

The Future of China's Economy

Presentation for the Oxford Martin
School

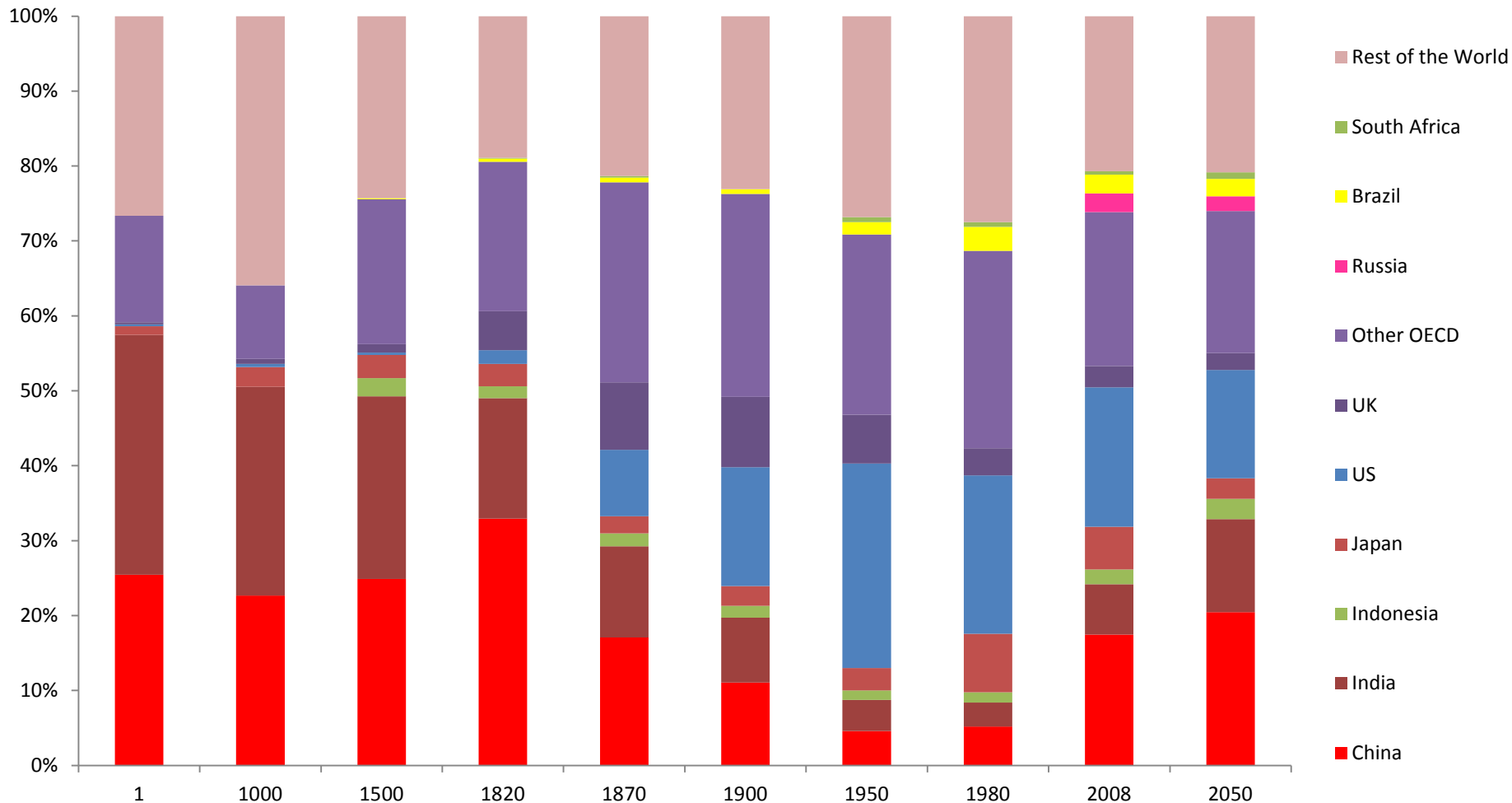
November 2015

Bert Hofman, World Bank

CHINA RISING

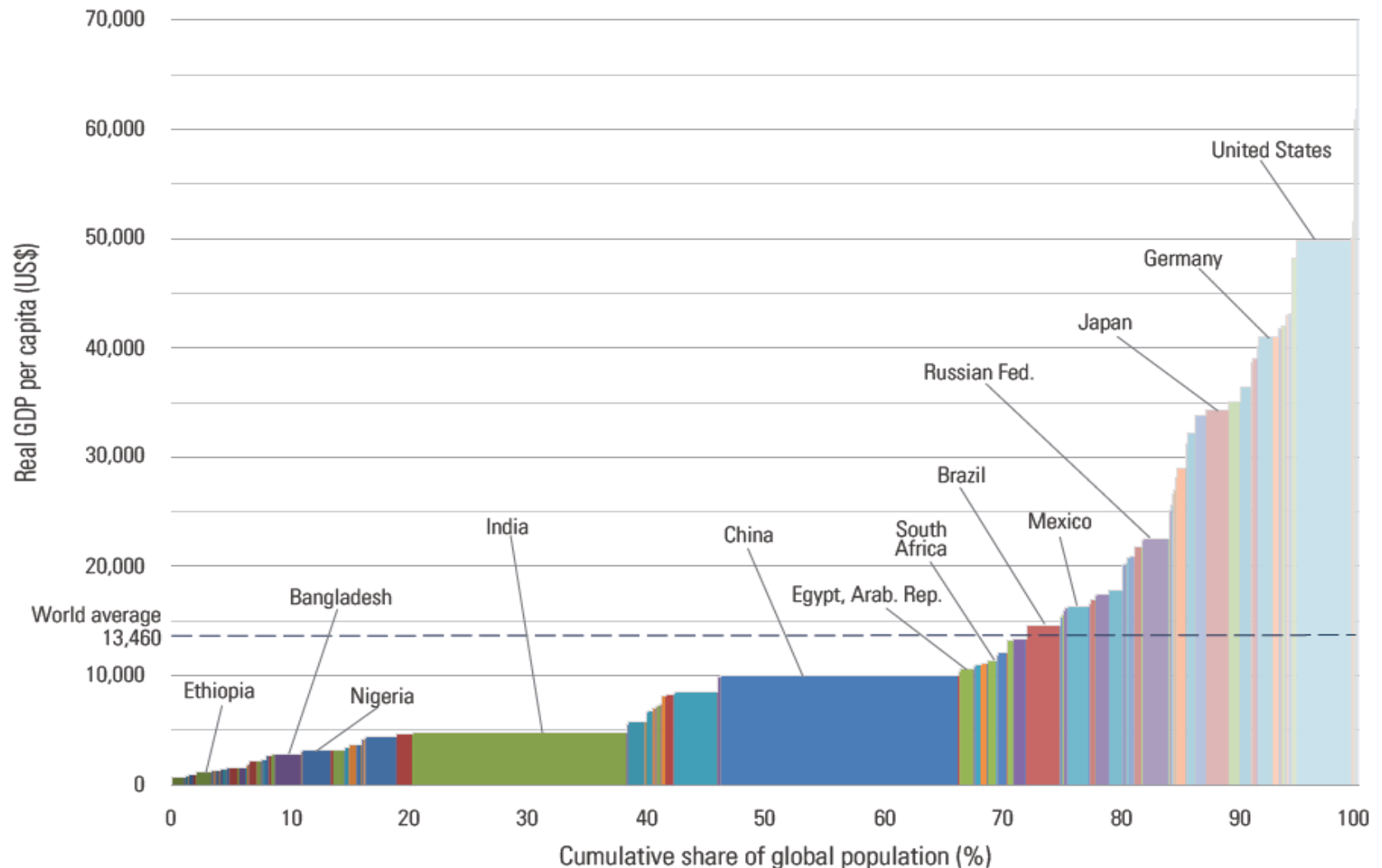
China's (and Asia's) re-emergence

(Share of World GDP 1-2050 AD)



Source: Maddison and OECD. Note: Maddison's estimates are in Geary-Khamis dollars; OECD in 2005 PPP dollars.

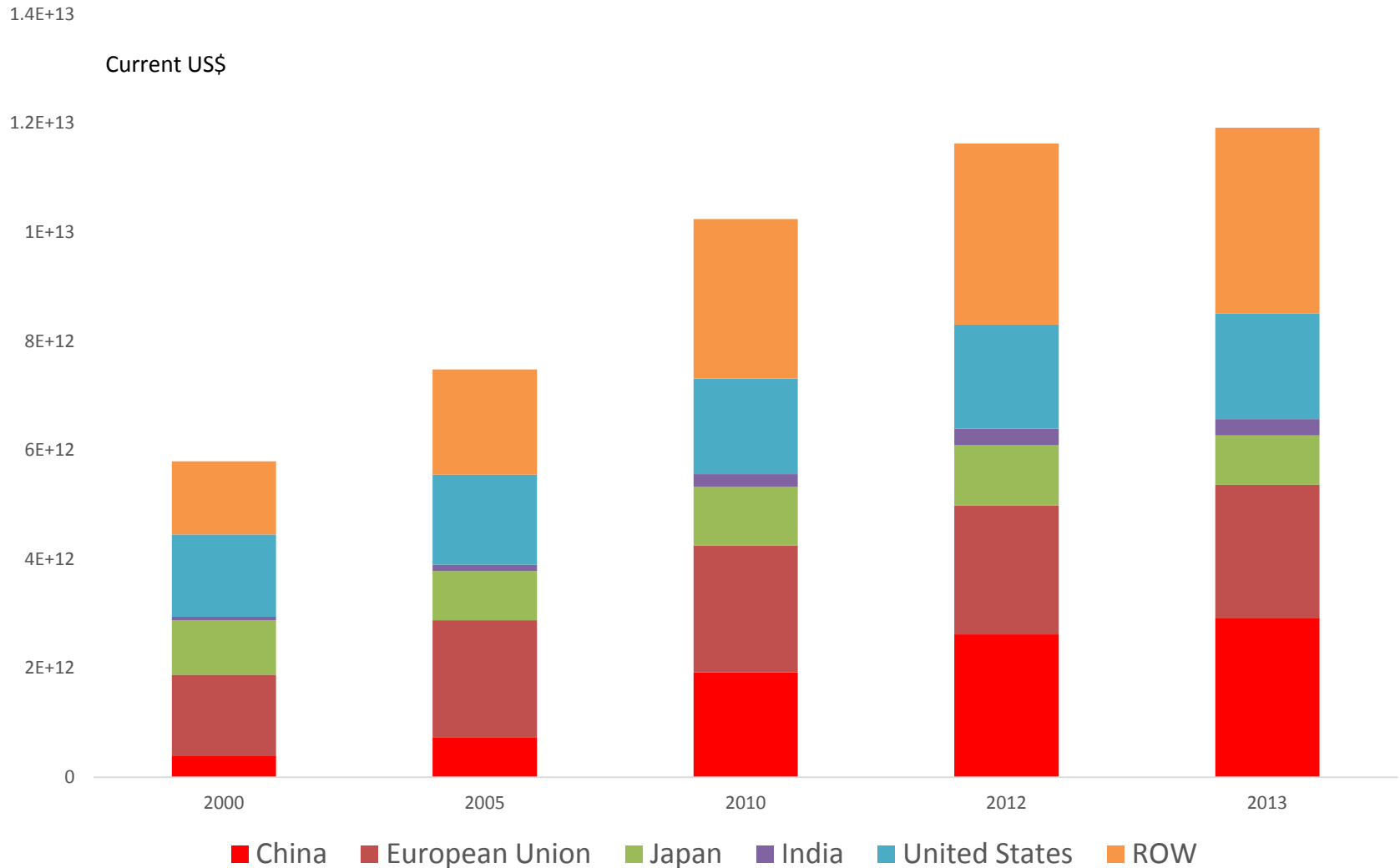
The World Economy Today



Source: ICP Program <http://siteresources.worldbank.org/ICPINT/Resources/270056-1183395201801/Summary-of-Results-and-Findings-of-the-2011-International-Comparison-Program.pdf>

The Largest Manufacturer

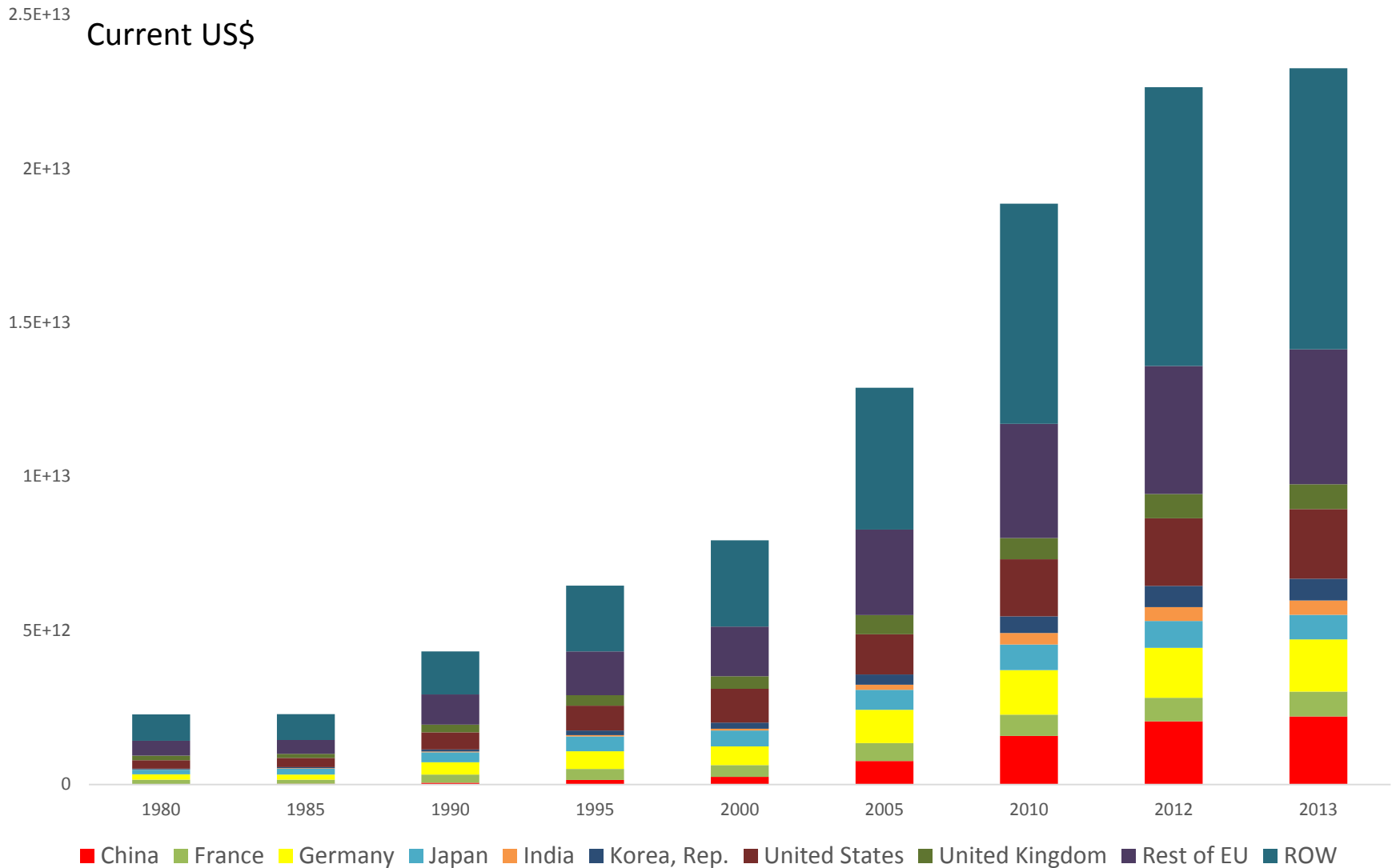
Manufacturing Value Added Current \$



Source: World Development Indicators

Largest Exporter

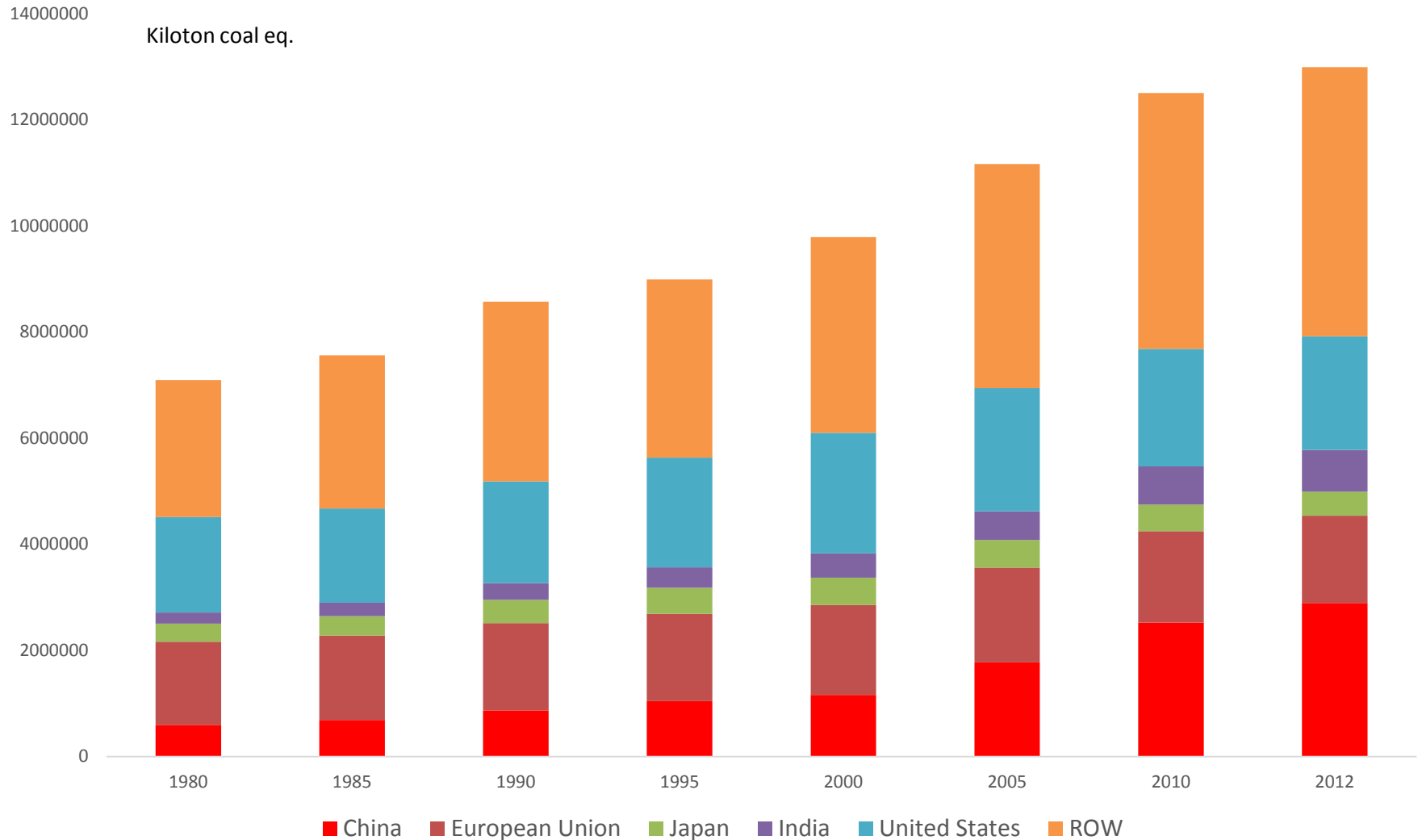
Exports of Goods and Services, Current US\$



Source: World Development Indicators

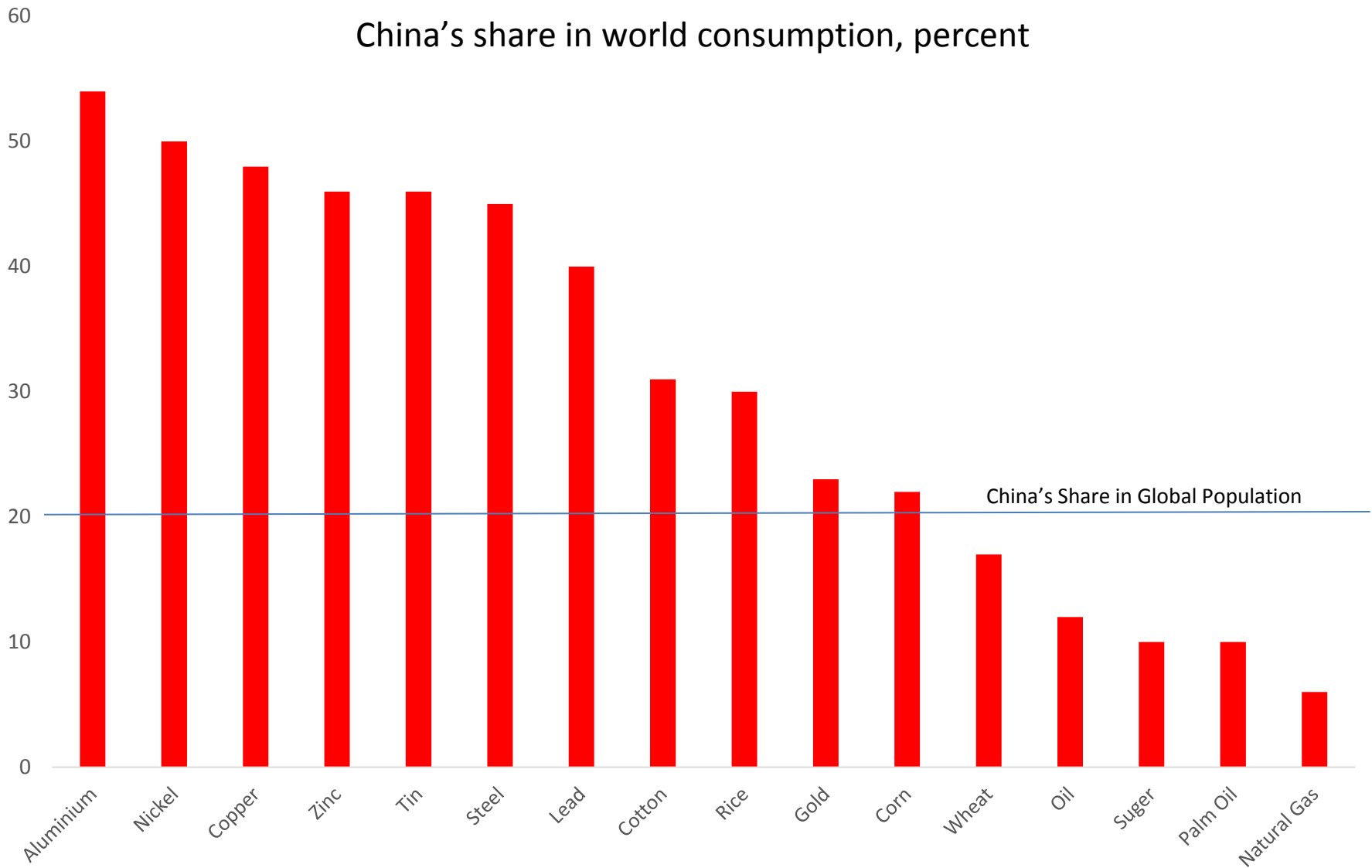
Largest Energy User

Energy Use, Kilotons of Coal Equivalent



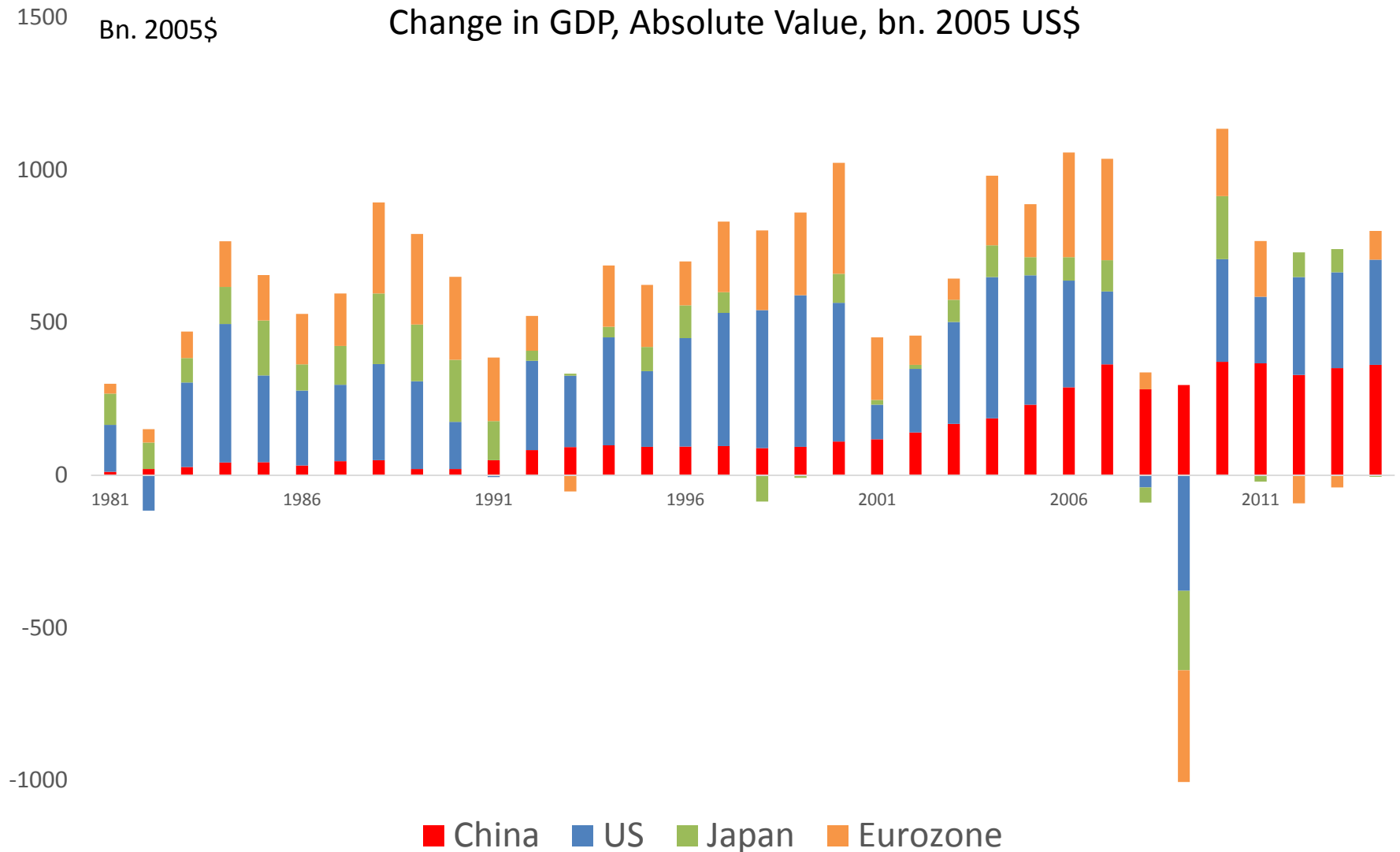
Source: World Development Indicators

A Large Consumer of Commodities



Source: World Economic Forum based on BP Statistical review of World Energy 2015, , World Bureau of Metal Statistics, US Department of Agriculture, JP Morgan, Wall Street Journal,

Growing less, but adding more



Chinese Dream

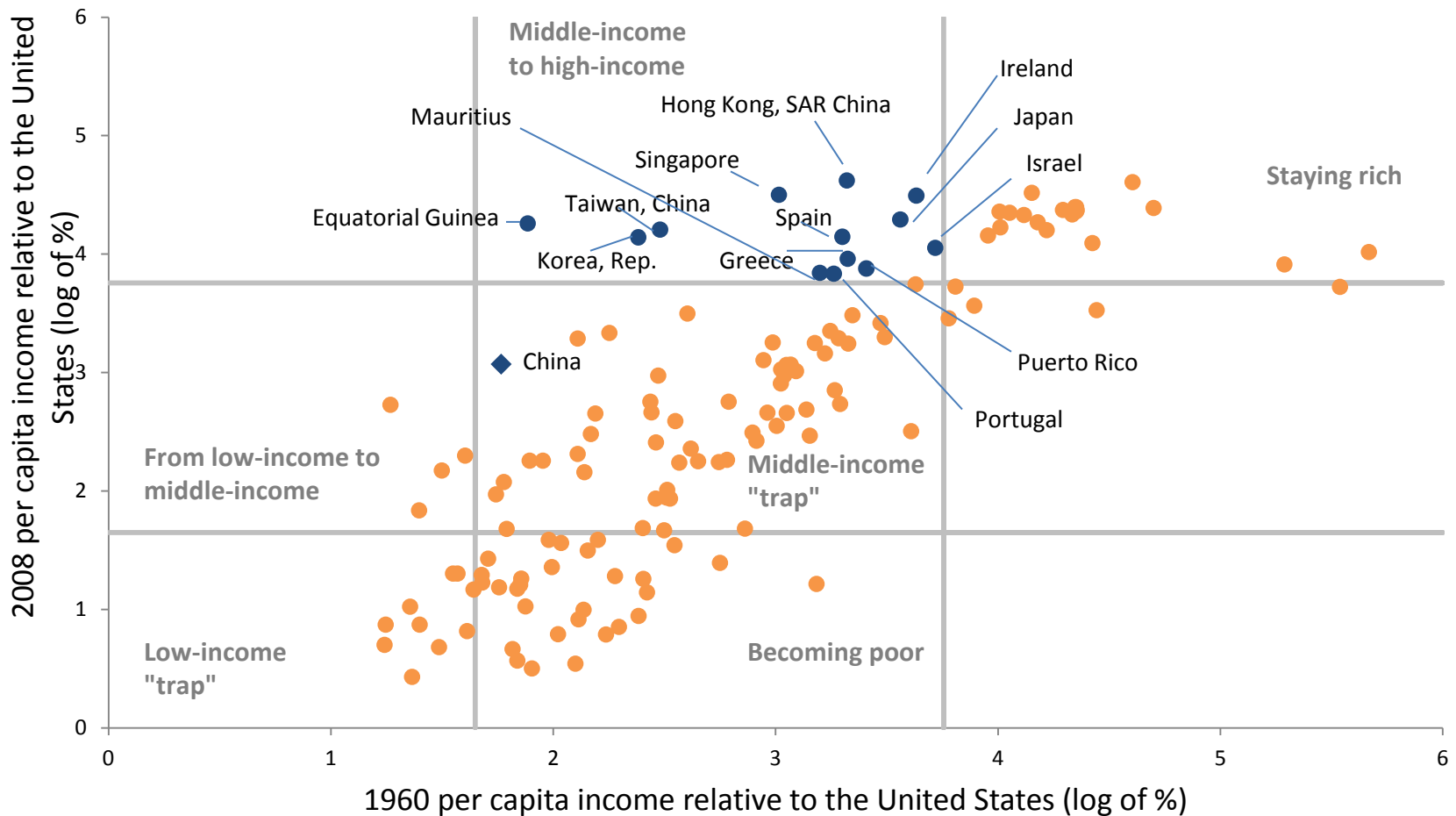
Two centennial goals :

- to complete the building of a moderately prosperous society in all respects when the Communist Party of China celebrates its centennial in 2021;
- to turn China into a modern socialist country that is prosperous, strong, democratic, culturally advanced, and harmonious when the People's Republic of China celebrates its centennial in 2049.

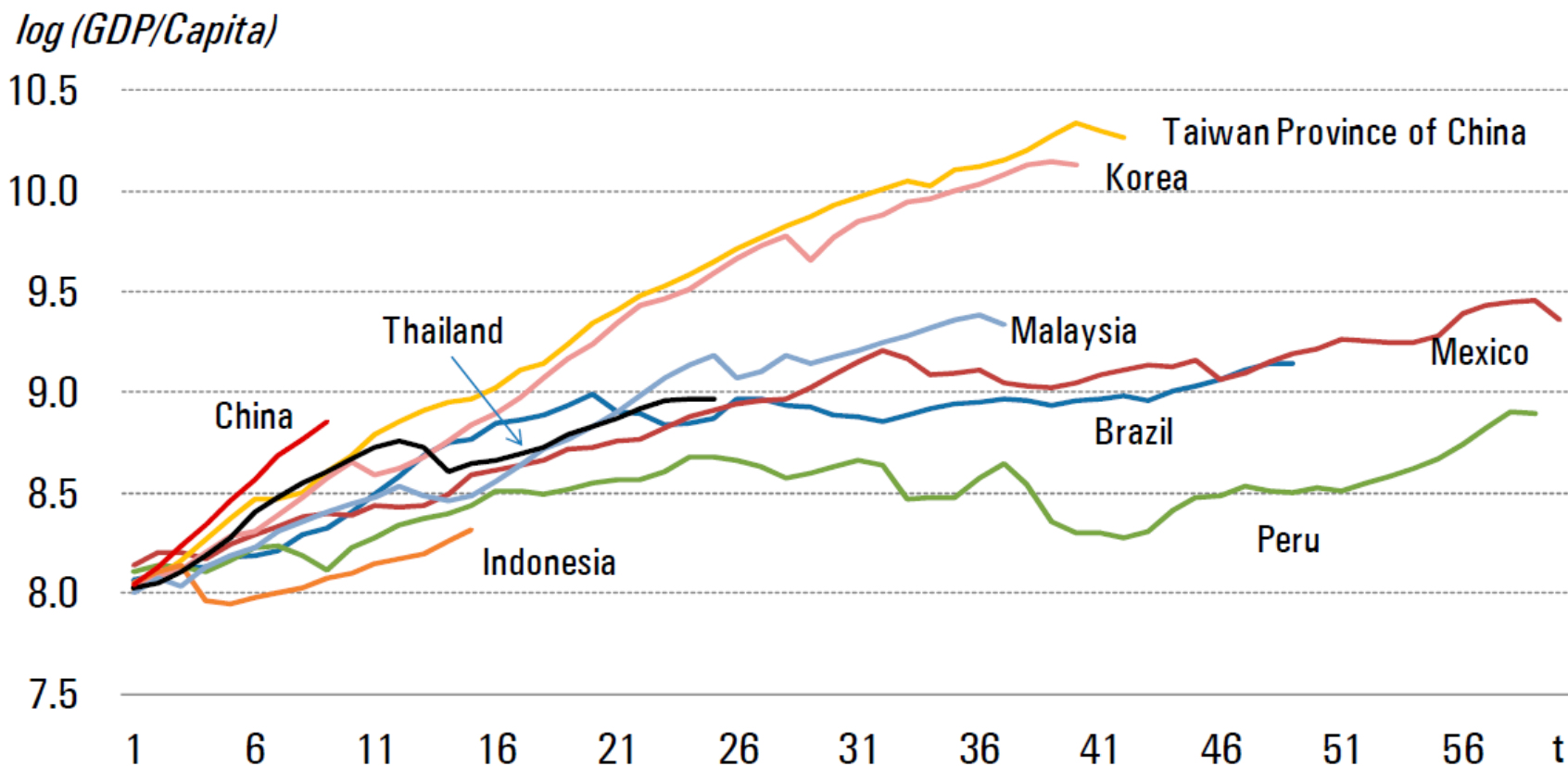
KEEPING GROWTH GOING

Few middle income economies became rich

(Per capita income relative to the USA, 1960 and 2008)



Only just beginning

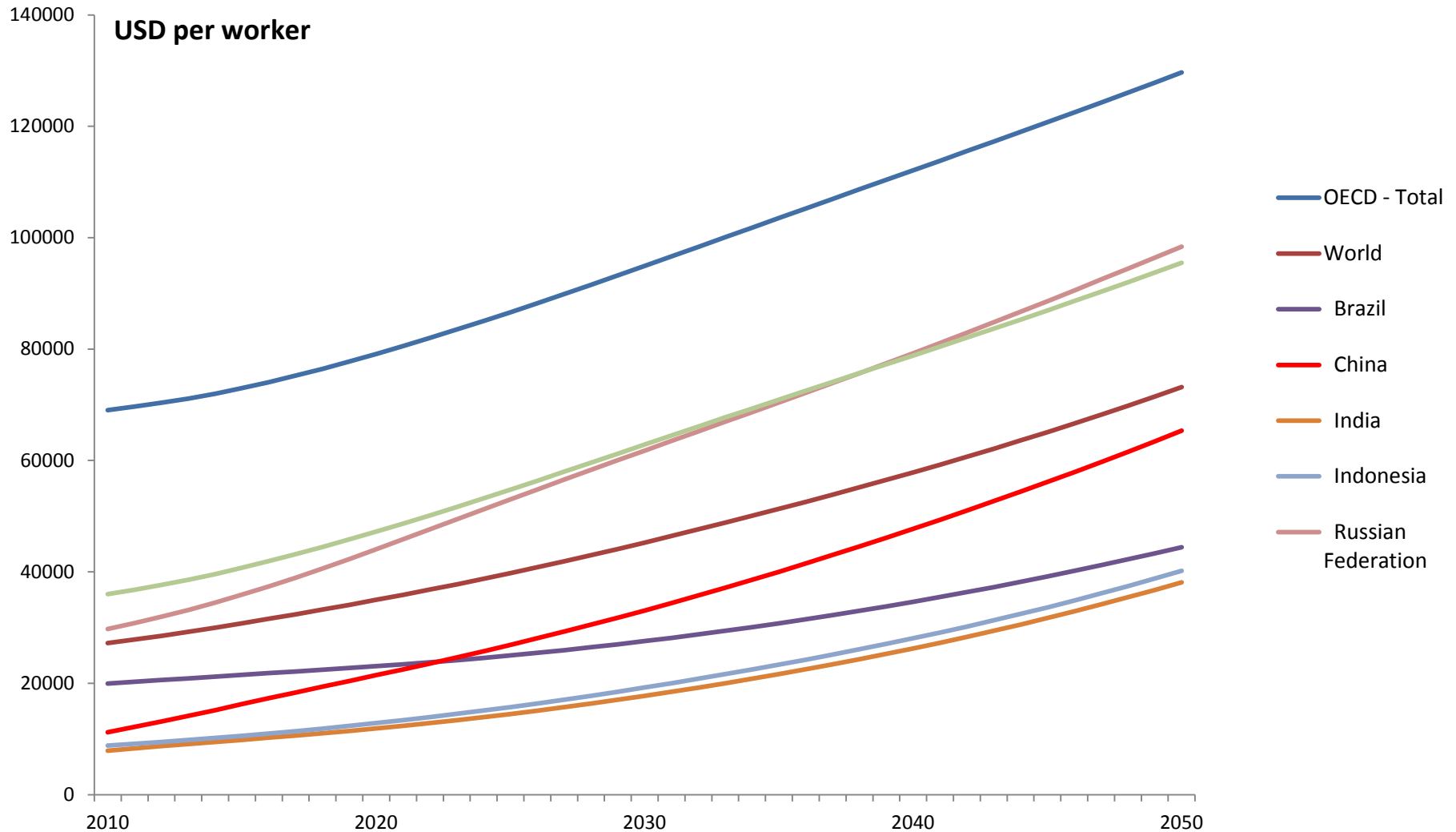


Source: IMF staff calculations.

¹The GDP per capita is in constant 2005\$ PPP adjusted and t = years on X axis. $t = 0$ is defined as the year when the $\log(\text{GDP/capita})$ for a particular country reached US\$ 3000 in PPP terms.

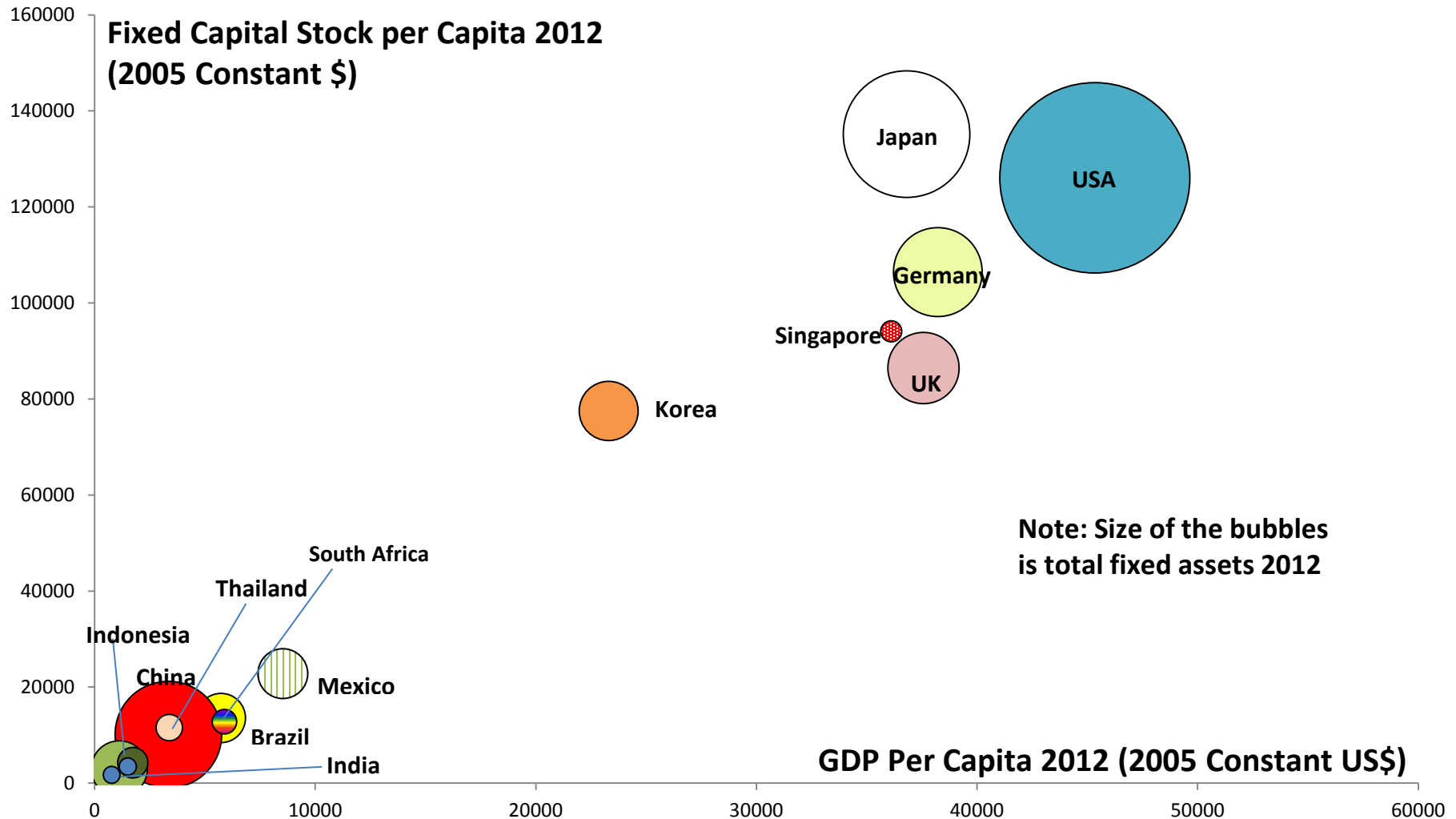
Catching up—but not so fast

(Value Added per Employee)



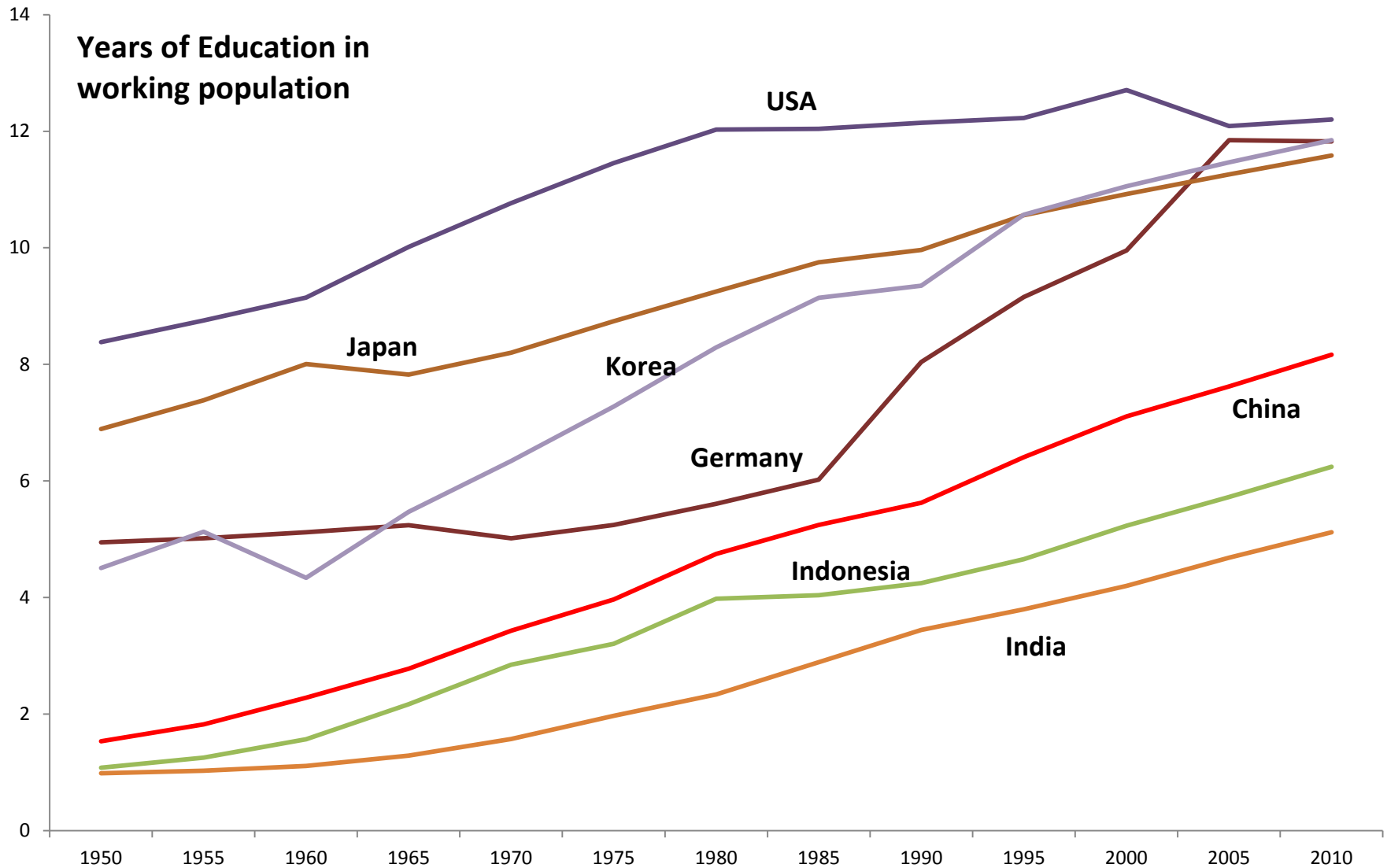
Source: OECD

Lots of Investment Still To Do



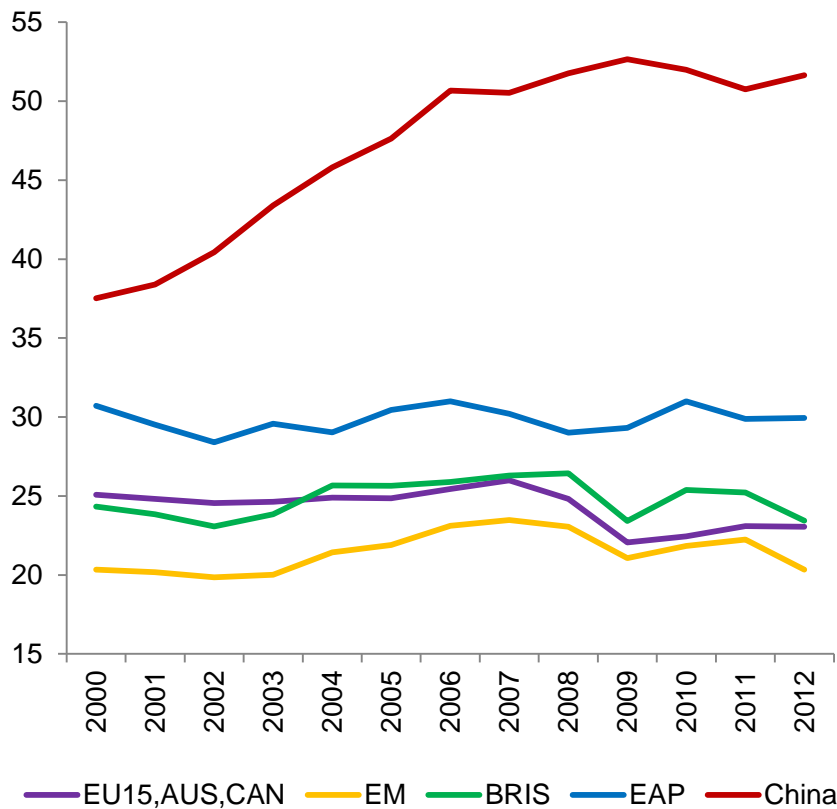
Source: WDI and staff estimates. Note: Capital stock is cumulative fixed investment since 1960 with a depreciation rate of 5 percent

Catching up in Human Capital

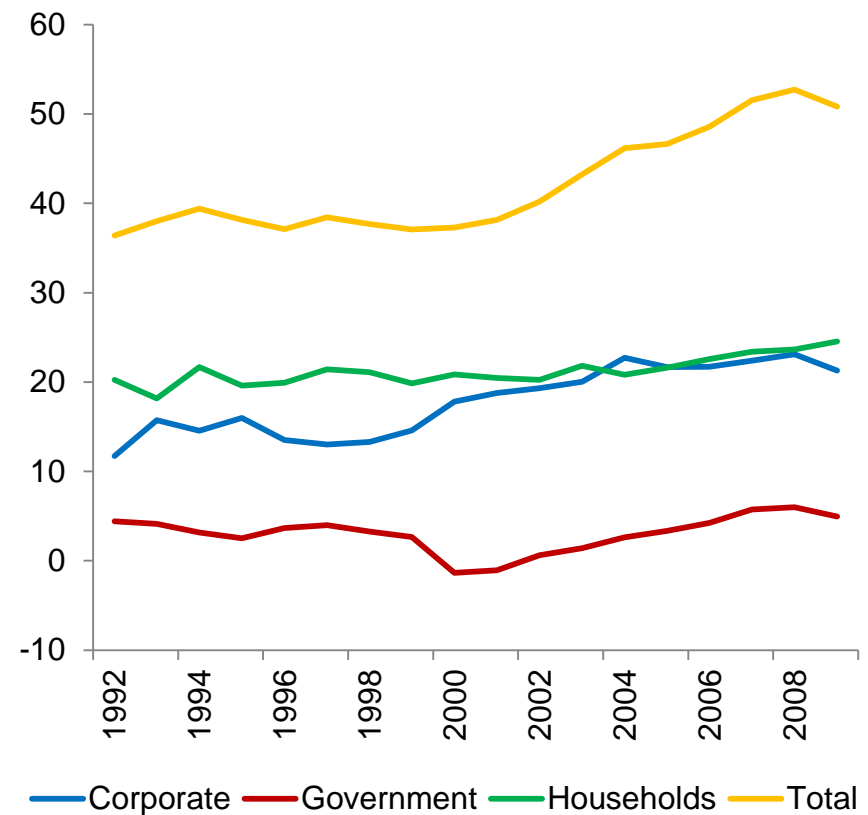


The savings to finance investment

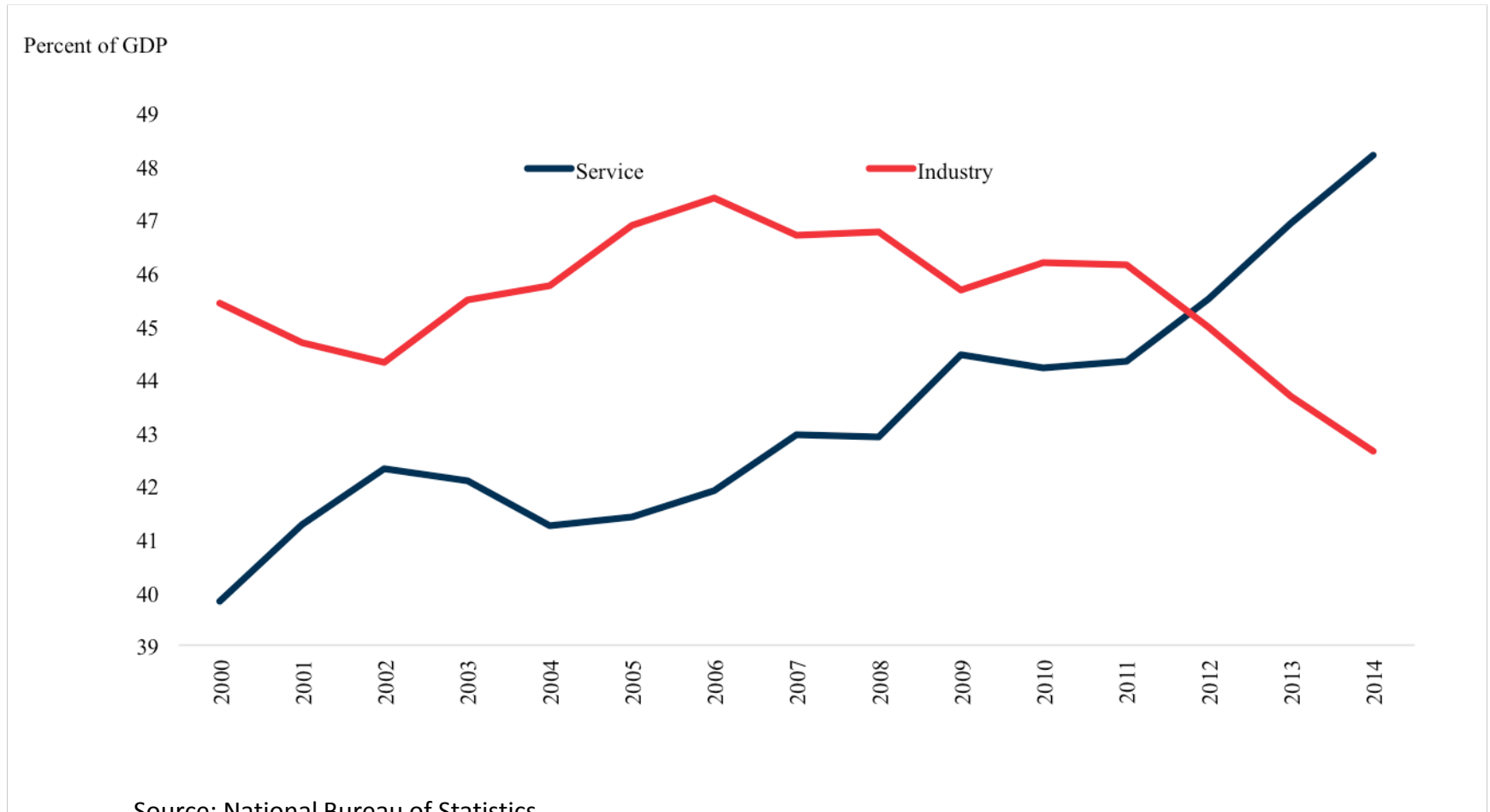
Savings as share of GDP



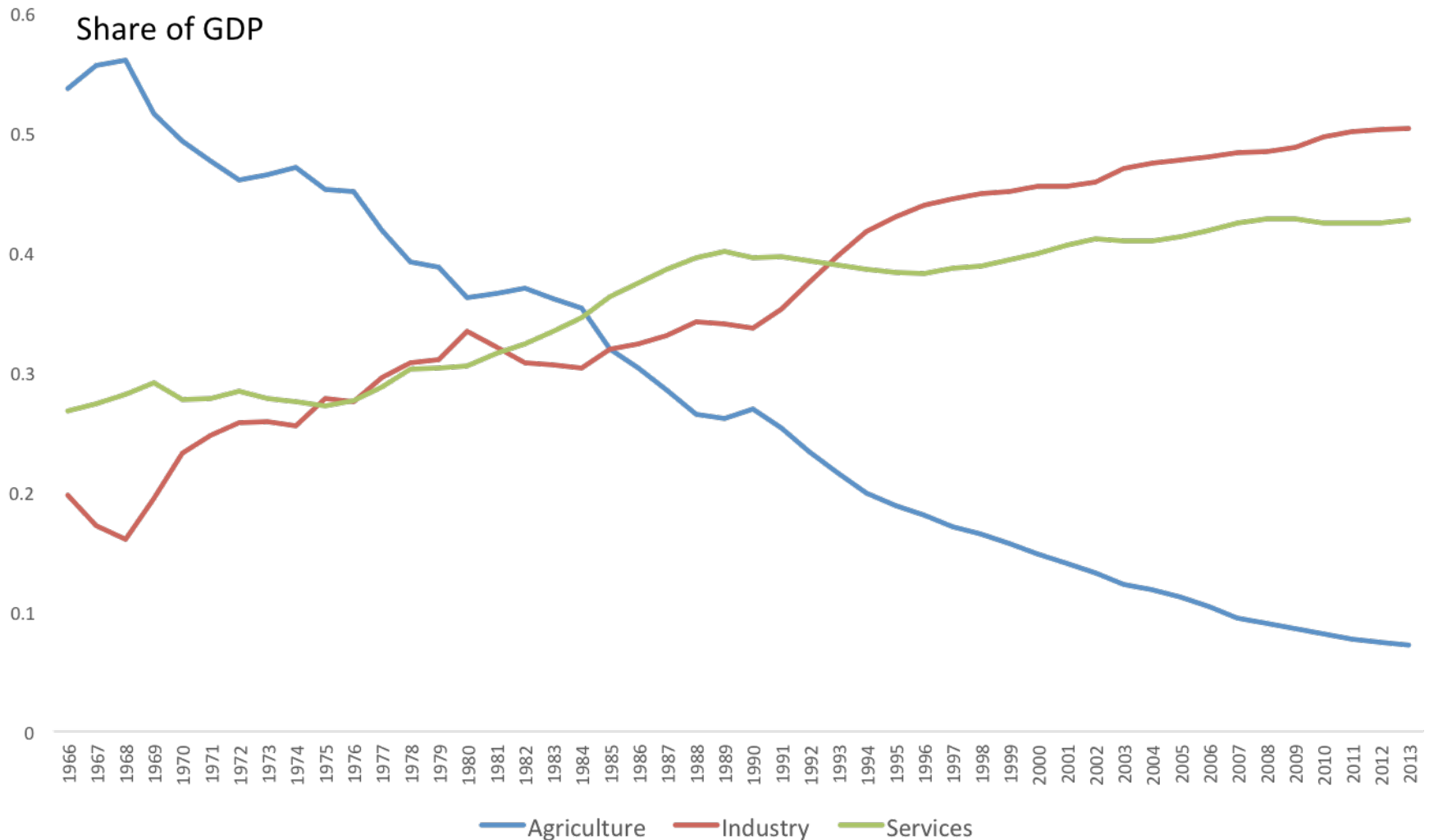
Savings by Sector



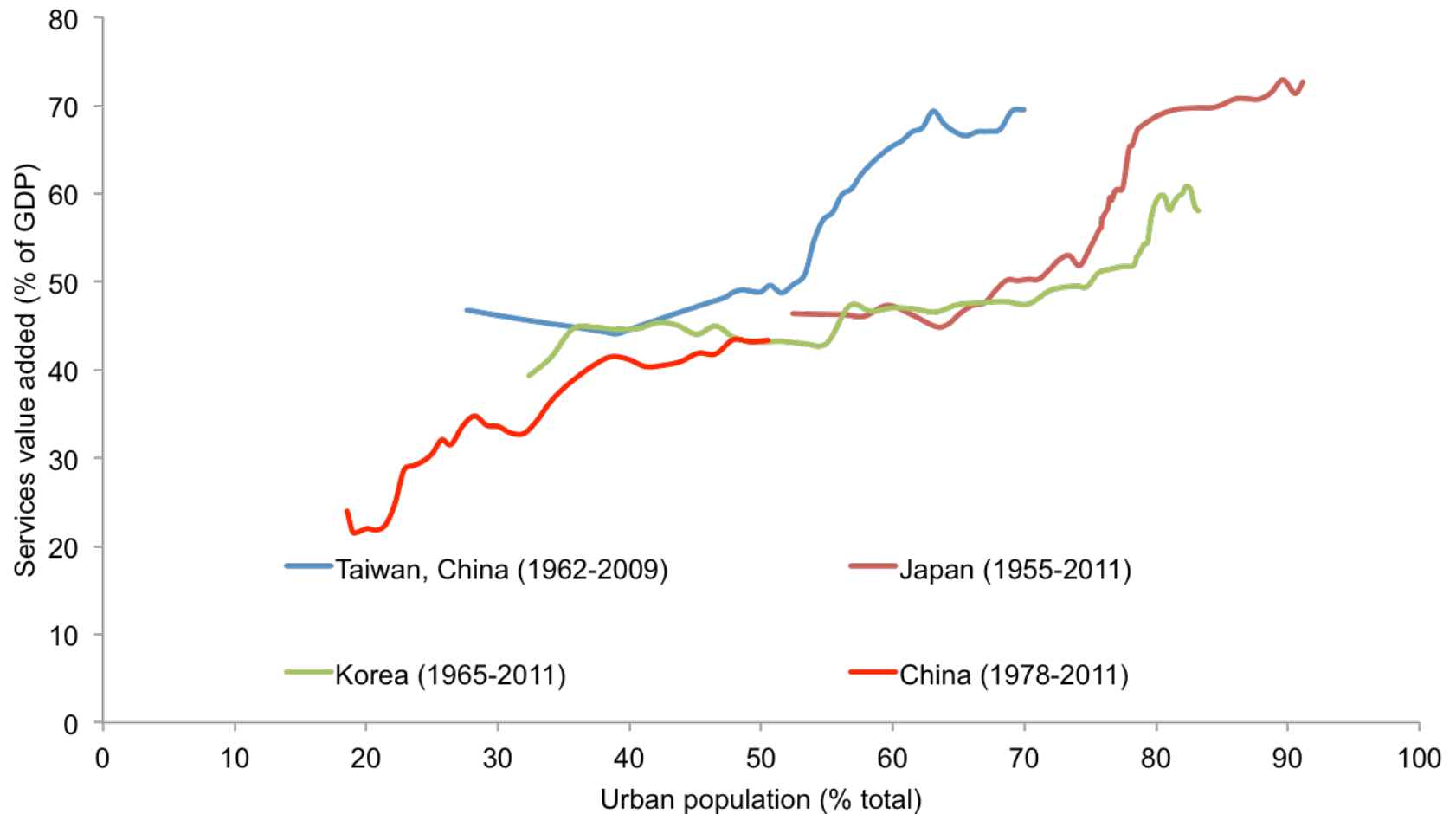
Services now more important than Industry



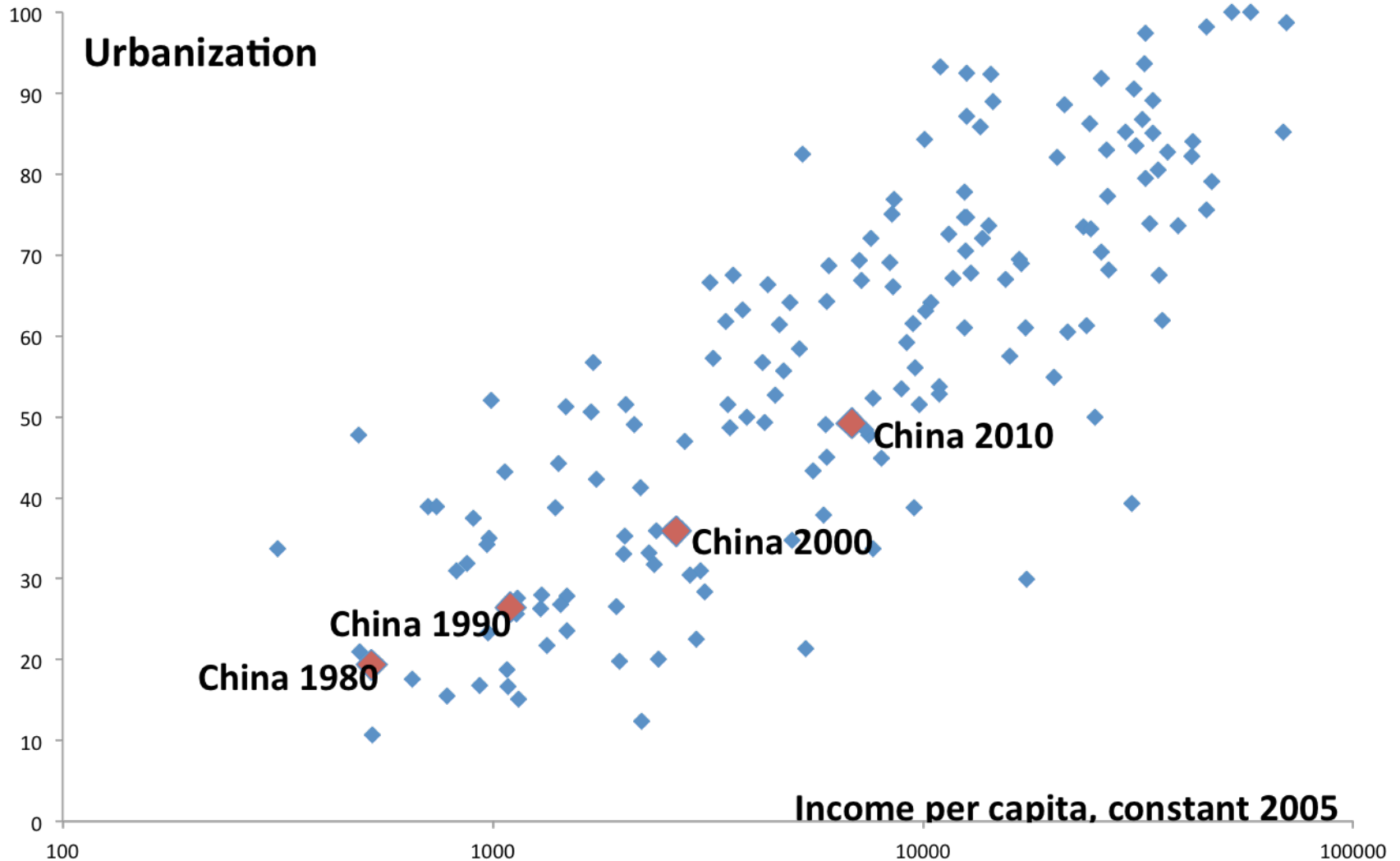
Though structural change in real terms is less pronounced



Urbanization will facilitate services industry

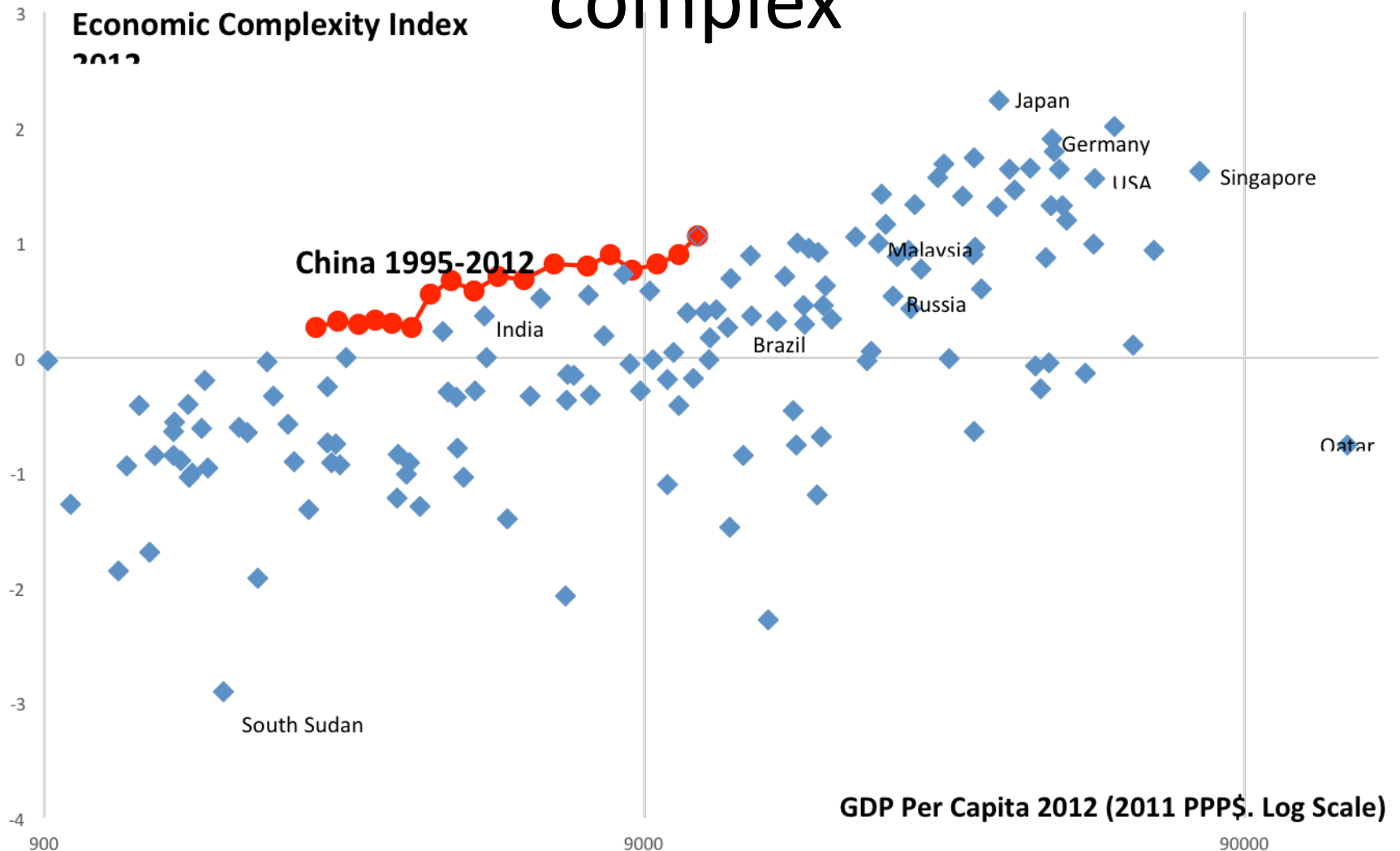


China is still less urbanized than expected on the basis of income



Source: World Development Indicators and Staff Estimates

China's exports becoming more complex



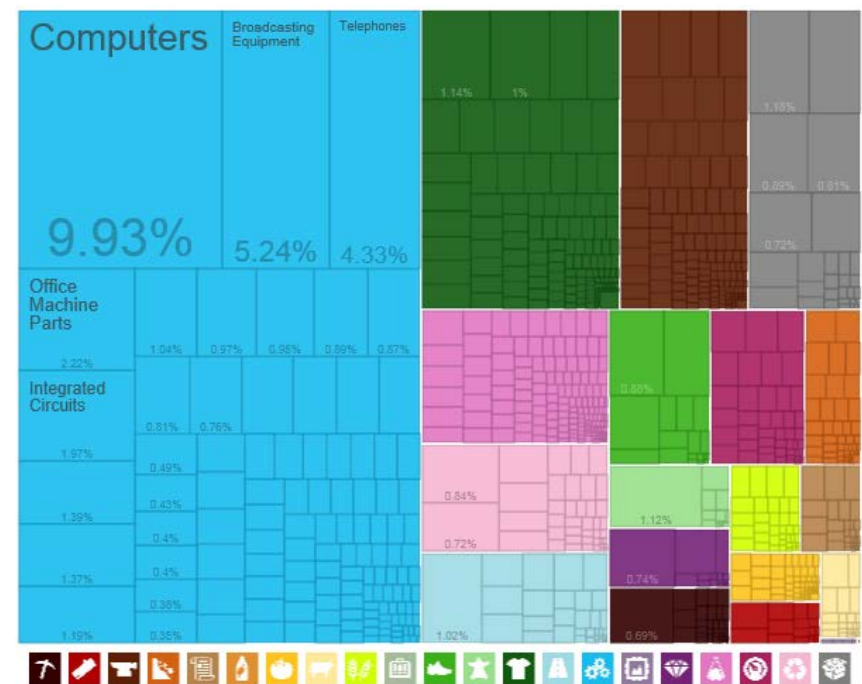
Source: AJG Simoes, CA Hidalgo. The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence. (2011) and <https://atlas.media.mit.edu/en/rankings/country/> accessed 9-2-2015
Note: ECI combines metrics of the diversity of countries and the ubiquity of products to create measures of the relative complexity of a country's exports

China's exports becoming more sophisticated

1995

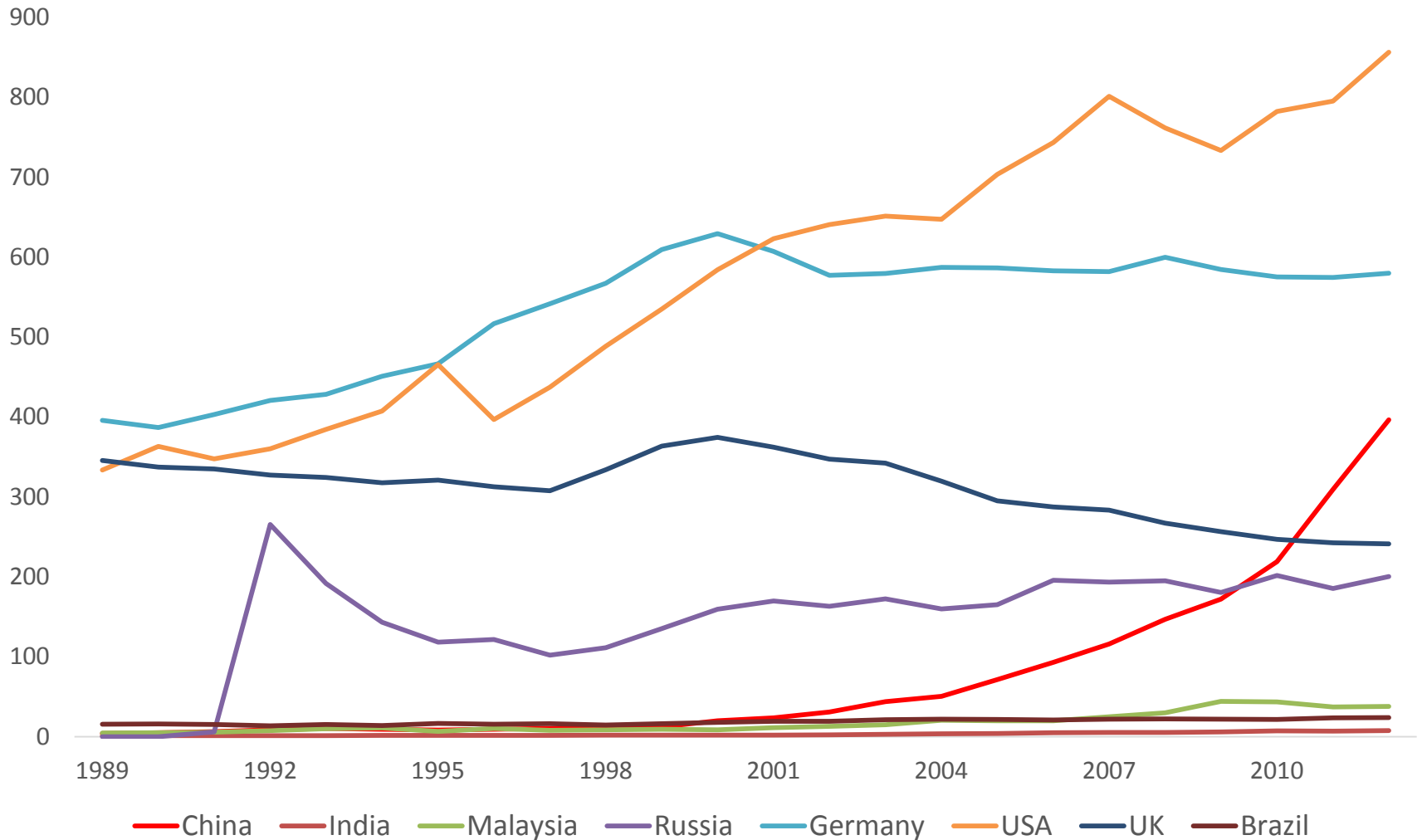


2012

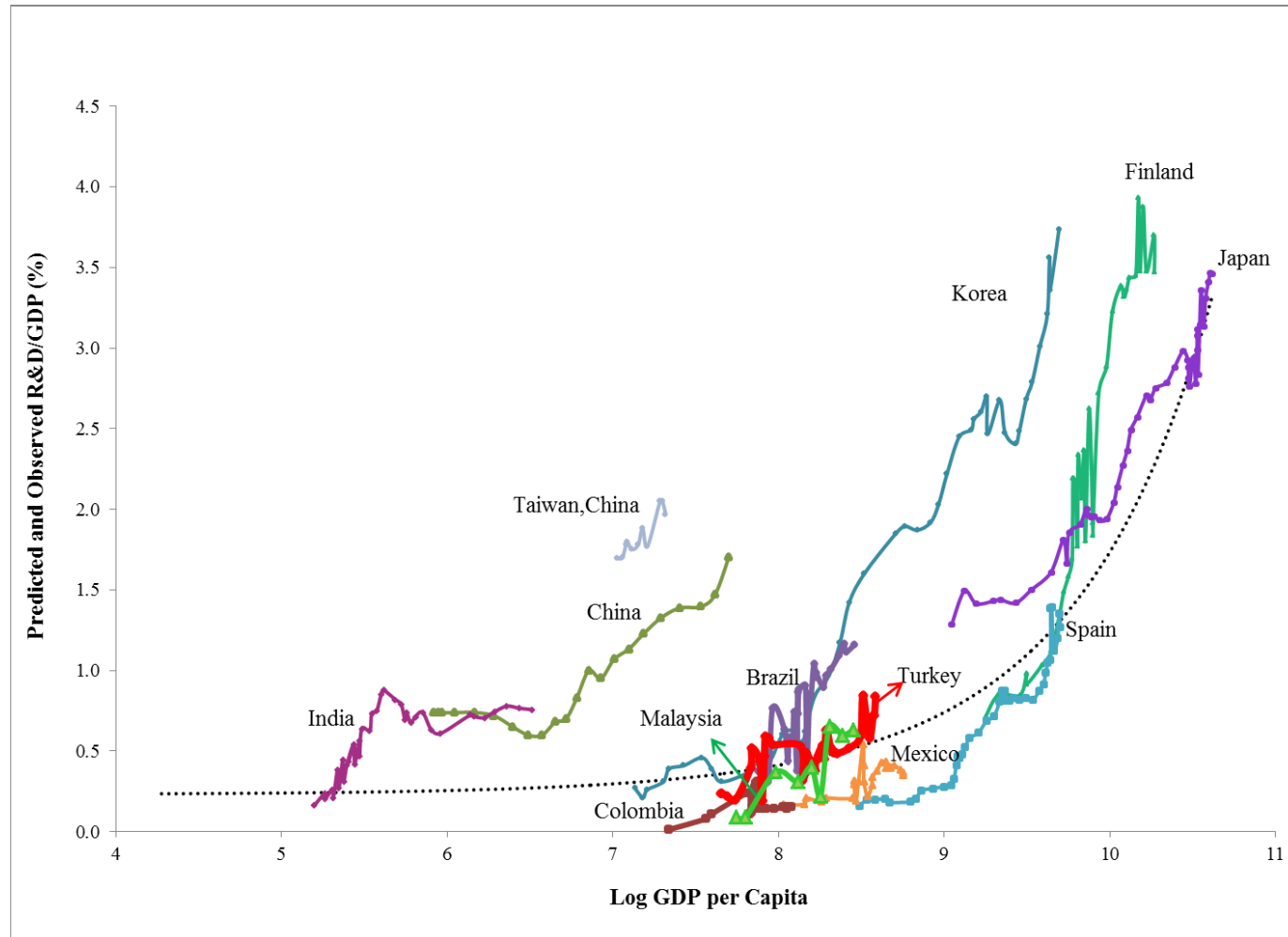


China is becoming more innovative

Resident Patens Applications per 10000 Population

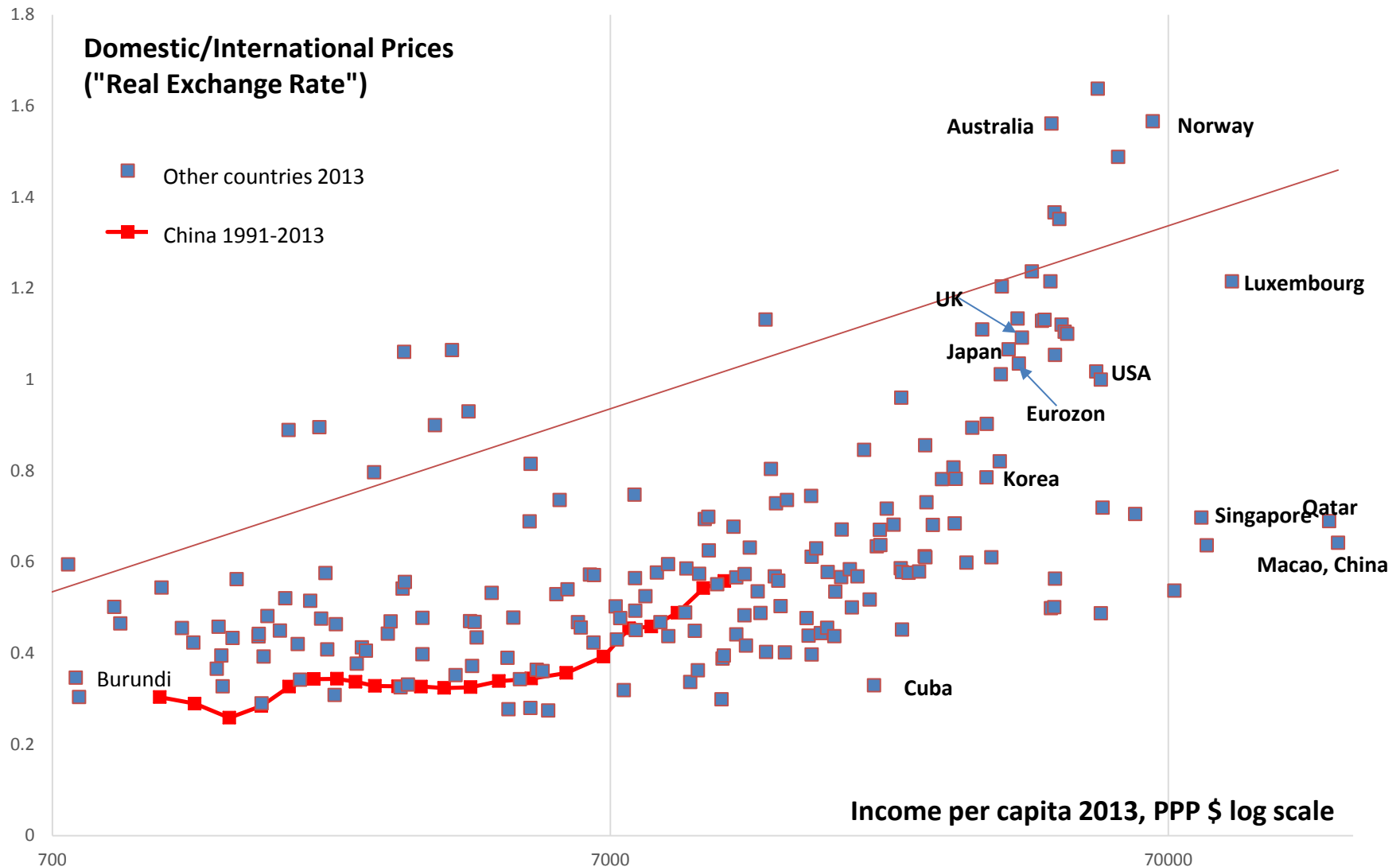


Spending more than most of its peers on R&D



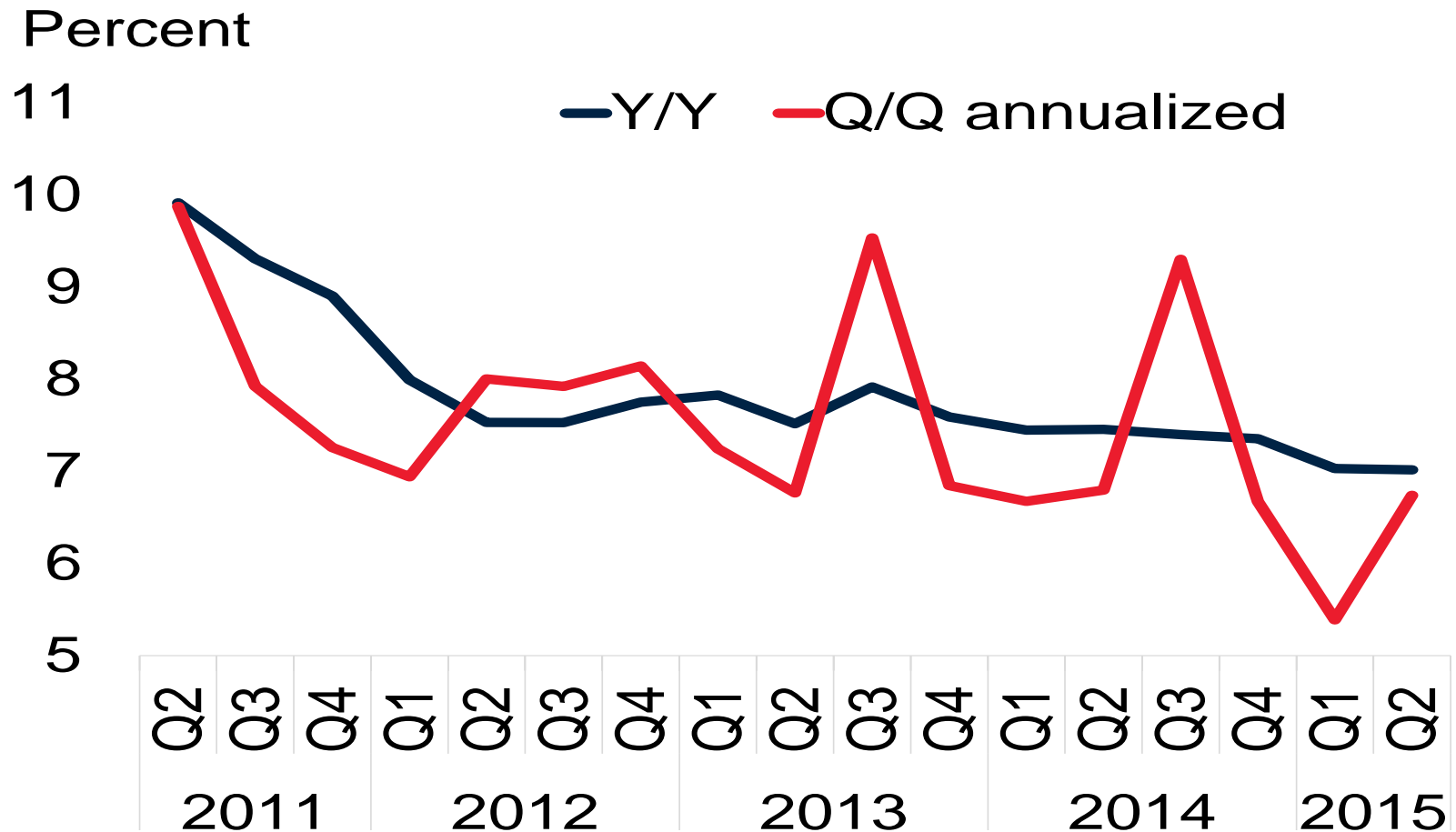
Source: Goñi and Maloney 2014

More real appreciation to come

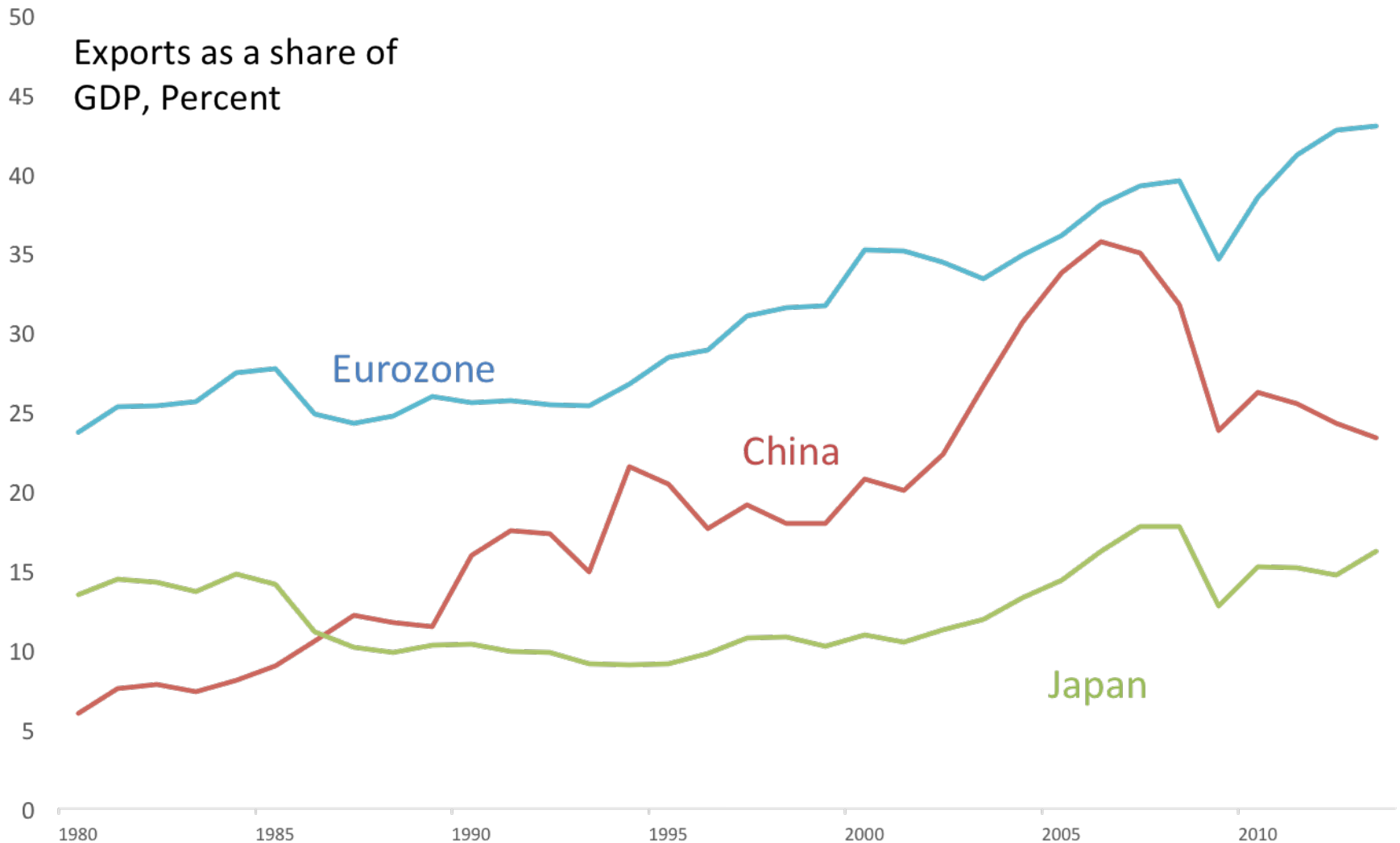


MANAGING DEMAND

China's New Normal



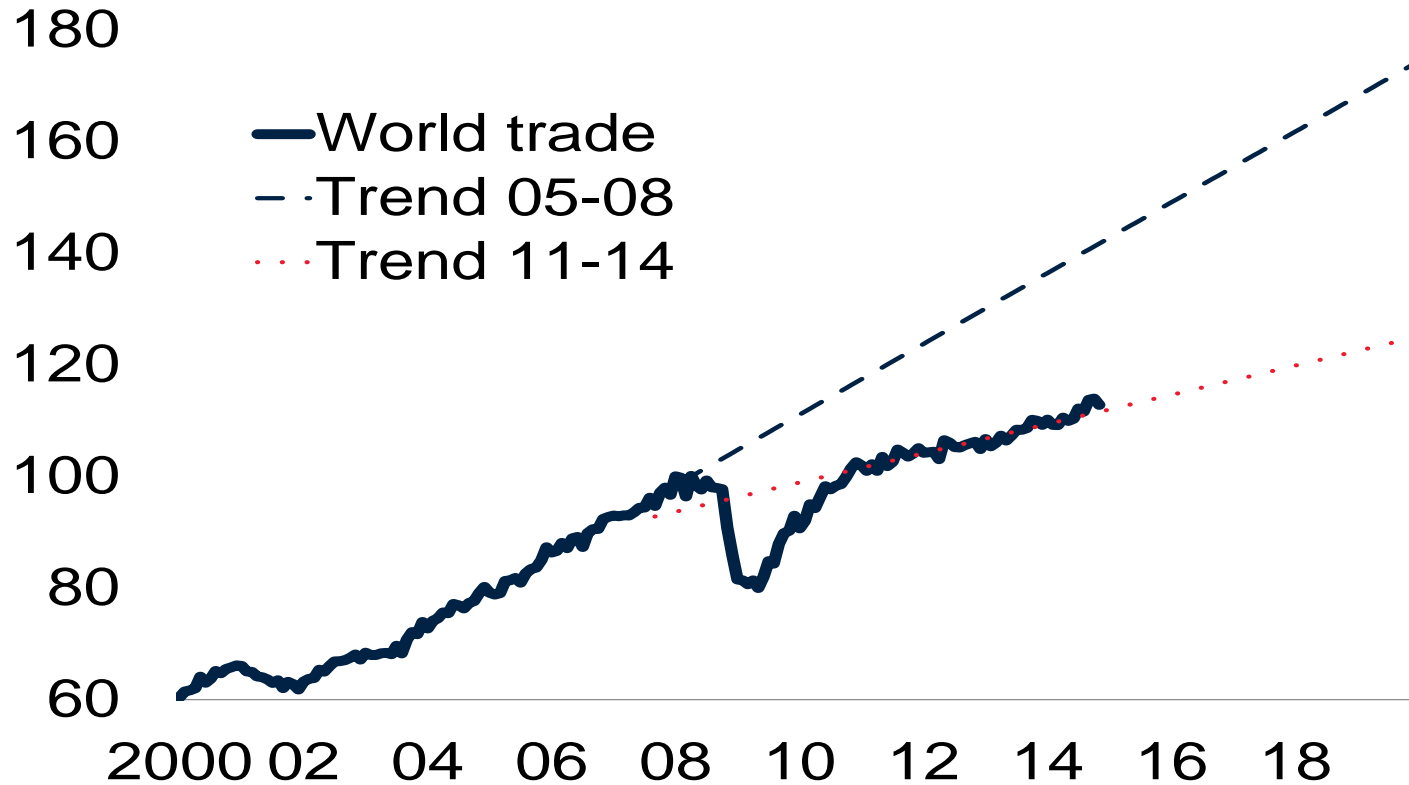
Vanishing external demand



Source: WDI

Less trade ahead

Index = 100 in 2008



The Aftermath of a Credit Binge

Growth in outstanding total credit stock (% yoy)

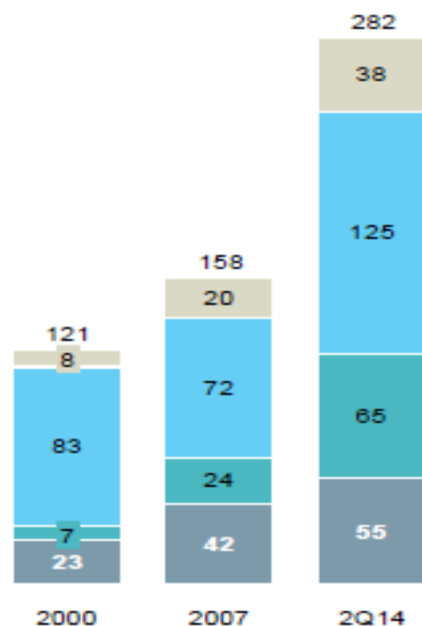


Until Debt Do Us Apart

China's debt reached 282 percent of GDP in 2014, higher than debt levels in some advanced economies

Debt-to-GDP ratio
%

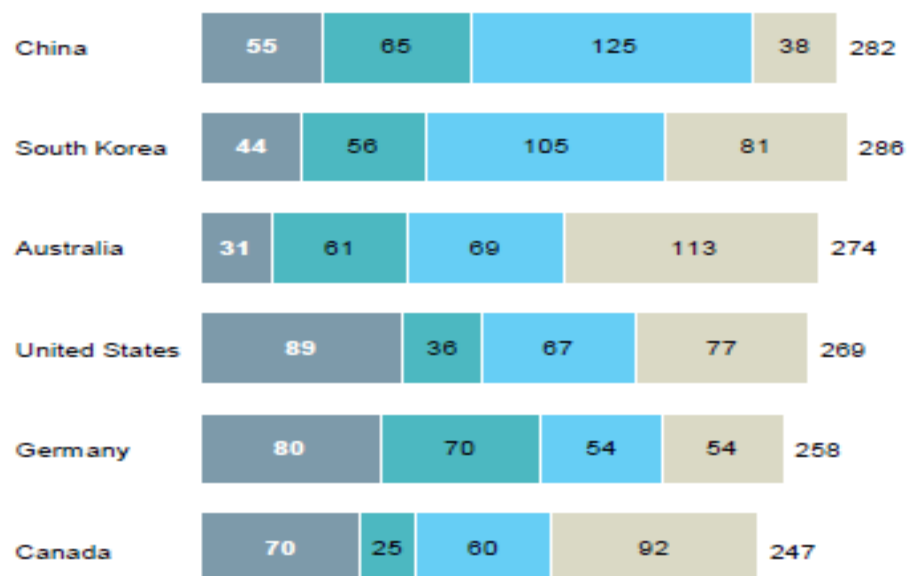
China



Total debt \$ trillion

Year	2000	2007	2Q14
Total debt \$ trillion	2.1	7.4	28.2

By country, 2Q14

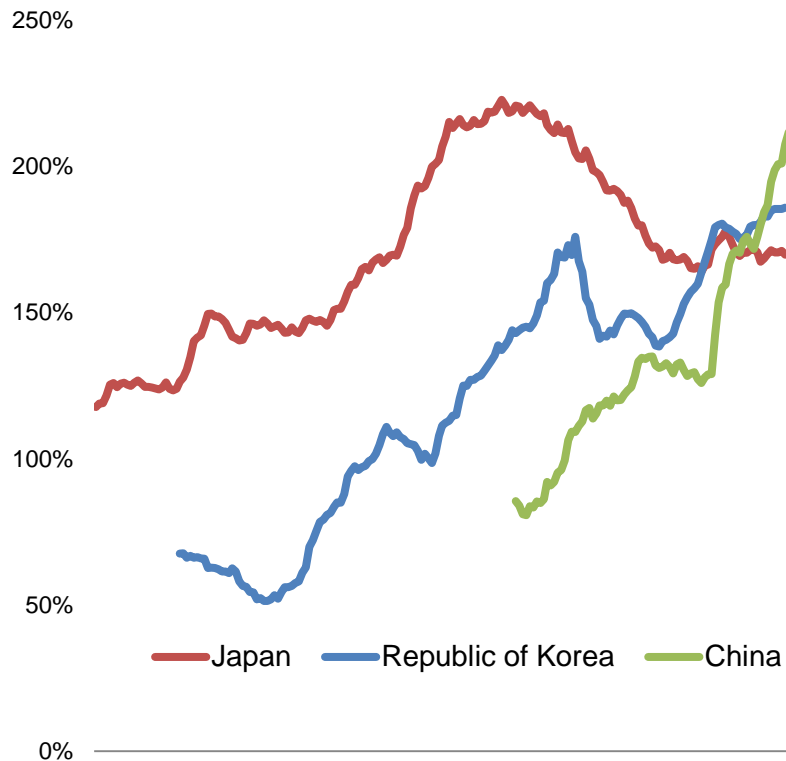


NOTE: Numbers may not sum due to rounding.

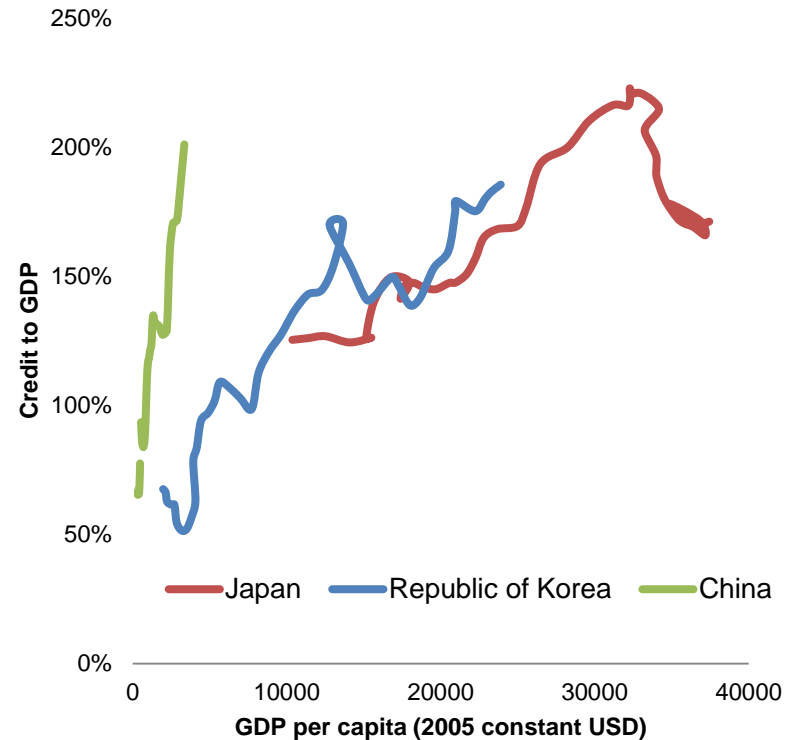
SOURCE: MGI Country Debt database; McKinsey Global Institute analysis

Debt levels well ahead of other rapid growers

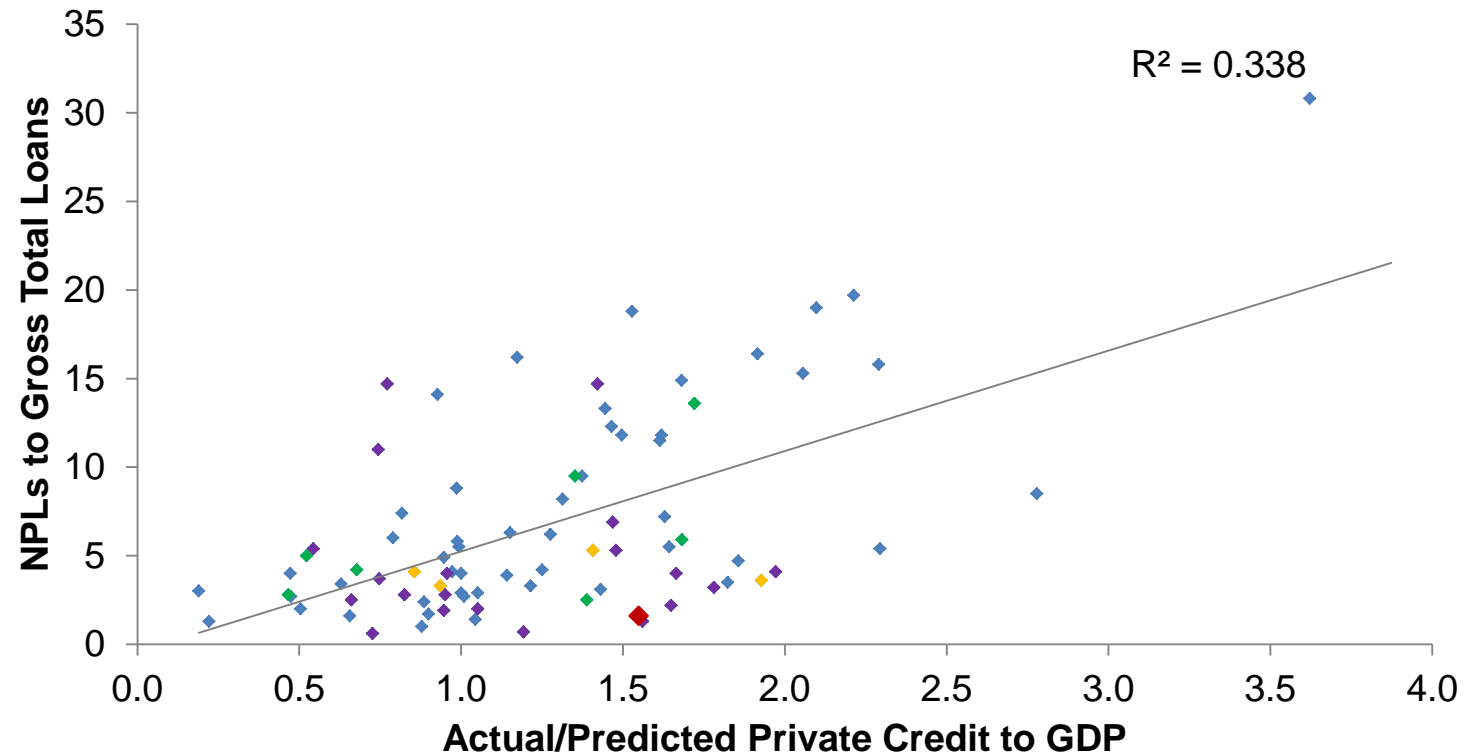
Credit to GDP over time



Credit to GDP and Income Level



Rapid Credit Growth Tends to Result in Non-performing Loans



◆ All other countries ◆ HIC ◆ G20 Non-Asia MIC ◆ East Asia MIC ◆ China

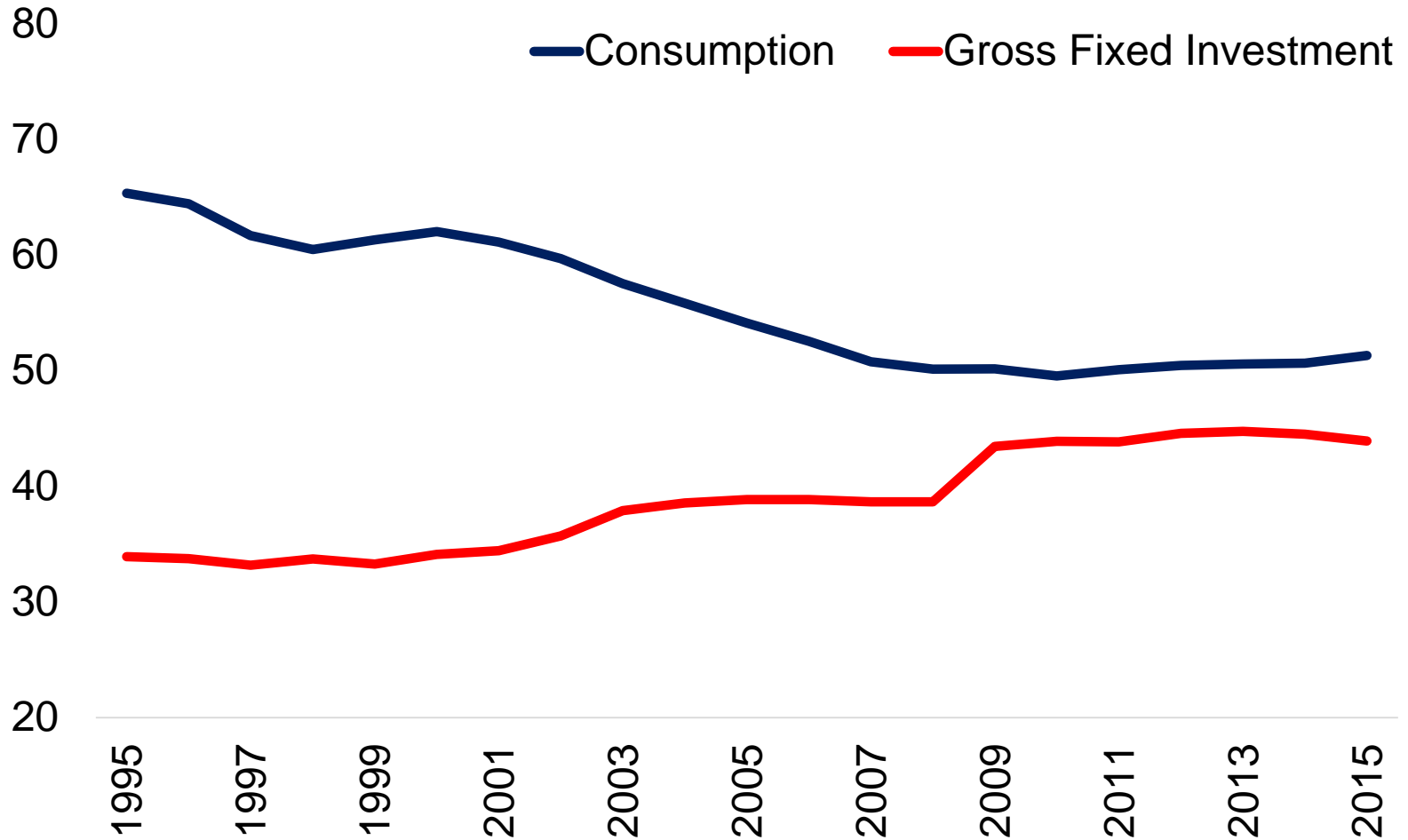
Real estate leading the investment slowdown



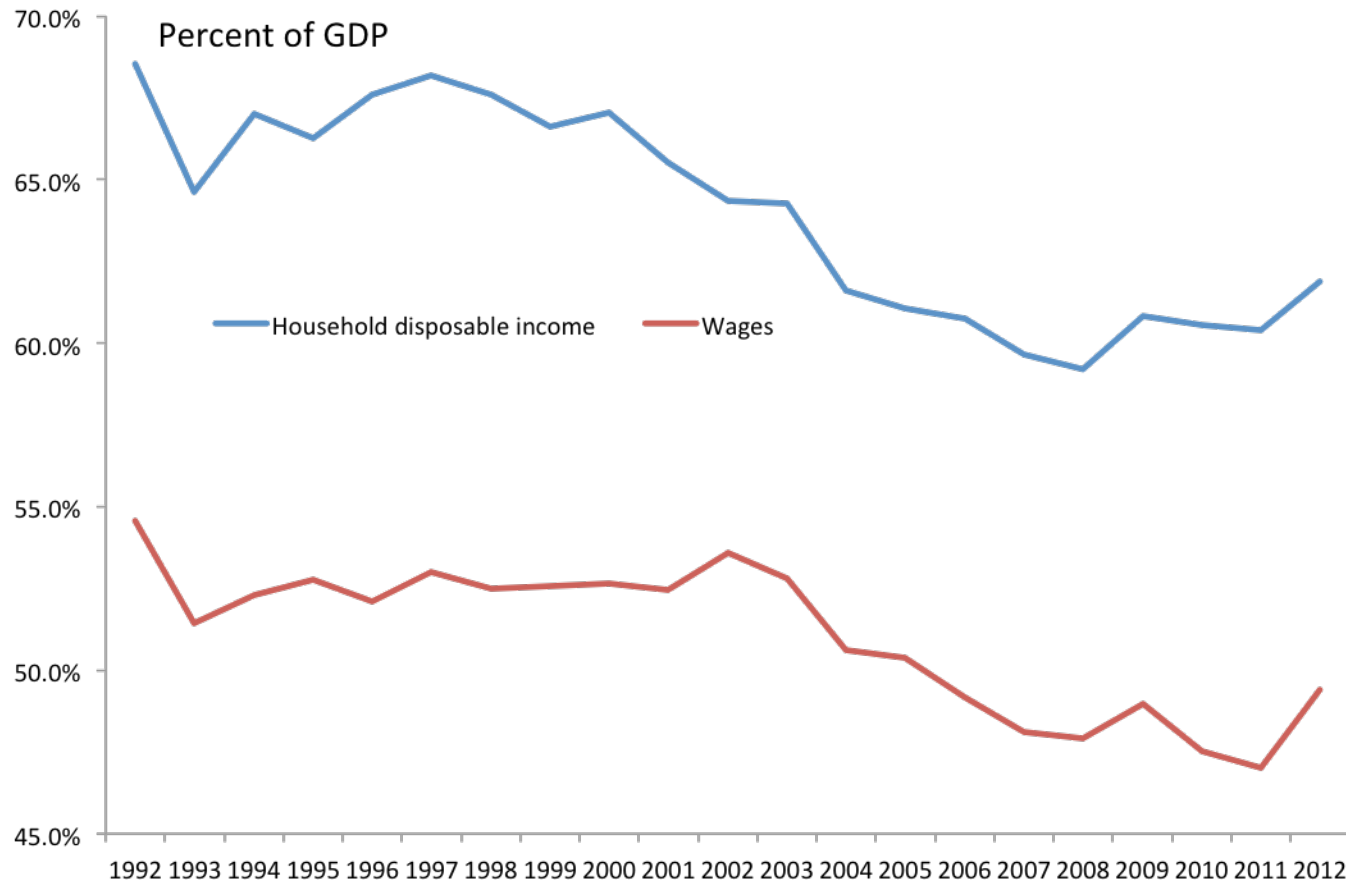
Source: National Bureau of Statistics through CIEC

Consumption rebounding

Share of GDP



Household Income Share Turning Around



Sources: CEIC, World Bank estimates

China Slowing and Changing

China: Projected growth pattern assuming steady reforms and no major shock

Indicator	1995–2010	2011–2015	2016–20	2021–25	2026–30
GDP growth (percent per year)	9.9	8.6	7.0	5.9	5.0
Labor growth	0.9	0.3	–0.2	–0.2	–0.4
Labor productivity growth	8.9	8.3	7.1	6.2	5.5
Structure of economy (end of period, %)					
Investment/GDP ratio	46.4	42	38	36	34
Consumption/GDP ratio	48.6	56	60	63	66
Industry/GDP ratio	46.9	43.8	41.0	38.0	34.6
Services/GDP ratio	43.0	47.6	51.6	56.1	61.1
Share of employment in agriculture	38.1	30.0	23.7	18.2	12.5
Share of employment in services	34.1	42.0	47.6	52.9	59.0

Source: World Bank and DRC, 2012, China 2030

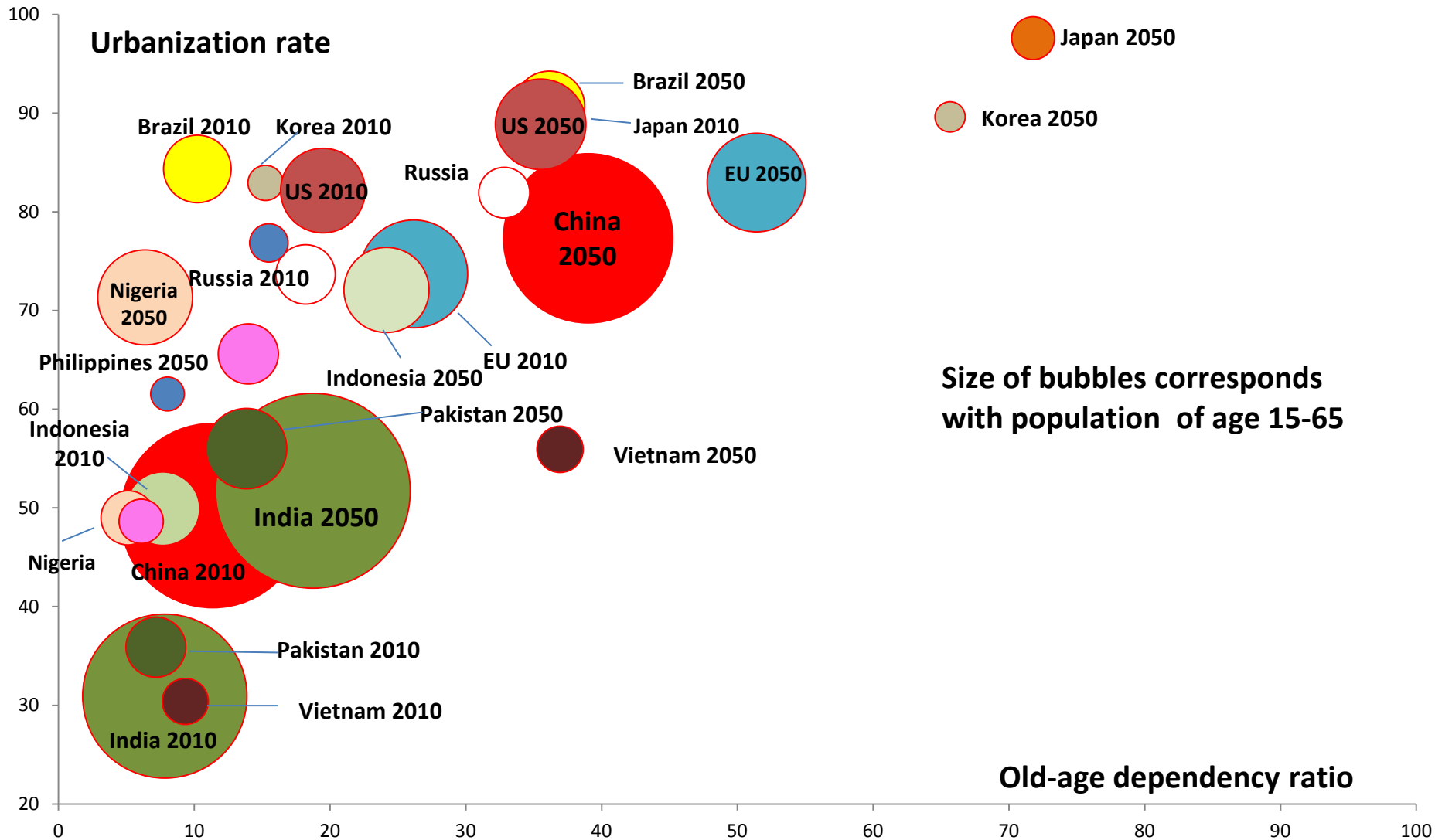
World Bank Forecast for the next five year plan

China: Main Economic Indicators -- 2014-20 GDP Growth and Contributions by Expenditure Item

	2014	2015e	2016f	2017f	2018f	2019f	2020f	<i>Average 2016-20</i>
GDP	7.3	7.0	6.7	6.5	6.4	6.3	6.3	6.4
Private Consumption	2.8	3.1	3.2	3.3	3.4	3.5	3.6	3.4
Government Consumption	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.2
Gross Capital Formation	3.4	2.6	2.2	1.9	1.7	1.6	1.4	1.8
Net Exports	0.1	0.1	0.2	0.2	0.1	0.0	0.0	0.1

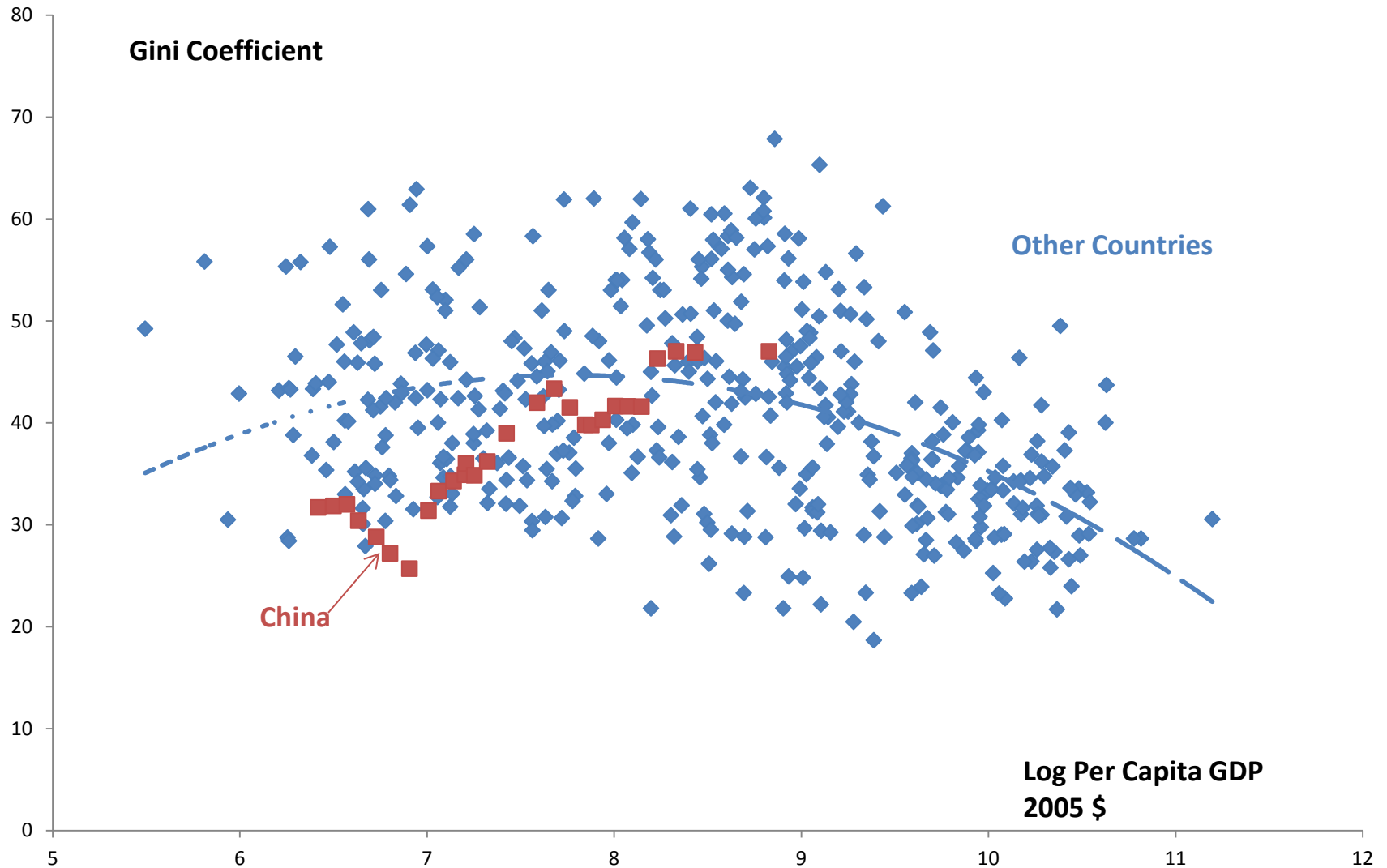
**MAKING GROWTH MORE
INCLUSIVE**

An Older, Urban Population



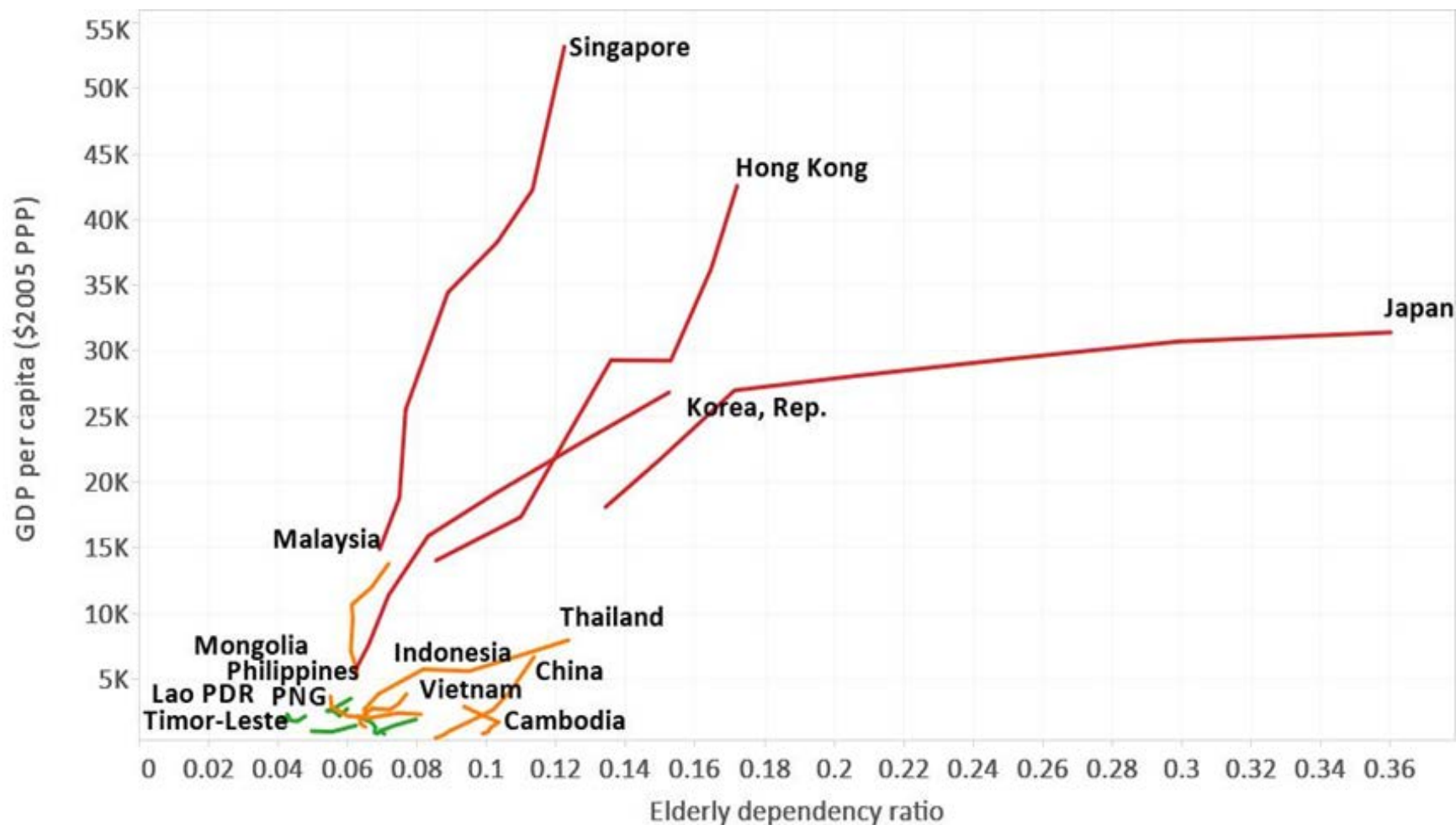
Source: World Bank Nutrition Population and Health Database, UN

Income Inequality on the Rise



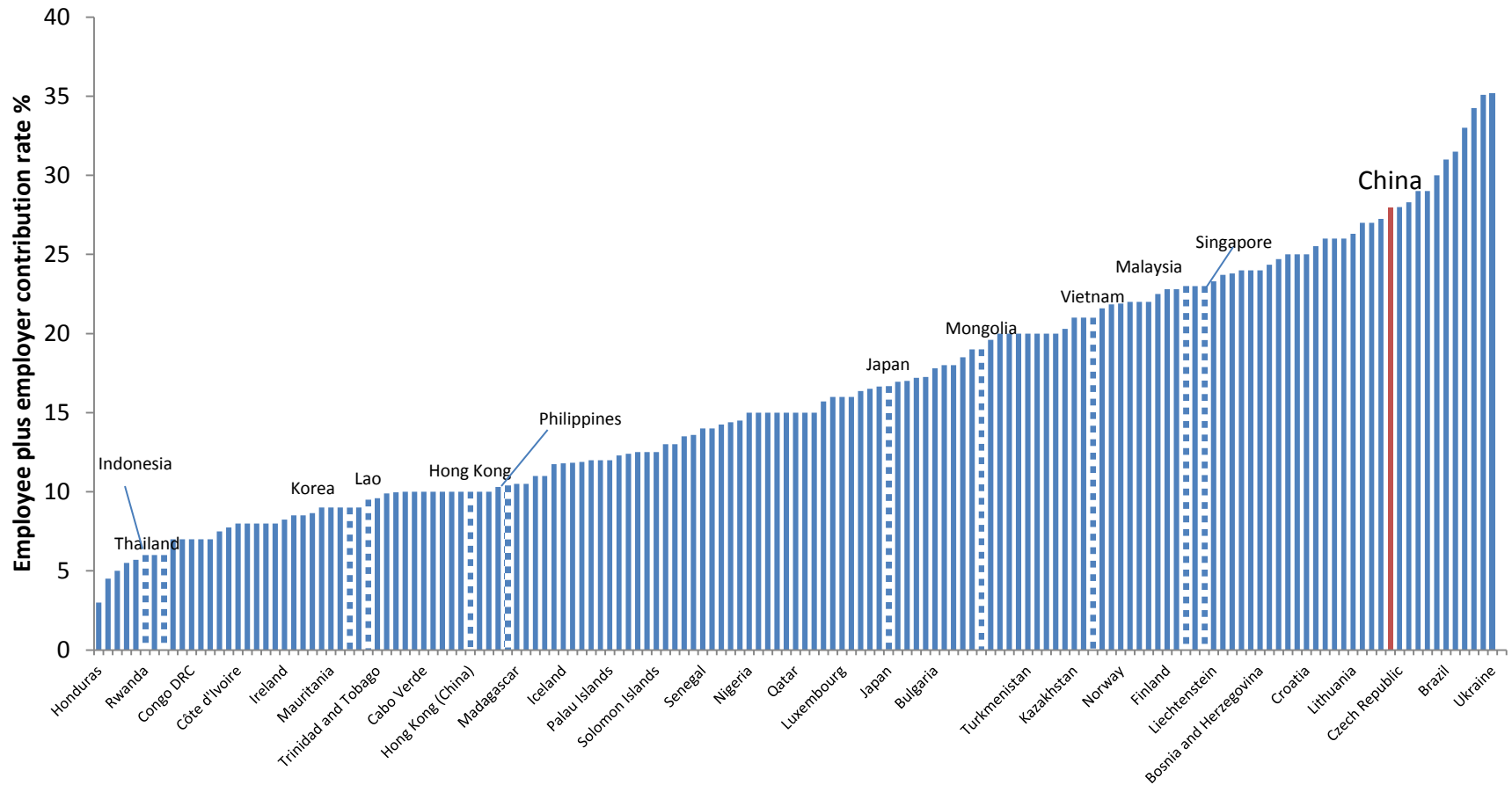
Source: World Development Indicators

Getting Old Before Getting Rich



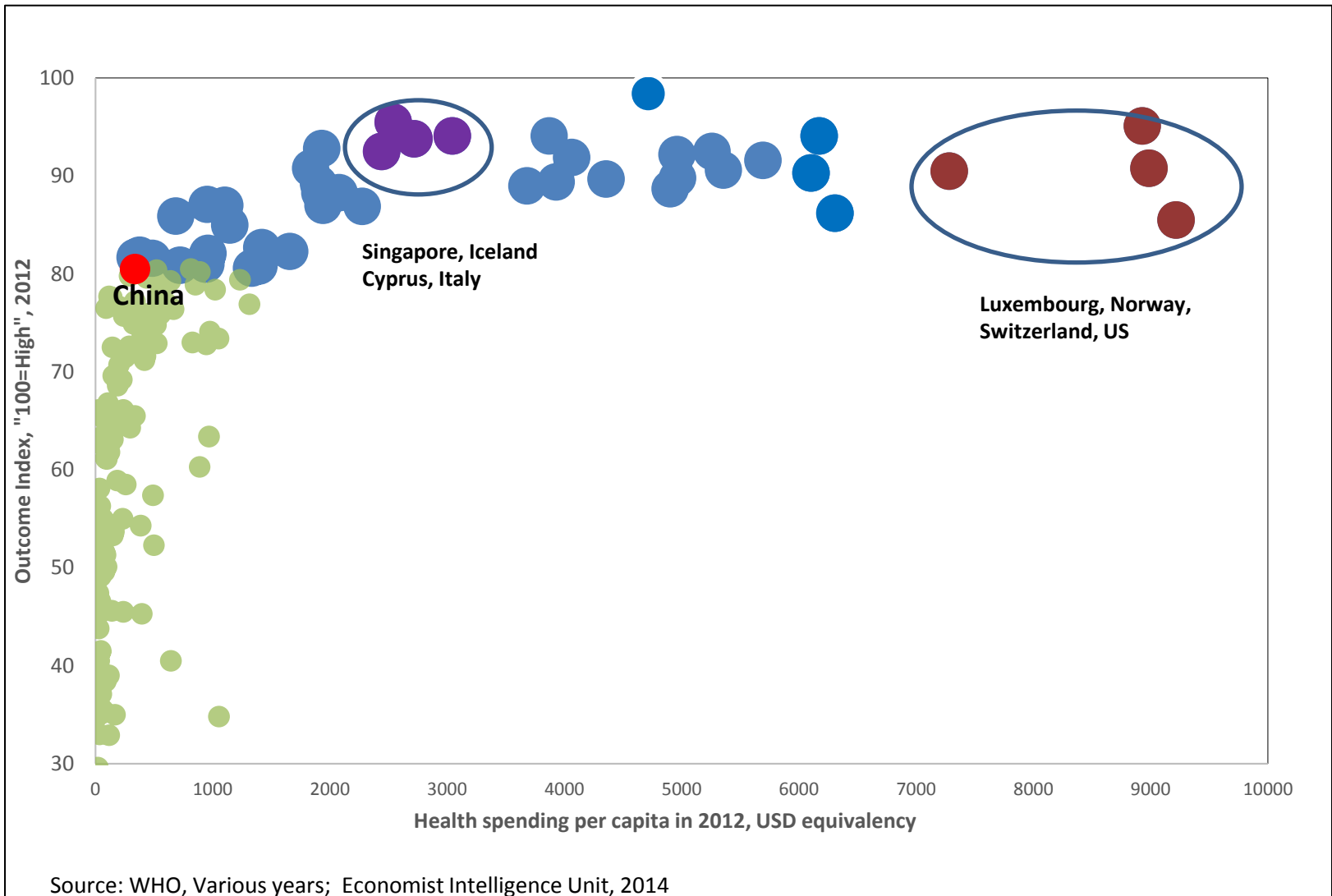
Source: East Asia Aging. World Bank (forthcoming 2015) GDP data in 2005\$ Purchasing Power Parity for 1980 to 2010 from WDI, Elderly Dependency ratios calculated as ratio of population over 65 to population aged 15-64 using UN World Population Prospects (2012) data.

Pension contribution rates already very high



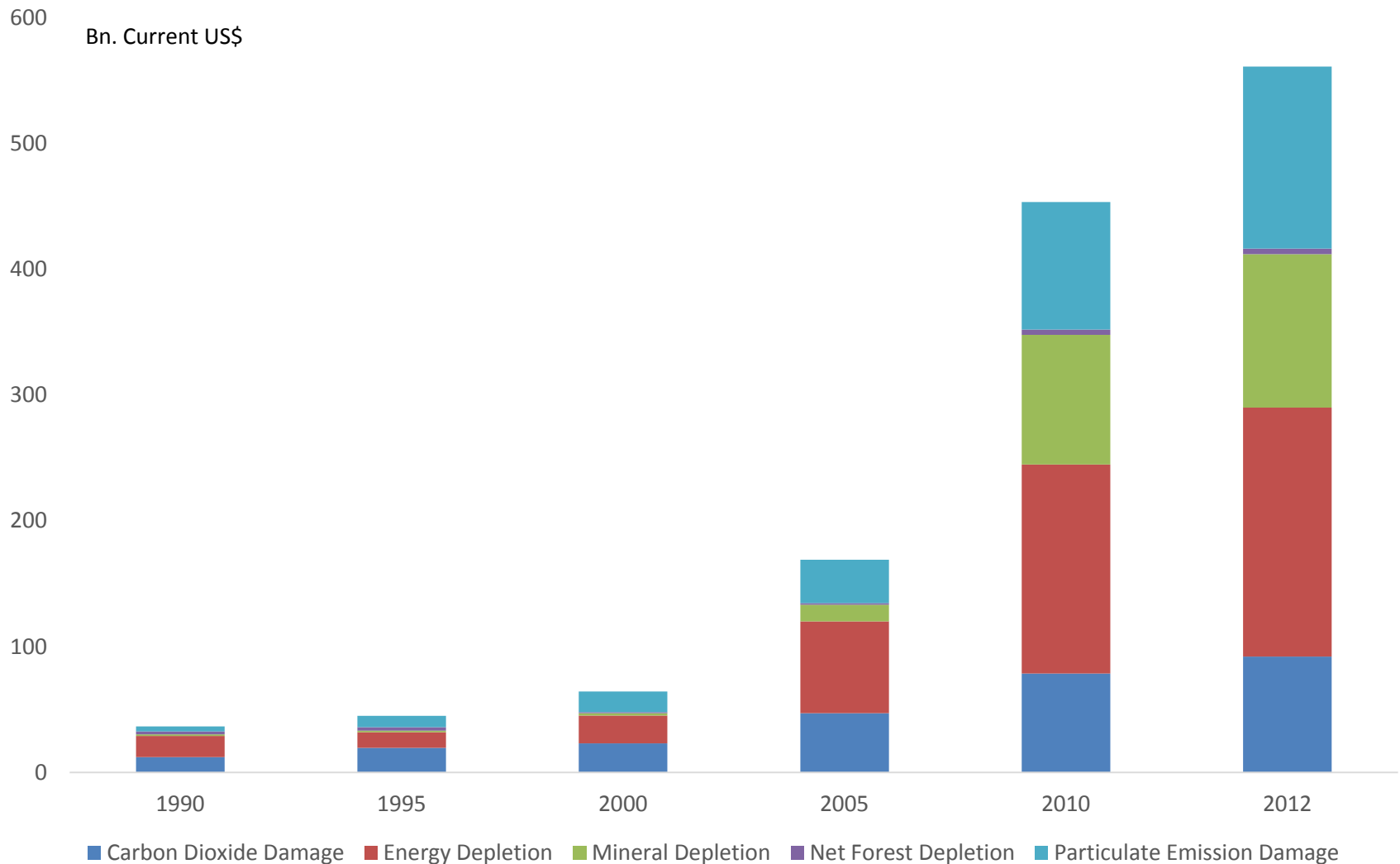
Source: East Asia Aging. World Bank (forthcoming 2015)

A Healthy Future?



**MAKING GROWTH MORE
SUSTAINABLE**

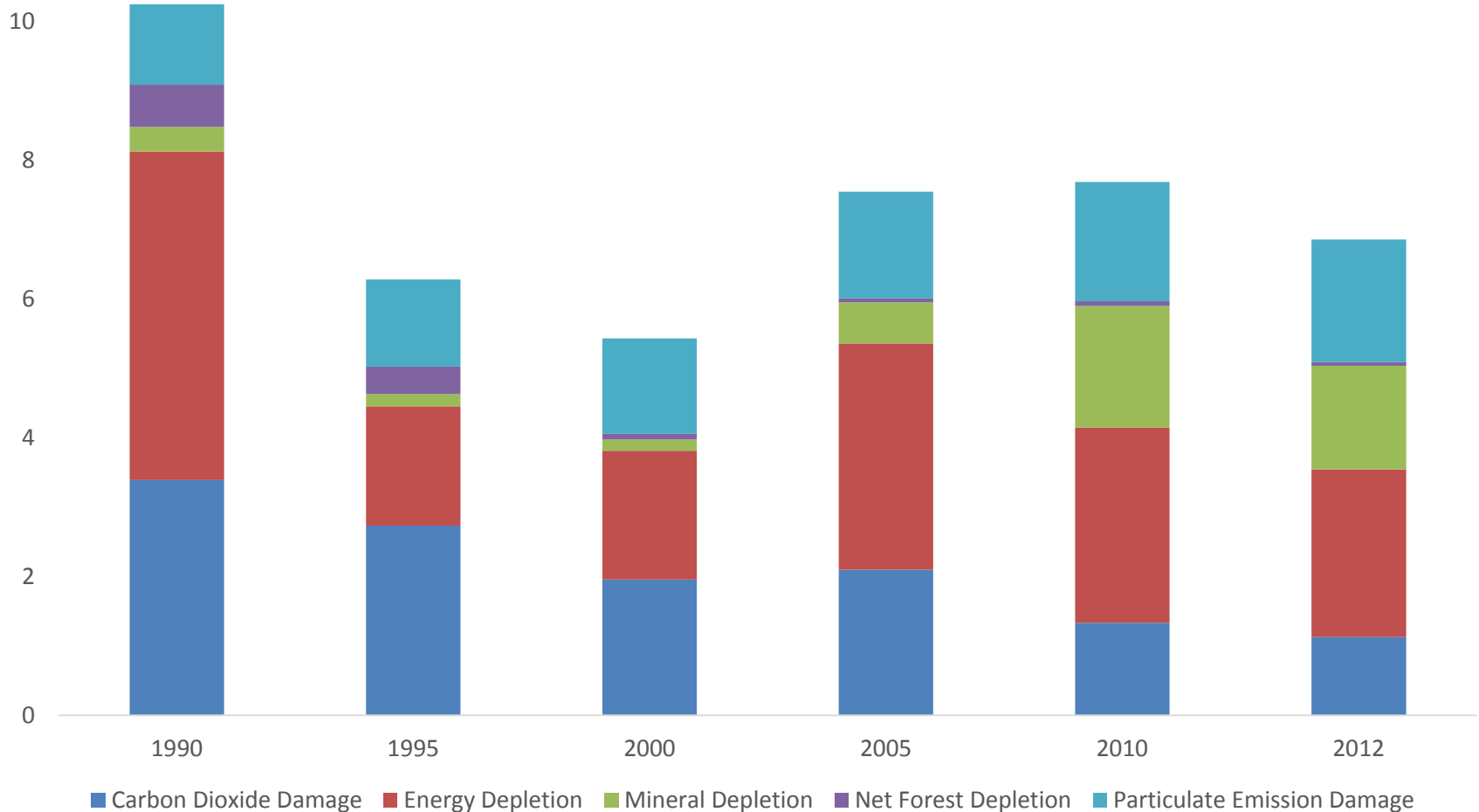
Cost of Environmental Damage Rising



Source: World Development Indicators

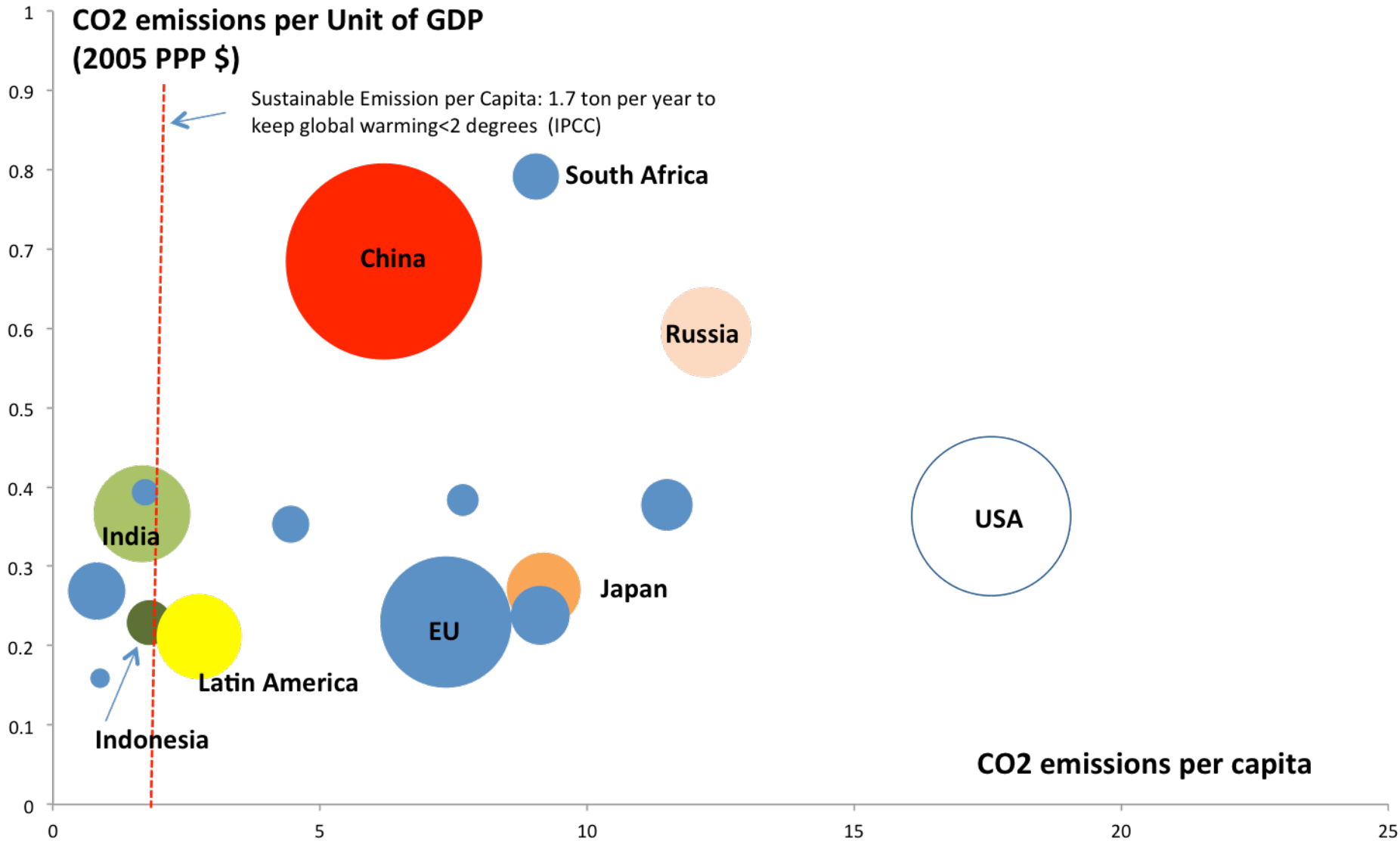
Though not as a share of GDP

12 Percent of Gross National Income



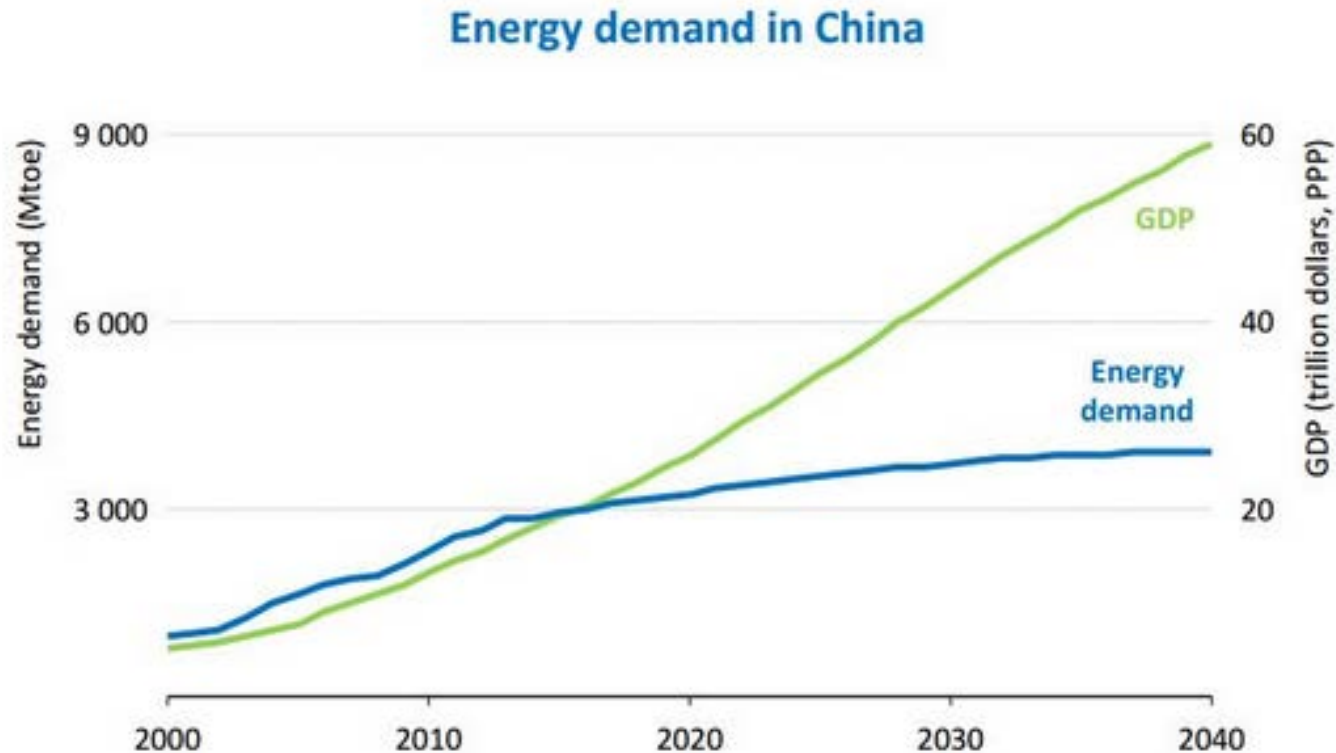
Source: World Development Indicators

The Big Global Issue



Source: World Development Indicators. Note: Emissions exclude change in land use.
Bubble indicates total emissions

China's economy is becoming less energy intensive

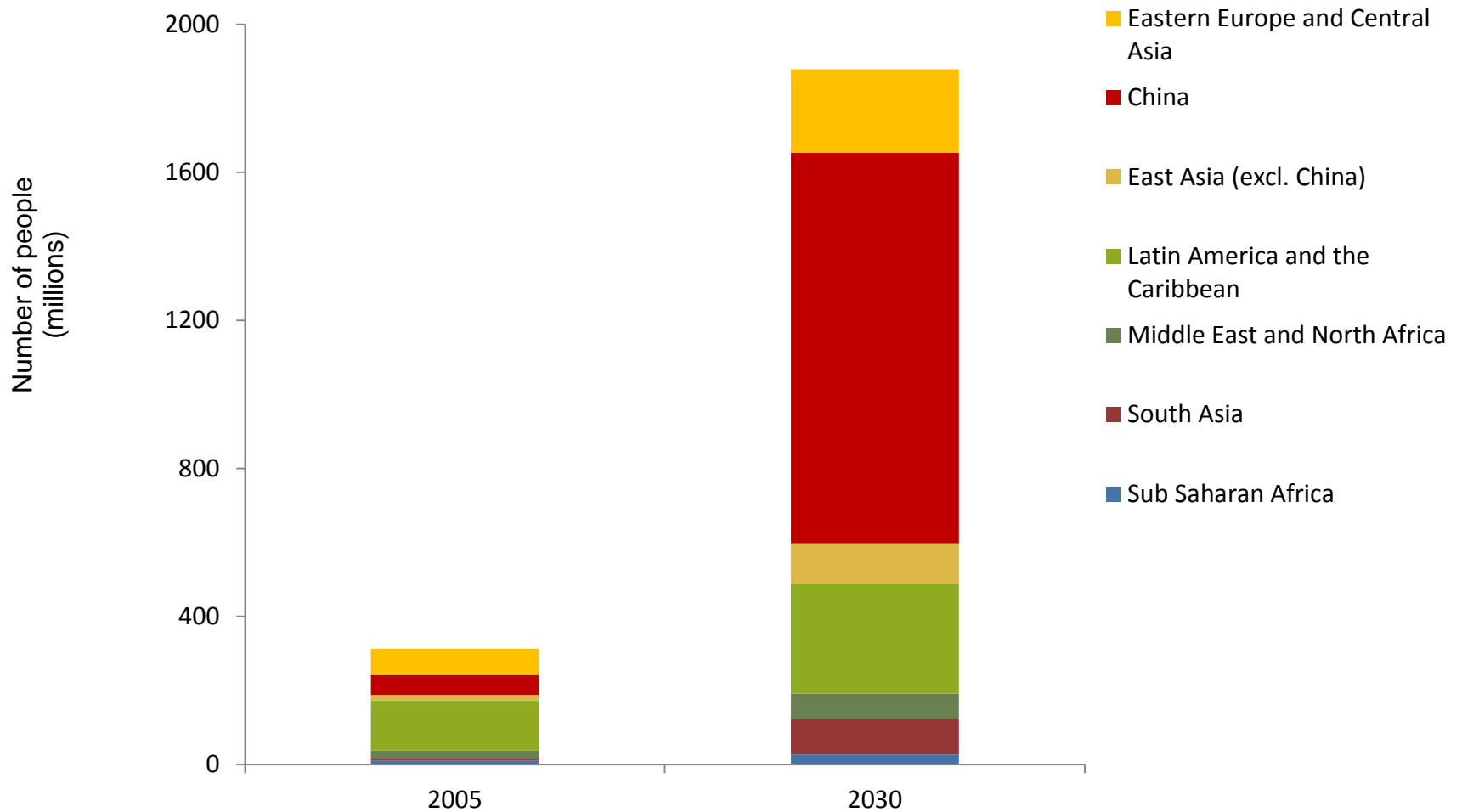


Source: IEA Energy Outlook 2015

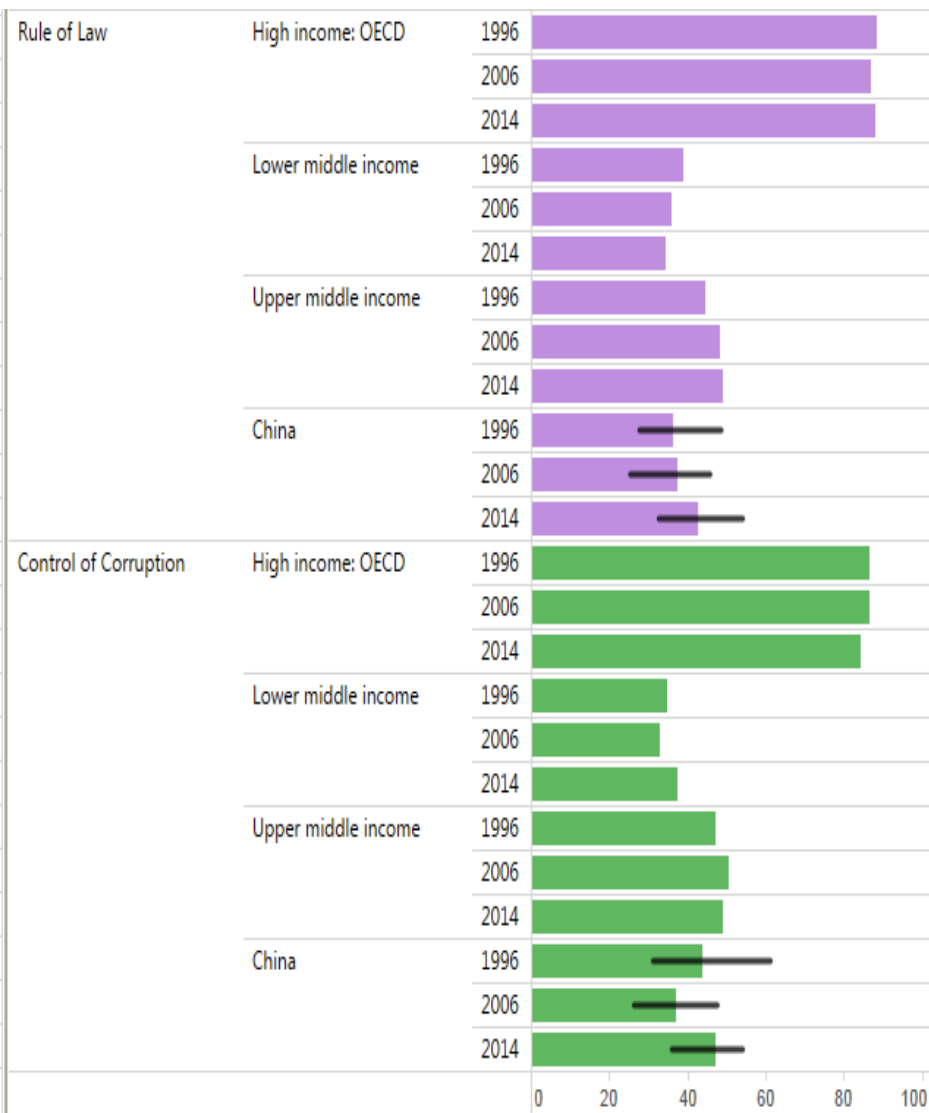
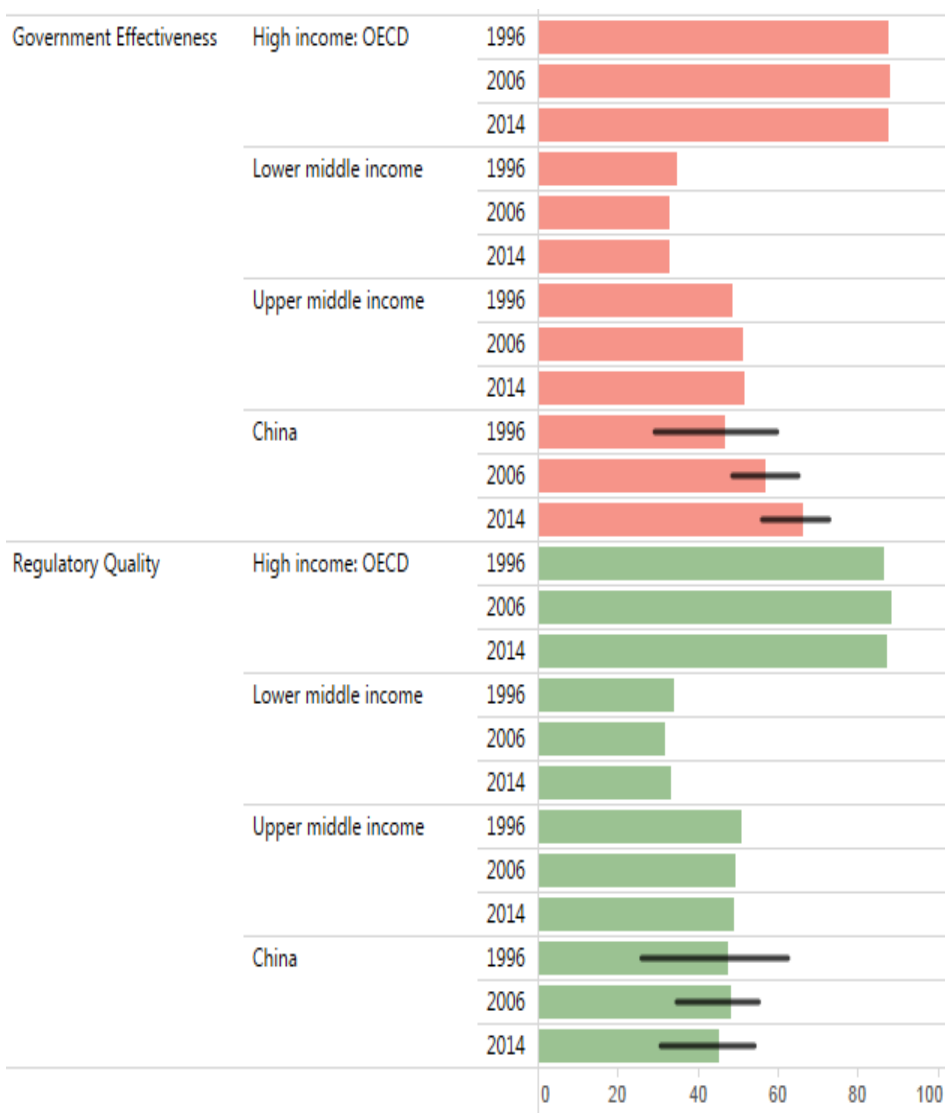
GOVERNING CHINA

A Rising Middle Class

Projections of people living on \$10-\$50 per day 2005-2030

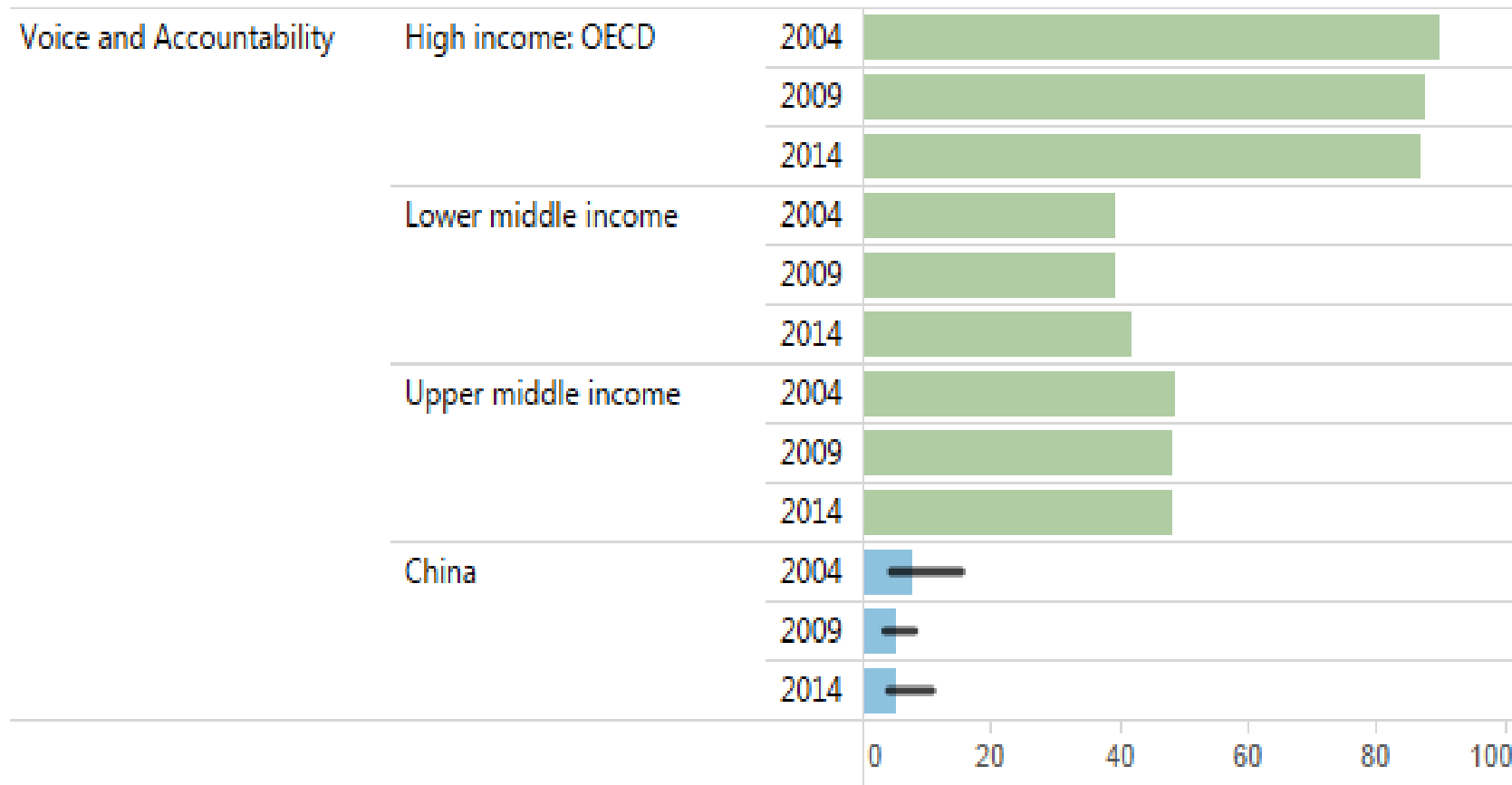


No stellar performer



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*. The Worldwide Governance Indicators are available at: www.govindicators.org

Low Voice and Accountability



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*. The Worldwide Governance Indicators are available at: www.govindicators.org

Four Futures

