

# China's Economic Growth in the Next Decade

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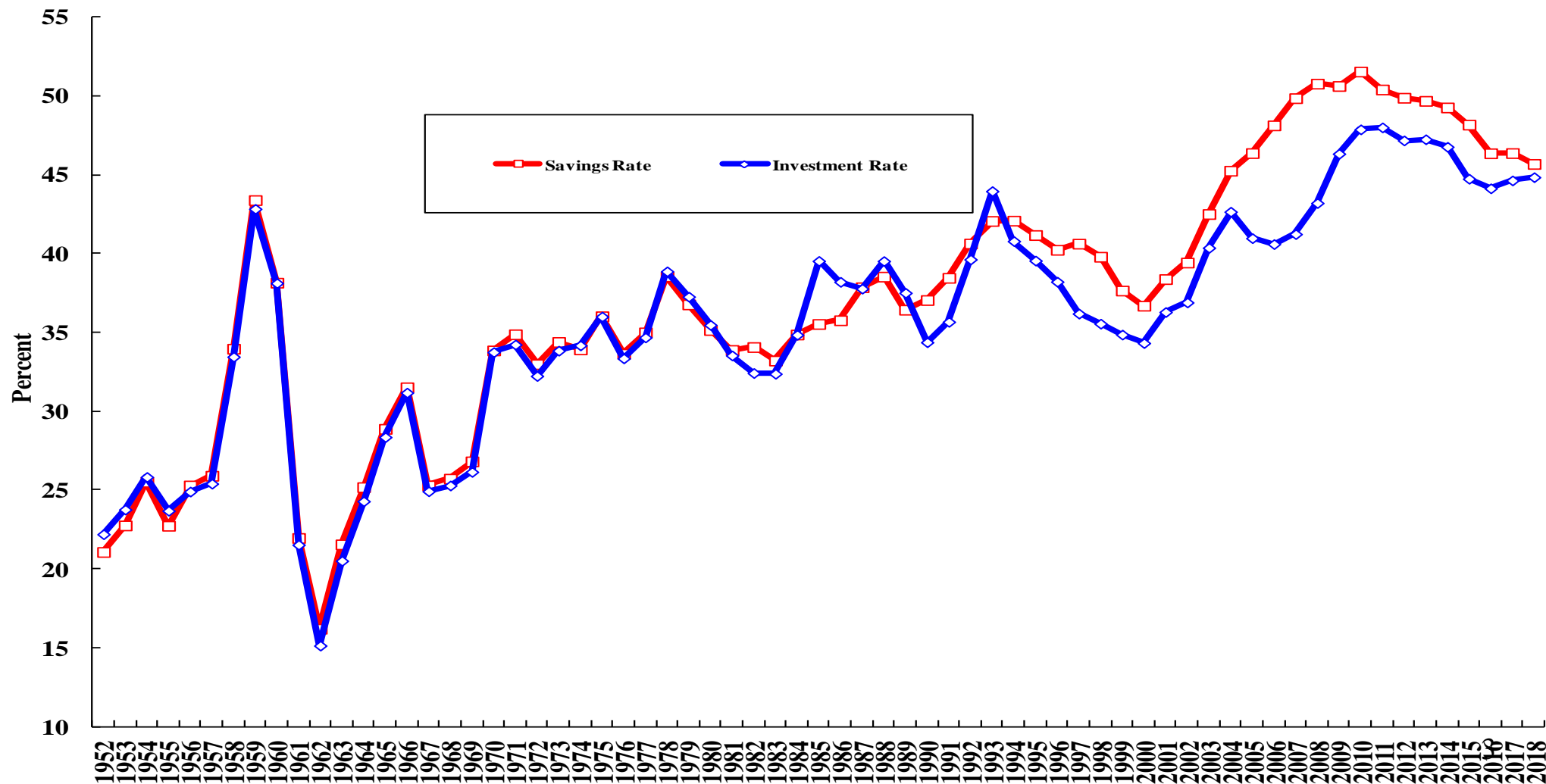
# Introduction

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- ◆ China is today the second largest economy (16.2% of the world GDP of US\$87.8 trillion, compared to the 24.4% of the U.S.) and the second largest trading nation (10.7% of world trade compared to 11.3% of the U.S.) in the world.
- ◆ It is the fastest growing major economy in the world over the past forty years, averaging an over 9% annual real rate of growth.
- ◆ Yet Chinese per capita GDP was barely over US\$10,000, compared to more than US\$65,000 for the U.S. in 2019.
- ◆ Its currency, the Renminbi, has been current-account convertible since 1994. However, it is not fully capital-account convertible.

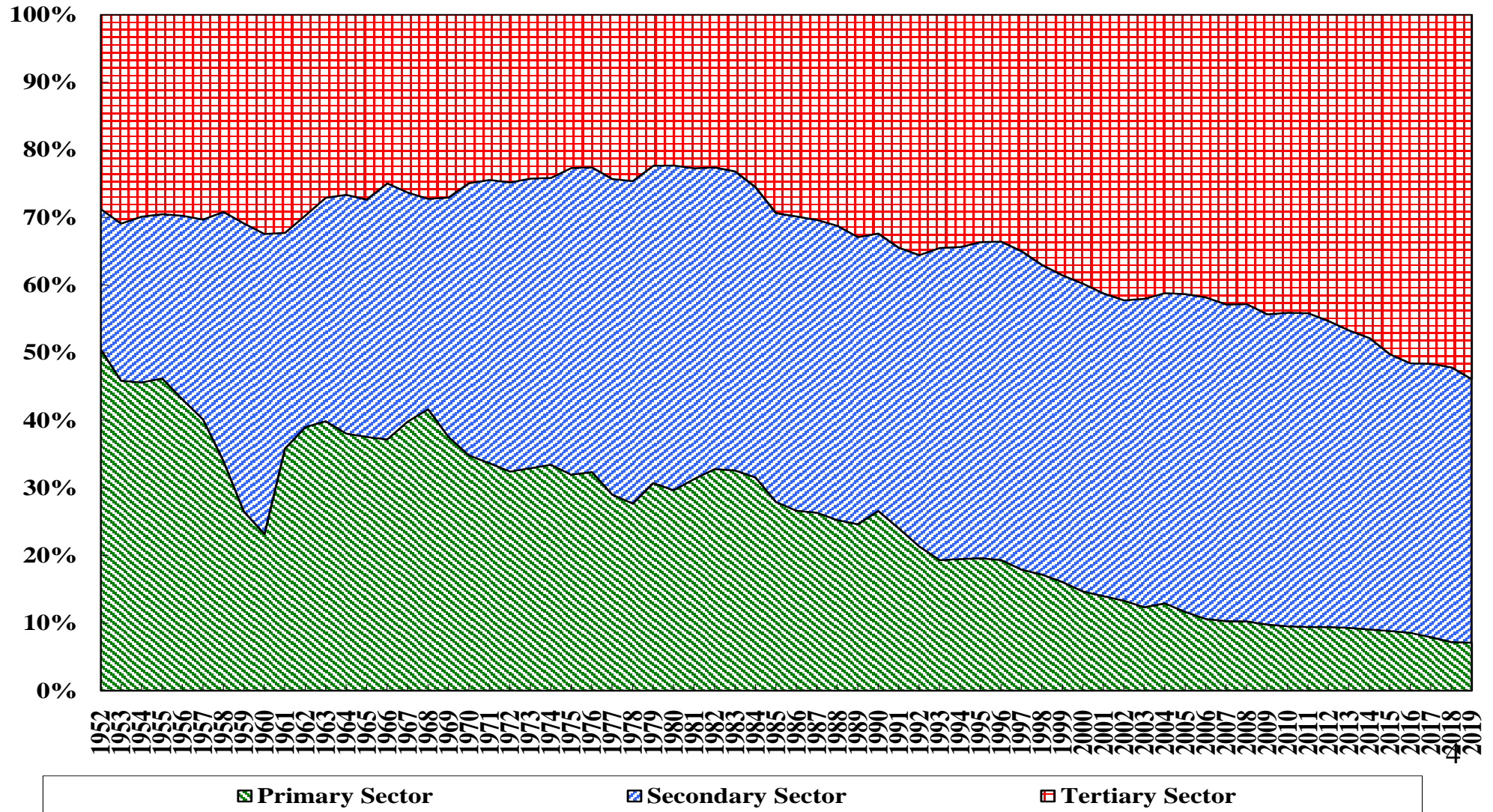
# Economic Fundamentals: High National Savings and Investment Rates as % of GDP

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



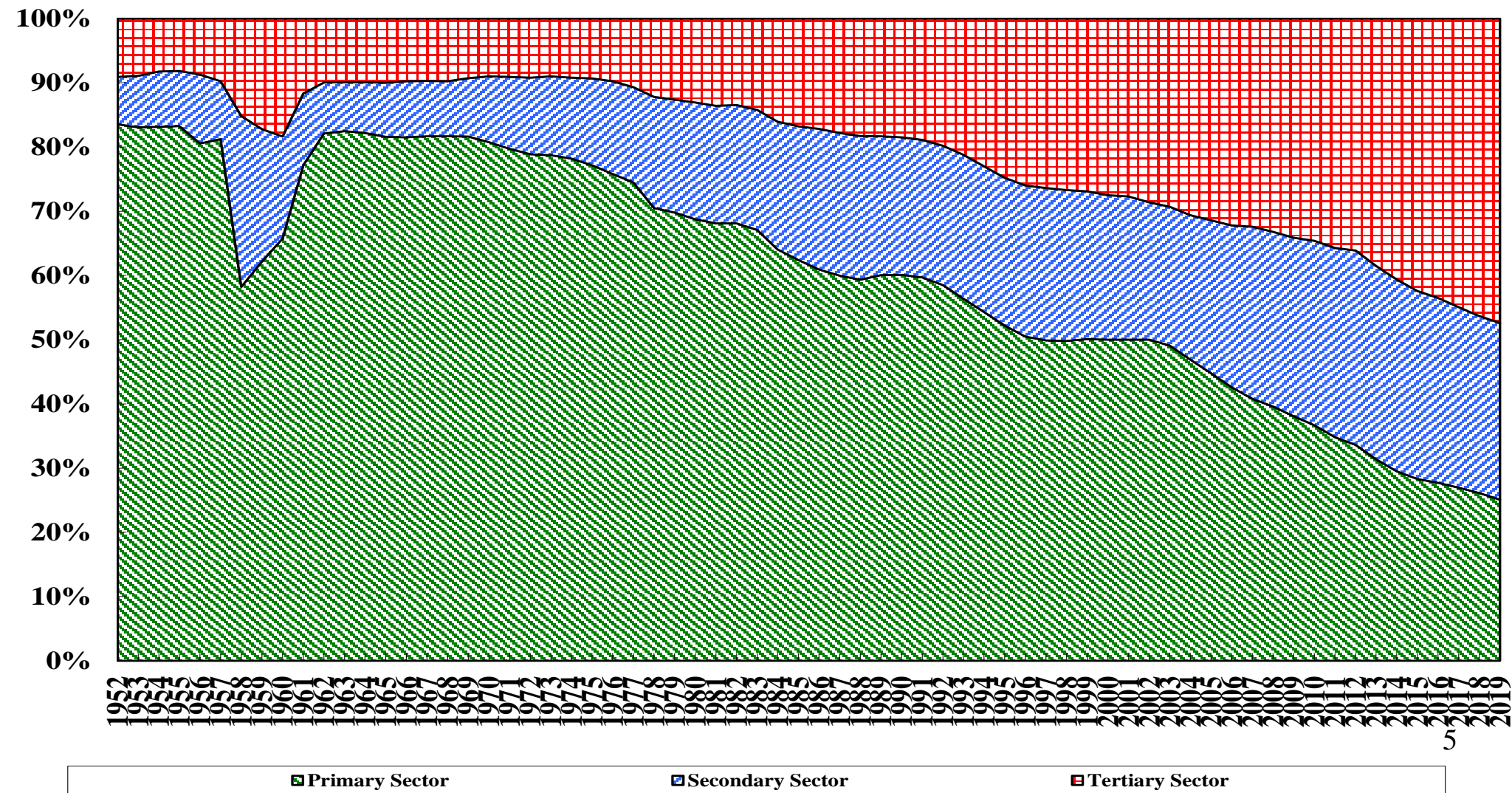
# Economic Fundamentals: The Distribution of Chinese GDP by Sector Since 1952

The Distribution of Chinese GDP by Originating Sector Since 1952



# Economic Fundamentals: The Distribution of Chinese Employment by Sector

The Distribution of Employment by Sector since 1952

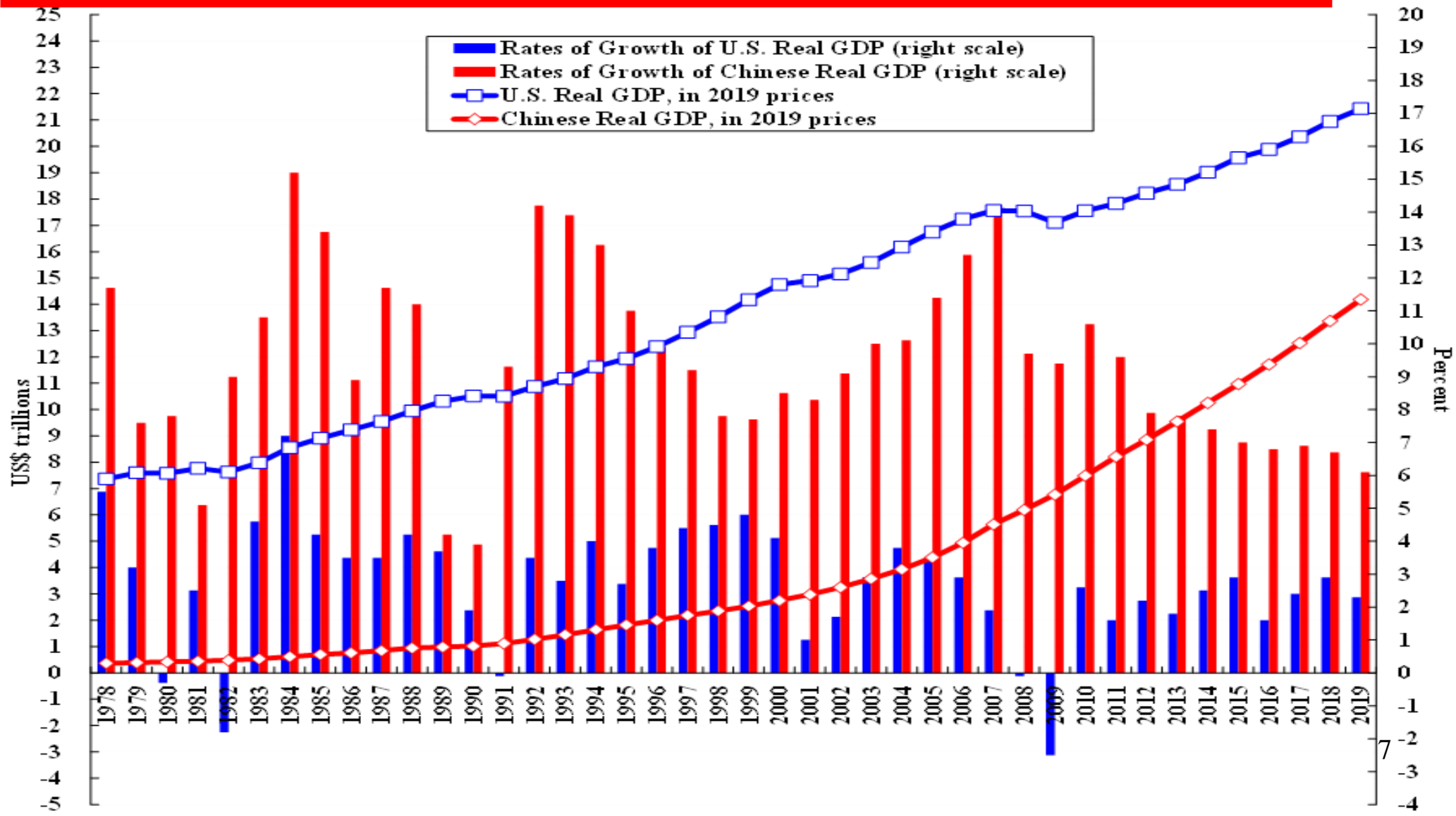


# The Underlying Trends in the Chinese Economy

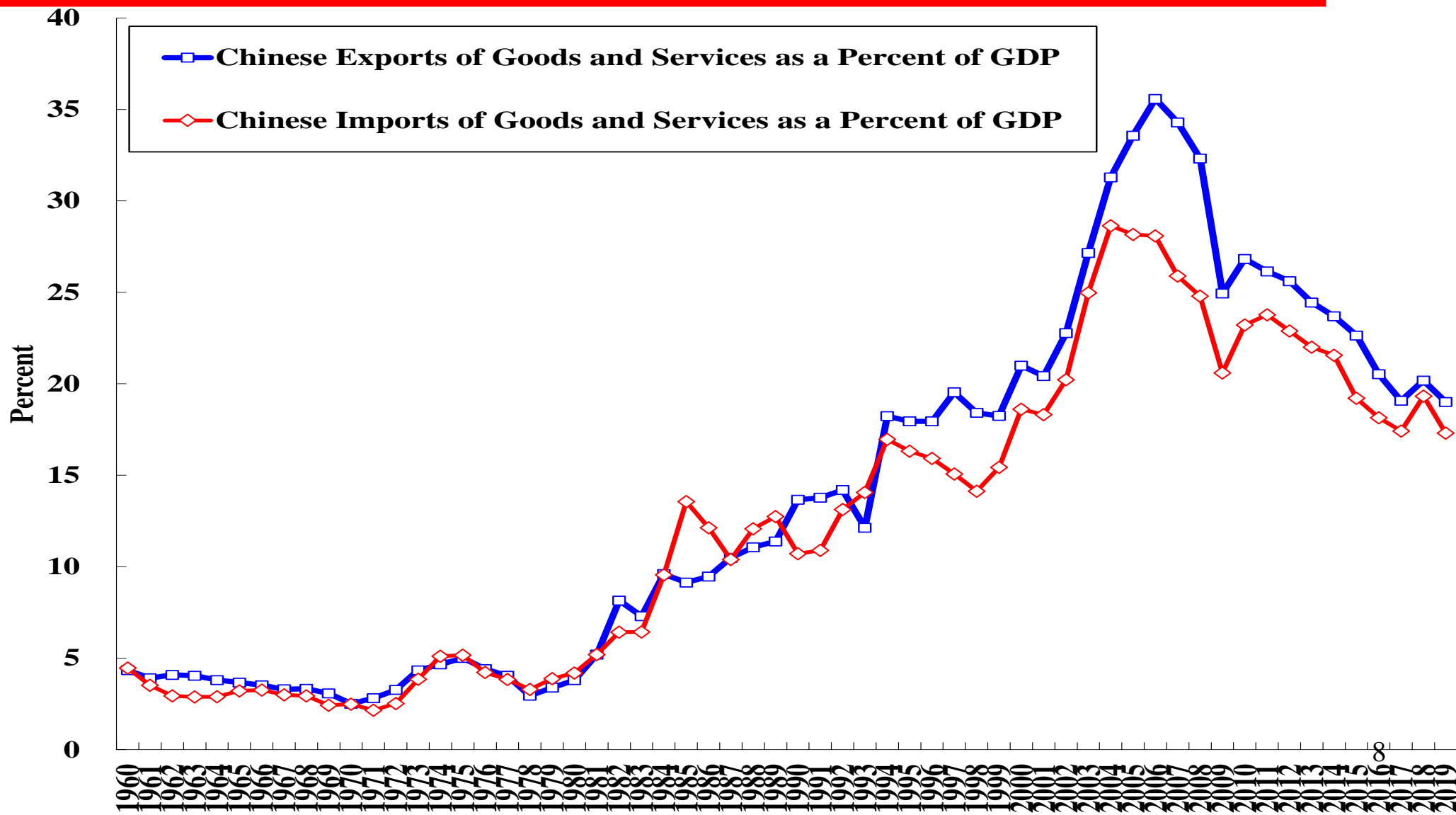
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- ◆ The Continuing High Rate of Chinese Economic Growth
- ◆ The Declining Importance of International Trade and Investment to China
- ◆ The Relative Independence of the Chinese Economy from External Disturbances

# The Real GDPs and Their Rates of Growth: China and the U.S. (tril. 2019 US\$ & %)



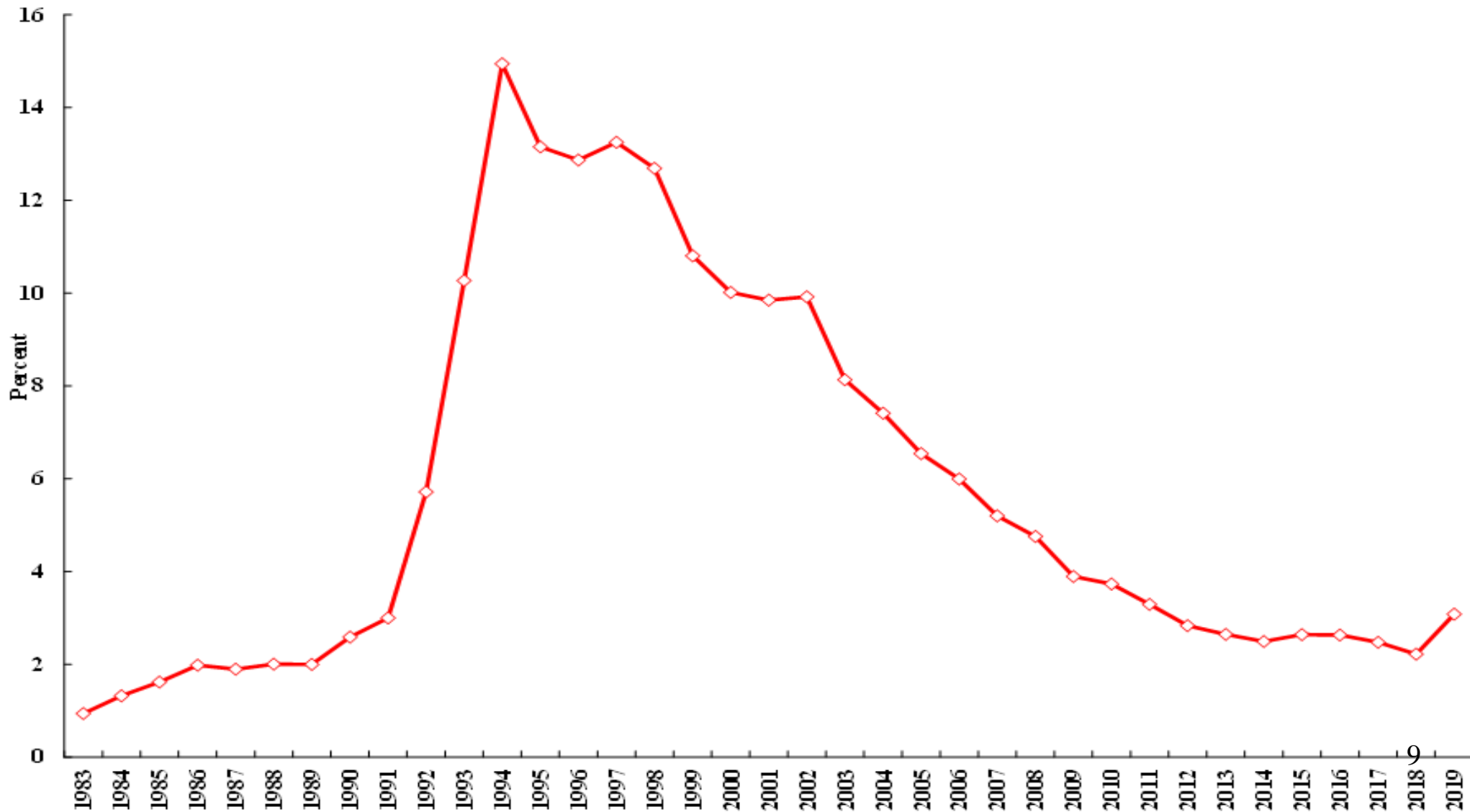
# Chinese Exports and Imports of Goods and Services as a Percentage of Chinese GDP



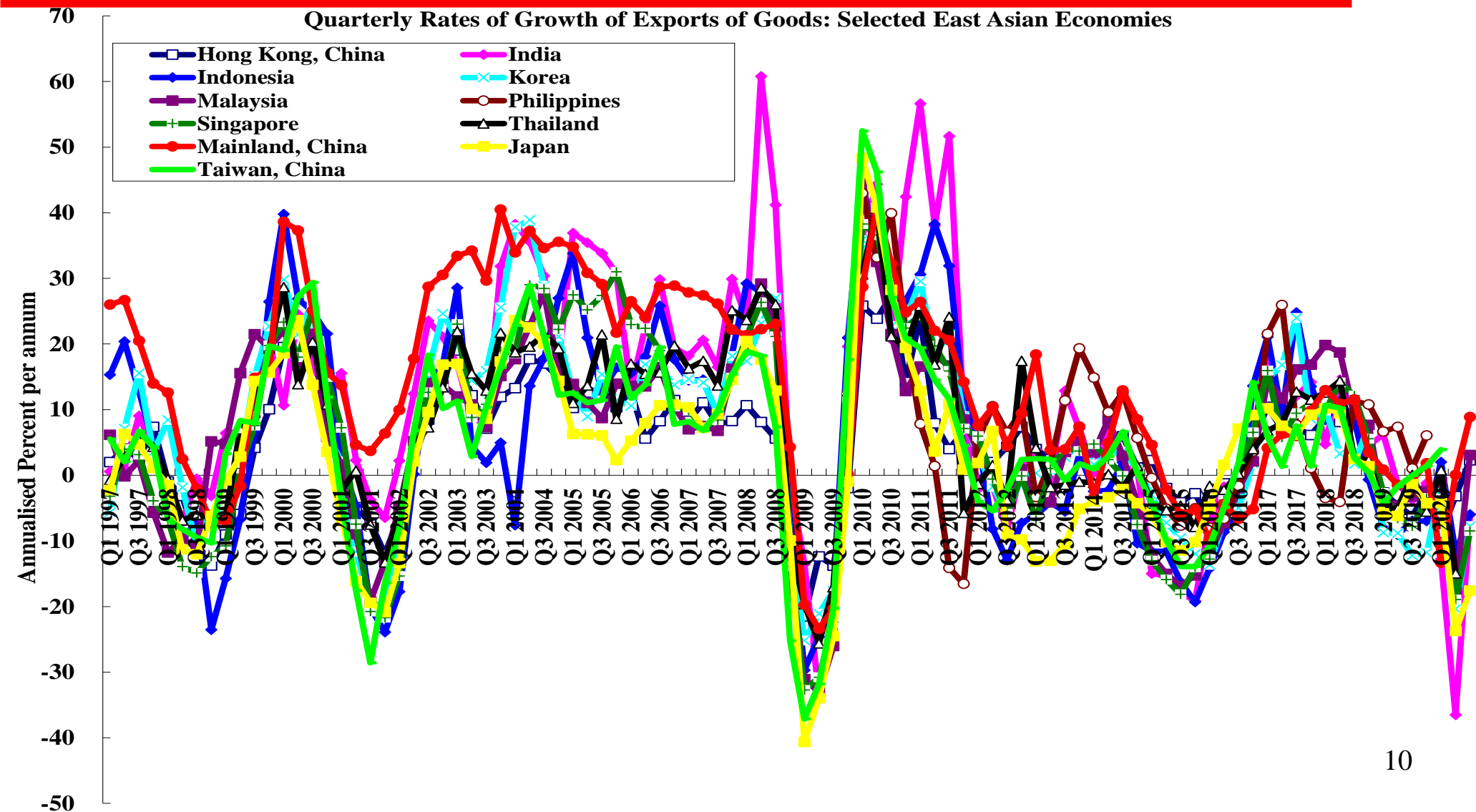


# Chinese Inbound Foreign Direct Investment as a Percentage of Gross Domestic Investment

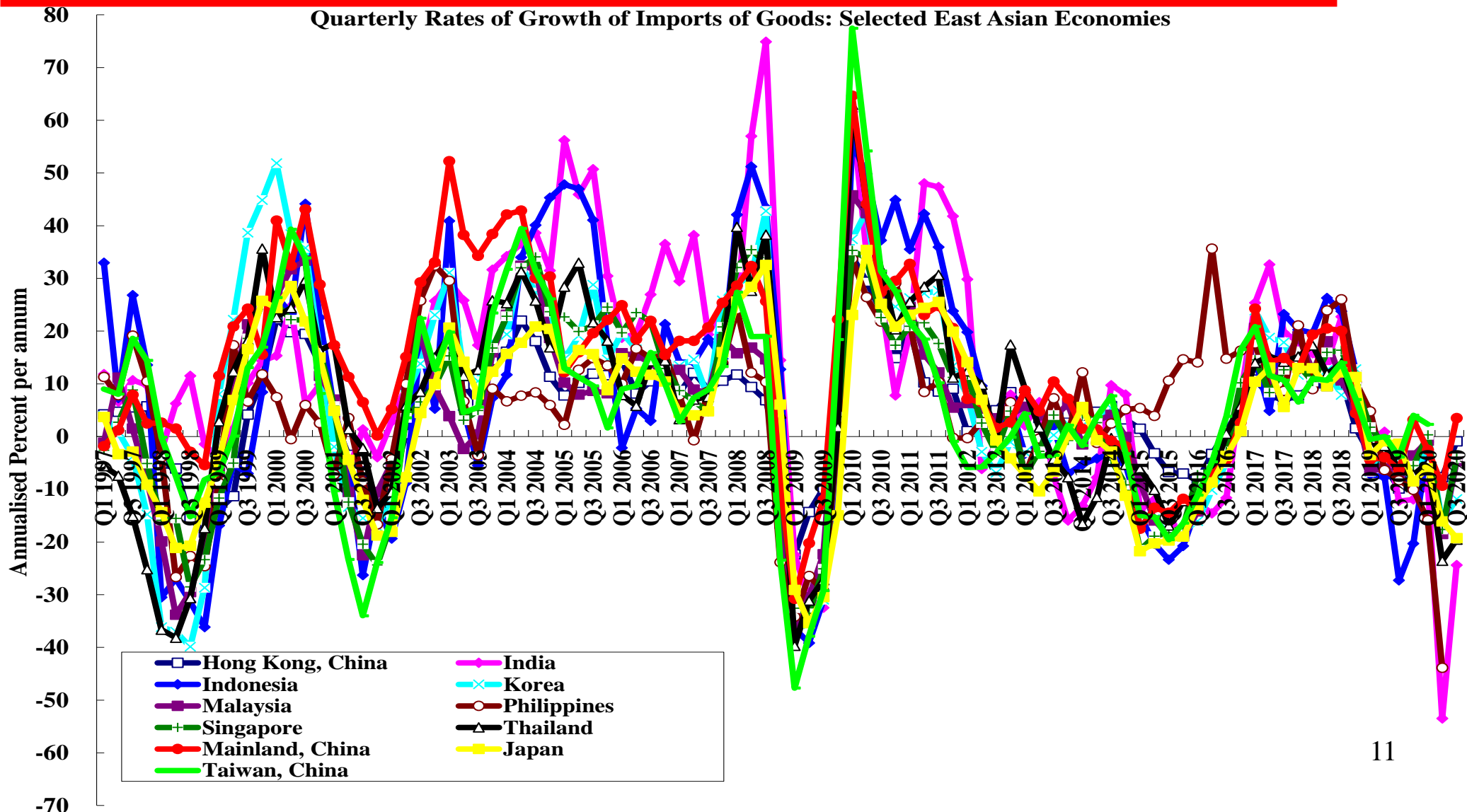
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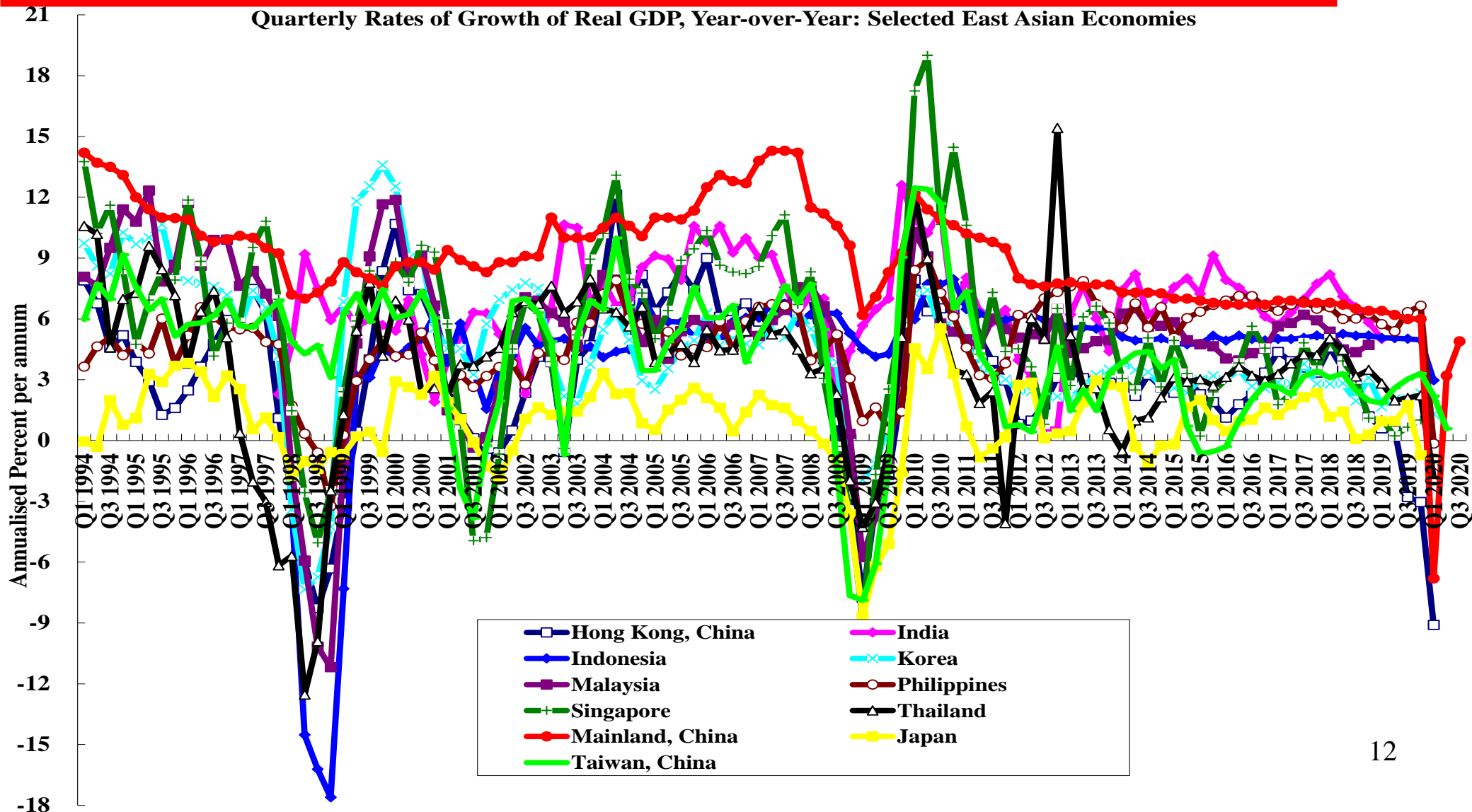
# Quarterly Rates of Growth of Exports of Goods: Selected Asian Economies



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



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

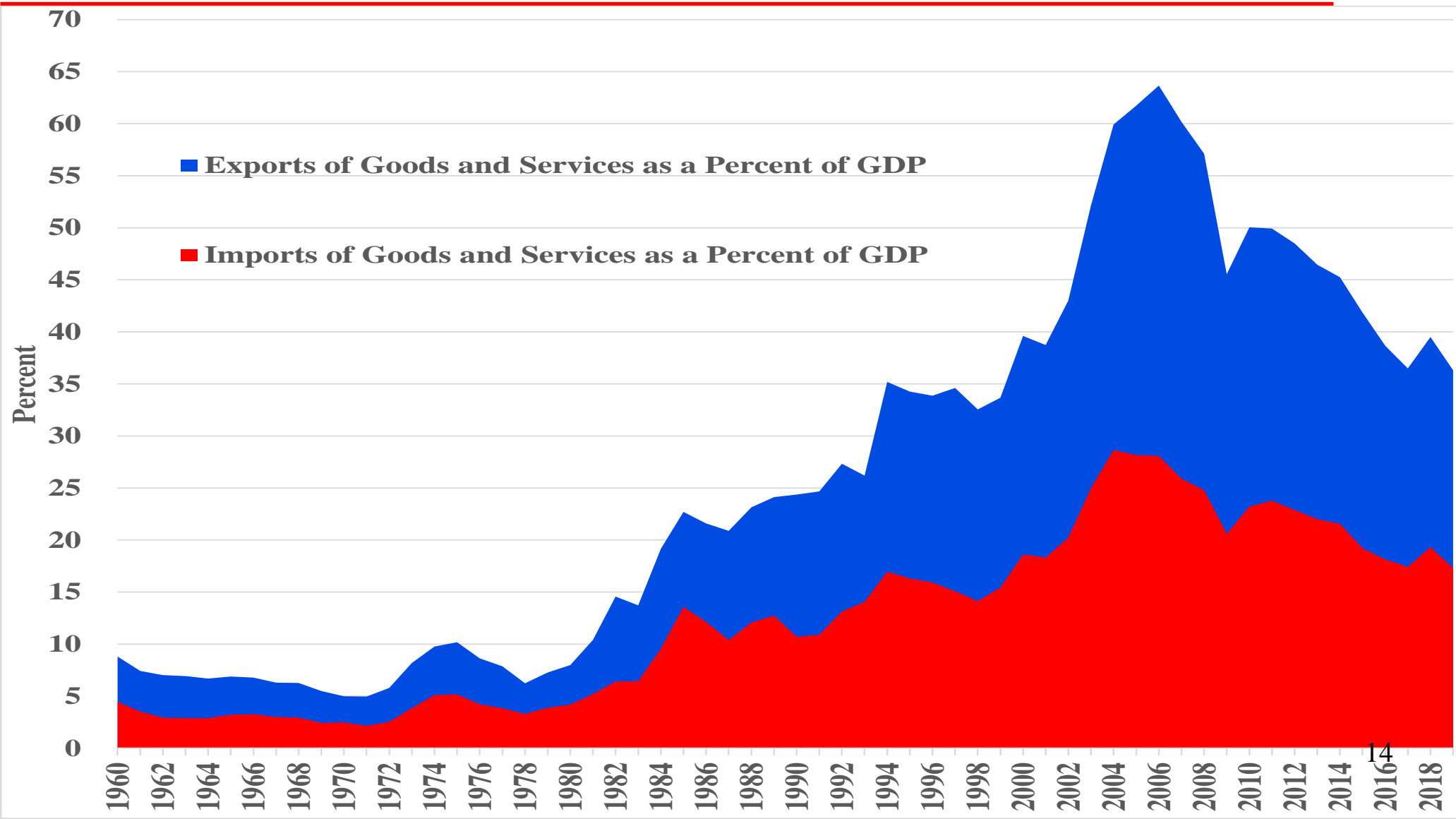


# The Twin Circulations

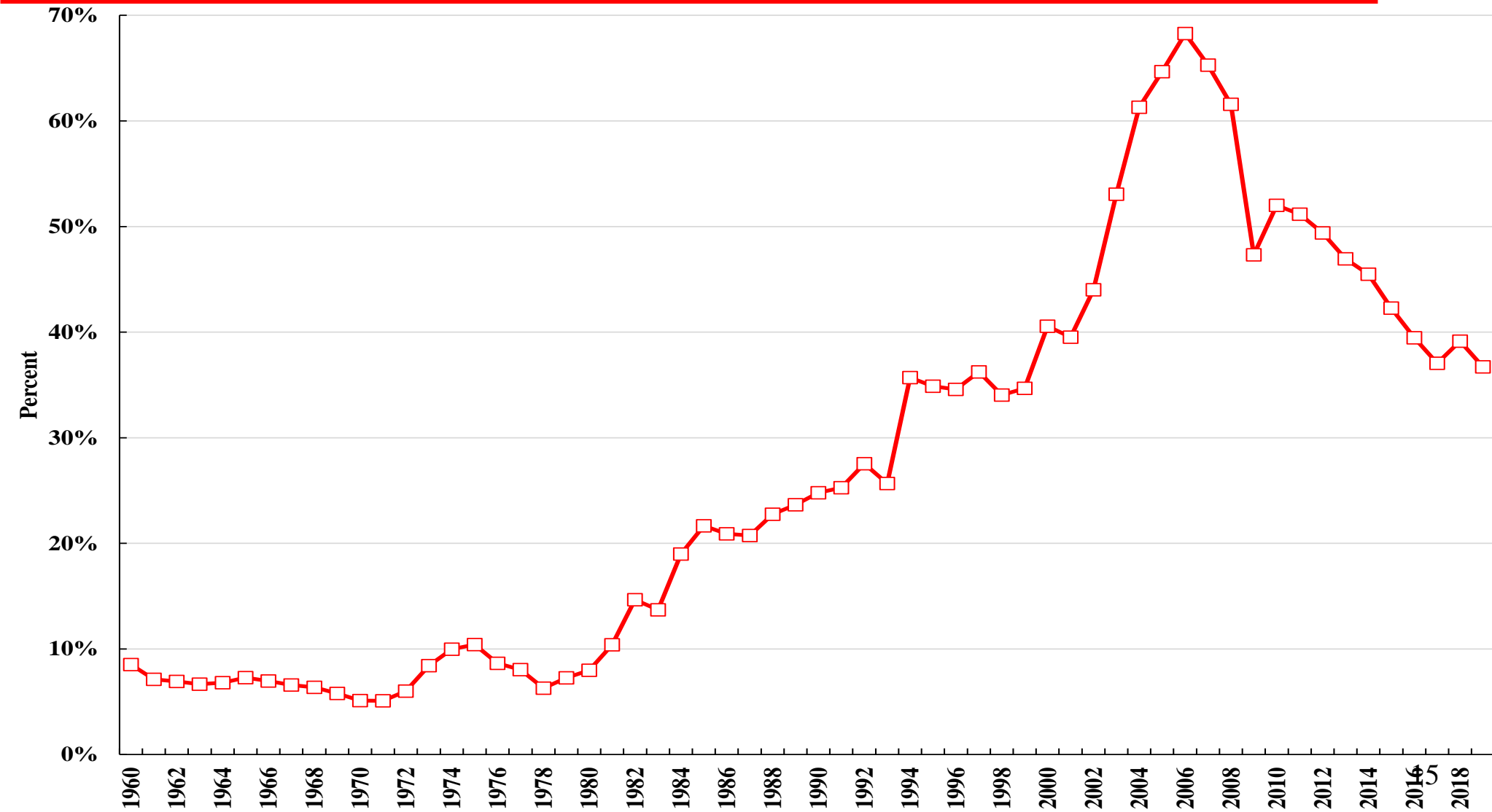
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- ◆ In August 2020, President XI Jinping of the People's Republic of China said, **“China should promote the formation of a new pattern of economic development, with the domestic circulation as the principal focus, and the twin domestic and international circulations mutually reinforcing each other”**. This shows clearly that China's intention is to remain an active participant of the global economy, even though the domestic economy will become the dominant focus of its economic development. It is simply a reflection of the fact that the Chinese domestic market will exceed its international market, which is normal for large continental economies like China and the U.S.
- ◆ On 14 October, during the celebration of the 40<sup>th</sup> Anniversary of the establishment of the Shenzhen Special Economic Zone, President XI Jinping reaffirmed once again that China will continue its economic reform and opening.
- ◆ It is therefore clearly in China's interests that the global financial systems continue to enable and facilitate international trade and other cross-border transactions.

# Chinese Exports and Imports of Goods and Services as a Percent of GDP, 1960-present



# The Ratio of International Circulation to Domestic Circulation (percent)



# Continuing Economic Reform and Opening: Initiatives and Strategies

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- ◆ On 15 November 2020, the **Regional Comprehensive Economic Partnership (RCEP) Agreement** was signed by 15 countries: the ten ASEAN countries, China, Japan, Korea, Australia and New Zealand. (India, which was originally included, decided to withdraw.) This is the largest free trade agreement ever, covering approximately 30% of the world's population, GDP and international trade. There is a proposal to reduce the rates of tariffs to zero among the members of RCEP.
- ◆ On 30 December 2020, the **Comprehensive Agreement on Investment between China and the European Union** was successfully concluded.
- ◆ Negotiations are also underway among China, Japan and the Republic of Korea for a Free Trade Area.
- ◆ There is also the possibility of a Shanghai Cooperation Organisation (SCO) Free Trade Agreement, comprising China, India, Kazakhstan, Kyrgyzstan, Pakistan, Russia, Tajikistan, and Uzbekistan.
- ◆ China has recently expressed a **desire to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)**.
- ◆ Going forward, China should pursue the “Four Zeroes” strategy—zero tariffs, zero non-tariff barriers, zero subsidies and zero export restrictions--with like-minded countries on a reciprocal basis, with “infant industry” and “national security” exceptions.



# The Economic Impacts of China-U.S. Strategic Competition : The De-Coupling of Economies

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- ◆ De-coupling is costly, but it is like second-sourcing, and has benefits.
- ◆ De-coupling of the supply chains can take two forms—imposition of tariffs and non-tariff barriers, and the use of export controls.
- ◆ Cross-border direct and portfolio investments.
- ◆ Access to international clearing and settlement systems.
- ◆ Educational exchanges.

# De-Coupling of Supply Chains

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- ◆ These are “Sputnik” moments for China, as the 1957 successful launch of the first man-made satellite into space by the former Soviet Union was for the U.S. at the time. China must step up its investment in R&D massively, especially in basic research, so that it does not have to depend on other countries for the supply of critical products, parts, equipment and technologies.
- ◆ Every major country must make provisions for sudden and unforeseen disruptions of supply. No major country wants to depend solely on another country for the supply of a critical input.
- ◆ The U.S. does not want to be put in the position to have to rely solely on Huawei for its 5G telecommunication technology, which is understandable. That is why it is doing all it can to try to destroy Huawei. But it may mean a delay in the roll-out of 5G in the U.S. and a higher cost of the 5G telecommunication equipment.
- ◆ The de-coupling of supply chains will also affect producers in the U.S. that rely on inputs from China—raw material, components, parts and semi-finished products.

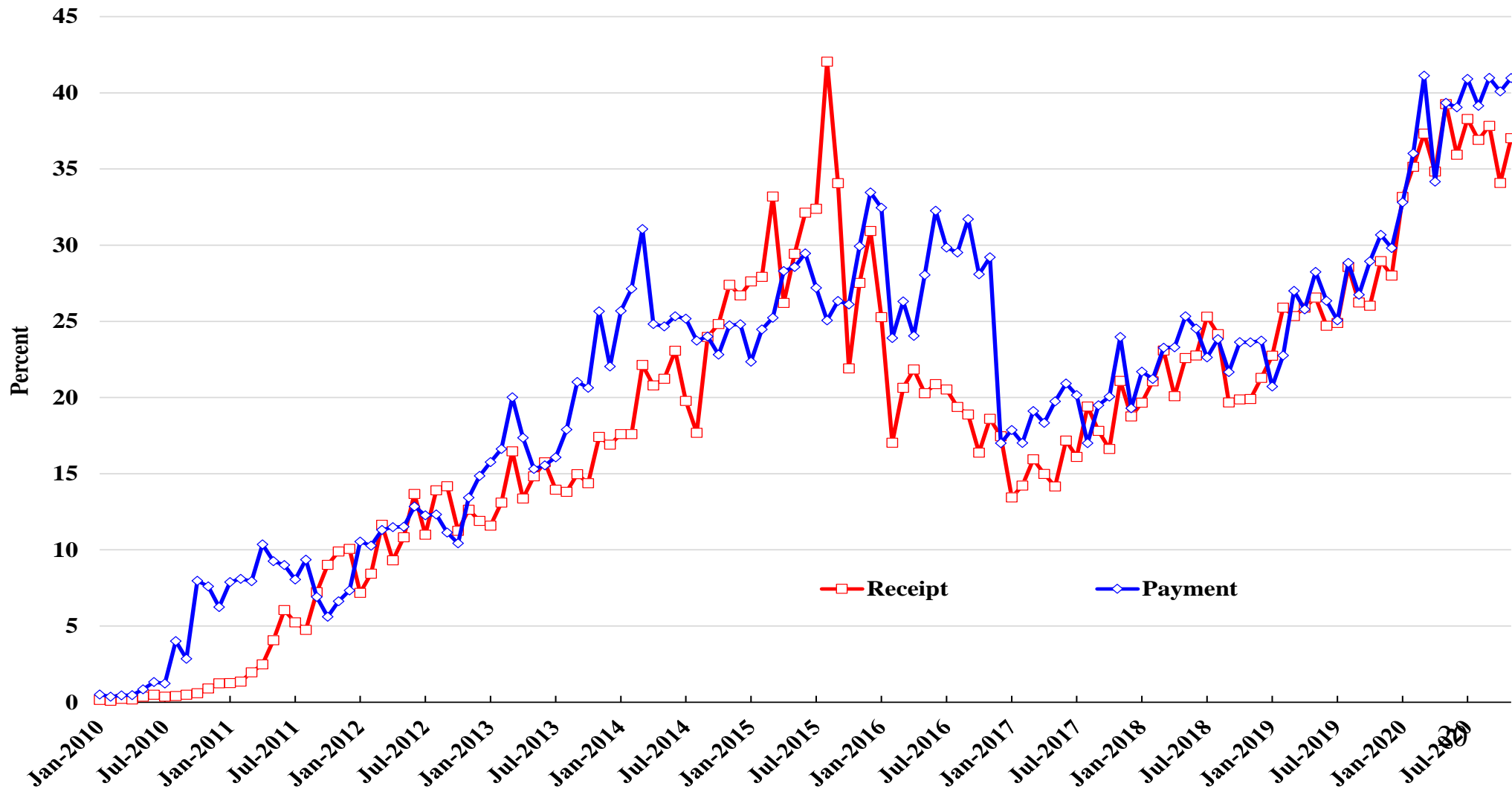
# Access to International Clearing and Settlement Systems

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- ◆ The U. S. Dollar is the predominant international medium of exchange today-- approximately 38% of all international transactions is settled in U.S. Dollars, even though the U.S. accounts for only 11.3% of all international trade (including trade in both goods and services). This gives rise to seigneurage for the U.S.
- ◆ Before 2010, almost all Chinese international transactions were settled in U.S. Dollars, using the Society for Worldwide Interbank Financial Telecommunication (SWIFT) system.
- ◆ Then China began to settle part of its international transactions in Renminbi in 2010. The share of settlement in Renminbi began to rise and grew steadily until it reached a peak of 32.5% in mid-2015. Because of an abrupt devaluation of the Renminbi in mid-2015, it declined to 15.6% in February 2017. Then it began to recover, and was at 38.0% in August 2020. There is still a great deal of room for the Renminbi to expand its use in the settlement of Chinese international transactions.

# Share of Renminbi Settlement in China's Foreign Related Transactions

Share of Renminbi Settlement in China's Foreign Related Transactions



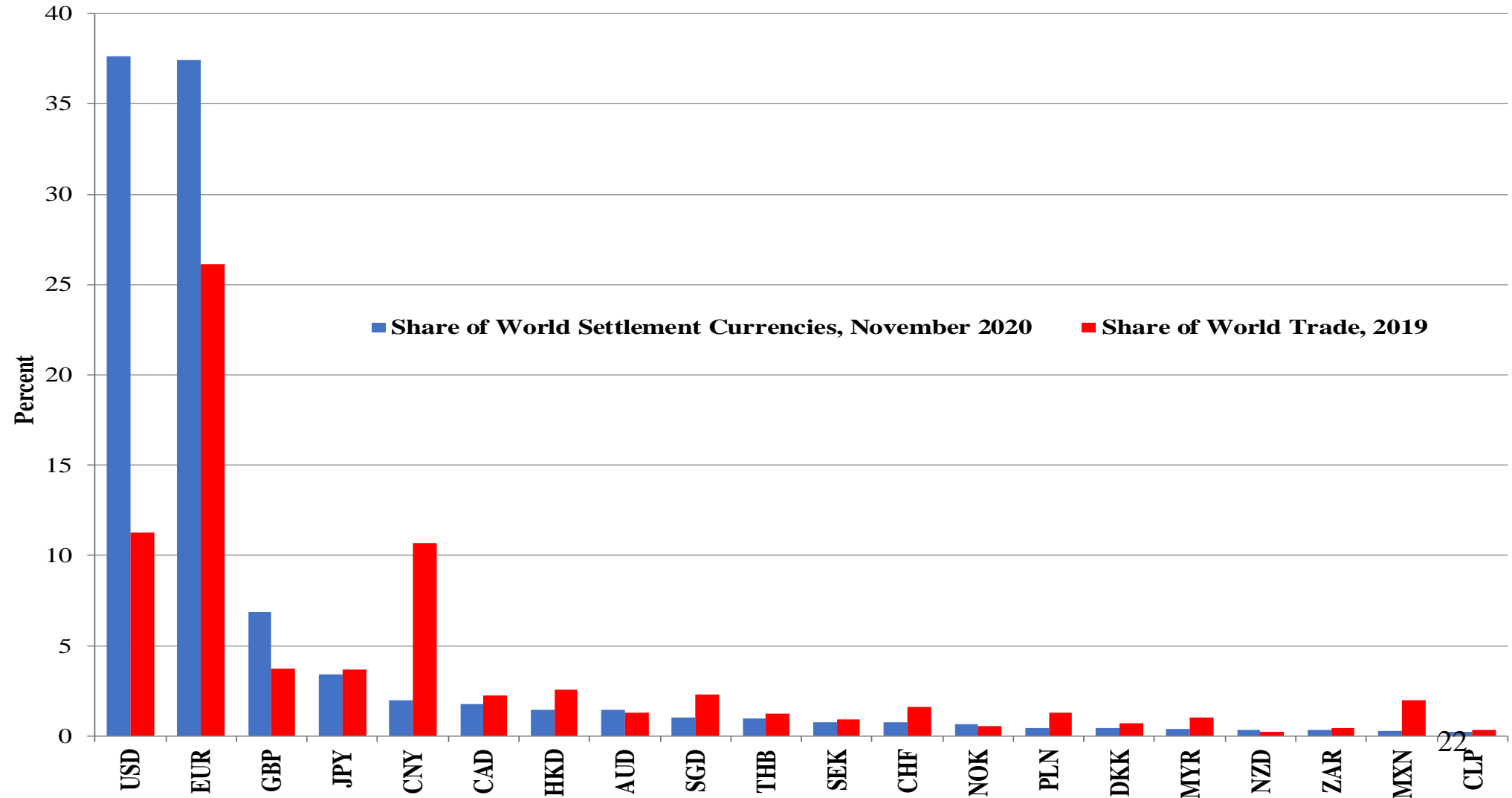
# The Inherent Advantages of Clearing and Settlement in Own Currencies

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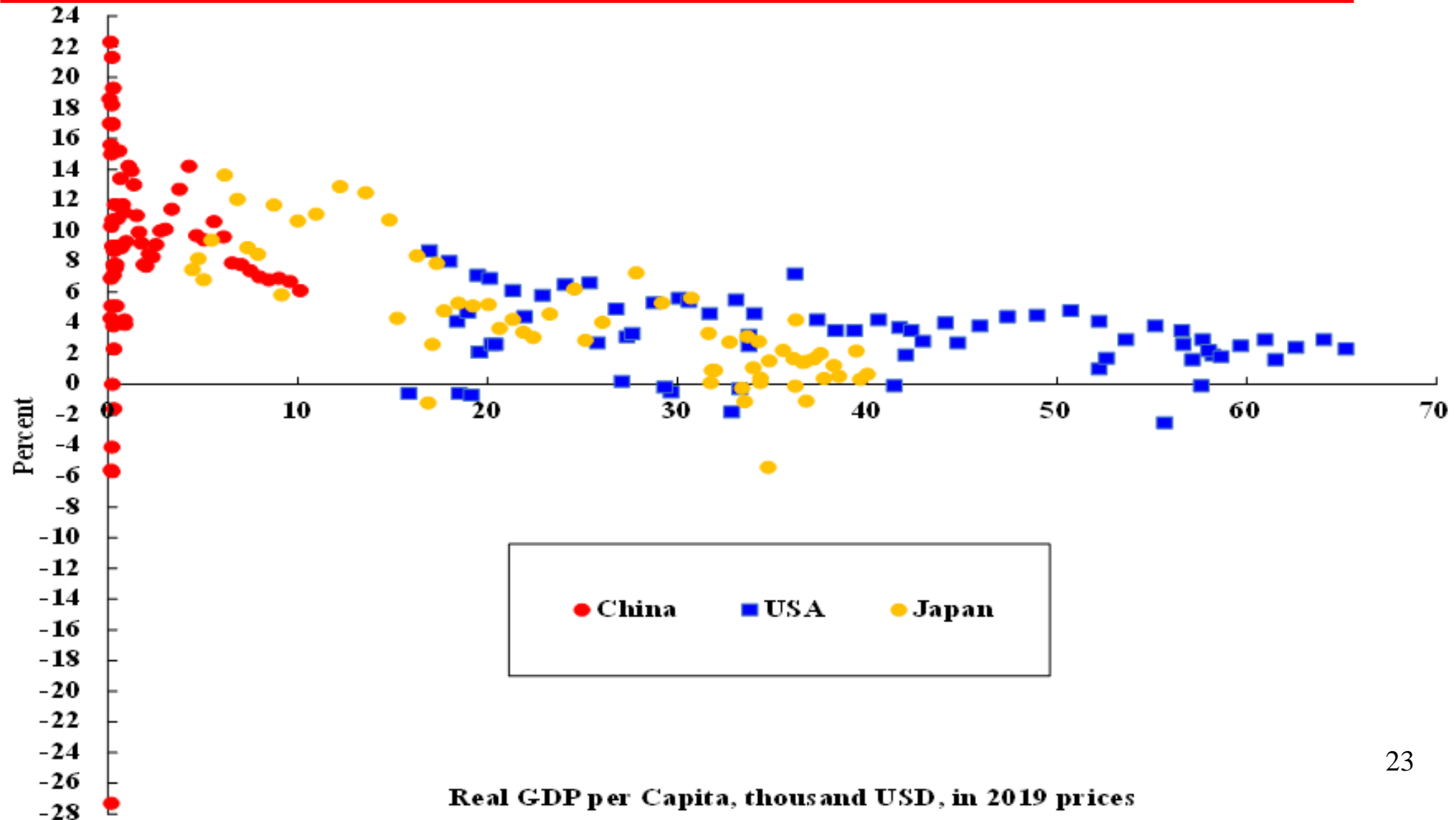
- ◆ However, there are inherent advantages for two trading-partner countries to invoice, clear and settle their bilateral trade transactions in their own currencies:
- ◆ (1) Only a single currency exchange is involved, thus reducing transaction costs. (If a third-country currency is used, there will be two currency exchanges, for example, from one local currency into US\$, and then from US\$ into the other local currency.)
- ◆ (2) Since there is a time lag between the placement of an order and the actual delivery and payment, there will also be two exchange rate risks that have to be separately assumed by the respective exporter and importer if a third-country currency is used instead of one of the two own currencies.
- ◆ (3) Using own currencies for clearing and settlement reduces the need for official foreign exchange reserves that have to be maintained by the respective central banks.

# The Shares of World Settlement by Currency and World Trade of the Issuer

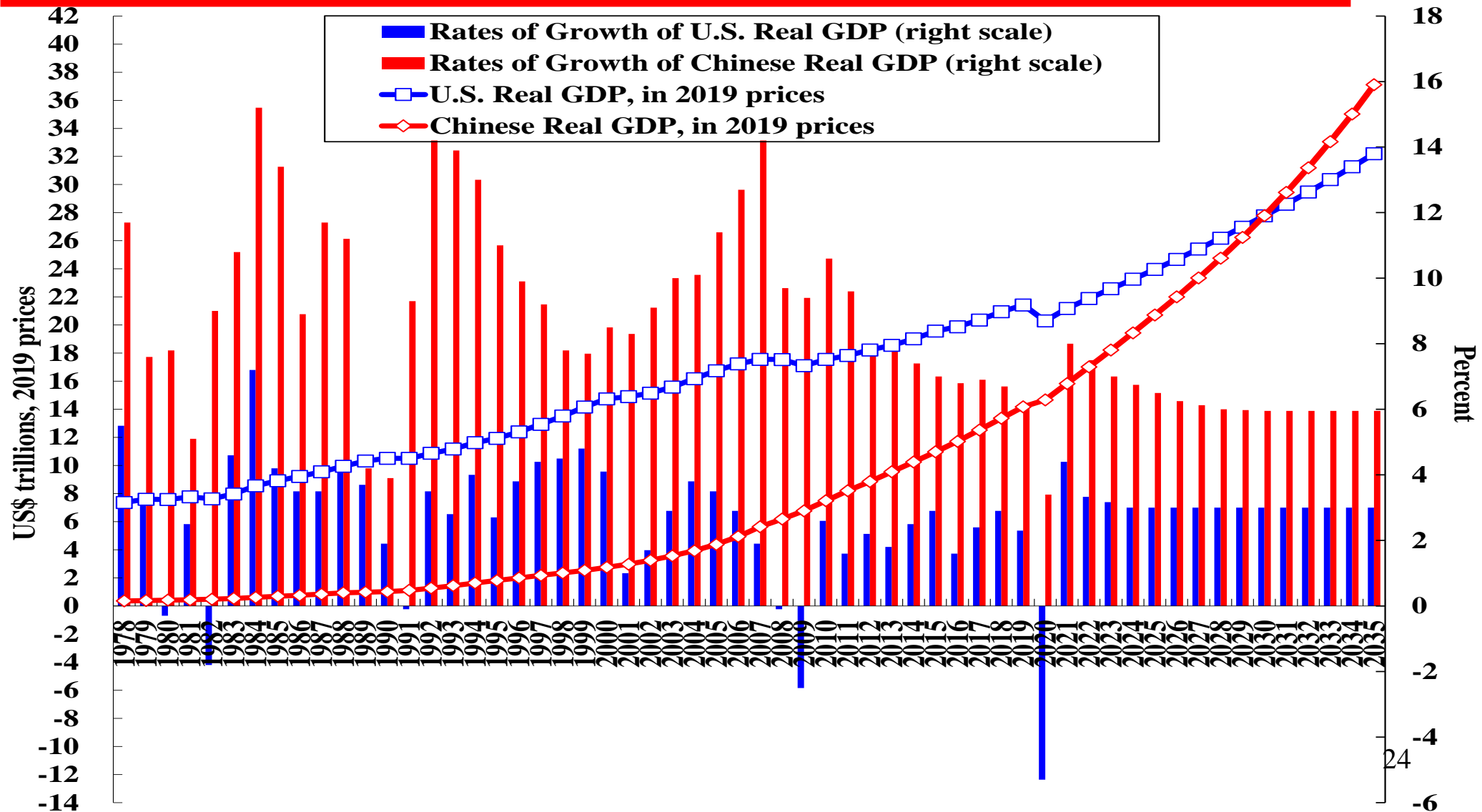
Share of World Settlement Currencies, November 2020



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

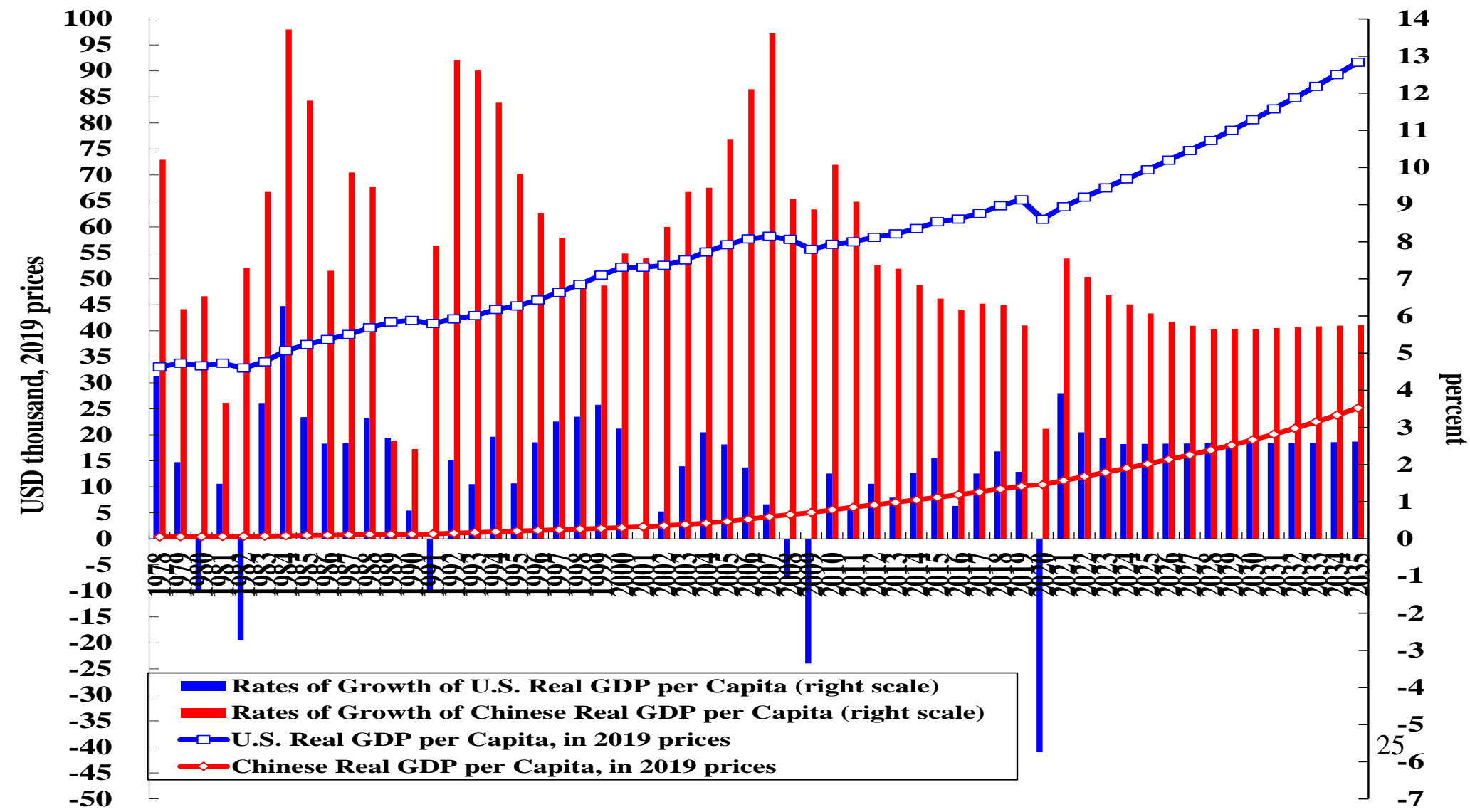


# Actual and Projected Real GDPs (2019 US\$) and Their Rates of Growth: China and the U.S.





# Actual and Projected Real GDPs per Capita and Their Rates of Growth: China and the U.S.



# Long-term Projections of the Chinese and U.S. Economies

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- ◆ Our projections suggest that in 2030, the Chinese aggregate real GDP (US\$27.79 trillion in 2019 prices) is likely to just barely edge out the U.S. aggregate real GDP (US\$27.77 trillion in 2019 prices). The implied average real rates of growth between 2019 and 2030 are approximately 6% for China and 2.5% for the U.S., reflecting the fact that the Chinese economy will continue to grow in 2020 at a projected 3.4% whereas the U.S. economy is projected to contract approximately 5.3% in 2020.
- ◆ However, because the Chinese population is approximately 4 times that of the U.S., by 2030, the projected U.S. GDP per capita of US\$80,600 will still be more than four times the projected Chinese GDP per capita of US\$19,040.
- ◆ Chinese real GDP per capita will lag behind that of the U.S. until at least the end of the 21st Century.

# Beyond Economics

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- ◆ Cooperation in Controlling Future Pandemics
- ◆ Preventing Further Climate Change
- ◆ Halting Further Nuclear Proliferation

# Concluding Remarks

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- ◆ With China's continuing participation in the world economy, and given its high rate of growth, China will eventually become not only the largest economy in the world, but also the largest trading nation in the world. It will become not only the world's factory, but also the world's market.
- ◆ China and the U.S. are complementary to each other economically. If they cooperate and coordinate with each other, they will both benefit greatly and it will be win-win.
- ◆ Moreover, with the two largest economies working together, they can solve many of the world's pressing problems, such as controlling the pandemics, ameliorating climate change, preventing further nuclear proliferation, reform of the World Trade Organisation (WTO), and the economic development of Africa, and in so doing benefitting not only themselves but also all mankind.