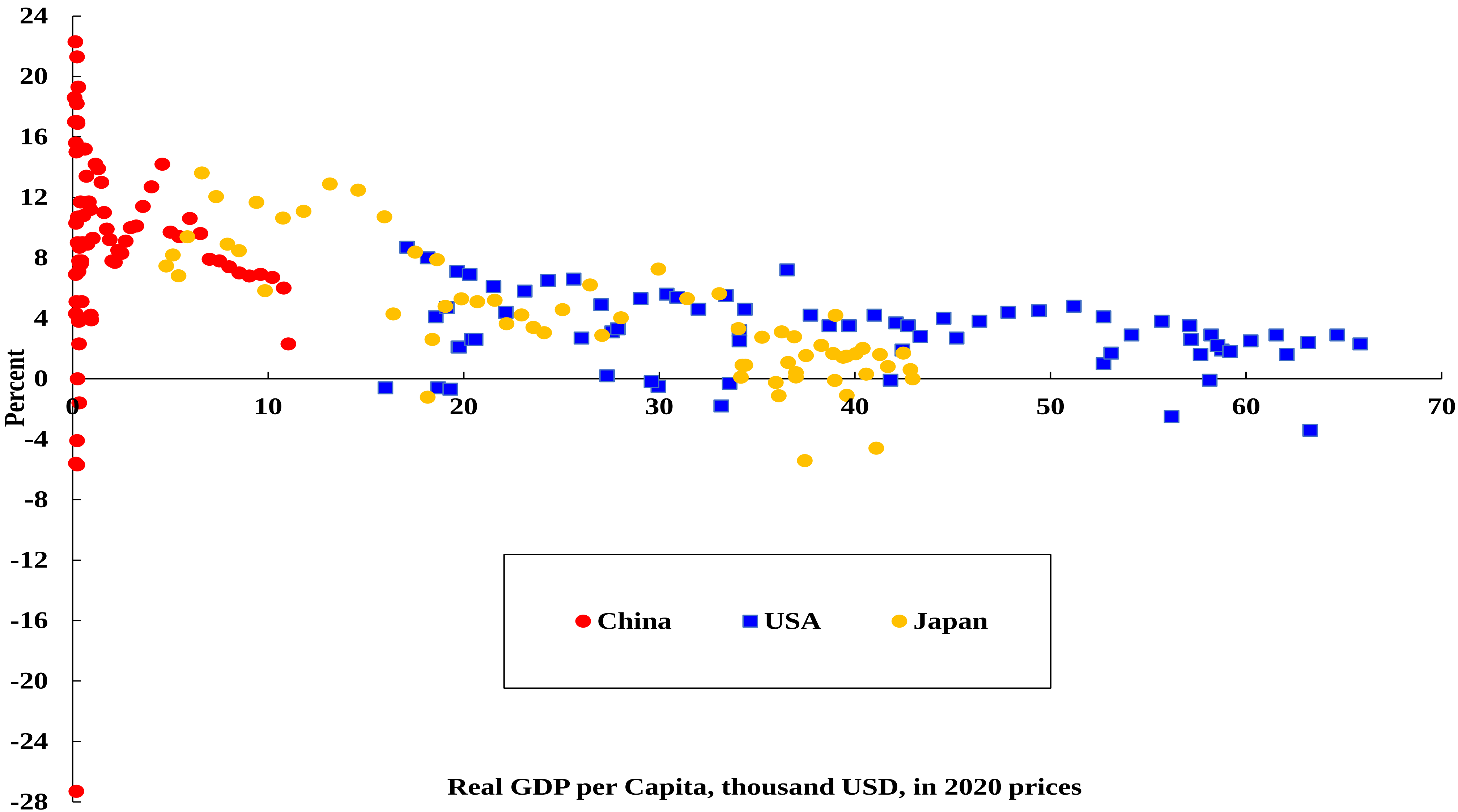
Long-Term Forecasts

- Our long-term forecasts suggest that Chinese real GDP will surpass U.S. real GDP in 2030, surpassing the U.S. economy, with US$29.67 trillion to US$29.26 trillion (in 2020 prices).
- Our long-term forecasts also suggest that Chinese real GDP per capita will still be significantly below the U.S. real GDP per capita in 2030, with US$27.1 thousands to US$96.5 thousands (in 2020 prices), or less than one-third.

Long-Term Forecasts

- It is true that the Chinese economy cannot continue to grow at close to 10% per annum indefinitely, as it did between 1978 and 2018. In fact, It is an empirical regularity that as the real GDP per capita of an economy grows, the real rate of growth of the economy will decline. This is demonstrated in the following chart in which the real rates of economic growth of China, Japan and the U.S. are plotted against their respective real GDPs per capita. As expected, there is a negative relationship.
- However, we note that China is currently still in the range of real GDP per capita that permitted high rates of growth for both Japan and the U.S. Perhaps when Chinese real GDP per capita reaches US$30,000 in 2020 prices the Chinese real rate of economic growth will decline to below 5%.

Rate of Growth of GDP vs. Level of Real GDP per Capita: China, Japan and the U.S.



Concluding Remarks

- The long-term prospects of the Chinese economy are excellent. However, it will be domestic demand-driven rather than export-driven. Technical progress, or growth in total factor productivity, will become an important source of economic growth.
- It is essential to maintain openness. Self-reliance should not be equated to total self-sufficiency. Always remember it is dual circulation.
- Without Chinese scientists who studied abroad, such as DENG Jiaxian, QIAN Sanqiang and QIAN Xuesen, the “two bombs and one satellite” might not have been possible so soon. Without economic globalisation and accession to the World Trade Organisation in 2020, the Chinese economy would not be where it is today.