Outlook on Global Economic Growth

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

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Tel: +852 3943 1611; Fax: +852 2603 5230
Email: lawrence@lawrencejlau.hk; WebPages: www.igef.cuhk.edu.hk/ljl

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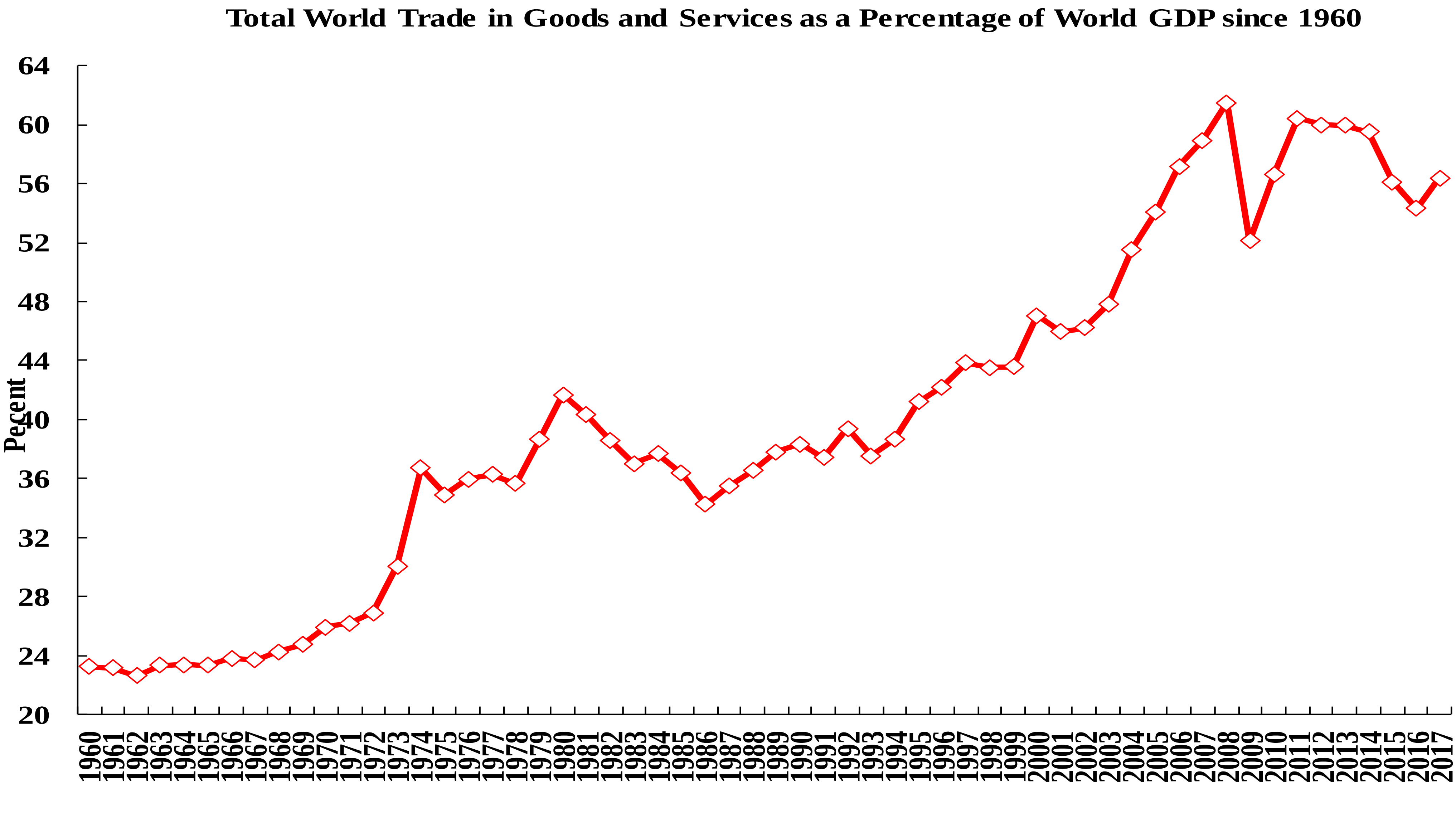
Introduction

- A high degree of uncertainty and unpredictability and almost uniformly negative expectations about the future because of the trade disputes around the world.
- Negative expectations can become "self-fulfilling".
- The impotency of monetary policy acting alone.
- The result is insufficient aggregate demand almost everywhere.
- However, the long-term prospects of the developing economies remain mostly positive.

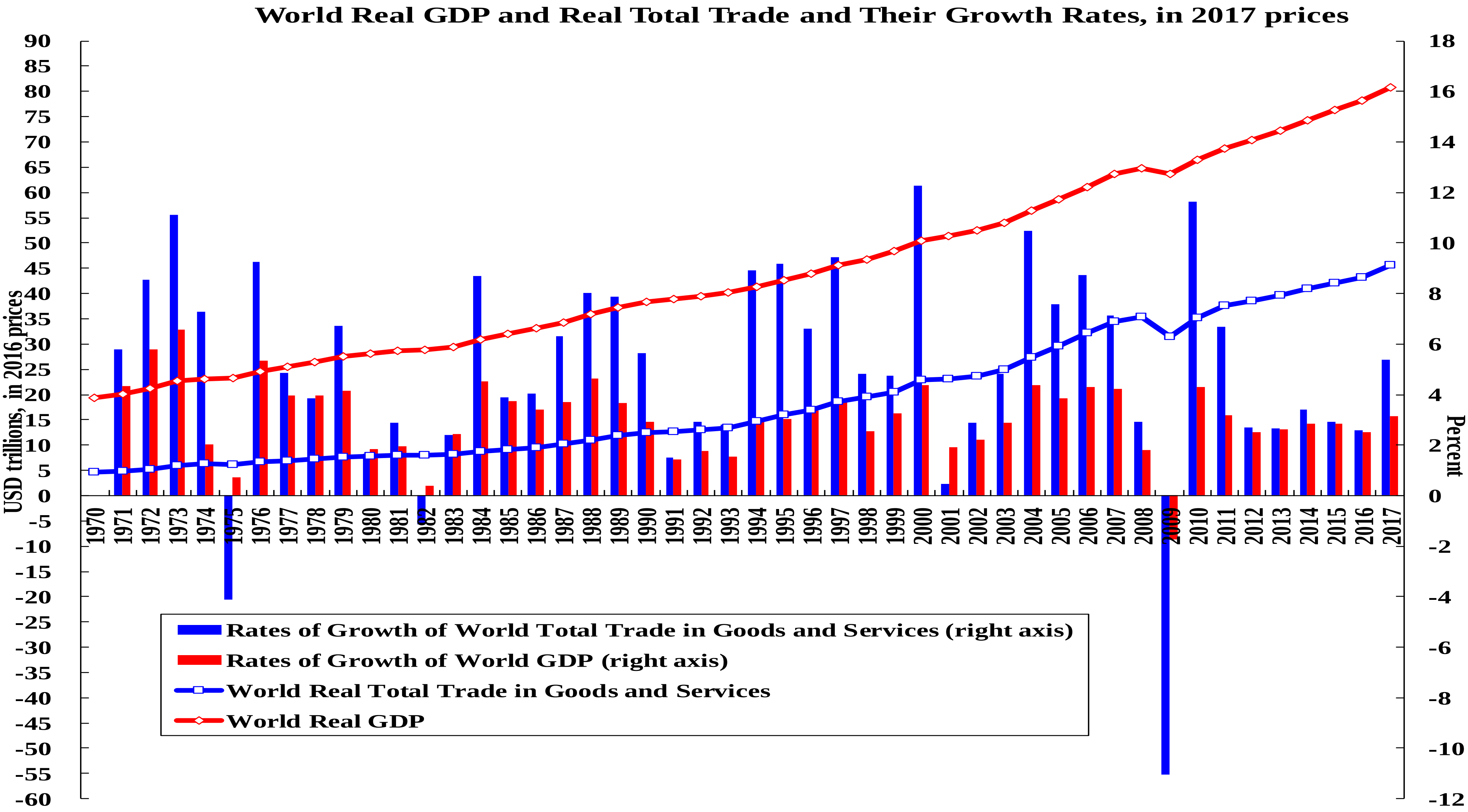
World Trade and Economic Growth

- It was the expansion of world trade by new participant countries in the world economy that drove the growth of the world economy in the past few decades, including China, Russia (the former Soviet Union) and the Eastern European formerly socialist countries. The introduction of the Euro also greatly increased intra-Euro Zone trade.
- However, the growth of world trade as well as world GDP has stalled since the global financial crisis of 2008.
- China was probably the most important new participant country; now it may be the turn of India or Africa (a South Asian Common Market or an African Free Trade Area?).

Total World Trade in Goods and Services as a Percentage of World GDP since 1960



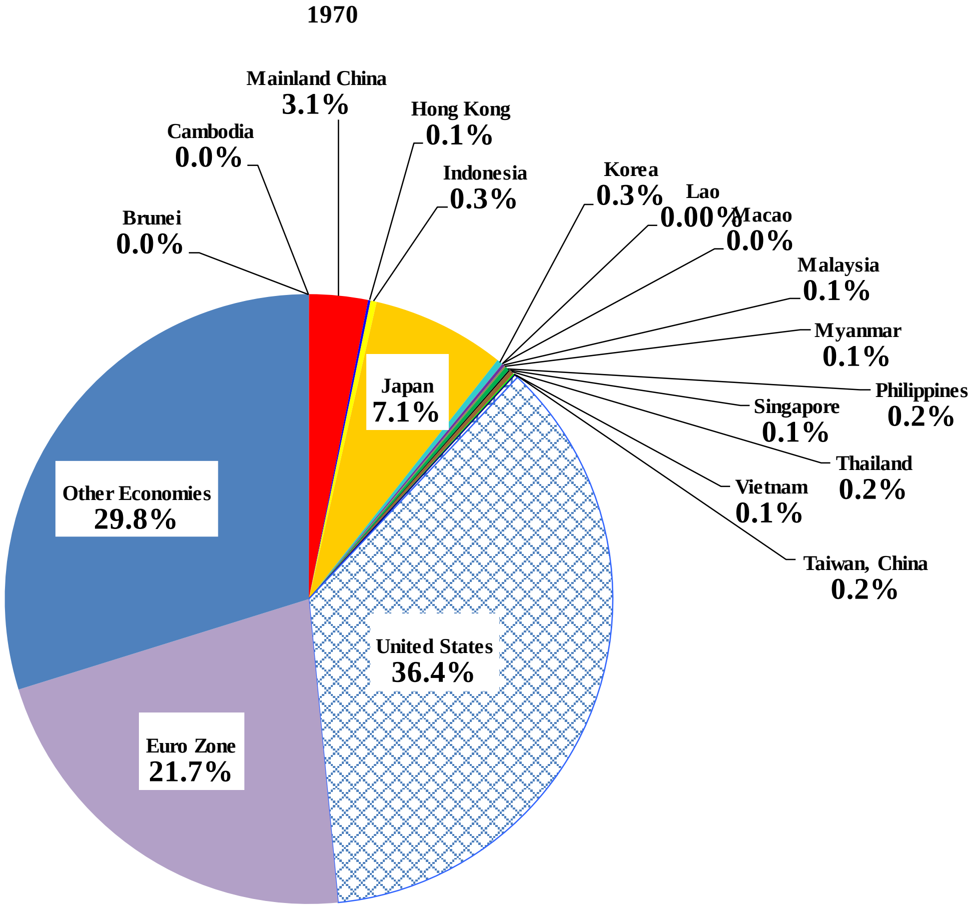
Real World GDP and Trade in Goods and Services and Their Growth Rates (2017 prices)

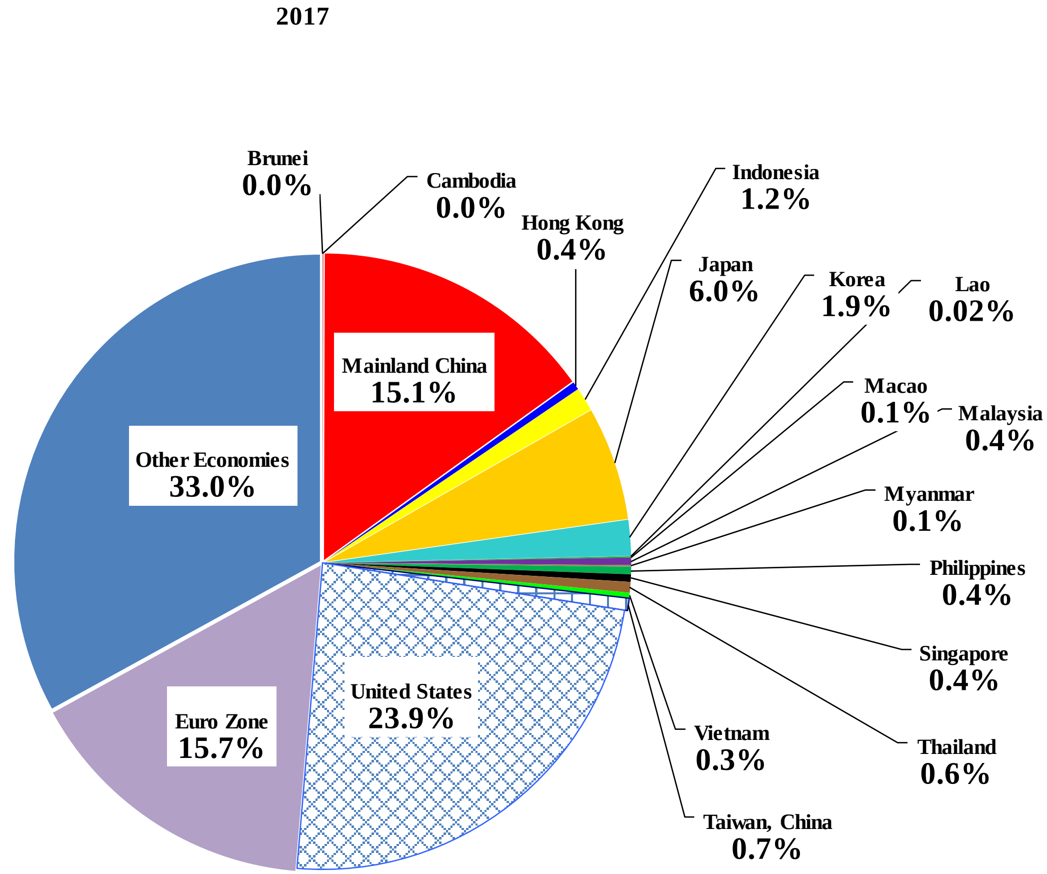


China’s Contributions to the World Economy

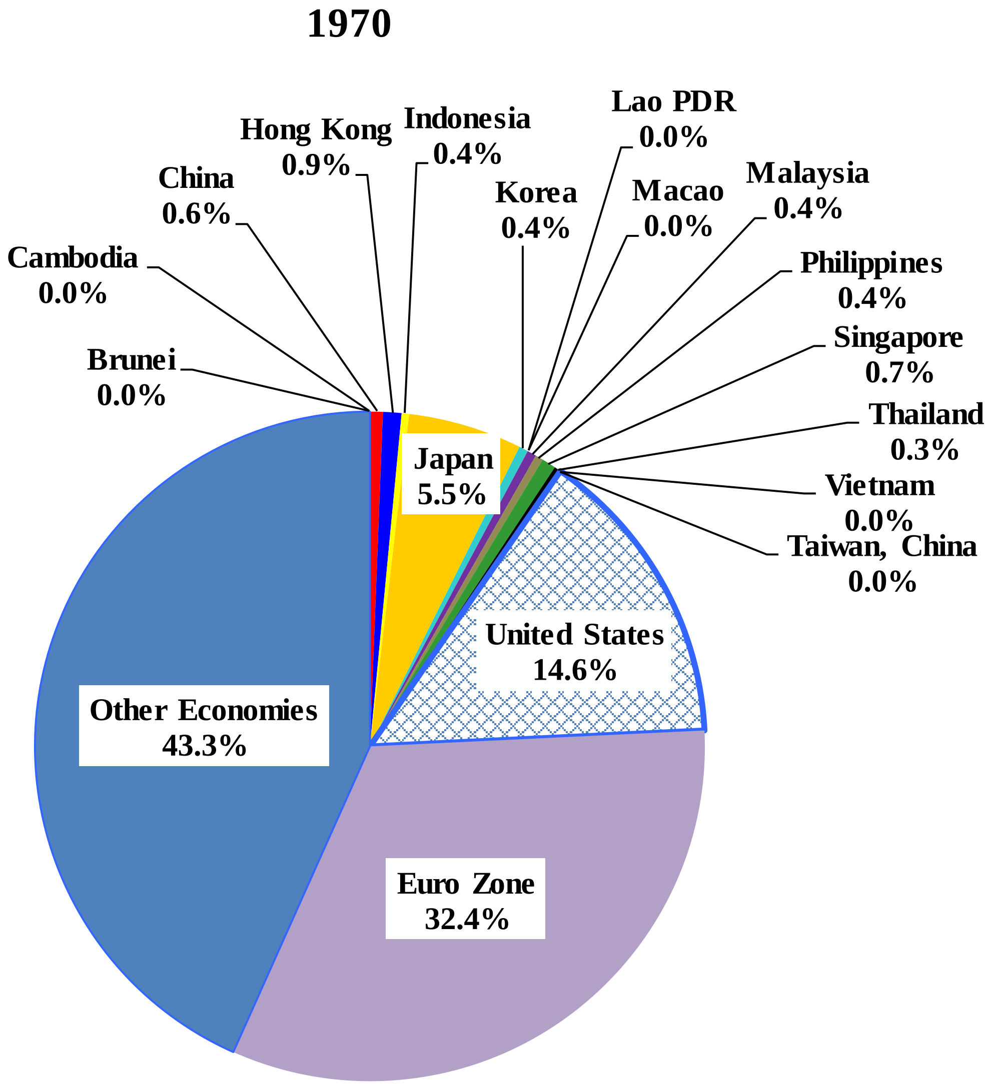
- In 2018, the share of China in total world GDP was 15.86%.
- The share of Chinese exports of goods and services in total world exports was 10.58%; the share of Chinese imports of goods and services in total world imports was 10.34%.
- Thus, if the Chinese economy grows at 6%, it will contribute to the growth of world GDP by 0.95%, out of a total projected growth of approximately 3.2%. This is not including any additional contributions resulting from increases in Chinese imports from the rest of the world.

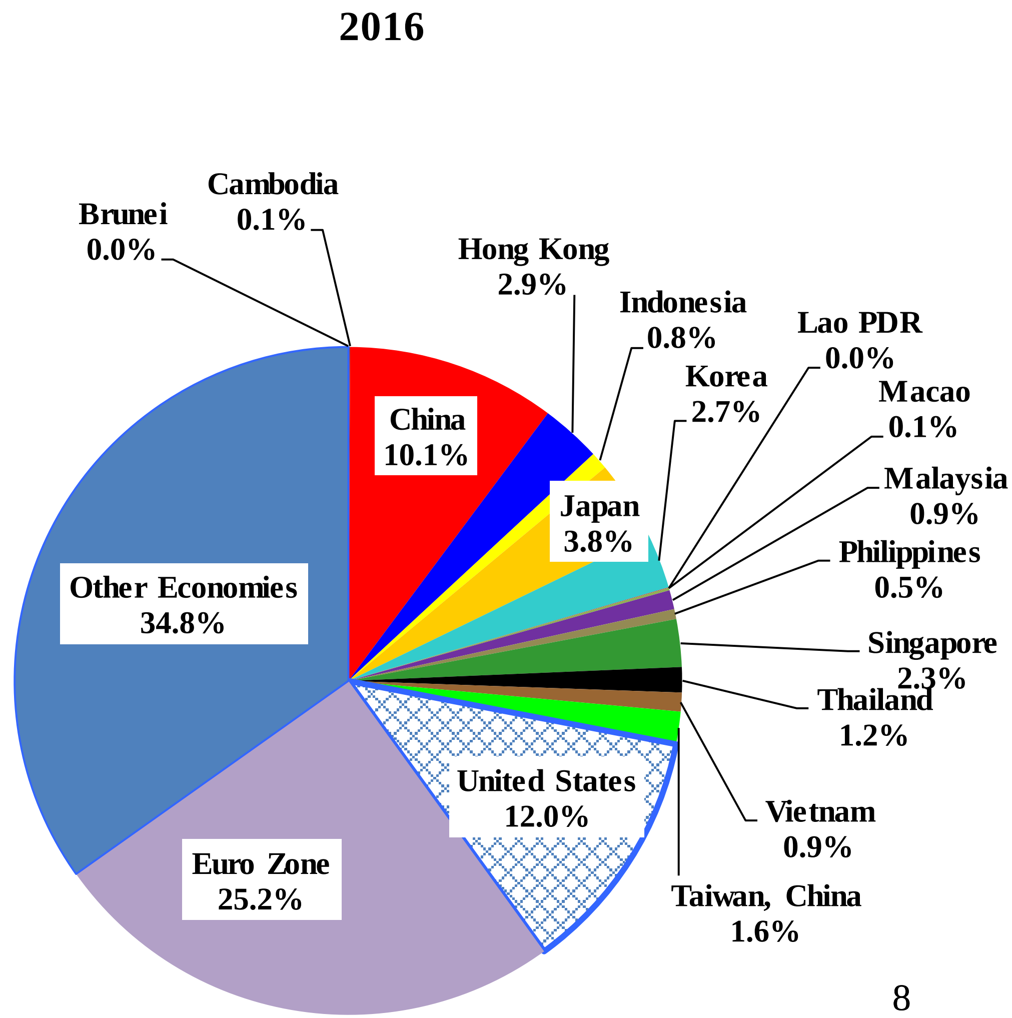
The Distribution of World GDP, 1970 and 2017, US$





The Distribution of International Trade in Goods and Services, 1970 and 2016

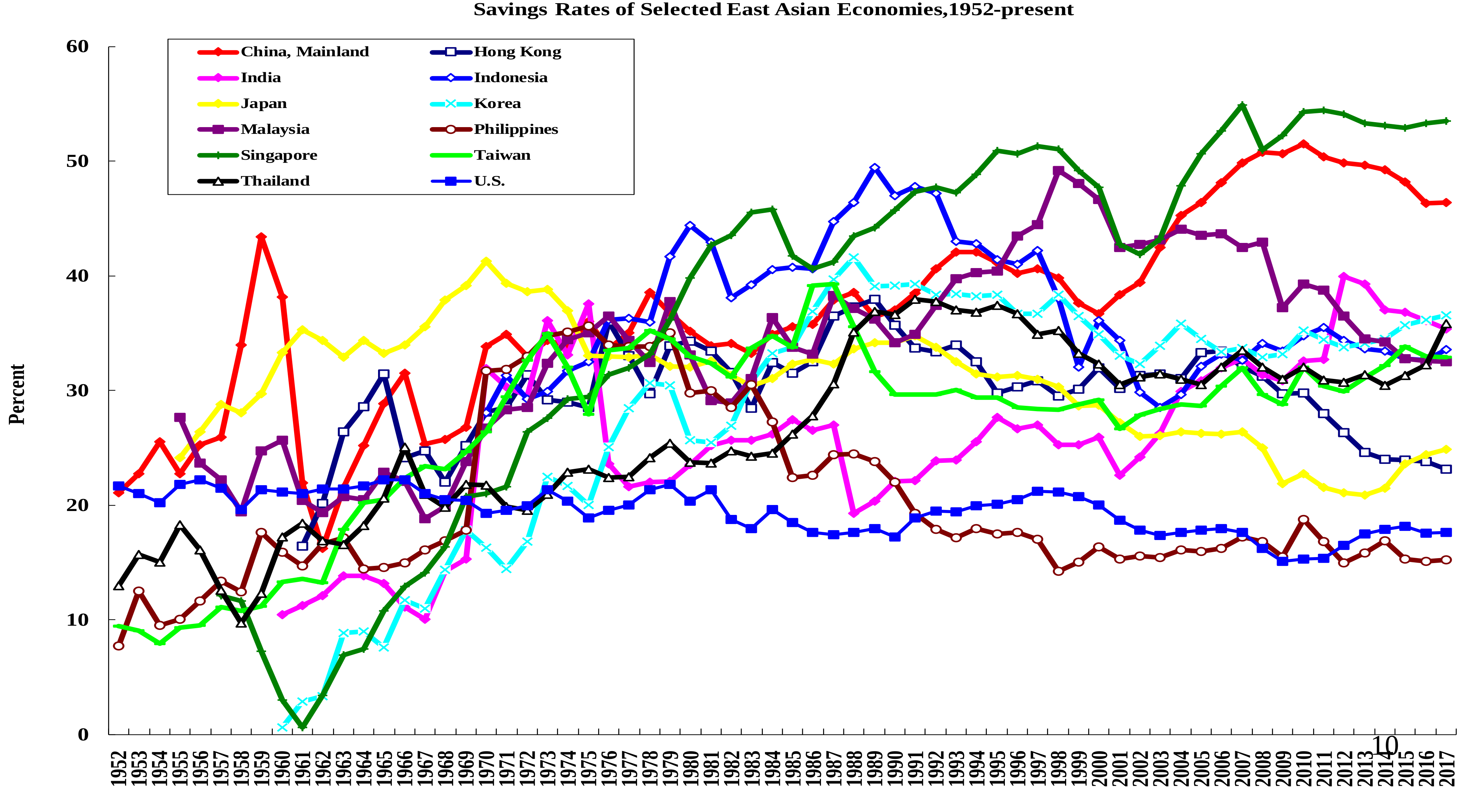




The Importance of a High National Savings Rate and Basic Infrastructural Investment

- The high average annual rate of Chinese economic growth of almost 10% ver the past four decades may be partly attributed to:
- A High National Savings Rate
  - Self-sufficient financing for domestic investment
  - Room for expansionary fiscal policy
  - No need to rely on foreign direct investment, foreign loans or foreign aid
  - No pressure to restructure the existing enterprises which can be economically, politically and socially disruptive.
- Massive Basic Infrastructural Investment
  - Development-leading infrastructural investment versus development-lagging infrastructural investment. The Chinese experience has demonstrated that development-leading infrastructure can pay off handsomely. (Supply can create its own demand.)
  - Basic infrastructural investment, often publicly financed, enhances the rate of return on private investment.

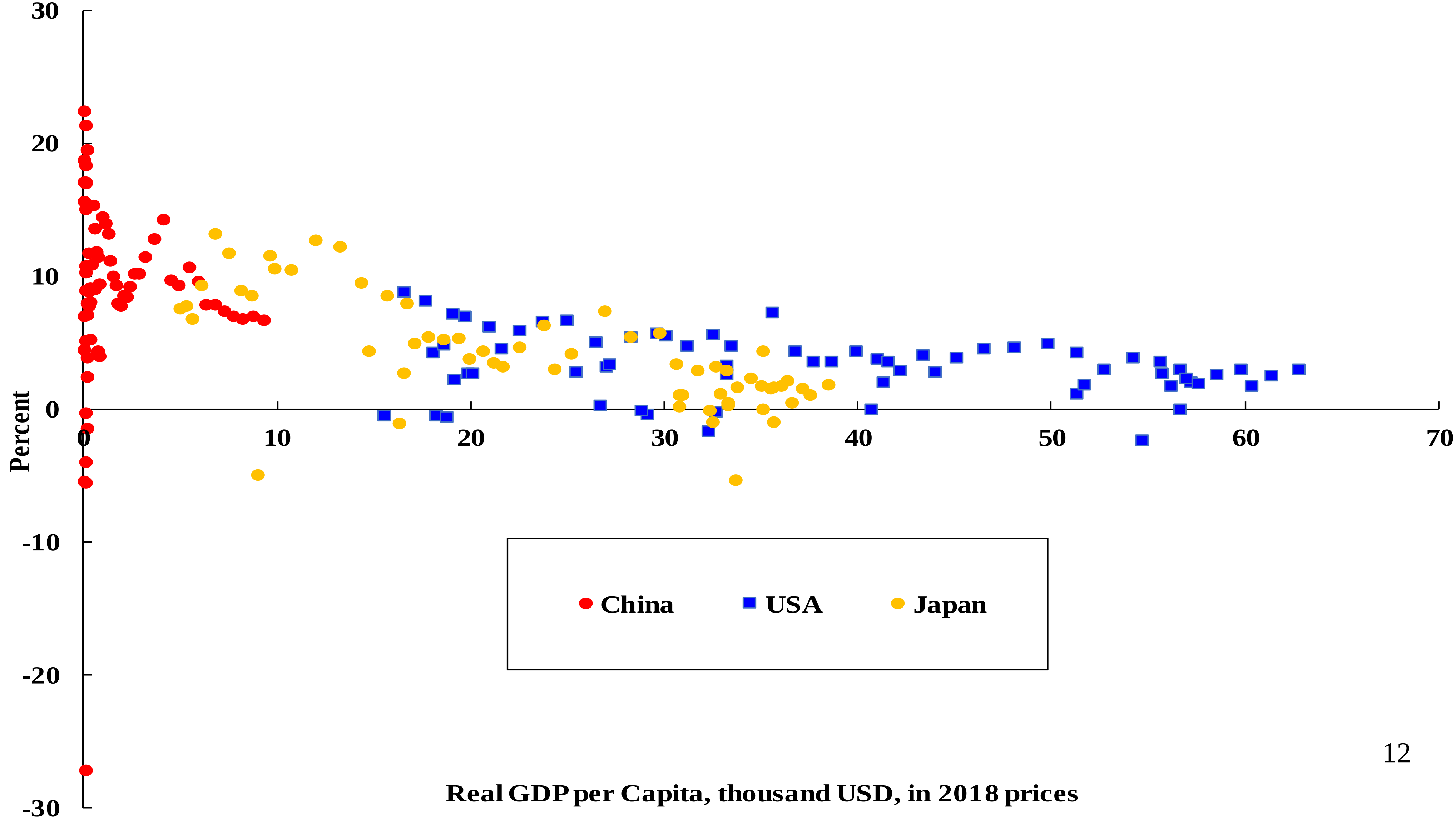
Savings Rates of Selected Economies, 1952-present



Projections of the Future: Long-Term Forecasts of the Chinese and the U.S. Economies

- It is assumed that the Chinese economy will continue to grow around 6% per annum for a few more years, declining gradually to between 5% and 6%, and that the U.S. economy will grow at an average rate of 3% per annum between now and 2050.
- In 2018, the Chinese economy grew 6.6%. In 2019H1, Chinese real GDP grew at an annualised rate of 6.3%. The target range of the Chinese rate of growth for 2019 is between 6% and 6.5%. The Chinese economy is on course.
- The U.S. economy grew 2.9% in 2018, close to its long-run average of 3%. The rates of growth of 2019Q1 and 2019Q2 were respectively 3.1% and 2.1%. Both the U.S. Federal Reserve Board and the U.S. Congressional Budget Office expect 2.3% growth for 2019.
- It may be thought that the Chinese economy will be unable to sustain an average annual rate of growth of between 5% and 6% for such a long time. Past experience shows that the rate of growth of an economy declines as its real GDP per capita rises. But given the still relatively low level of real GDP per capita in China, and the low level of its capital per unit labor, such a rate of growth should still be possible for at least several decades (see the following charts in which the experiences of China, Japan and the U.S. are compared.)

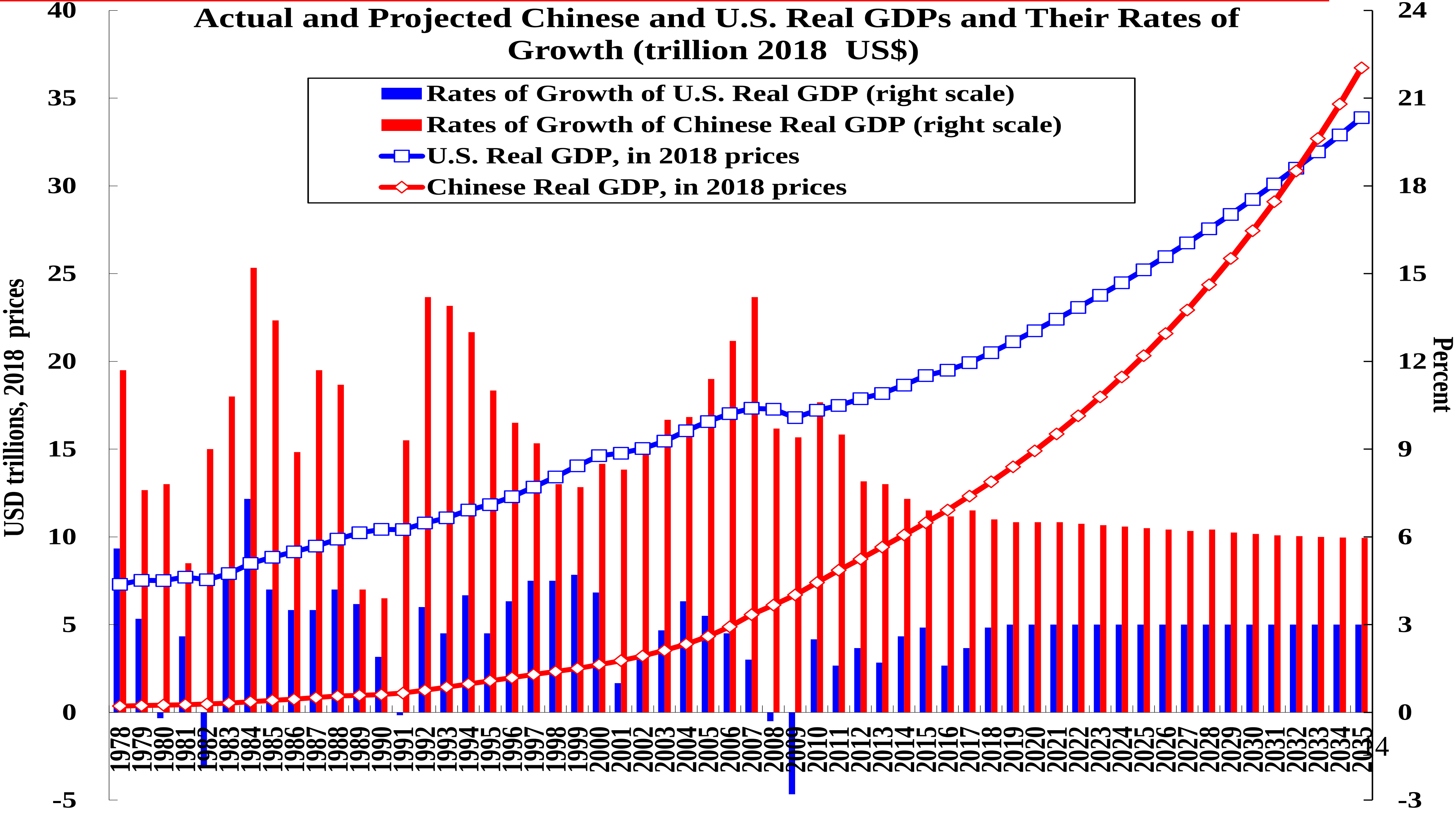
Growth Rate vs. Level of Real GDP per Capita (2018 tril. US$): China, Japan and the U.S.



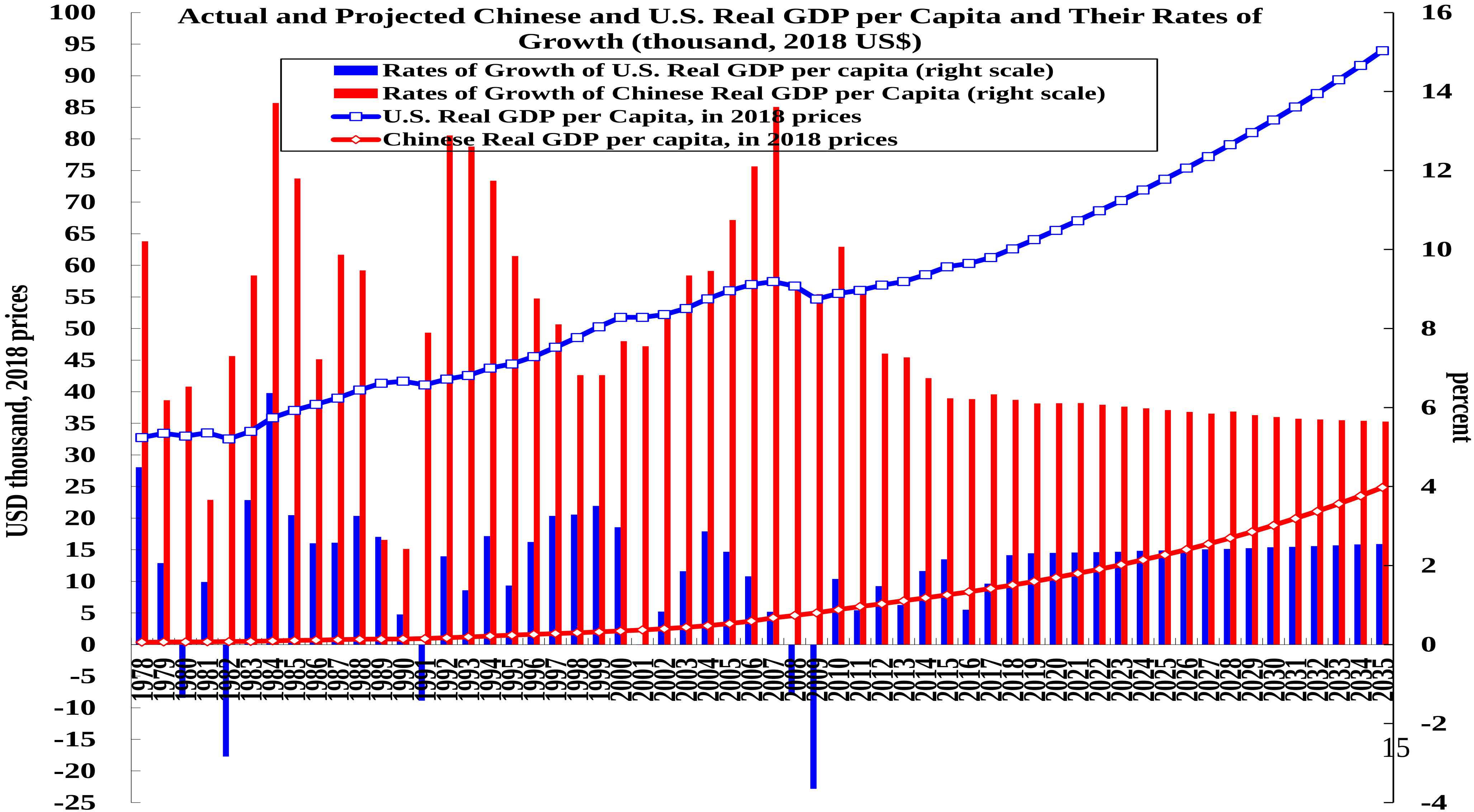
Projections of the Chinese and the U.S. Economies

- Our projections also show that by 2033 (plus or minus a couple of years), Chinese real GDP will surpass U.S. real GDP (US$32.7 trillion versus US$31.9 trillion), making China the largest economy in the world. However, in terms of real GDP per capita, China will still lag behind significantly, with US$22,088 compared to US$89,363 for the U.S.
- It will not be until towards the end of the 21st Century for the Chinese real GDP per capita to catch up with the U.S. real GDP per capita.

Actual and Projected Levels and Growth Rates of Chinese and U.S. Real GDP (2018 tril. US$)



Actual and Projected Chinese and U.S. Real GDP/Capita and Their Annual Rates of Growth (1,000 2018 US$ & %)



The Importance of New Participant Countries in the World Economy

- A new participant country, especially a large one, can increase world trade significantly, and thereby also world GDP.
- All economies are better off with the entry of a new participant country because everyone's choice set will have been enlarged.
- China was the old "new participant country". Potential large new participant countries and regions include India, Indonesia, the African common market and possibly a South Asia Free Trade Area.
- Unfortunately, even through every economy is better off in the aggregate, both "winners" and "losers" are created in each economy, and the free market is unable to compensate the "losers". It is the responsibility of each individual government to try to compensate the "losers" in its economy. Failure to do so creates a class of chronic losers who support economic de-globalisation.

Concluding Remarks

- The competition or rivalry between China and the U.S., whether friendly or unfriendly, can be assumed to be an ongoing and long-term one. It is the “new normal”. The trade dispute is only a symptom of the potential conflicts between the two countries. The competition is not only economic, but also technological and geo-political. It will take time to re-build mutual trust between between the two countries.
- However, it is possible for the rest of the world, including China and the European Union, to continue to affirm WTO principles and support the multilateral rule-based international order.
- China is currently considering a three-zeroes strategy: zero tariffs, zero non-tariff barriers and zero subsidies. If countries can agree to do so on a reciprocal basis, it will lead to a new period of rapid growth in world trade and world GDP.
- Despite some dark clouds in the near term, the long-term prospects for the world economy remain bright.