

# What Makes China Grow? 中國成長的動力

---

Lawrence J. Lau

Ralph and Claire Landau Professor of Economics, The Chinese Univ. of Hong Kong  
and

Kwoh-Ting Li Professor in Economic Development, Emeritus, Stanford University

**The Second LAU Chor Tak Distinguished Lecture**

**第二屆劉佐德全球經濟與金融講座**

**on Global Economics and Finance**

**Hong Kong, 24th November 2014**

Tel: +852 3943 1611; Fax: +852 2603 5230

Email: [lawrence@lawrencejlau.hk](mailto:lawrence@lawrencejlau.hk); WebPages: [www.igef.cuhk.edu.hk/ljl](http://www.igef.cuhk.edu.hk/ljl)

\*All opinions expressed herein are the author's own and do not necessarily reflect the views of any of the organisations with which the author is affiliated.

# Outline

---

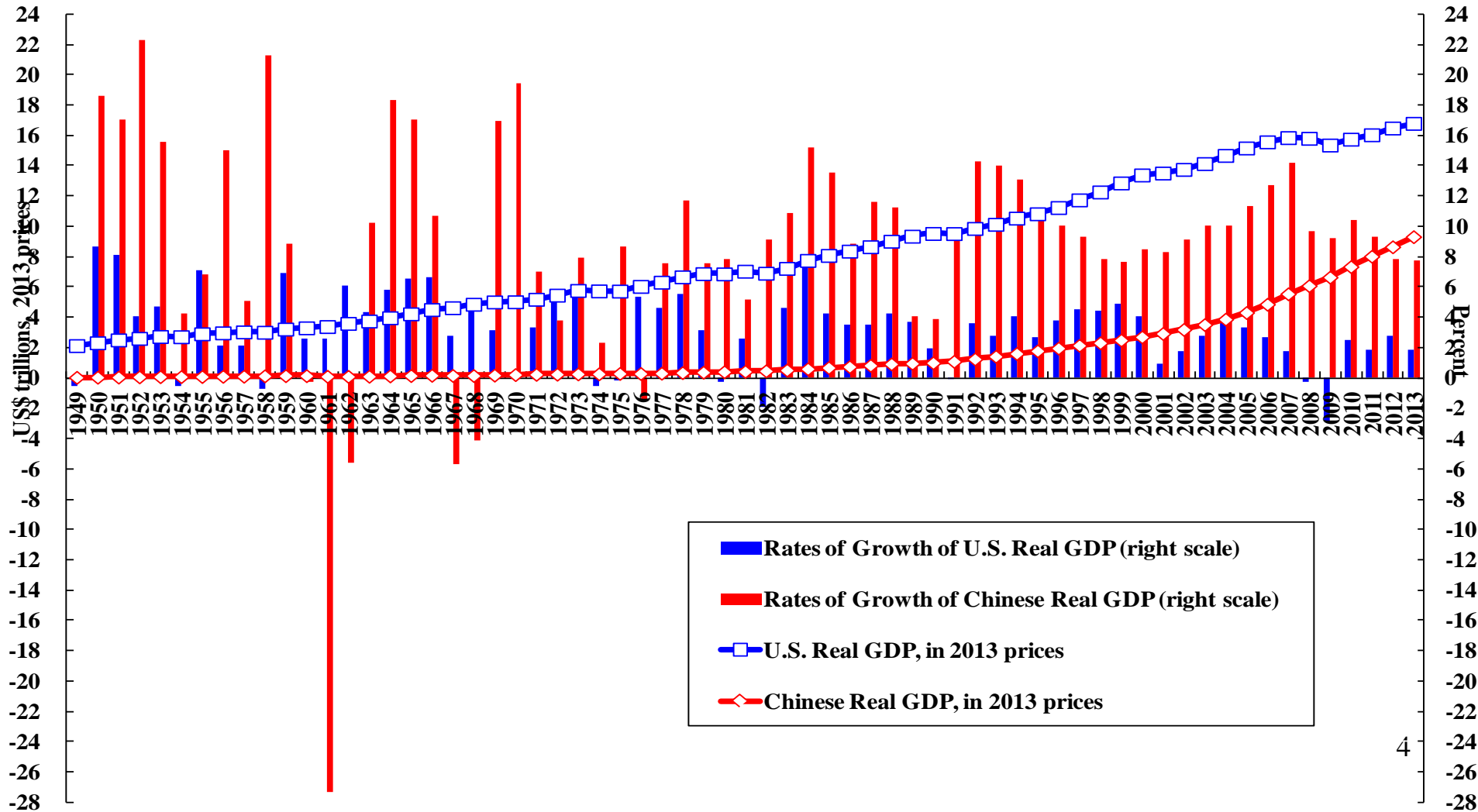
- ◆ Introduction
- ◆ The Chinese Economic Fundamentals
- ◆ The Inherent Economic Inefficiency of Central Planning
- ◆ Reform without Losers--The Chinese Strategy for Economic Reform
- ◆ The Sources of Chinese Economic Growth
- ◆ The “Wild Geese Flying Pattern”--The Further Advantage of China’s Size
- ◆ Towards a Surplus Economy
- ◆ The Short-Term Economic Outlook
- ◆ The Long-Term Economic Outlook
- ◆ Concluding Remarks

# Introduction

---

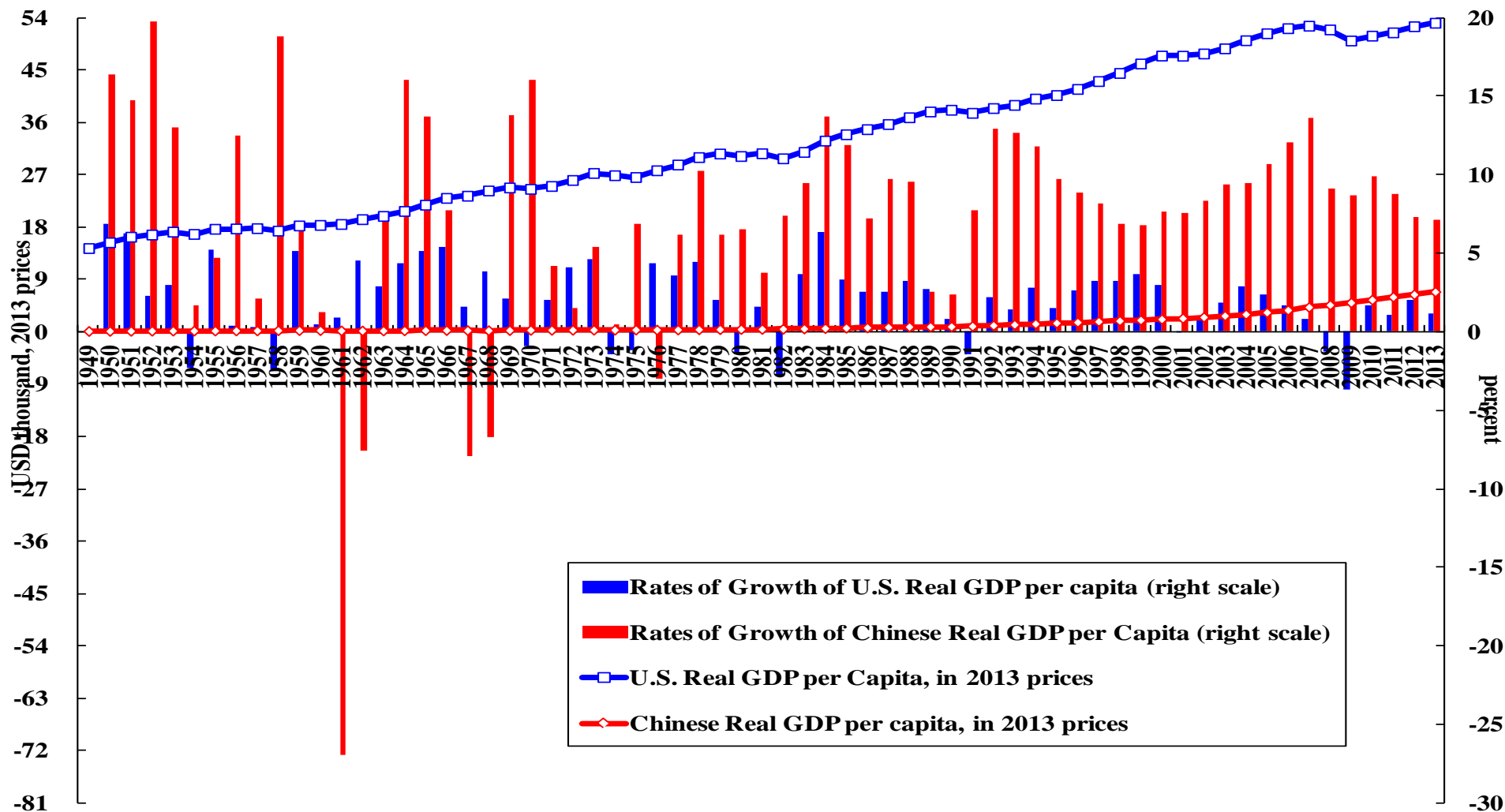
# Chinese and U.S. Real GDPs and Their Rates of Growth (2013 US\$) since 1949

The Real GDP and Its Annual Rates of Growth of China and the U.S.  
(trillion 2013 US\$)



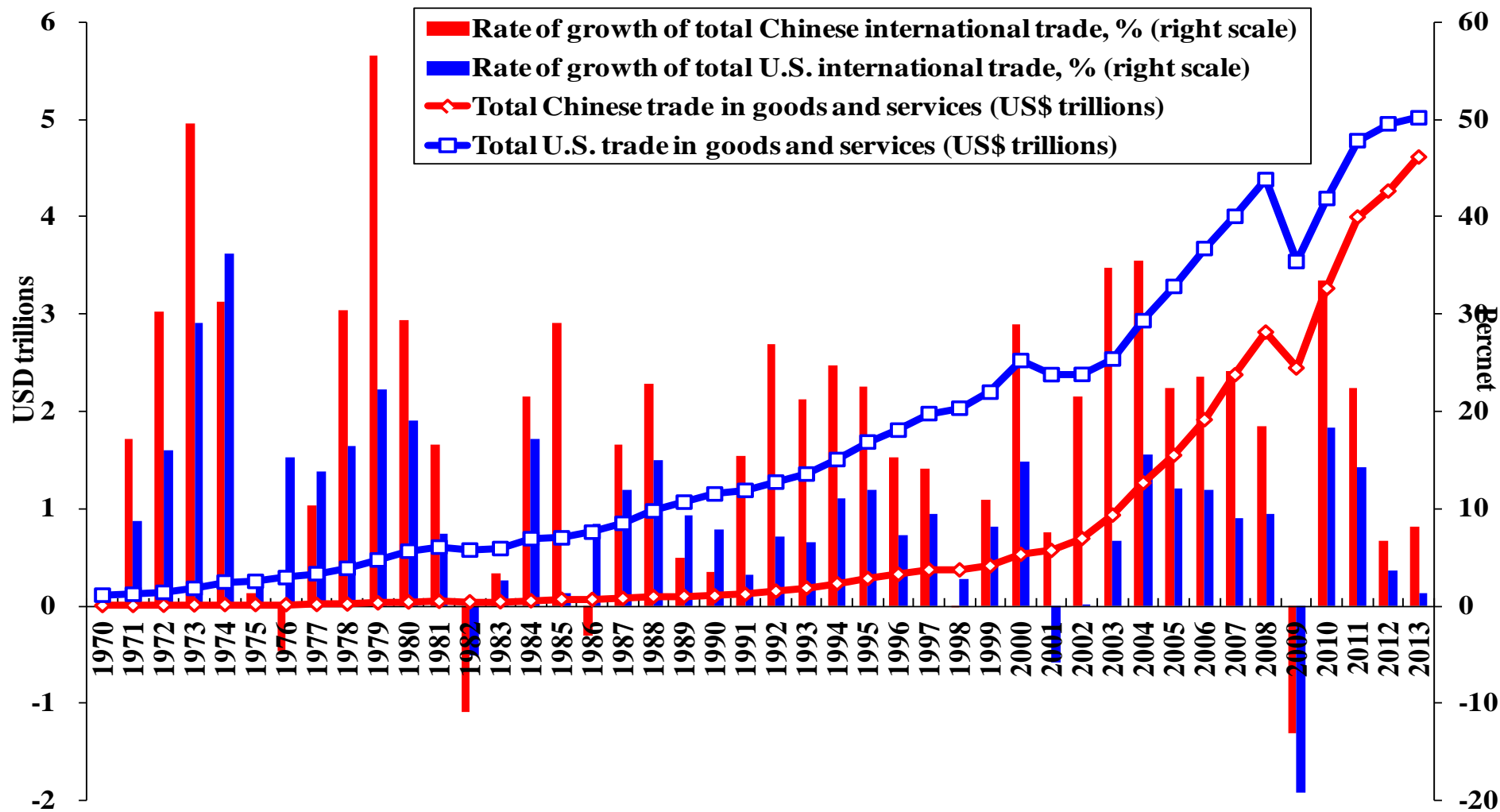
# Chinese and U.S. Real GDP per Capita and Their Rates of Growth (2013 US\$) since 49

Real GDP per Capita and their Annual Rates of Growth of China and the U.S.,  
(thousand, 2013 US\$)



# Chinese and U.S. International Trade and Their Rates of Growth (US\$) since 1970

The Value of International Trade and Its Rate of Growth:  
A Comparison of China and the U.S.



# The Ranks of China as Trading Partner of Asia-Pacific Countries/Regions and Vice Versa, 2013

<b>Country/Region</b>	<b>Chinese Rank as Trading Partner of Country/Region</b>	<b>Rank of Country/Region as Trading Partner of China</b>
<b>Australia</b>	<b>1</b>	<b>7</b>
<b>Brunei</b>	<b>3</b>	<b>104</b>
<b>Cambodia</b>	<b>1</b>	<b>78</b>
<b>Hong Kong</b>	<b>1</b>	<b>2</b>
<b>Indonesia</b>	<b>1</b>	<b>16</b>
<b>Japan</b>	<b>1</b>	<b>3</b>
<b>Korea</b>	<b>1</b>	<b>4</b>
<b>Laos</b>	<b>2</b>	<b>90</b>
<b>Macau</b>	<b>1</b>	<b>85</b>
<b>Malaysia</b>	<b>1</b>	<b>8</b>
<b>Myanmar</b>	<b>1</b>	<b>51</b>
<b>New Zealand</b>	<b>1</b>	<b>43</b>
<b>Philippines</b>	<b>2</b>	<b>27</b>
<b>Singapore</b>	<b>1</b>	<b>11</b>
<b>Taiwan</b>	<b>1</b>	<b>5</b>
<b>Thailand</b>	<b>1</b>	<b>13</b>
<b>United States</b>	<b>2</b>	<b>1</b>
<b>Vietnam</b>	<b>1</b>	<b>18</b>

# Key Chinese Economic Performance Indicators before & after Economic Reform

	<b>Growth Rates</b>	
	<b>percent per annum</b>	
	<b>Pre-Reform Period</b>	<b>Post-Reform Period</b>
	<b>1952-1978</b>	<b>1978-2013</b>
<b>Real GDP</b>	<b>6.15</b>	<b>9.82</b>
<b>Real GDP per Capita</b>	<b>4.06</b>	<b>8.74</b>
<b>Real Consumption</b>	<b>5.05</b>	<b>9.21</b>
<b>Real Consumption per Capita</b>	<b>2.99</b>	<b>8.14</b>
<b>Exports</b>	<b>9.99</b>	<b>16.76</b>
<b>Imports</b>	<b>9.14</b>	<b>15.98</b>
<b>Inflation Rates (GDP deflator)</b>	<b>0.50</b>	<b>5.19</b>

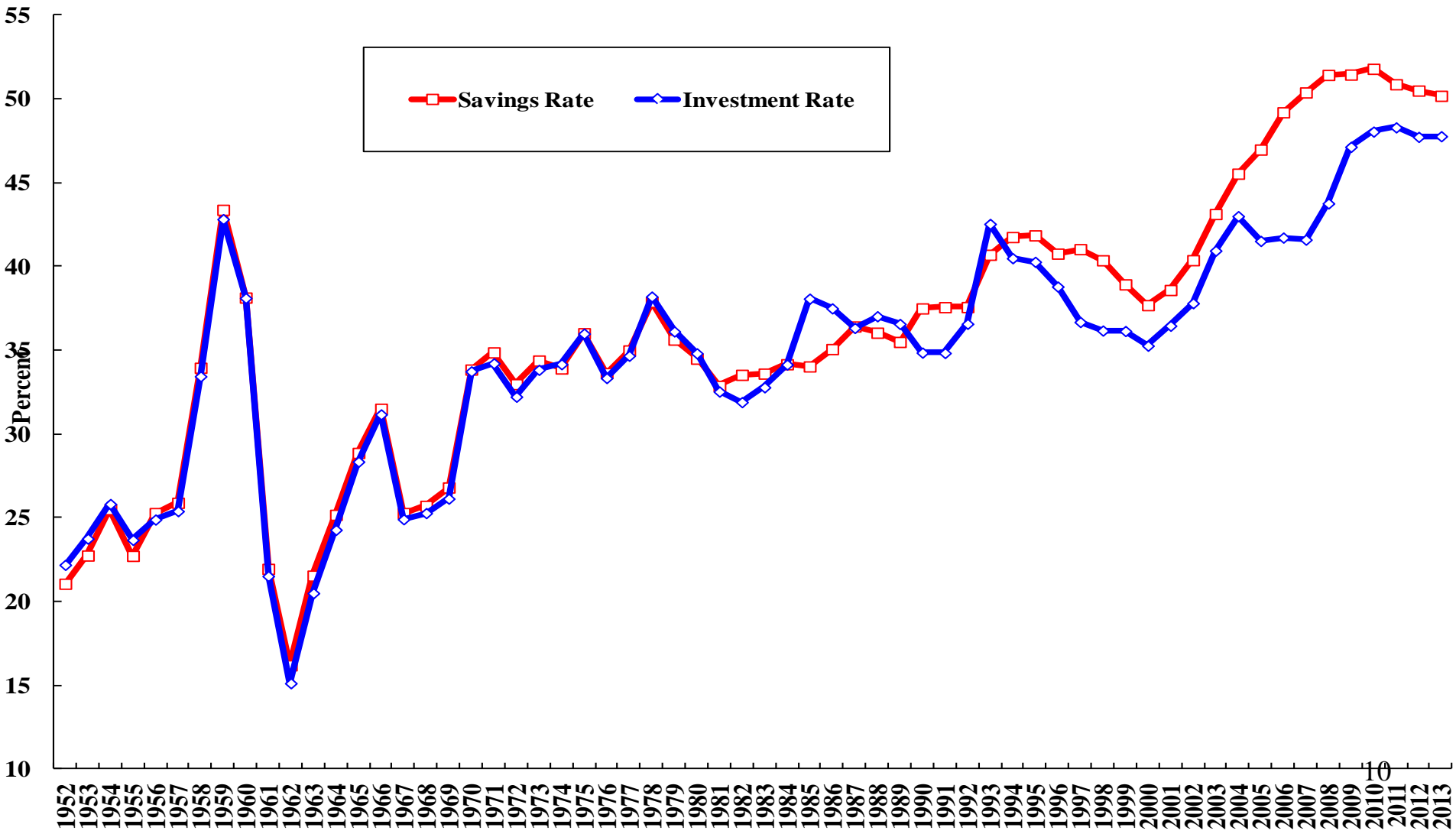


# The Chinese Economic Fundamentals

---

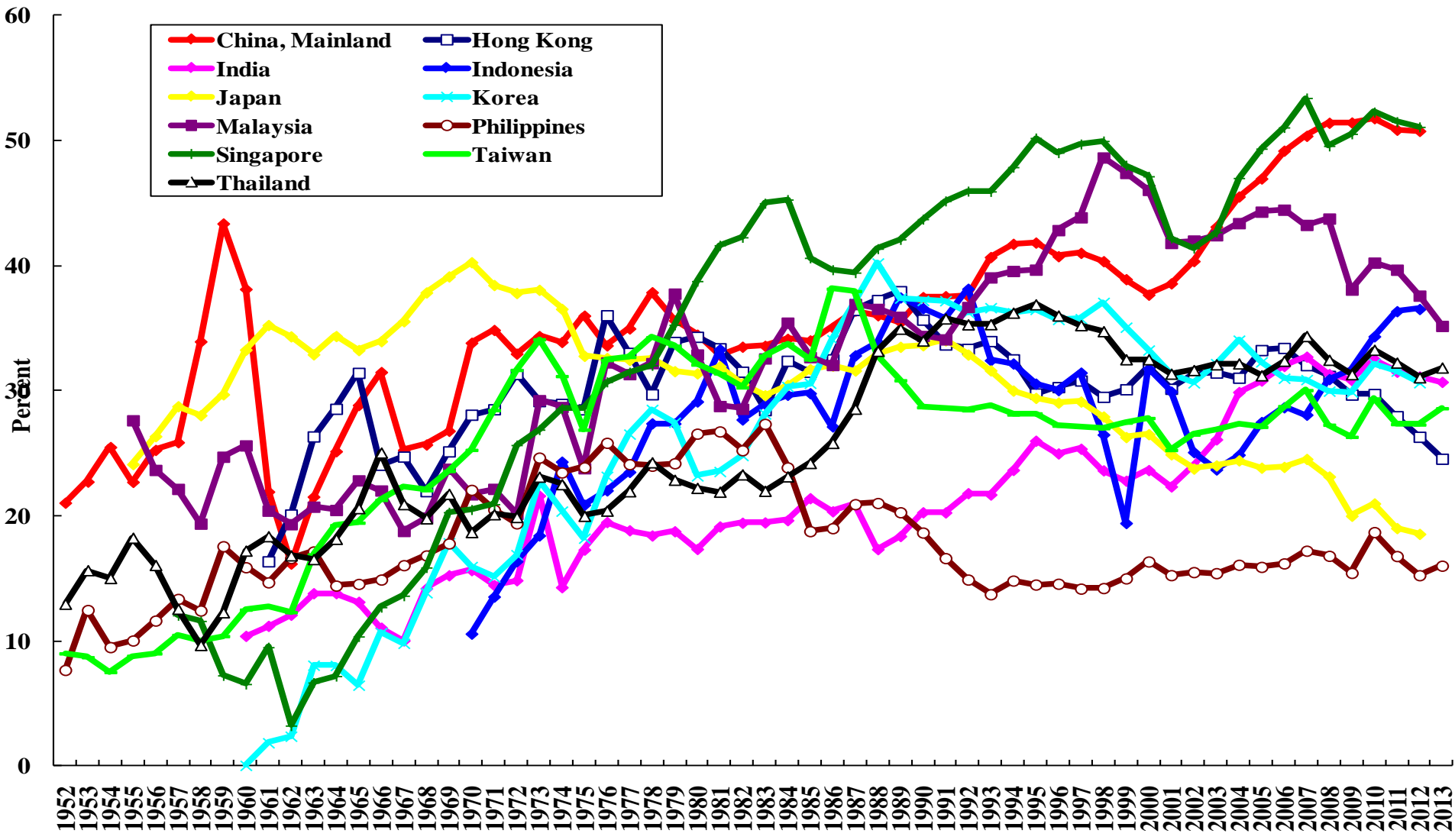
# Chinese National Saving and Gross Domestic Investment as Percents of GDP

Chinese National Savings and Gross Domestic Investment as a Percent of GDP since 1952



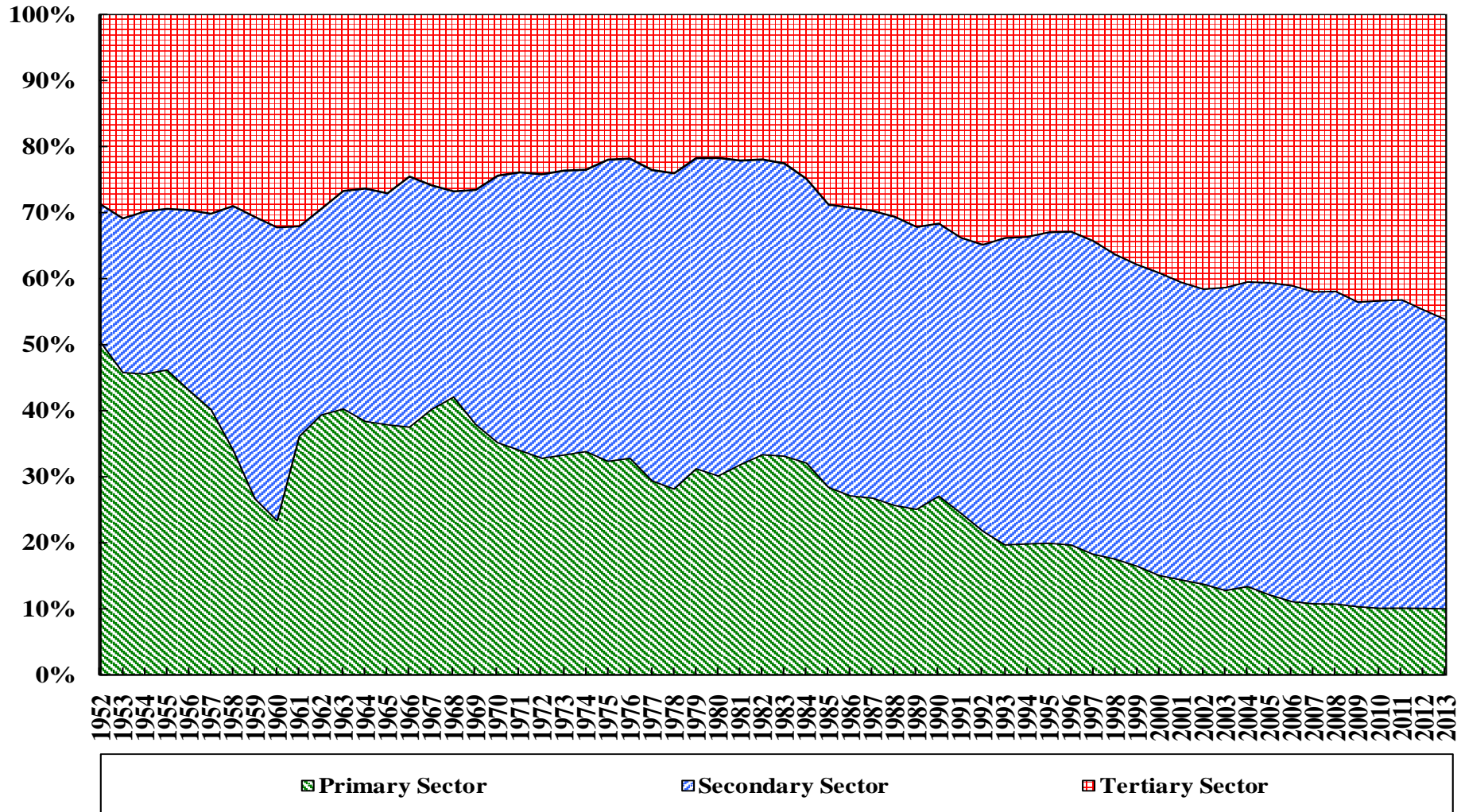
# Saving Rates of Selected Asian Economies, 1952-present

Savings Rates of Selected East Asian Economies



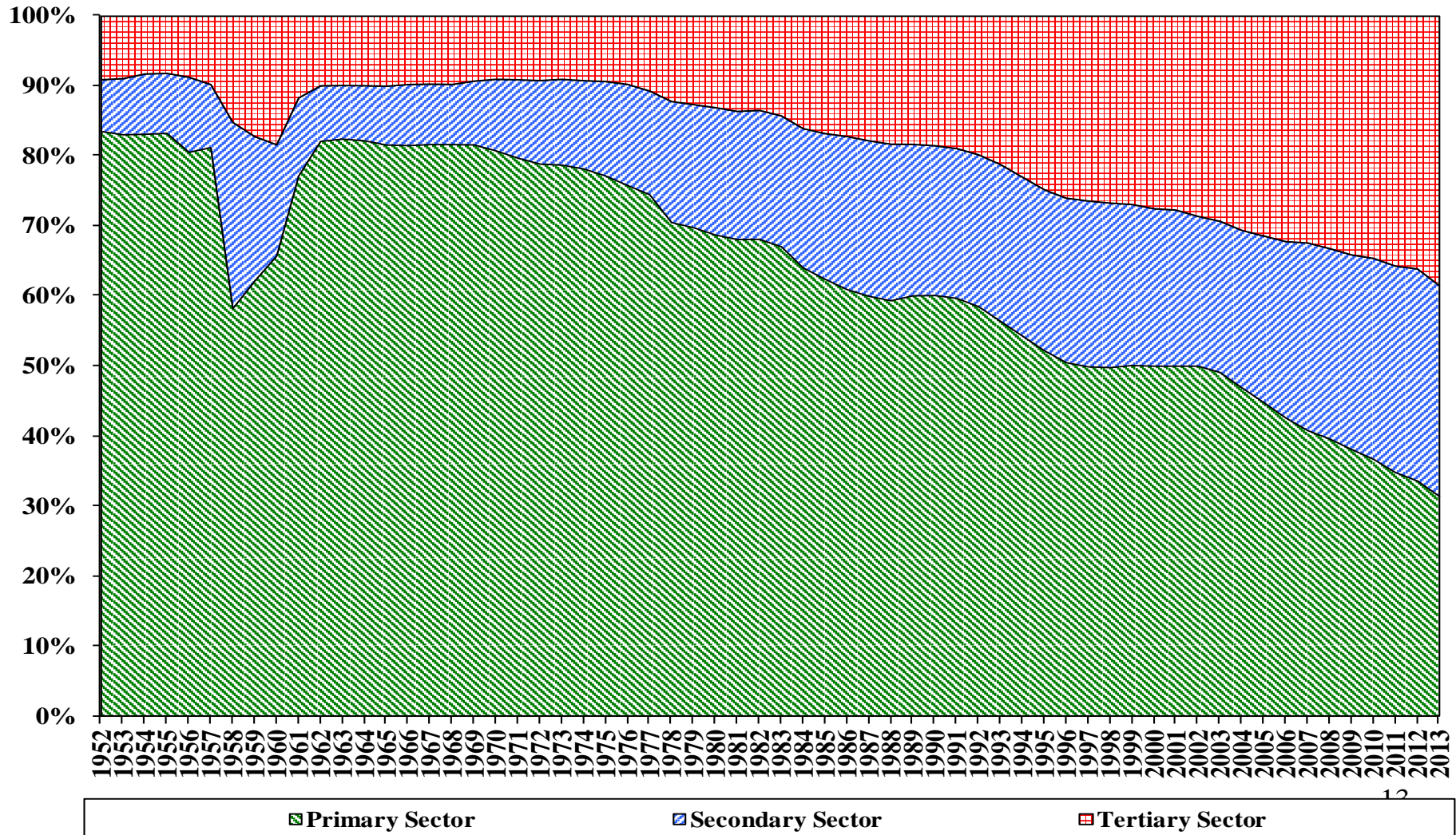
# The Distribution of Chinese GDP by Originating Sector since 1952

The Distribution of GDP by Sector



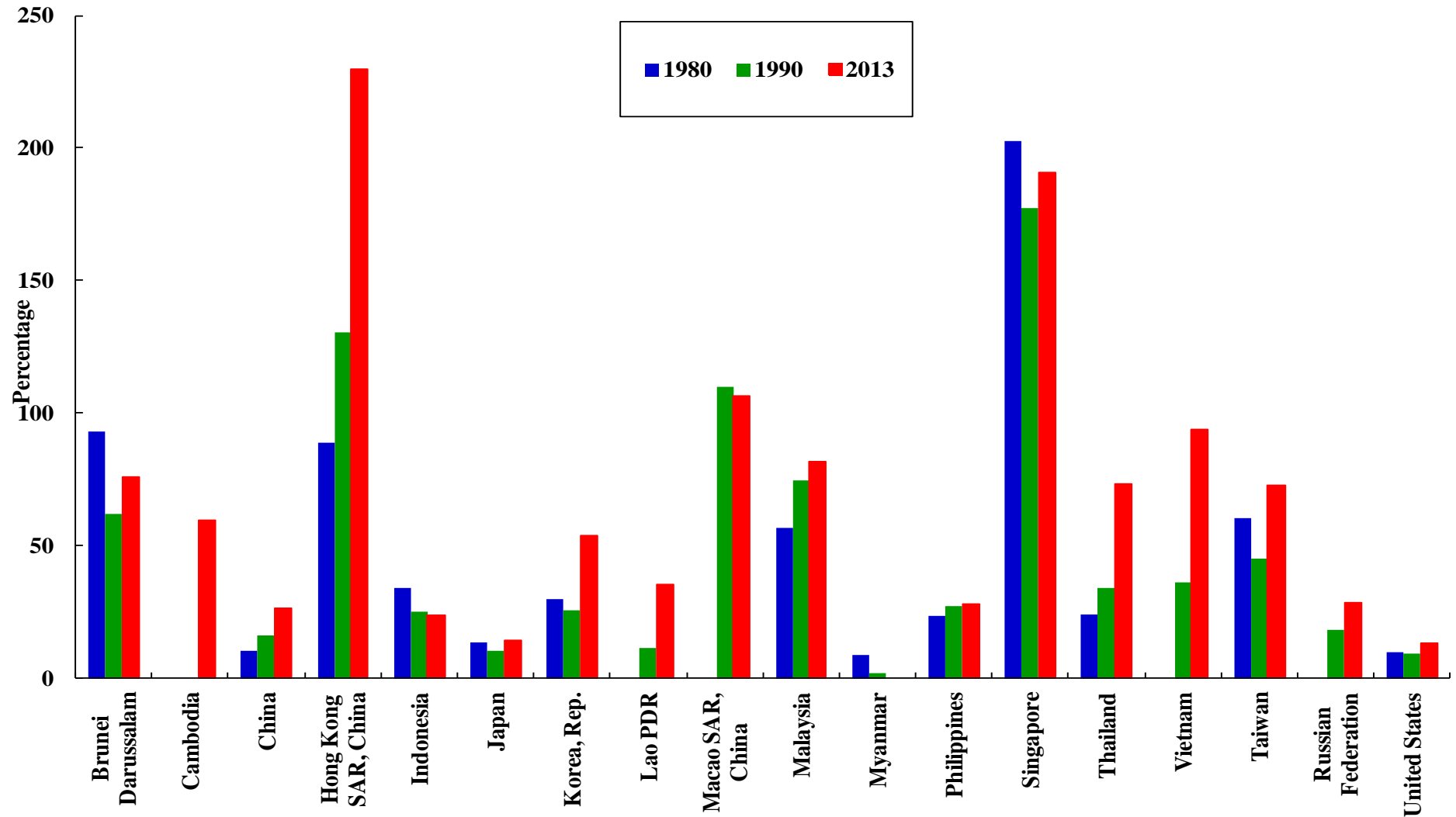
# The Distribution of Chinese Employment by Sector since 1952

The Distribution of Employment by Sector since 1952



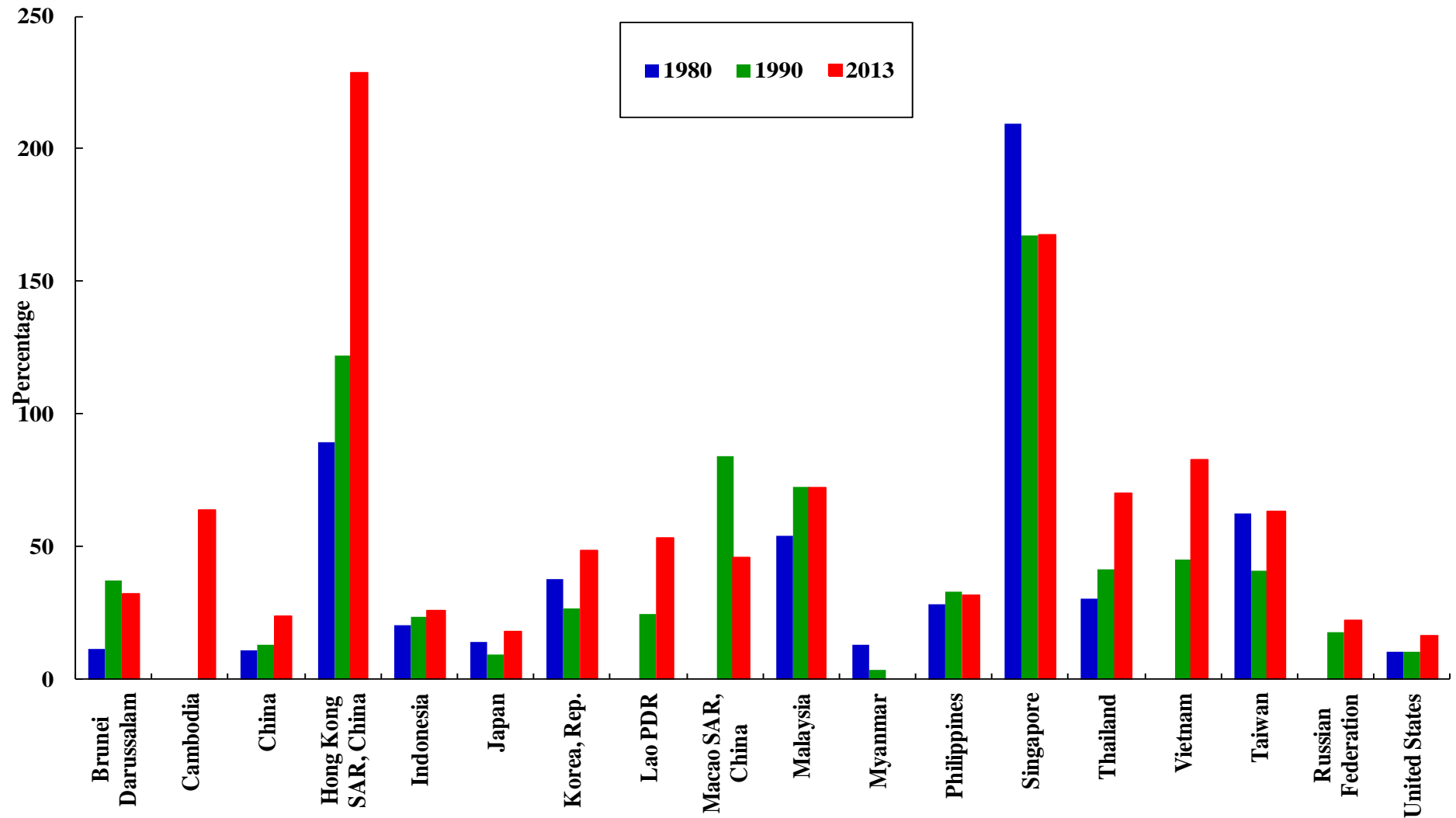
# Exports of Goods and Services as a Percent of GDP: Selected Economies

Exports as a share of GDP of East Asian Economies



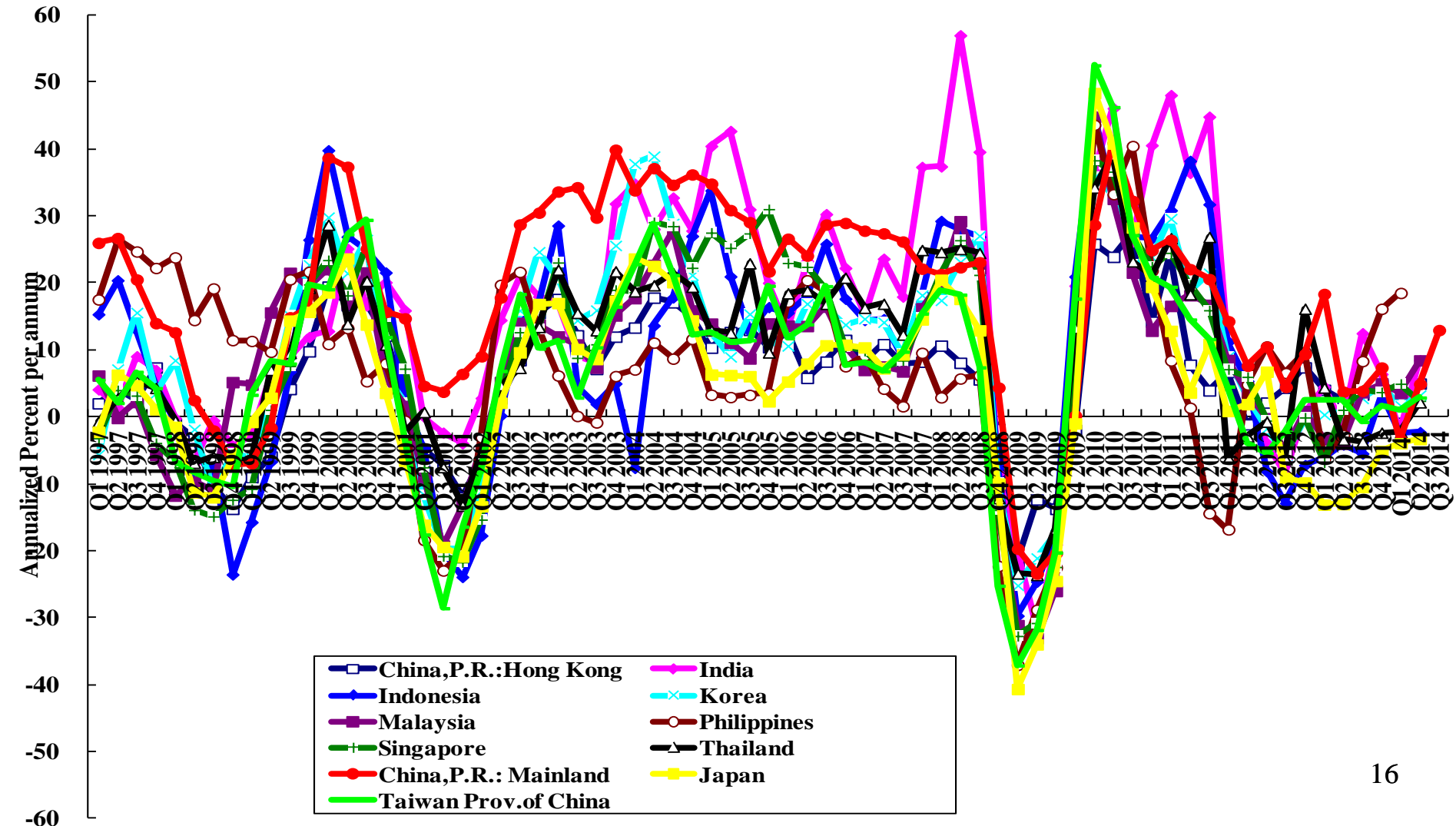
# Imports of Goods and Services as a Percent of GDP: Selected Economies

Imports as a share of GDP of East Asian Economies



# Quarterly Rates of Growth of Exports of Goods: Selected Asian Economies

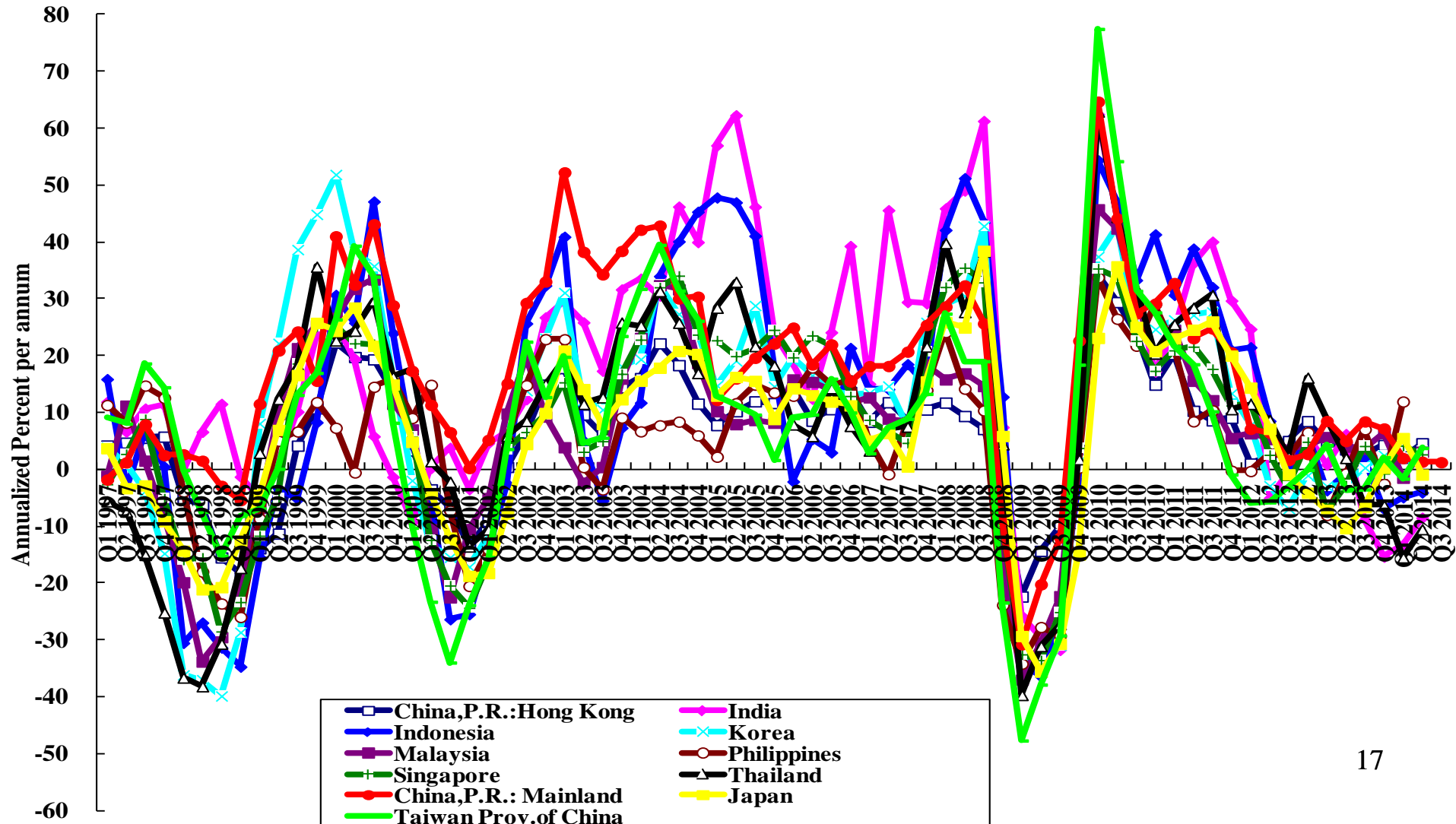
Quarterly Rates of Growth of Exports of Goods: Selected East Asian Economies





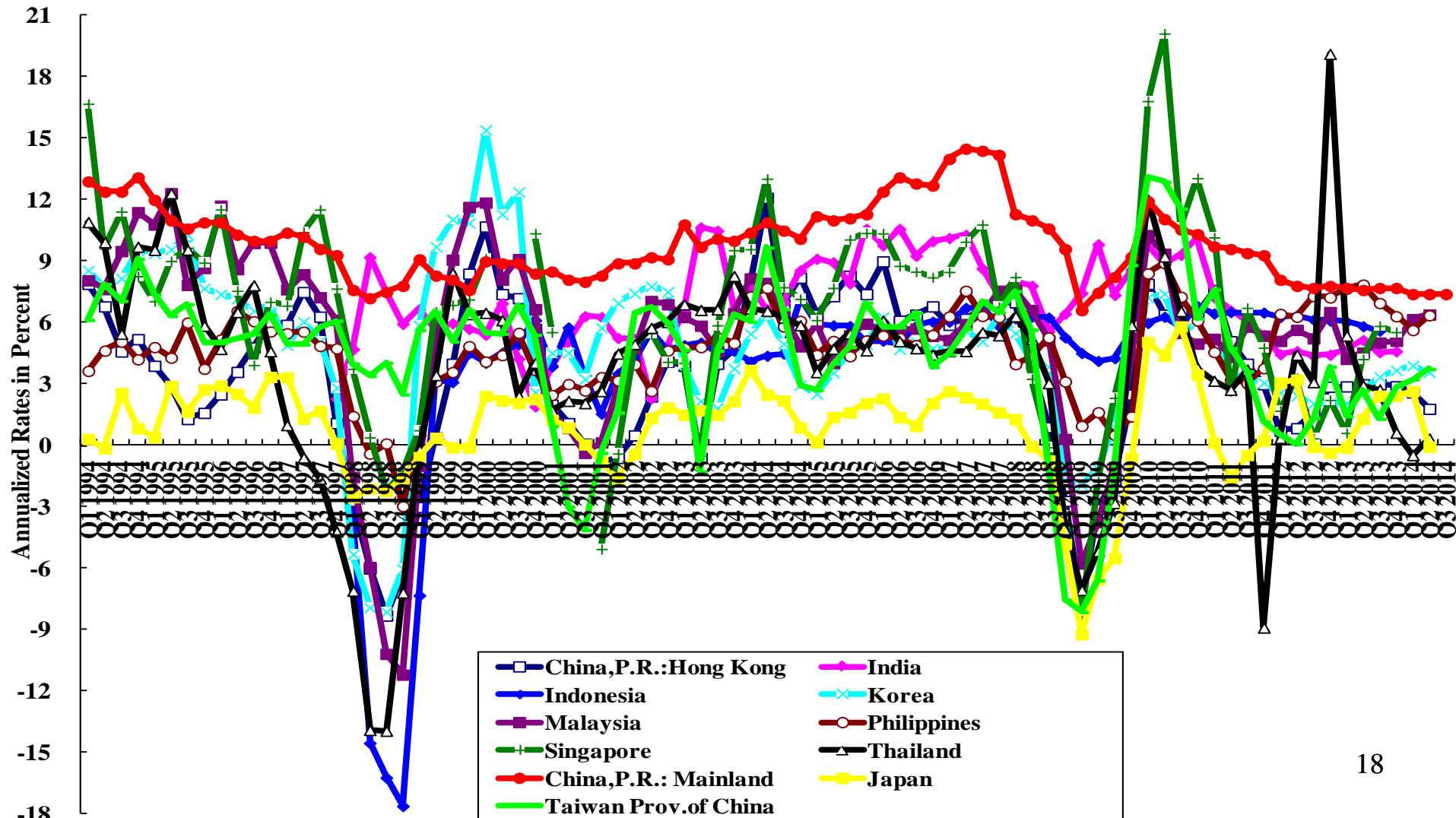
# Quarterly Rates of Growth of Imports of Goods: Selected Asian Economies

Quarterly Rates of Growth of Imports of Goods : Selected East Asian Economies



# Quarterly Rates of Growth of Real GDP, Y-o-Y: Selected Asian Economies

Quarterly Rates of Growth of Real GDP, Year-over-Year: Selected East Asian Economies



# The Inherent Economic Inefficiency of Central Planning

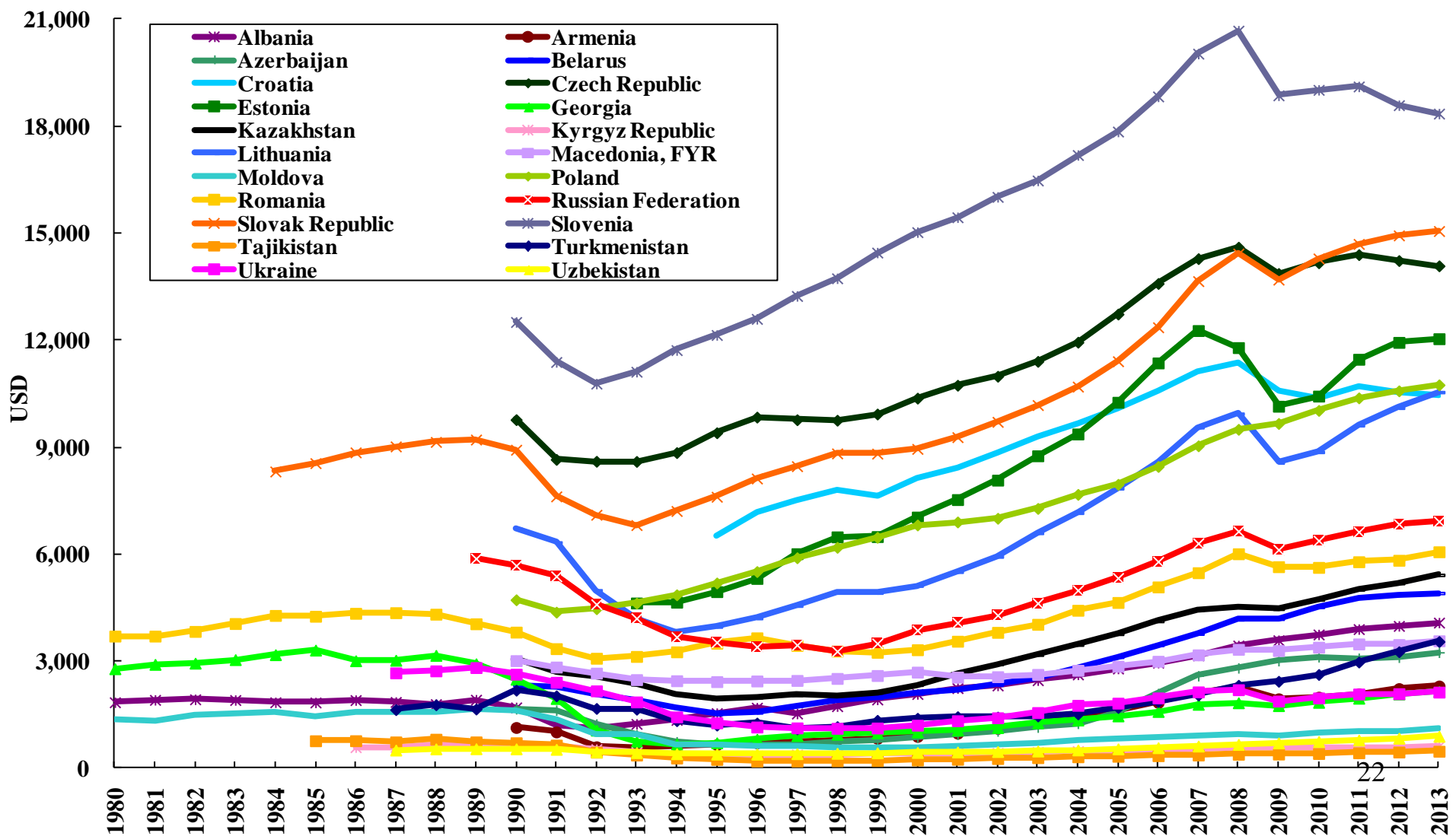
---





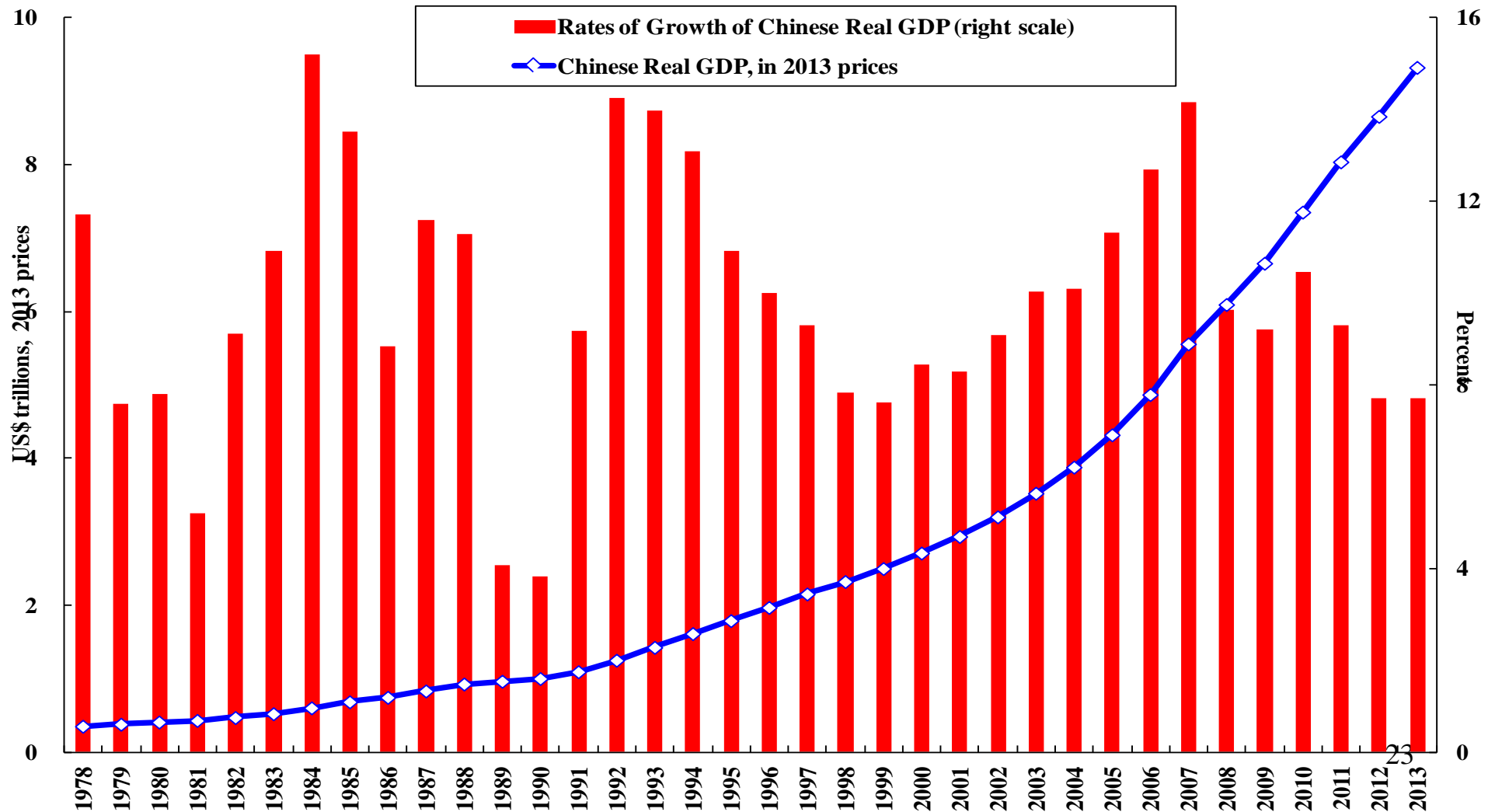
# GDP per Capita of Former Soviet Union and East European Countries (2005 US\$)

GDP per capita of Former Soviet Union and East European Countries, in constant 2005 US dollars



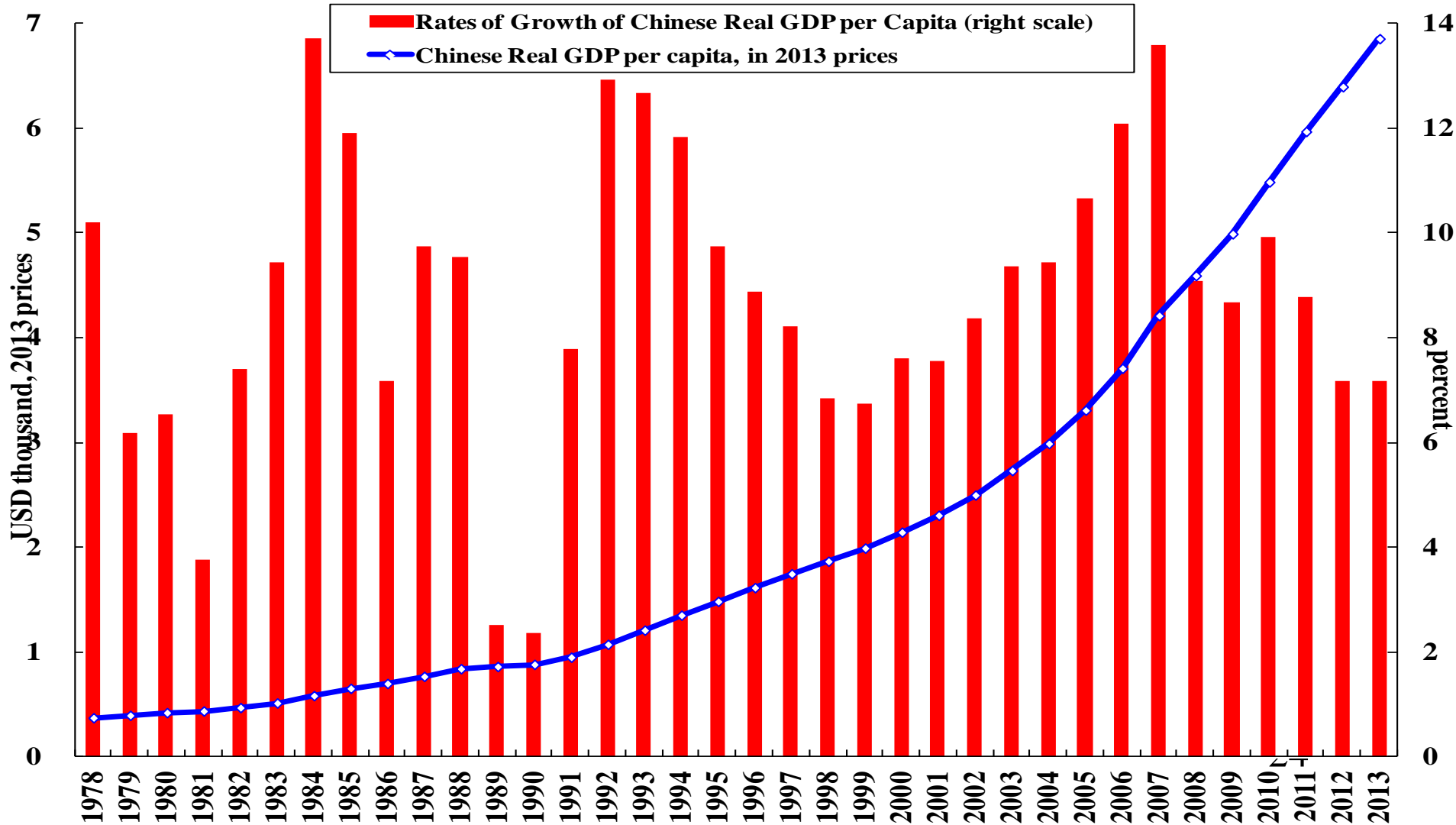
# Chinese Real GDP and Its Rate of Growth (2013 US\$) since 1978

The Real GDP and Its Annual Rates of Growth of China (trillion 2013 US\$)



# Chinese Real GDP per Capita and Its Rate of Growth (2013 US\$) since 1978

Real GDP per Capita and Its Annual Rates of Growth of China (thousand, 2013 US\$)





Reform without Losers—  
The Chinese Strategy  
for Economic Reform

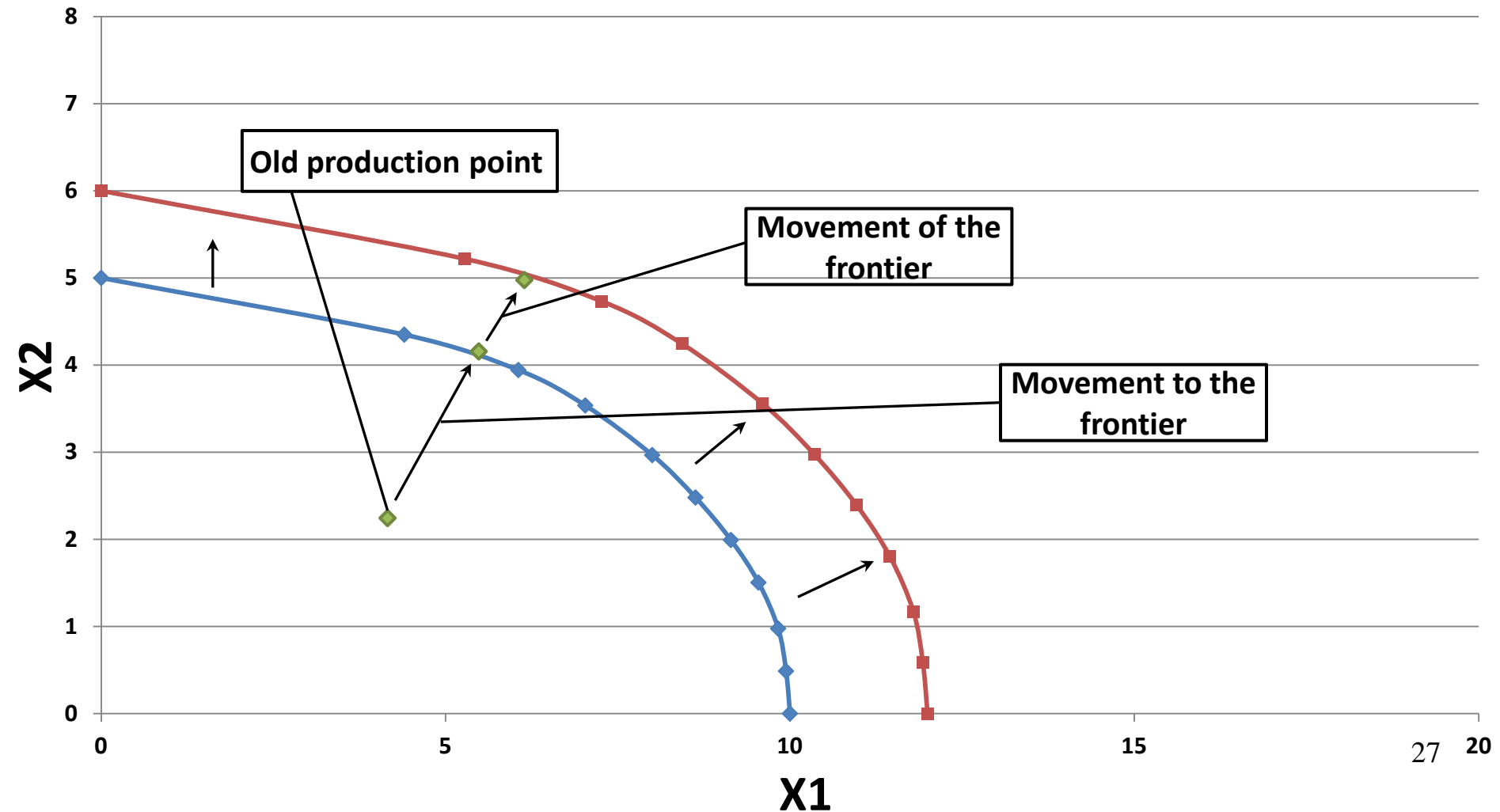
---

# The Sources of Chinese Economic Growth

---

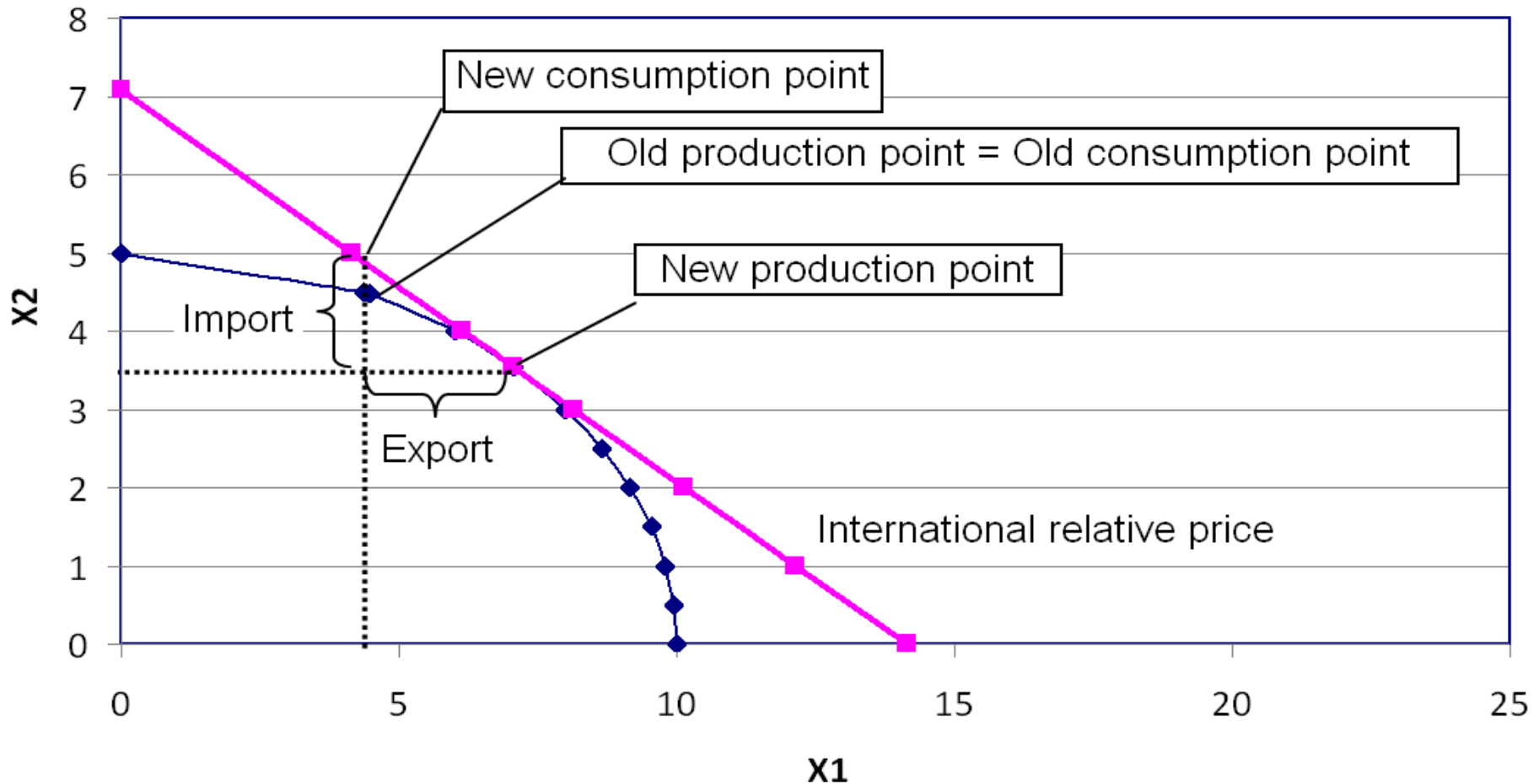
# Movement of the Production Possibilities Frontier versus Movement to the Frontier

## Production Possibilities Frontier



# The Set of Consumption Possibilities (and Social Welfare) is Enhanced with Trade

## Production Possibility Frontier Chart 3



# The Sources of Chinese Economic Growth: 1965-1995: from Lau and Park (2007)

The Sources of Chinese Economic Growth

Sample period	Tangible Capital		Labour		Human Capital		Technical Progress
	% of Growth Accounted by	Rate of Growth of Input (%)	% of Growth Accounted by	Rate of Growth of Input (%)	% of Growth Accounted by	Rate of Growth of Input (%)	% of Growth Accounted by
1965-1973	85.29	(13.51)	10.36	(3.19)	4.35	(7.01)	0
1974-1985	80.46	(9.44)	14.64	(2.53)	4.9	(6.37)	0
1986-1995	86.39	(12.54)	10.34	(1.92)	3.27	(4.54)	0

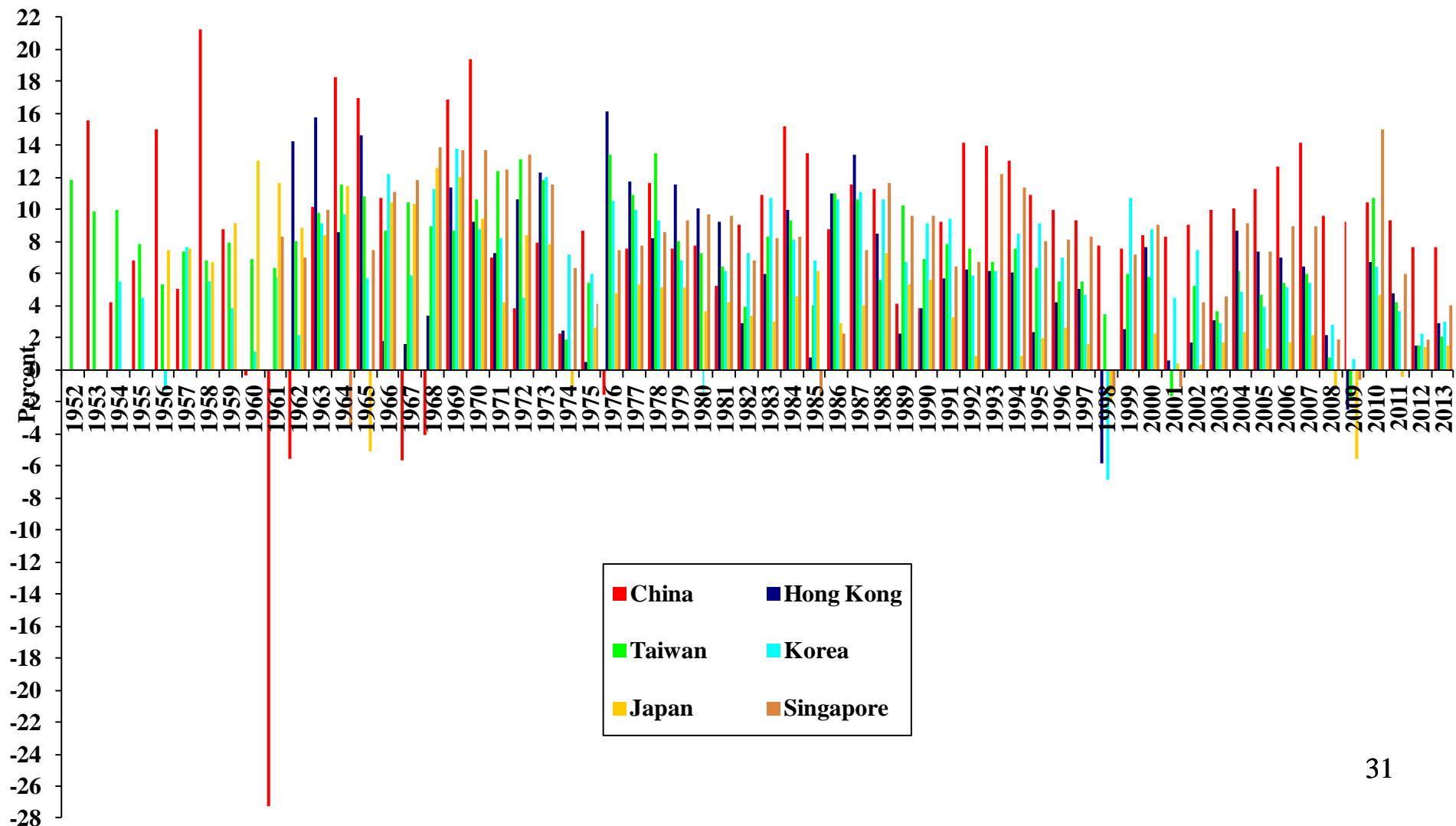
Source: Lau and Park (2007).

The “Wild Geese Flying  
Pattern”--The Further  
Advantage of China’s Size

---

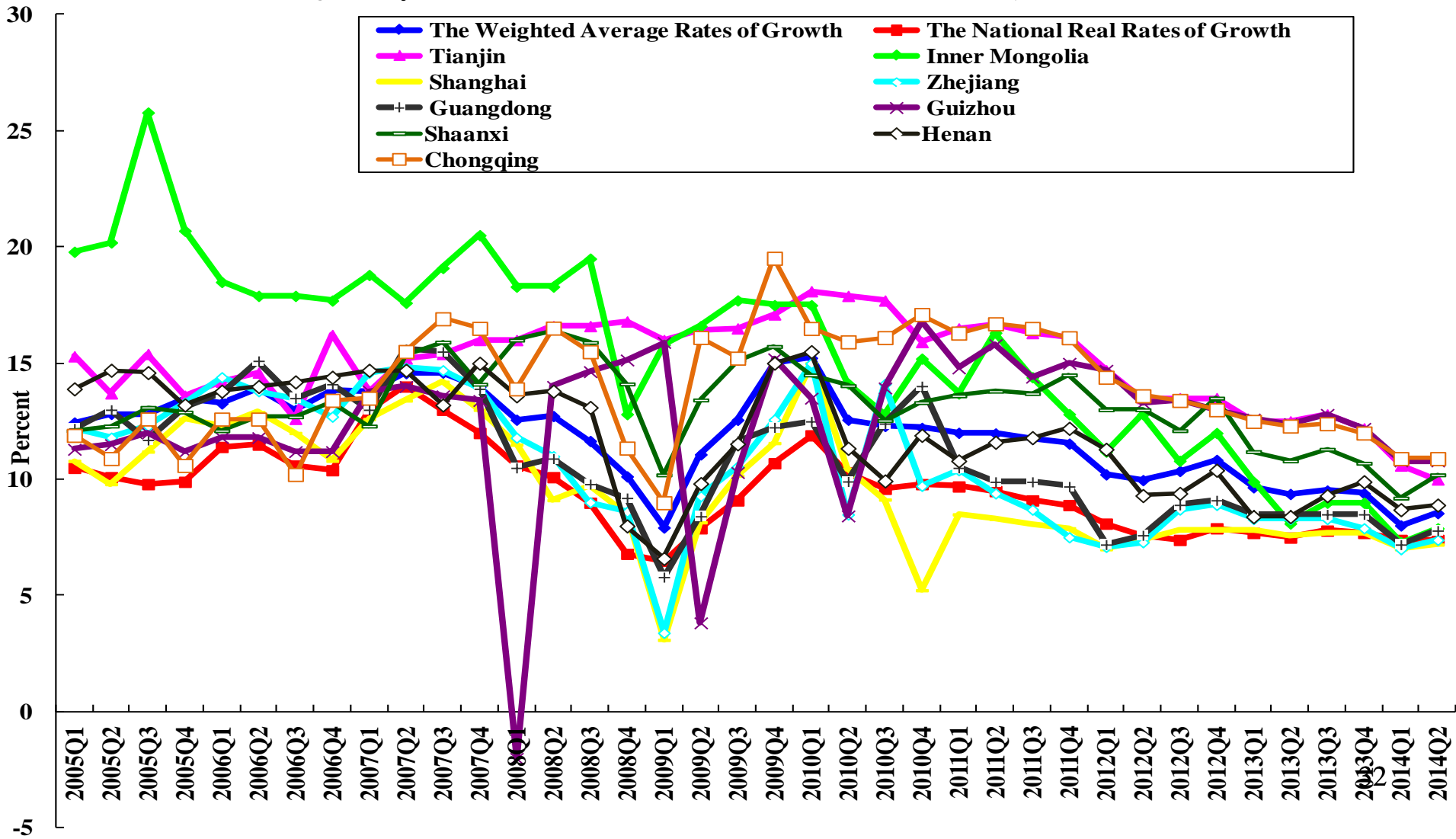
# Annual Rates of Growth of Real GDP: Selected East Asian Economies since 1952

Rates of Growth of Real GDP of Selected Economies



# Quarterly Rates of Growth of Real GDP of Selected Chinese Provinces, Y-o-Y

Quarterly Rates of Growth of Selected Chinese Provincial GDPs, Year-over-Year

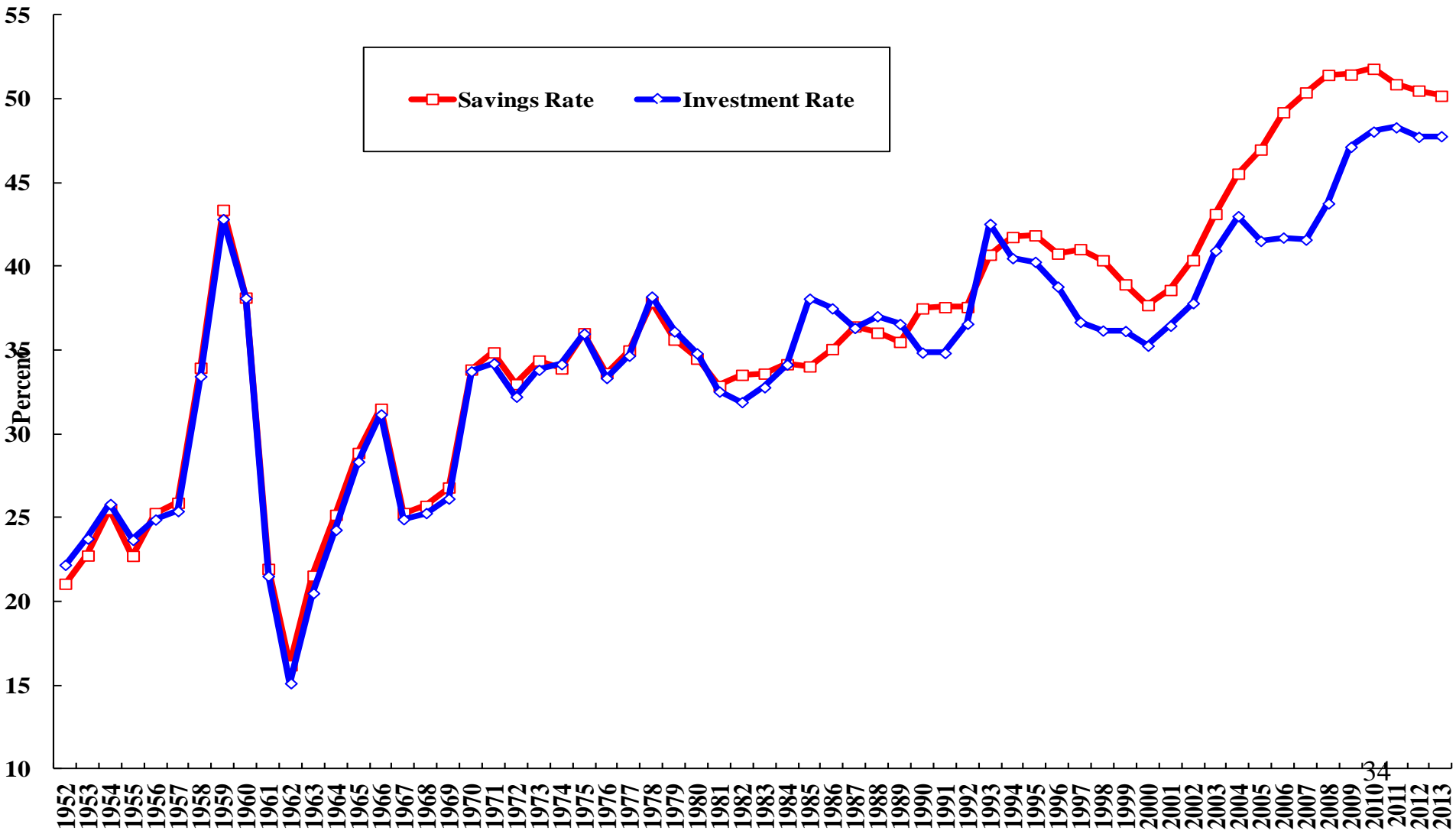




# Towards a Surplus Economy

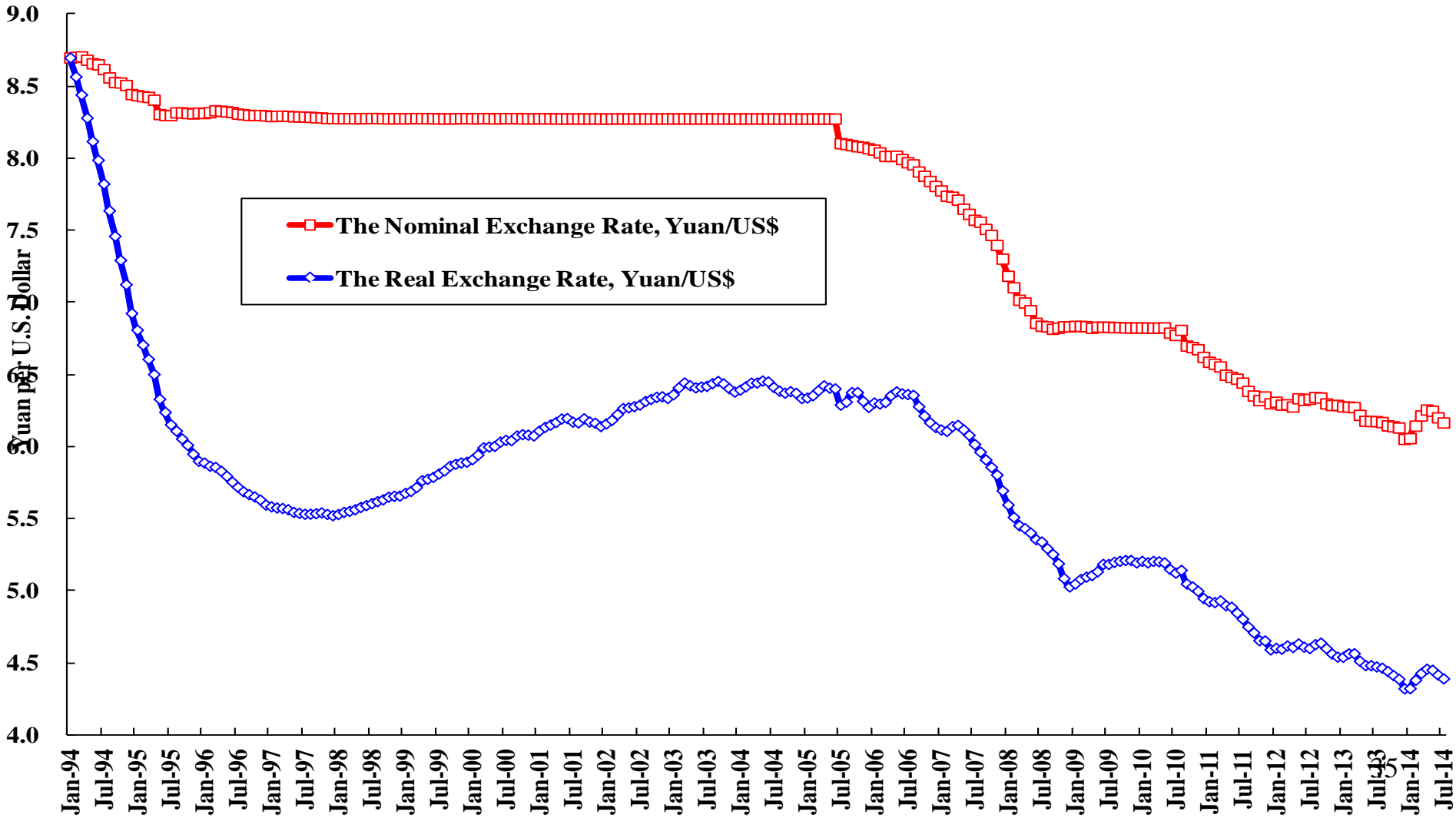
# Chinese National Saving and Gross Domestic Investment as Percents of GDP

Chinese National Savings and Gross Domestic Investment as a Percent of GDP since 1952



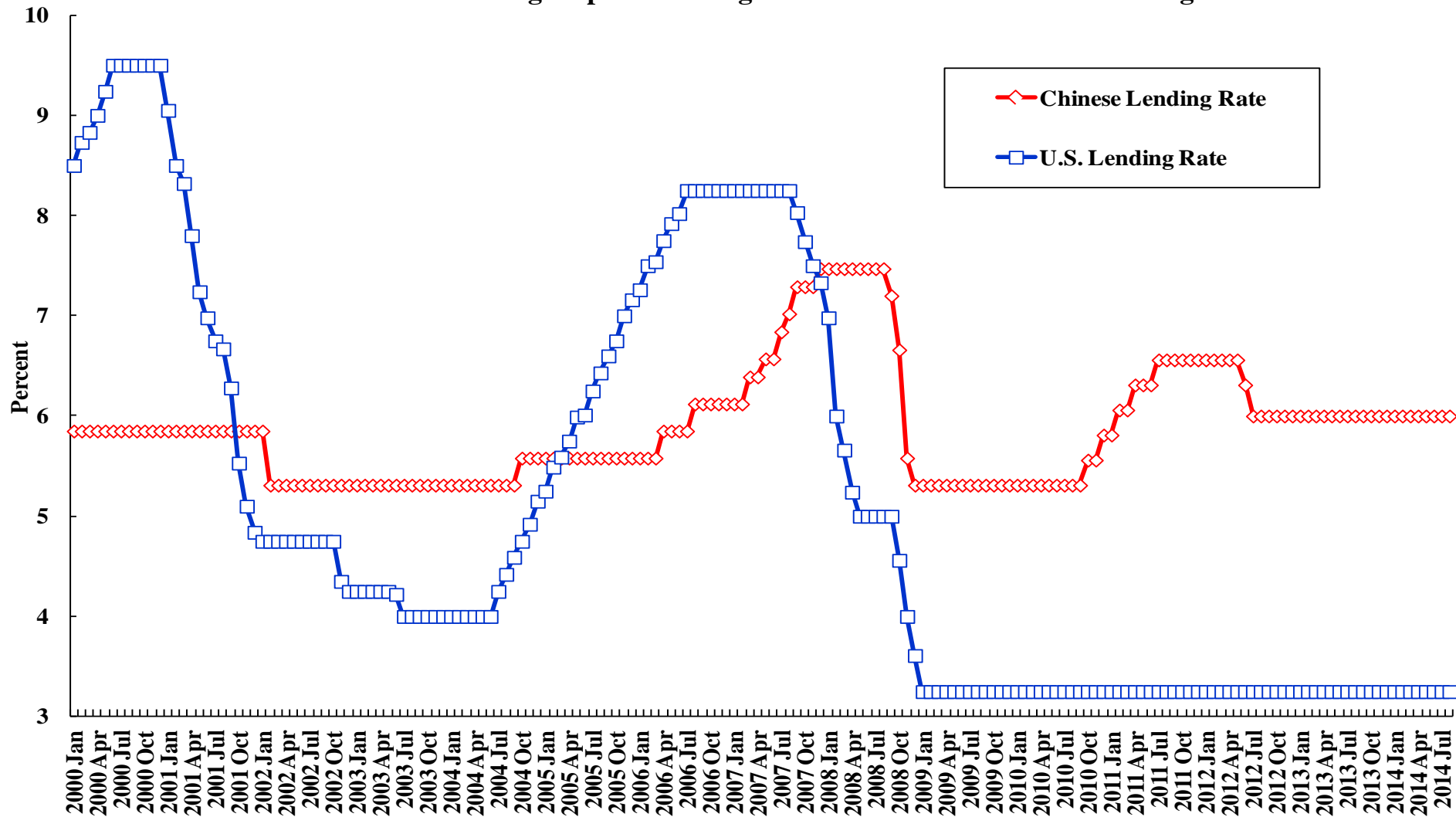
# The Nominal and Real Yuan/US\$ Exchange Rates

The Nominal and Real Yuan/US\$ Exchange Rates (1994 prices)



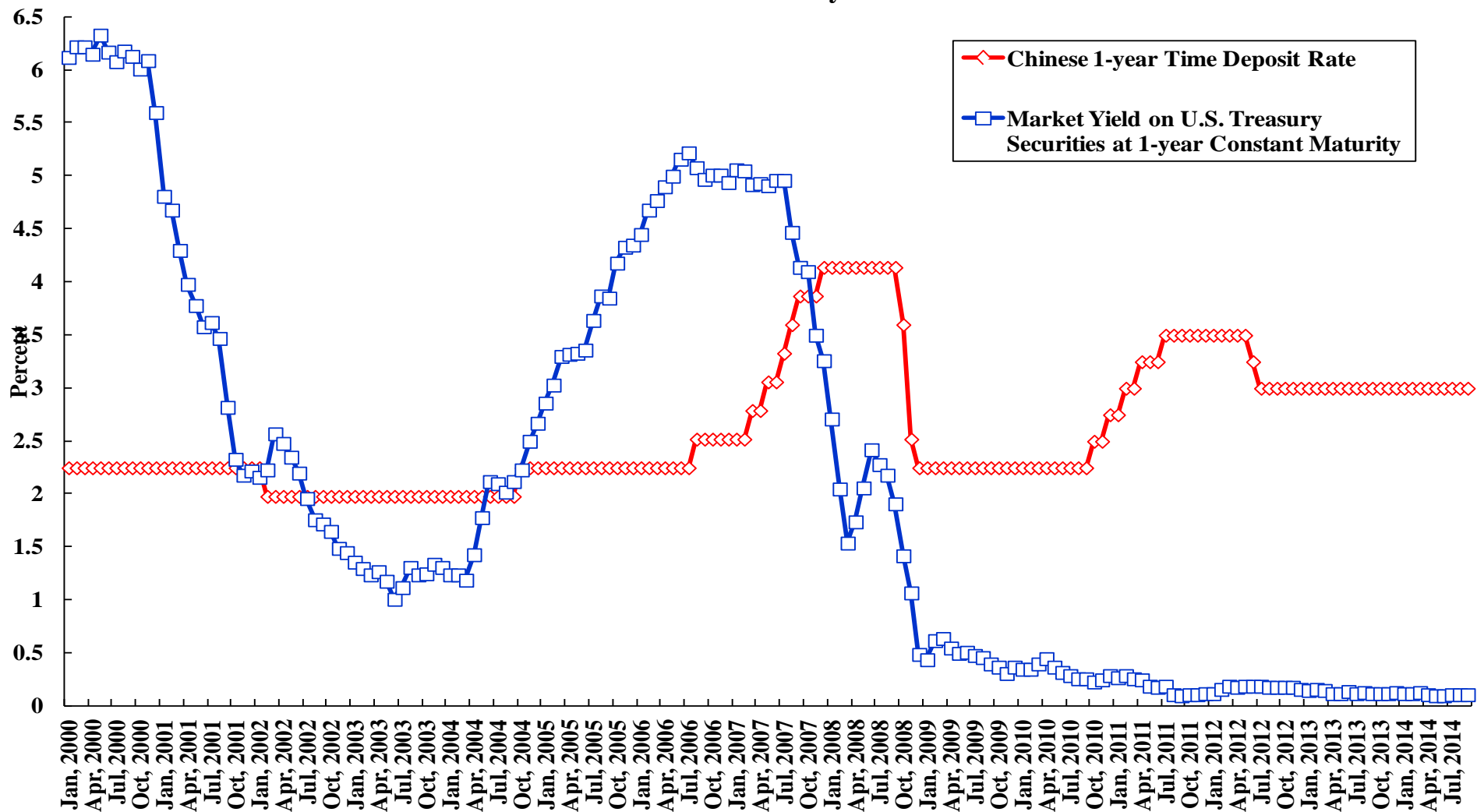
# Towards a Surplus Economy: China-U.S. Lending Interest Rate Differential

Chinese 1-Year Working Capital Lending Rate and U.S. Short-Term Lending Rate



# Towards a Surplus Economy: China-U.S. Deposit Interest Rate Differential

Chinese 1-Year Time Deposit Rate and Market Yield on U.S. Treasury Securities at 1-Year Constant Maturity

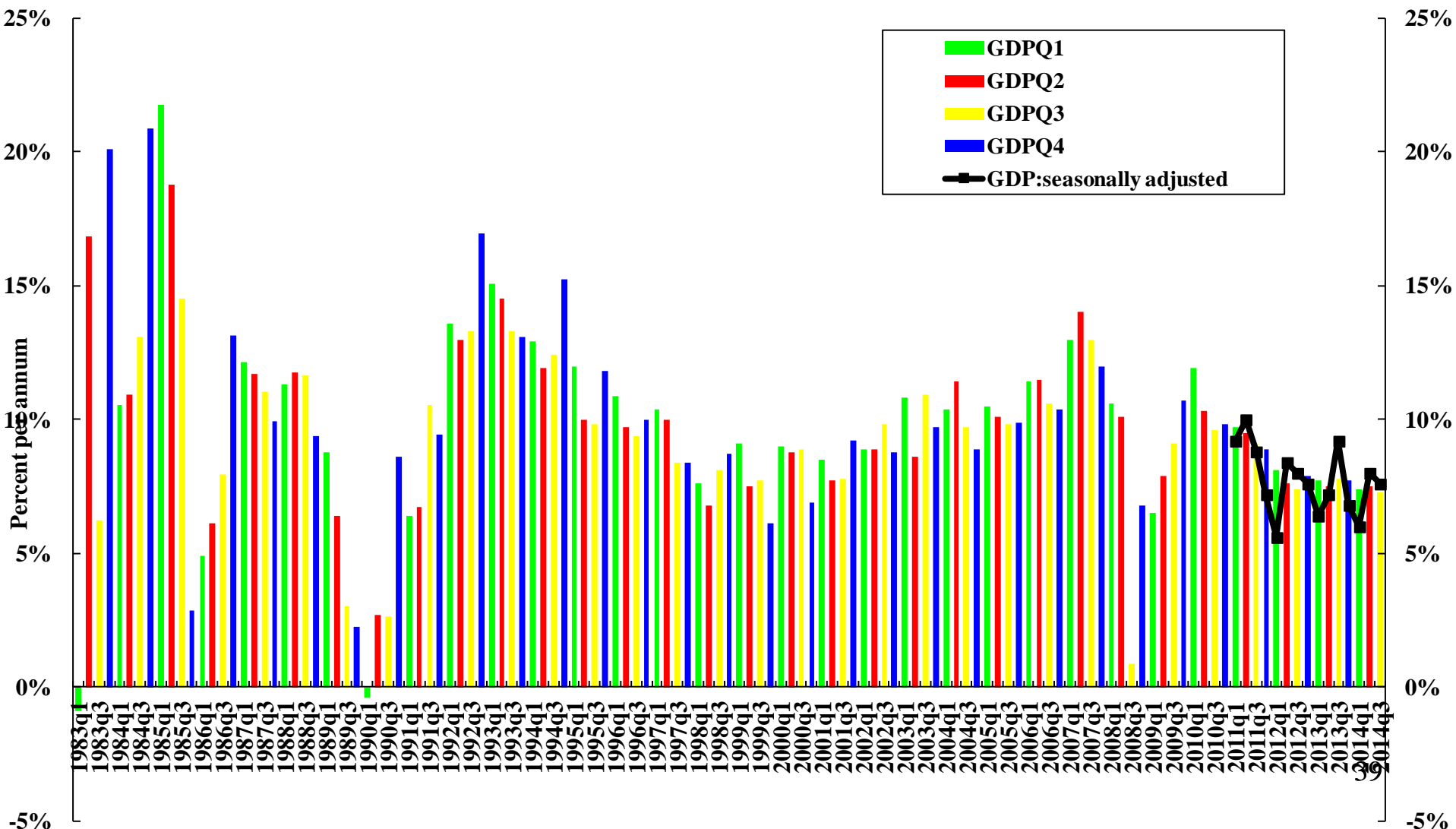


# The Short-Term Economic Outlook

---

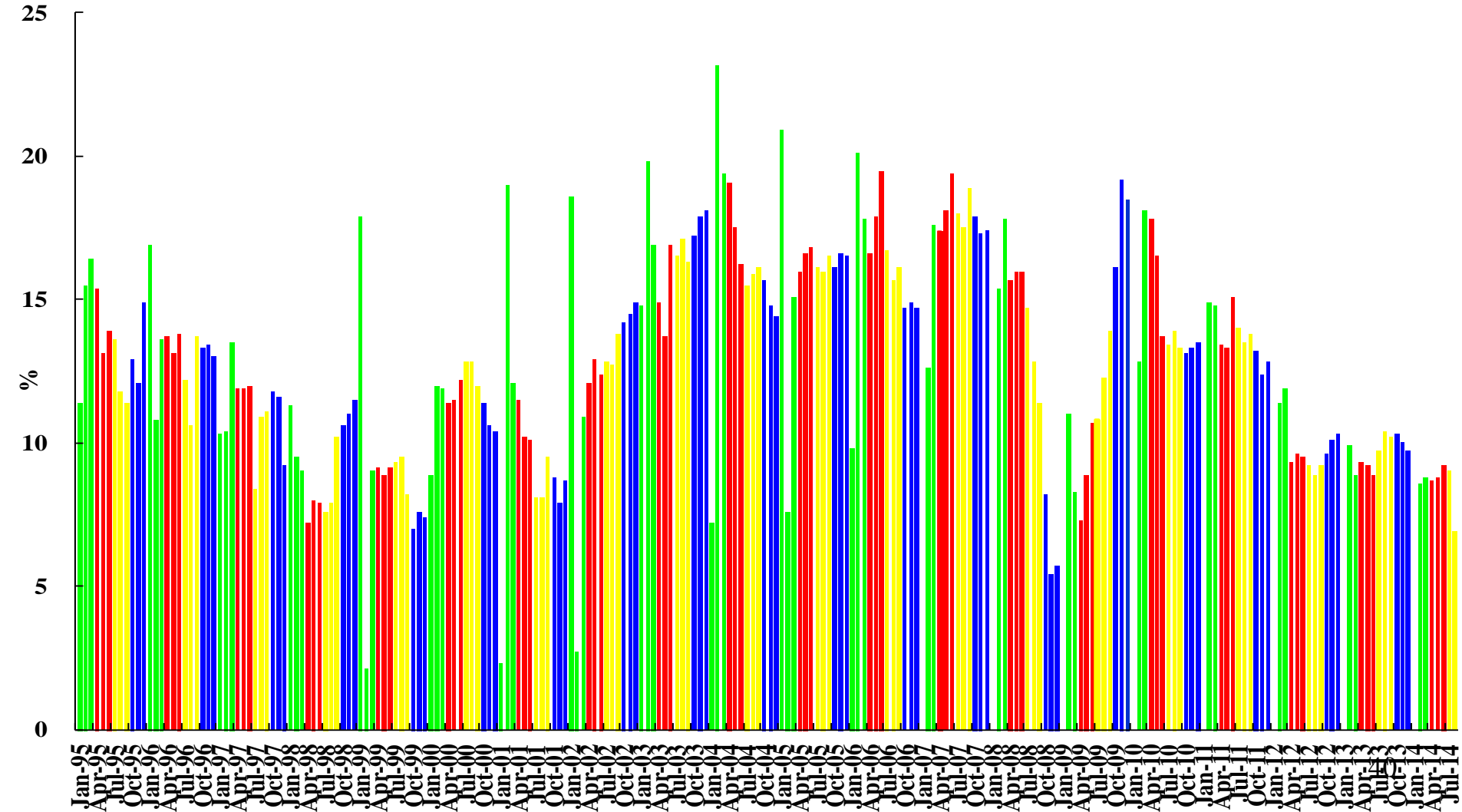
# Quarterly Rates of Growth of Chinese Real GDP, Y-o-Y and Seasonally Adjusted

Quarterly Rates of Growth of Chinese Real GDP, Y-o-Y and Seasonally Adjusted



# Monthly Rates of Growth of Real Value-Added of Chinese Industry, Y-o-Y

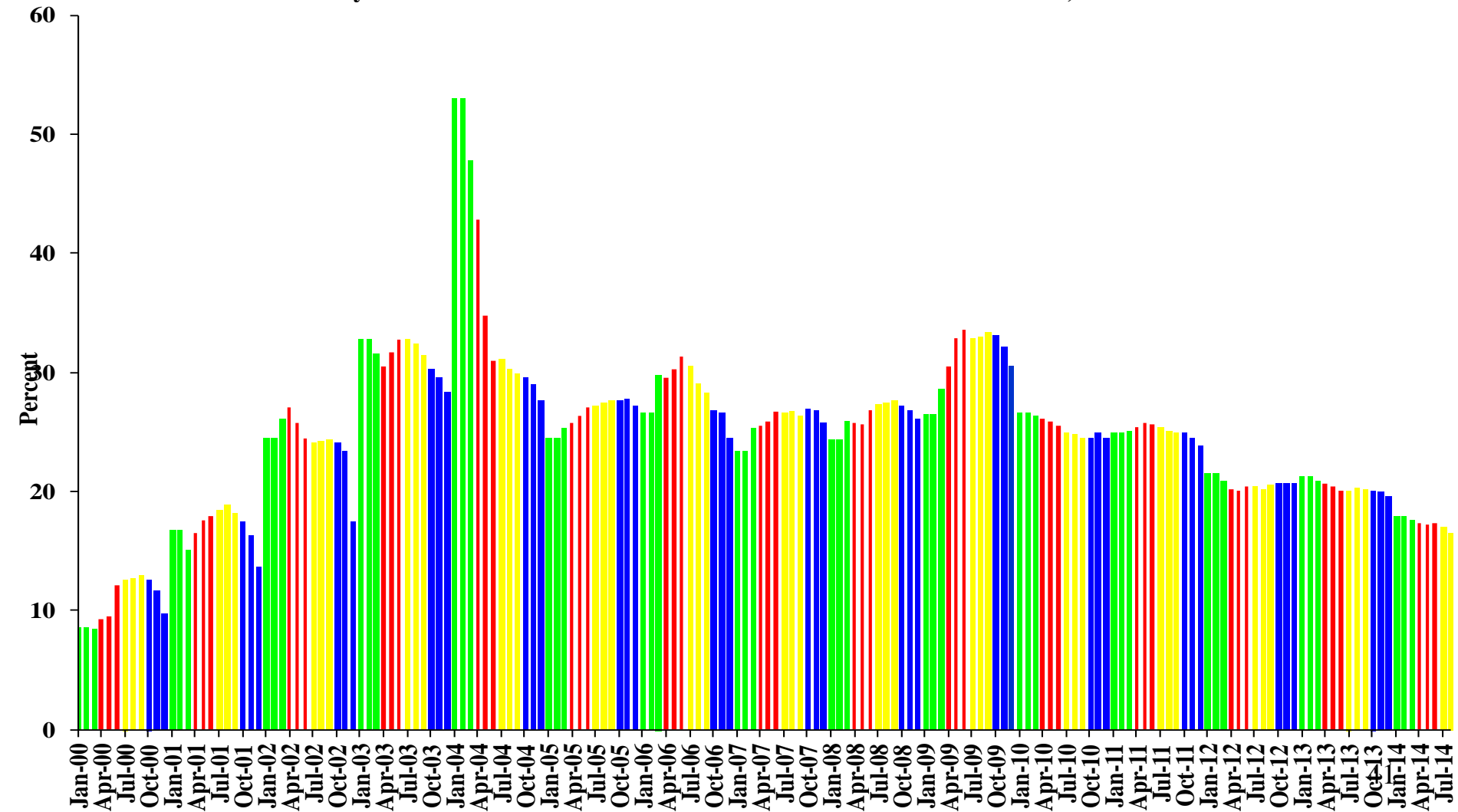
Monthly Rates of Growth of Real Value-Added of the Industrial Sector, Year-over-Year





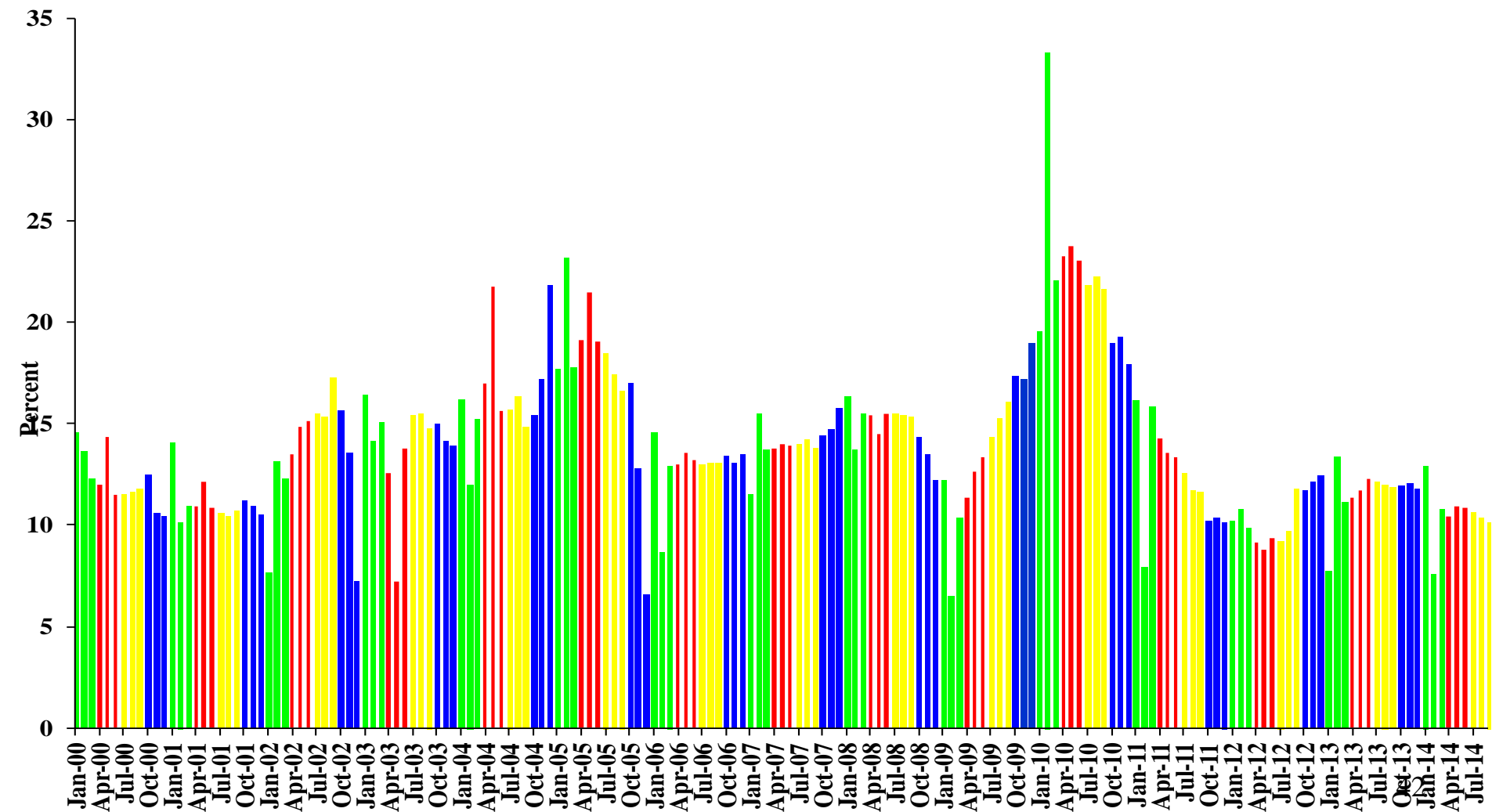
# Monthly Rates of Growth of Chinese Fixed Assets Investment, Y-o-Y

Monthly Rates of Growth of Chinese Fixed Assets Investment since 2000, Year-over-Year



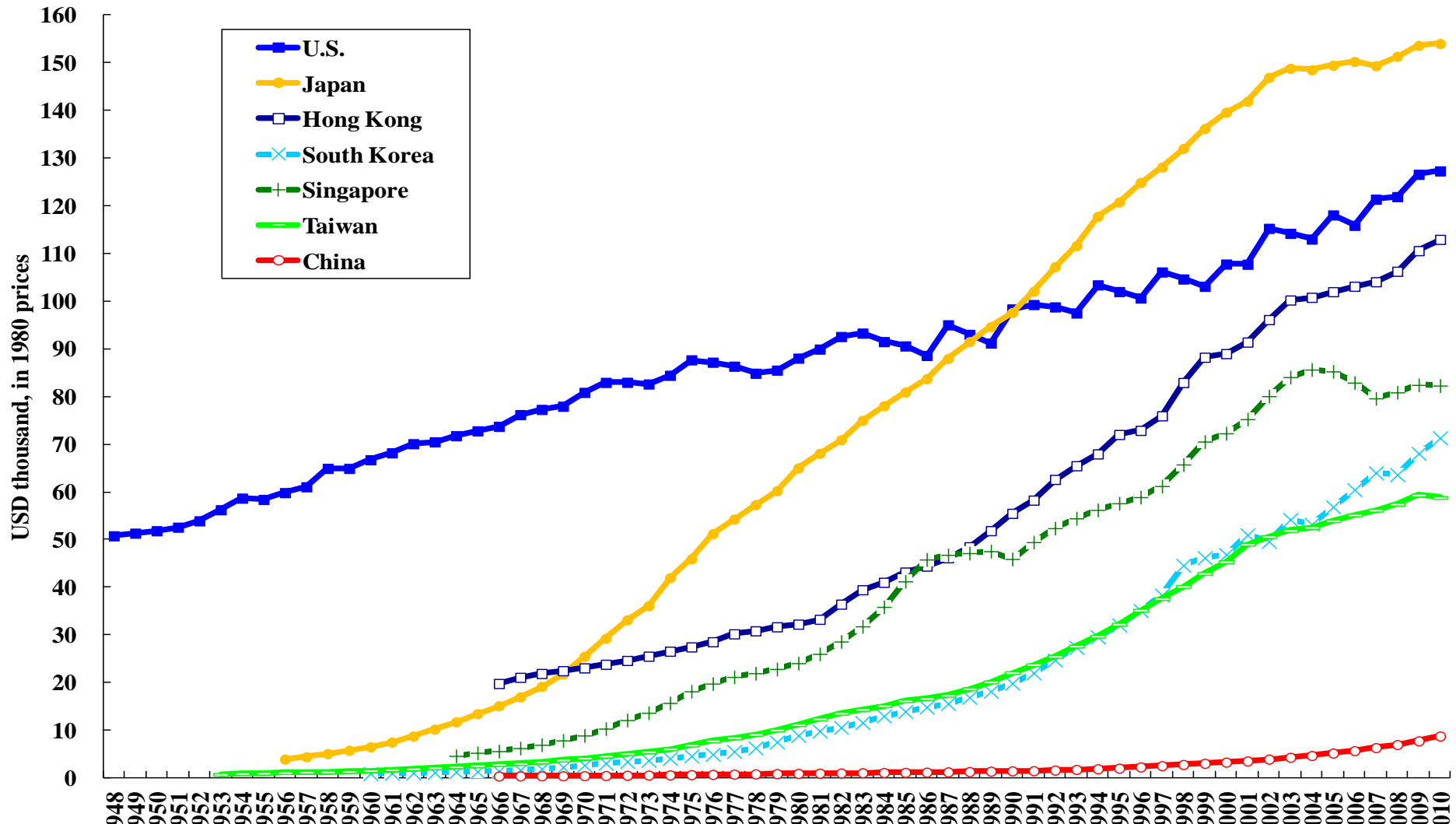
# Monthly Rates of Growth of Chinese Real Retail Sales, Y-o-Y

Monthly Rates of Growth of Chinese Real Retail Sales since, Year-over-Year



# Tangible Capital per Unit Labour, 1980US\$, Selected Economies

Tangible Capital per Unit Labour for Selected Economies



# Near-Term Forecasts of Annual Rates of Growth of Chinese Real GDP

---

## Forecasts of Annual Rates of Growth of Chinese Real GDP

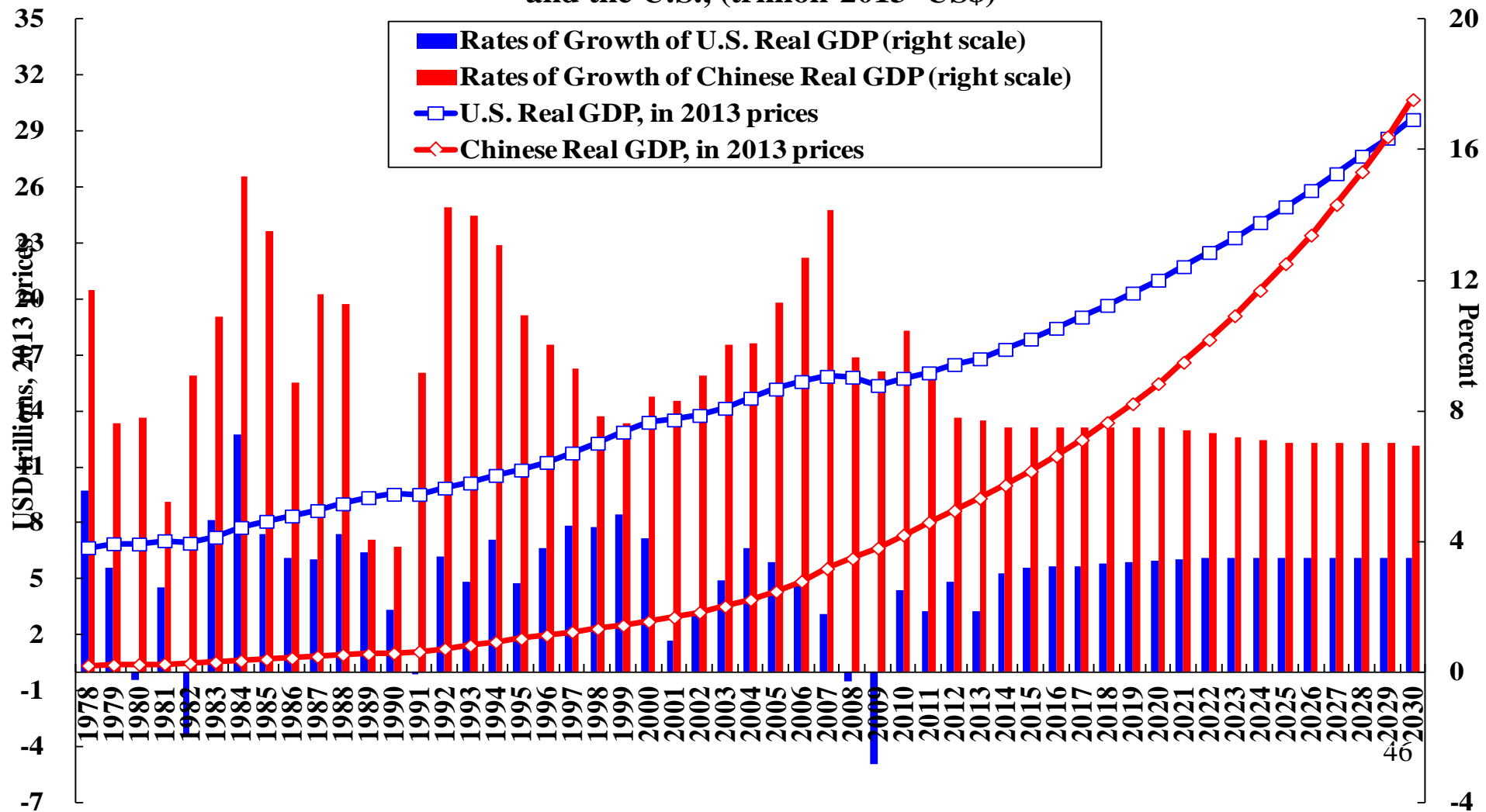
Forecasting Organisation	2014	2015	2016
Asian Development Bank	7.50%	7.40%	NA
The International Monetary Fund	7.50%	7.30%	NA
The Organisation for Economic Cooperation and Development	7.30%	7.10%	6.90%
The World Bank	7.60%	7.50%	7.40%
The Conference Board (U.S.)	7%	NA	<sup>4</sup> NA

# The Long-Term Economic Outlook

---

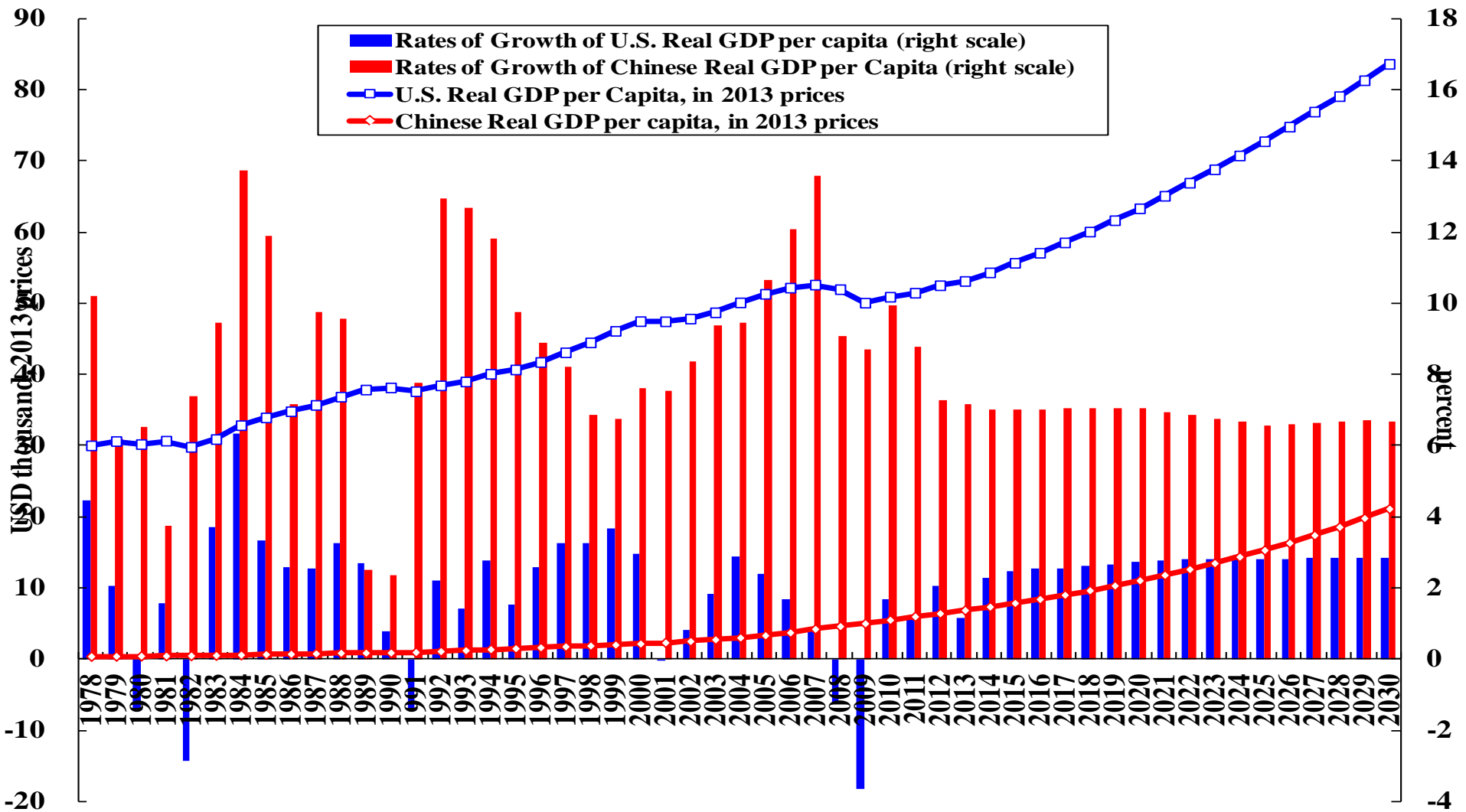
# Actual and Projected Chinese and U.S. Real GDPs and Their Rates of Growth

Actual and Projected Real GDPs and their Annual Rates of Growth of China and the U.S., (trillion 2013 US\$)



# Actual and Projected Chinese and U.S. Real GDP per Capita's and Rates of Growth

Actual and Projected Real GDP per Capita and their Annual Rates of Growth of China and the U.S., (thousand, 2013 US\$)



# Concluding Remarks

---