

CHINA ON THE MOVE

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1. INTRODUCTION

In Economics – as in other walks of life – there are fads and fashions. Significant changes have taken place over the last couple of years:

- America is back
- The euro is out
- Japan – the new Superman?
- China goes sideways – new leaders have yet to prove themselves
- BRICS – something of the past?



This list a couple of years ago would have looked like this:

- America and Europe are out
- Japan is still in the doldrums, i.e. in her second decades of lost opportunities
- China knows how to ride a tiger
- BRICS carry the day

Social sciences are not like physics, with irrefutable laws. Social sciences deal with human beings. Their behavior is not conducive to rules or laws waiting to be found. Calls for a good deal of humility. (Hayek 1974)



2. A BRIEF ACCOUNT OF HISTORY

1868	Meiji Restoration (not Revolution) in Japan. Have to learn from the West and does so quite successfully
1894-95	China loses the first Sino-Japanese war. The days of the emperor are numbered
1904-05	Russia loses war against Japan
1912	The emperor is ousted. Two thousand years tradition is broken.
1937-45	Second Sino-Japanese war. Started in Manchuria where Abe's grandfather was instrumental as a military man. Atrocities that still linger. Both South-Korea and China hold them against Japan to this day.



1921	Chinese Communist Party (CCP) established, Mao is there.
1934-35	The Long March – the Communists survive, and Mao takes the reins. Chiang Kai-Shek has to cooperate with CCP against the Japanese.
1949	Peoples' Republic of China established. Chiang Kai-Shek to Taiwan.
1950-53	Korean war – no one wins. Americans against Chinese. Korean peninsula divided between North and South.
1958-61	Great Leap Forward – more than 30 million Chines die.
1966-76	Cultural Revolution – anarchy that is hard to imagine. Mao dies.
1978-92	Deng Xiaoping in charge (born in 1904). Pragmatic: “It does not matter whether the cat is black or white as long as it catches mice.” Gradual and careful: “Feeling the stones while crossing the river.”
1989	Tiananmen Square incidence. CCP and Deng draw the line. Corruption, Inflation, Democracy on the agenda. Deng’s 24 characters: Keep a low profile, don’t take leadership, and develop your strengths.
1989-92	Which way will China go? Deng’s Southern Tour and he carries the day. Renewed emphasis on Reform and Open Up.



3. MORE ON RECENT TIMES

1992-2002	Jiang Zemin (and Zhu Rongji) in charge and holding three positions: <ul style="list-style-type: none">• General Secretary of CCP• President of PRC• Head of Central Military Committee (CMC)
2002-2012	Hu Jintao (and Wen Jiabao) in charge. Hu – likewise – all three positions. Historic event – peaceful transition of power.
2012	Again, peaceful transition of power, to Xi Jinping (and Li Keqiang).

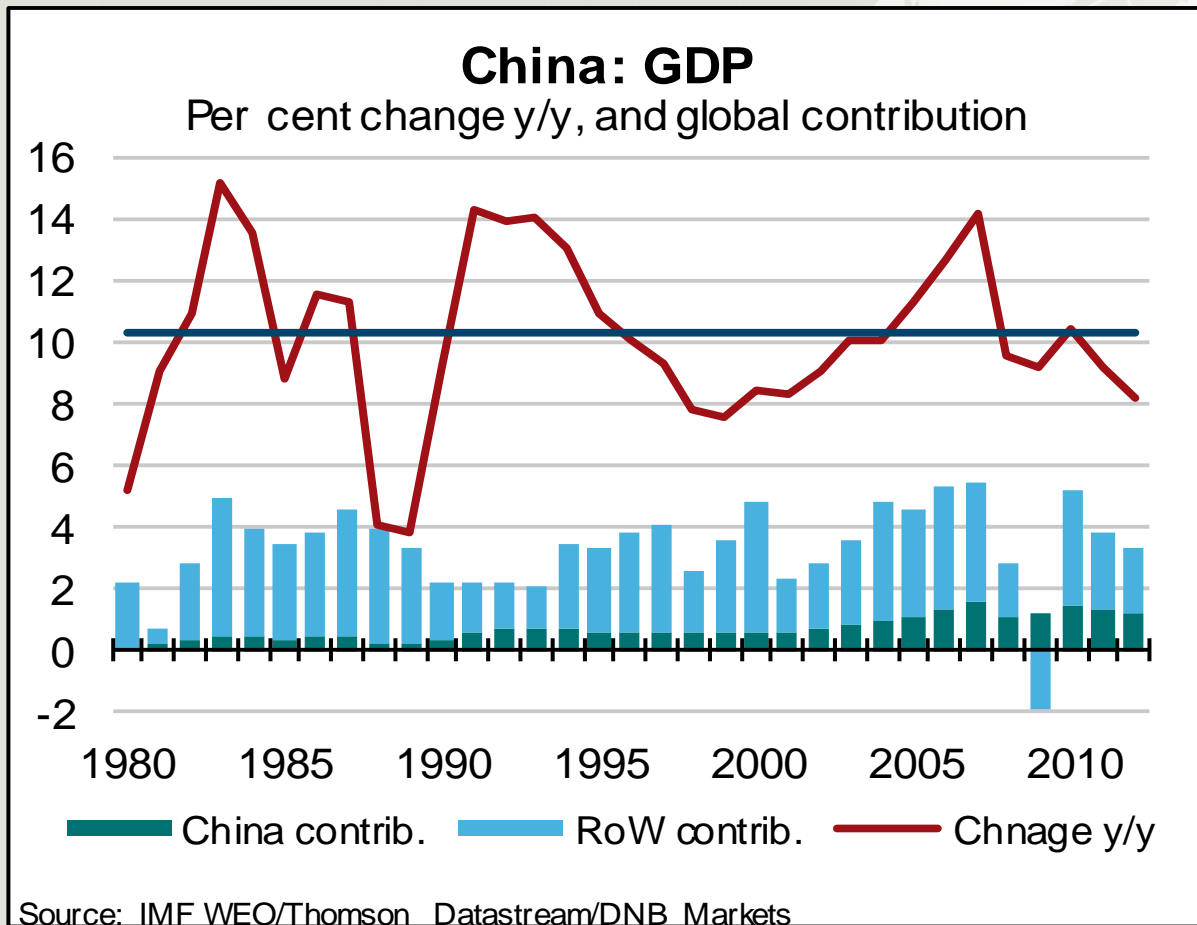
In 2001 China joins World Trade Organization (WTO).

Staying the course as Jiang puts China on the path to more market, with an outside referee (WTO). (Compare Japan now may join TPP.)

1978-2002	Annual economic growth of 9,6 %
2003-2012	Annual economic growth of 10,4 %



Annual growth rate of 10 percent over more than 30 years



China's share of world GDP from 4 % in 2000 to 15 % in 2012.

Time to be more assertive?

2013, estimated growth of 7,5 %. Reached the end of the high-growth period?

Yes – most likely growth will come down to 6-7 % and over time, further down. Why? Because of mathematics and demographics.

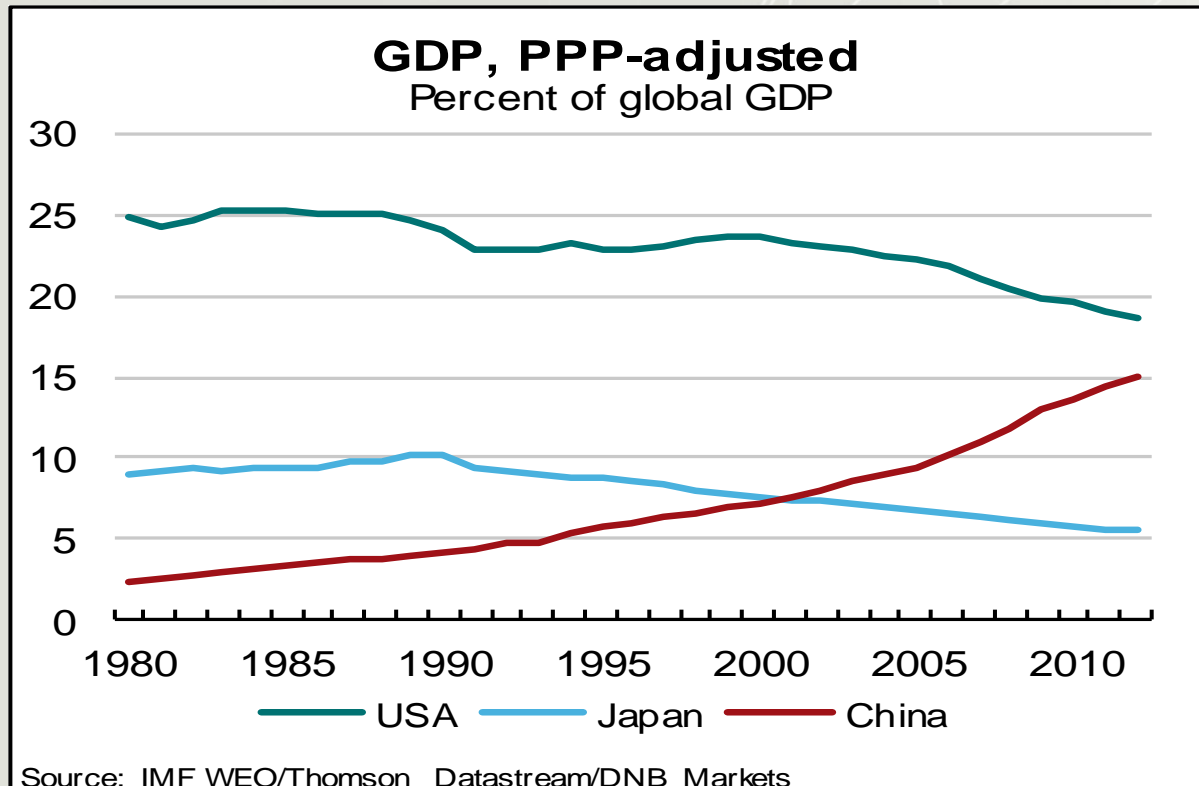
- 10 % growth for seven years, and GDP doubles.
5 % growth in year 8, and in absolute terms, same growth as in year 1.
- 2012, number of people in working age starts to come down. Dependency-ratio on the increase. Payback time for the demographic dividend.

Real investments 50 % of GDP, and private consumption only 35 %. Should be the other way around. What does that take? More equal distribution of income.

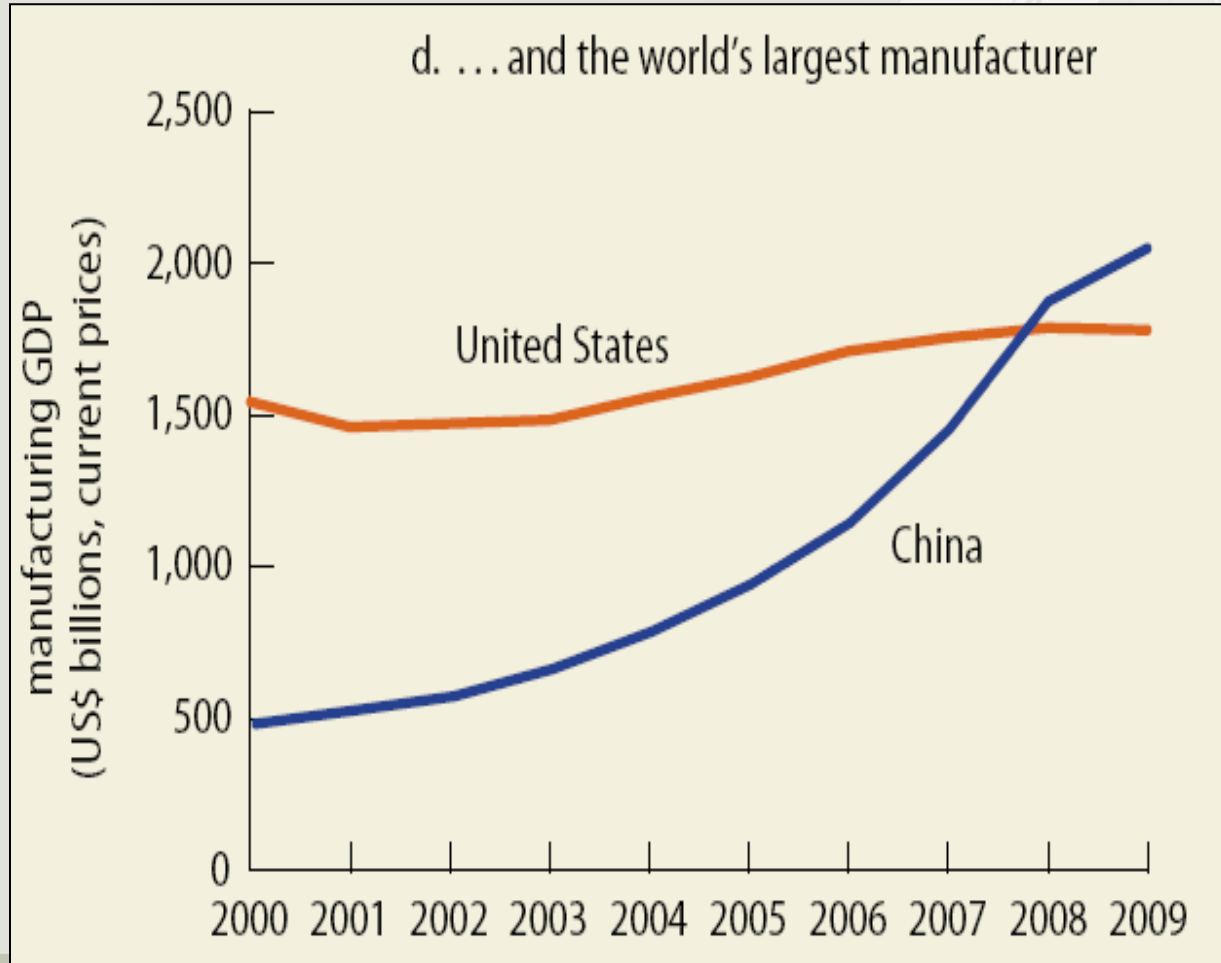


4. CHINA – THE GLOBAL PLAYER

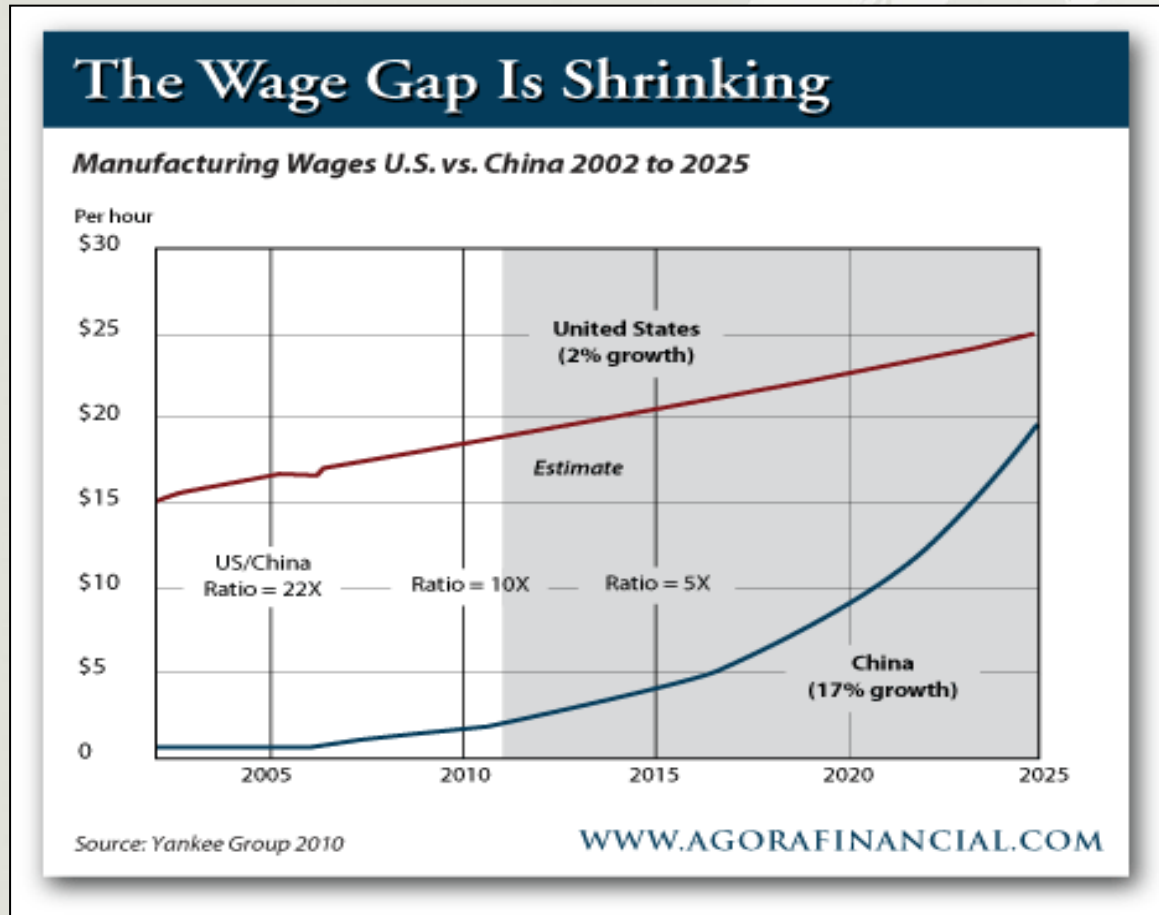
China – soon the biggest economy on the globe?



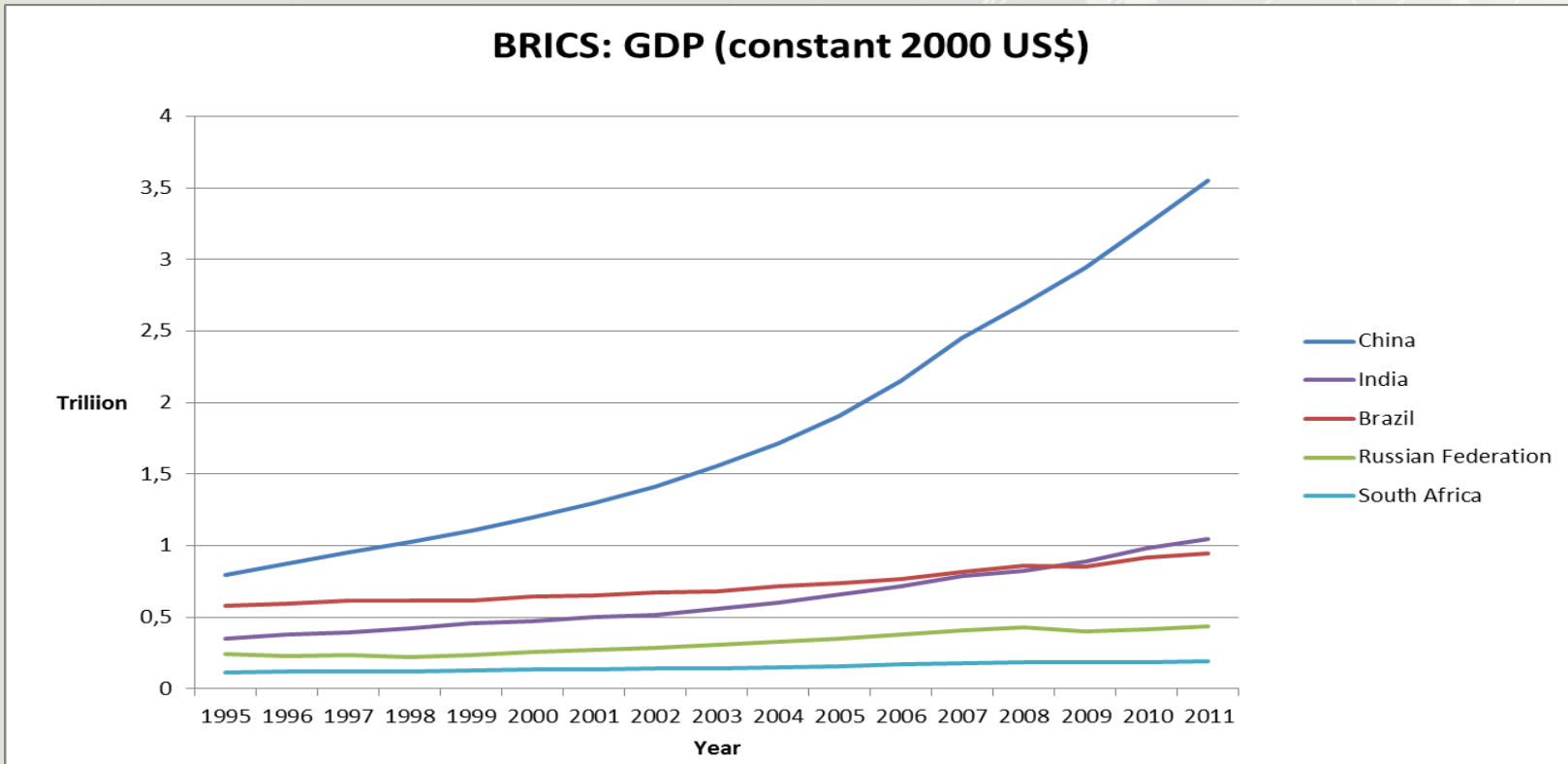
China – producing more manufacturing goods than the US



Wage rate in the US down from 22 relative to China in 2005 to about 5 in 2015



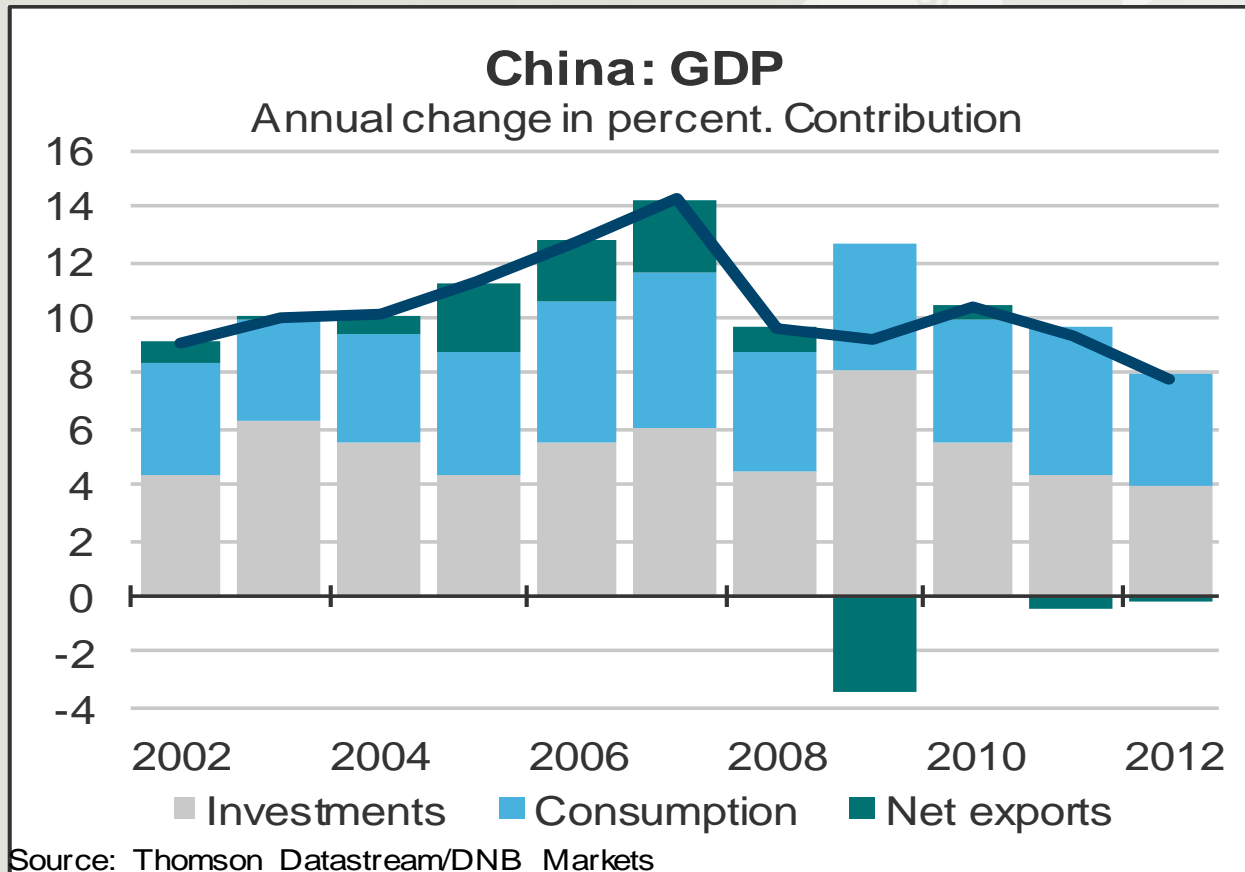
China – and other BRICS- countries



Source: Worldbank Data



Exports explains less of GDP-growth in China than most people think



5. POLITICAL CHALLENGES

What does CCP has up its sleeve on economic reforms?

- Take on State owned enterprises (SOEs) and State owned banks (SOBs).
 - Pay dividend to the owner, the Ministry of Finance
 - Competition from private companies, i.e. break up monopolies
 - SOBs channel more money to private small and medium sized firms
- Do away with hukou-system, i.e. unfair registration systems.
- Increase government commitments to fund education, health and pensions (increased dividend from SOEs will come handily in here).



- Zhu Rongji in late 1990s: Restructured SOEs and 40 million people lost their jobs. He sweetened the pill by opening up the housing market. People could buy the state owned flat they lived for a penny or two. You lost your job, but got a flat.
- Need for another Zhu Rongji?



Corruption endemic to China. May undo the system. Sort of Catch 22:

- If you don't get rid of corruption, China will fall apart.
- If you are to get rid of corruption, the one-party-system shall have to go.

Corruption, Distribution, Environment; something has to give.

- Also, to have a more consumption-driven economy, there is a need to redistribute income – to those who consume more of it
- The two ratios that have to increase:
 - Total wage bill / GDP
 - Consumption expenditure / Total wage bill



In the fall of 2013 CCP's Central Committee will meet.

Until the mid-1990s, reforms without losers. Not possible now.

The biggest vested interest is the interest represented by CCP itself.

Xi/Li need to consolidate power in the months ahead.

Are those who benefit so abundantly from the current system able and willing to act to change it?



The Economist, October 27th 2012

