

Comments on Presentations by
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Curious Pessimism about China's Economy

1. Quick despair over a mild slowdown

- Little or no appreciation for China's clear cyclical patterns
- Incorrect assumptions about China as export-dependent
- Assumption that China needs dramatic reforms for rapid growth

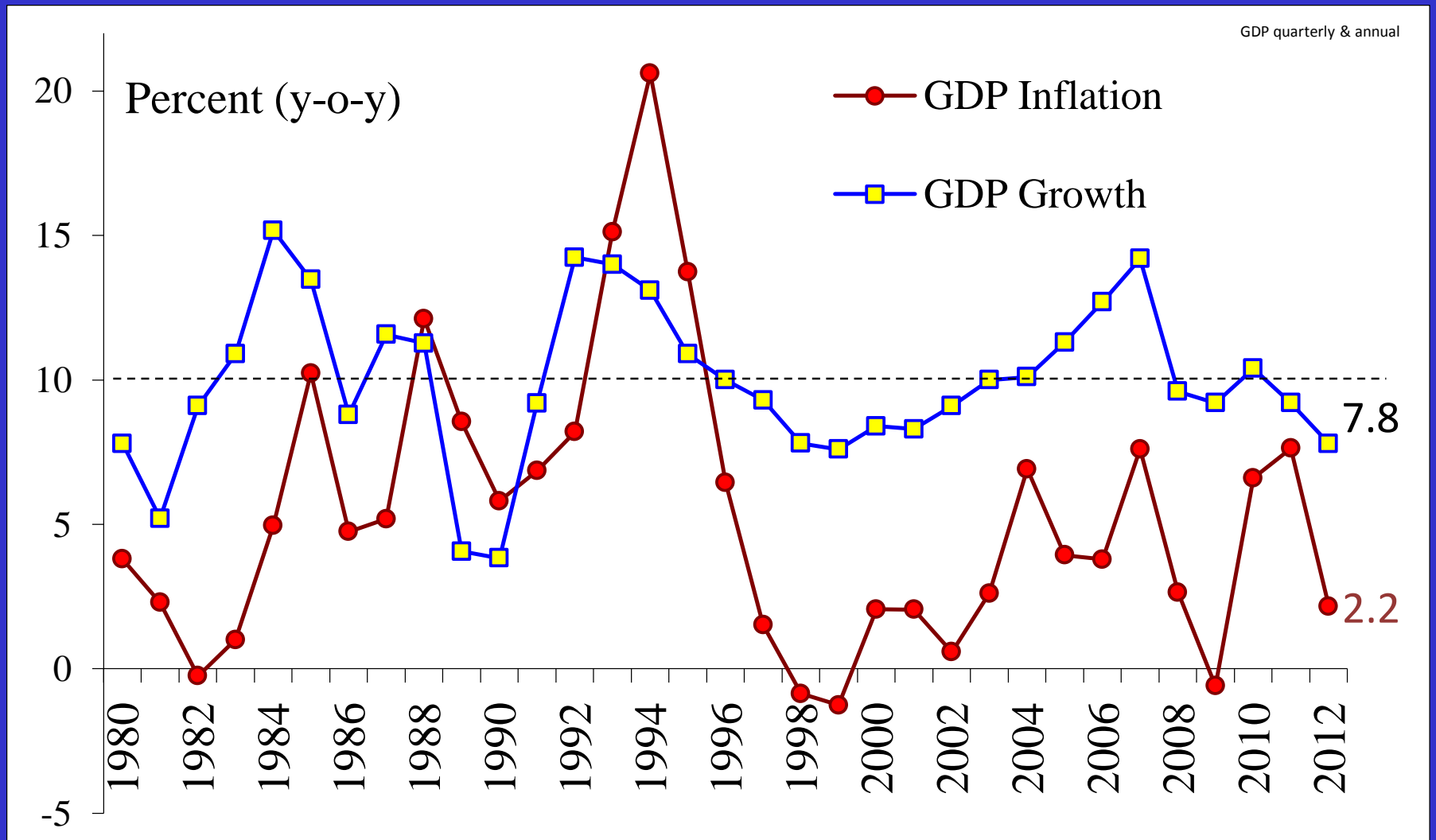
2. Pessimism appears in today's presentations

- China doesn't have a housing finance crisis
- Inequality is less important than poverty reduction
- Per-worker productivity gains counter work force aging

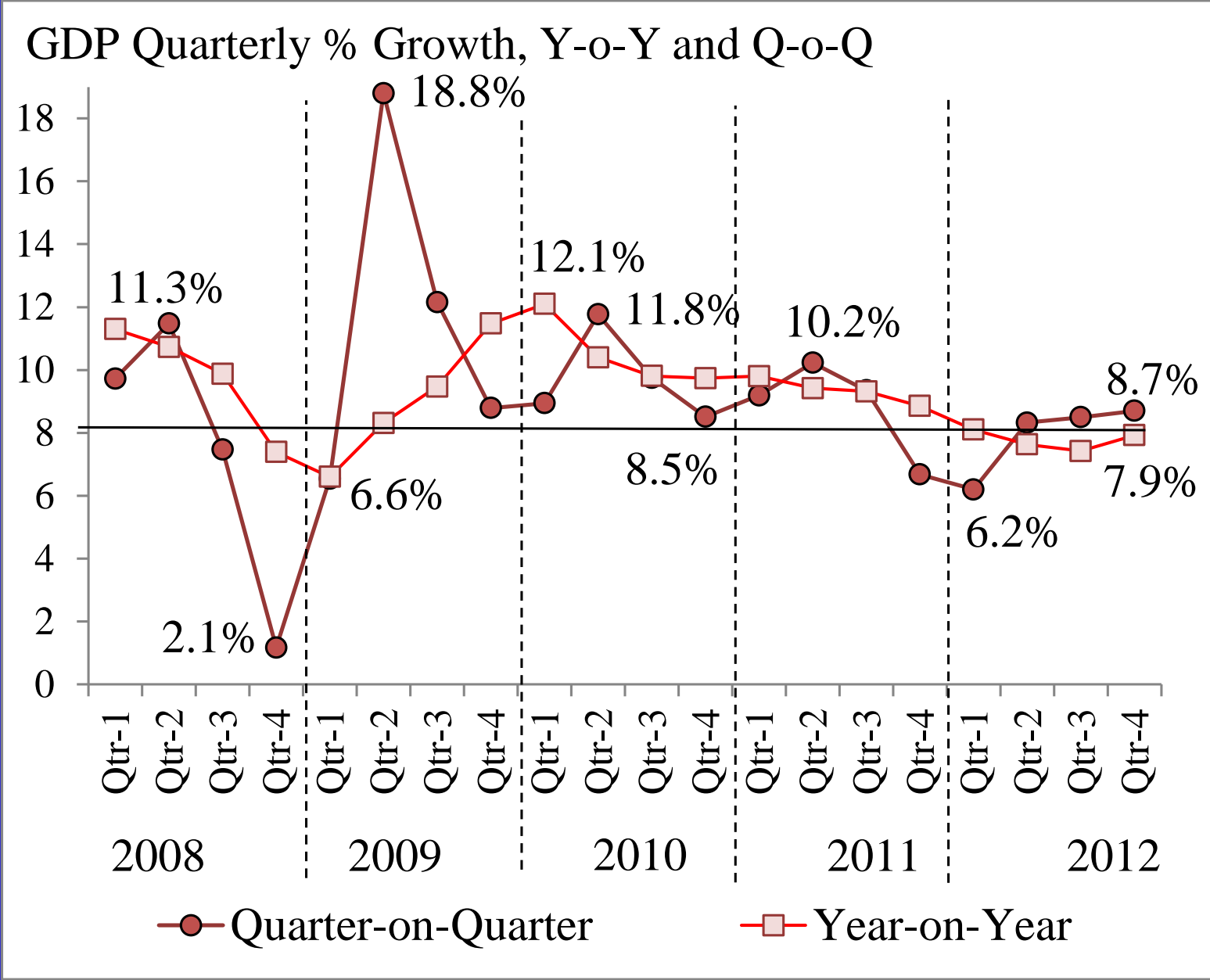
3. Assertions about "Imbalances"

- Confusion: *share* of consumption vs. real consumption growth
- Mistaken investment critique; China is consumption driven now

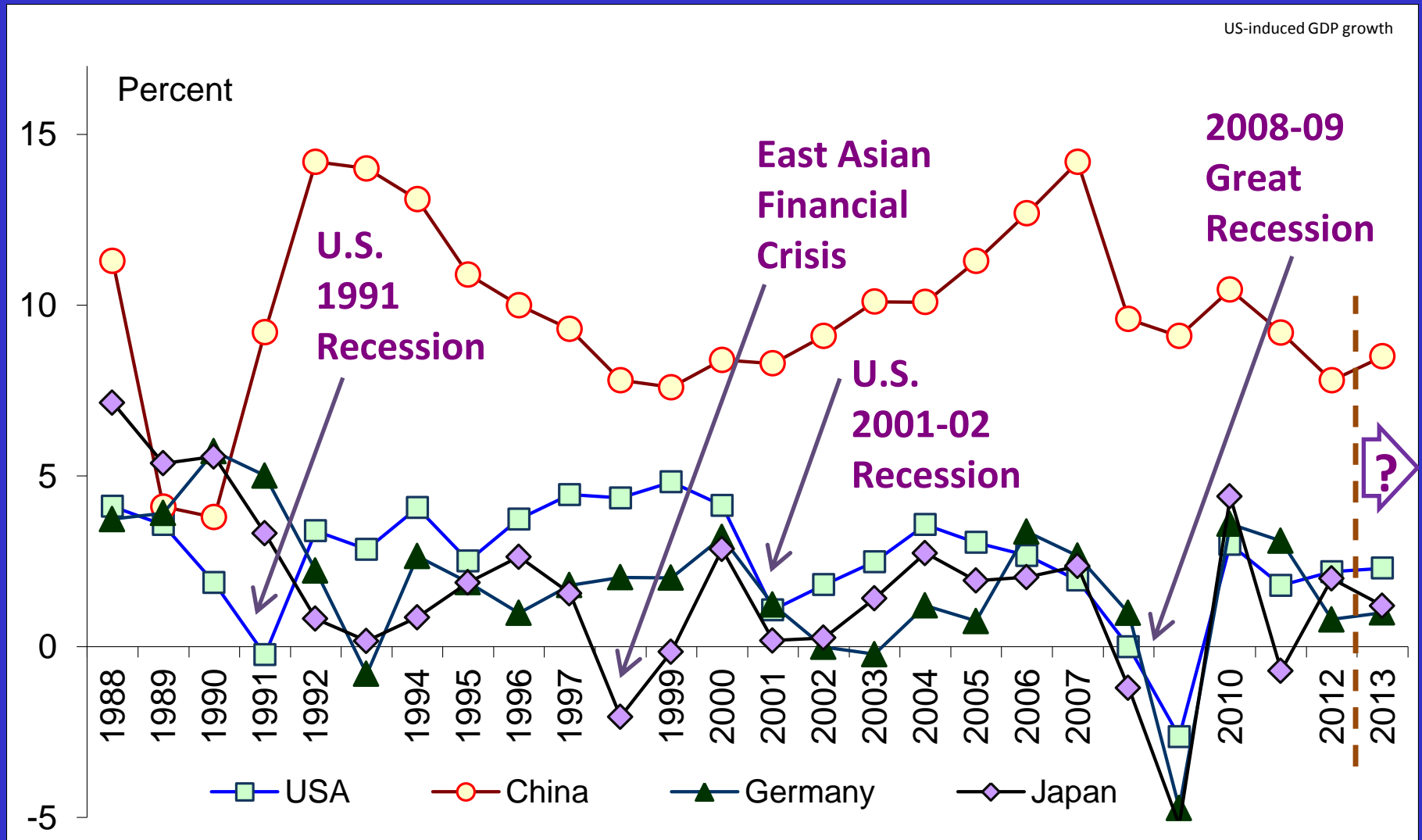
China's growth slowed in 2012, but inflation is now at a comfortable level permitting new stimulus



Q-on-Q, Seasonally Adjusted – Soft Takeoff



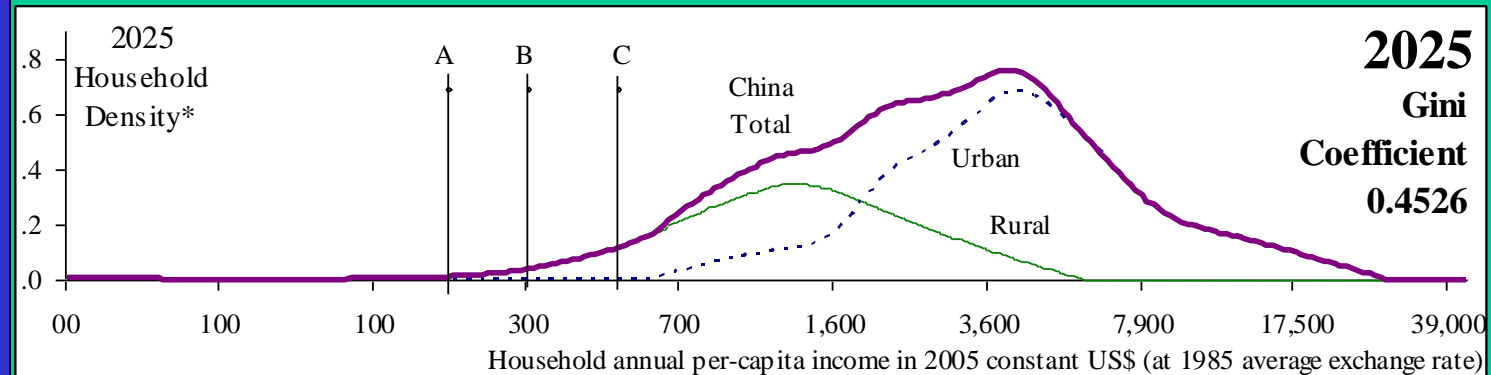
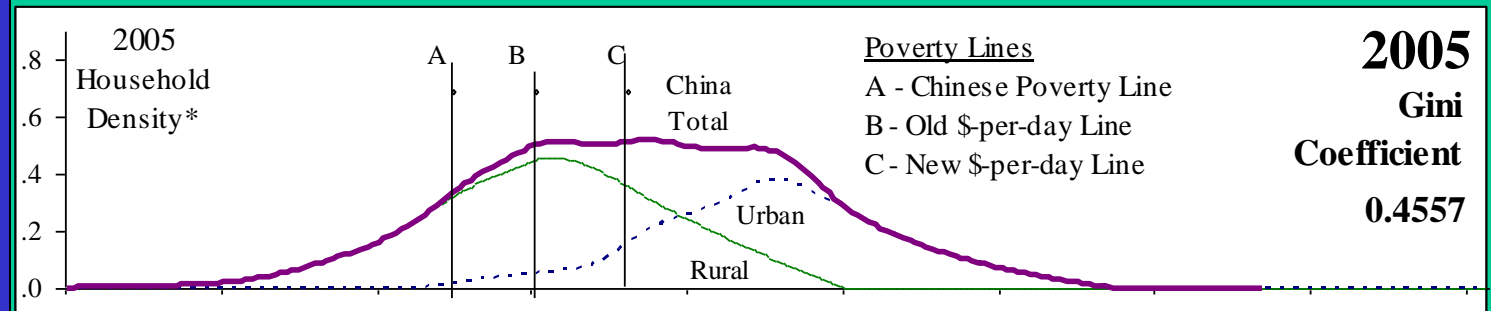
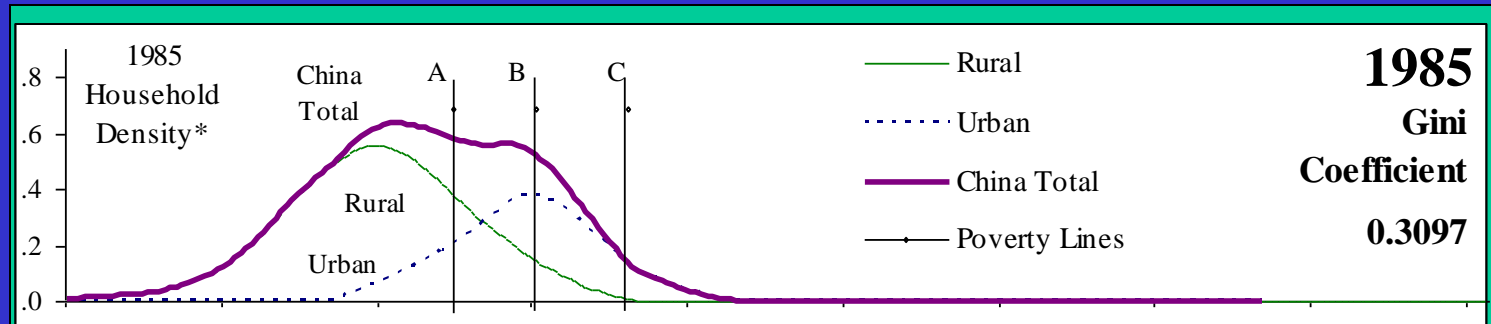
Chinese Growth Returns to “normal” 8~10%; We must stay aware of China’s *cyclical* economy!



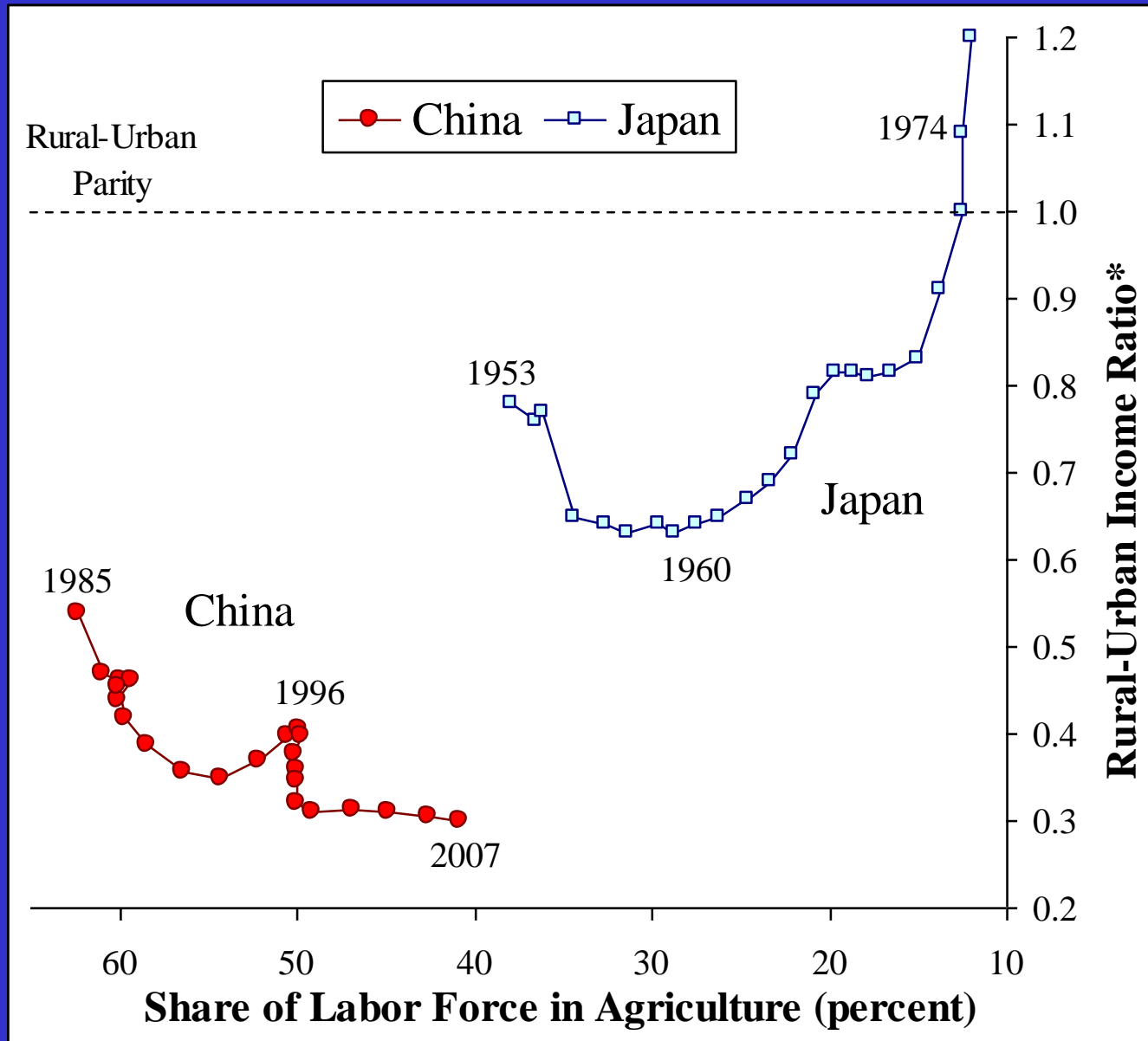
The Case for/against domestic “rebalancing”: Which scenario grows consumption faster?

Comparison of Higher- and Lower Investment Rate Scenarios for Long-term growth of Consumption									
Higher Investment Rate, Low Household Consumption Rate					Lower Investment Rate, Higher Household Consumption Rate				
	Fixed Capital Investment	Household Consumption	Household Cons./capita	Total GDP Tril. 2008 yuan		Fixed Capital Investment	Household Consumption	Household Cons./capita	Total GDP Tril. 2008 yuan
	% of GDP	% of GDP	2008 yuan			% of GDP	% of GDP	2008 yuan	
2008	41.1	35.3	8,183	30.7		41.1	35.3	8,183	30.7
2009	45.0	35.0	8,966	34.1		45.0	35.0	8,966	34.1
2010	44.0	36.0	10,176	37.9		43.0	37.0	10,435	37.8
2011	43.0	37.0	11,513	42.0		41.0	39.0	12,054	41.7
2012	42.0	38.0	12,988	46.4		39.0	41.0	13,824	45.7
2013	41.0	39.0	14,608	51.1		37.0	43.0	15,745	50.0
2014	40.0	40.0	16,383	56.2		35.0	45.0	17,812	54.4
2015	39.0	41.0	18,319	61.7		34.0	46.0	19,637	59.0
2016	38.0	42.0	20,426	67.6		33.0	47.0	21,590	63.8
2017	37.0	43.0	22,710	73.8		32.0	48.0	23,671	68.9
2018	36.0	44.0	25,179	80.5		31.0	49.0	25,881	74.3
2019	35.0	45.0	27,837	87.5		30.0	50.0	28,220	79.9
2020	33.0	47.0	31,284	94.7		29.0	51.0	30,687	85.6
2021	31.0	49.0	34,933	102.1		28.0	52.0	33,279	91.6
2022	29.0	51.0	38,762	109.5		27.0	53.0	35,992	97.8
2023	27.0	53.0	42,744	116.9		26.0	54.0	38,822	104.2
2024	25.0	55.0	46,848	124.2		25.0	55.0	41,761	110.7
2025	24.0	56.0	50,260	131.6		24.0	56.0	44,802	117.3
2026	23.0	57.0	53,776	139.2		23.0	57.0	47,936	124.1
2027	22.0	58.0	57,384	146.9		22.0	58.0	51,152	130.9
2028	21.0	59.0	61,071	154.6		21.0	59.0	54,439	137.8
2029	20.0	60.0	64,821	162.3		20.0	60.0	57,782	144.7
2030	20.0	60.0	67,656	170.4		20.0	60.0	60,309	151.9

Income Distribution – Long-term Trends



Rural-urban Income Gaps and Farm Labor Shares



China's crisis response was a major success

1. Damage was brief and salutary

- Little financial impact – but exports were slammed
- Quick shift to domestic demand and indigenous value-added
- Huge stimulus success illustrated quasi-fiscal capabilities

2. Many programs and projects moved forward

- Public investments: infrastructure , housing, health, education
- Private sector output surged – *not* a “return of the state”

3. Innovations stimulated on many fronts

- Accelerated restructuring pilots (especially in South China)
- Domestic financial diversification and innovation
- Hong Kong collaboration and RMB internationalization

Global Crisis' Economic Consequence:

China did not pause while others did

1. The crisis facilitated steps already under way

- China's public finance system fit its stimulus needs
- Government used the crisis scare to implement difficult restructuring, overcoming resistance
- Continued shift to domestic markets began to correct distortions from pre-crisis U.S. bubble

2. Return to underlying domestic macro cycle

- The 2011-2013 cycle is especially significant
- Results for 2012 show a healthy upswing going¹⁰ on

Conservative Chinese Economic Projections 2005-2100

Table 1. U.S. and China GDP Growth Potential, 21st Century (in constant 2005 US\$)

	1	2	3	4	5	6	7	8
	<u>Real Growth</u>		<u>GDP (Trillion \$)</u>			<u>GDP/Capita (thousand \$)</u>		
	Annual Percent		United	China	China	United.	China	China
	U.S.	China	States	X-rate	PPP	States	X-rate	PPP
2005	<i>3.0</i>	<i>9.6</i>	12	2	5	41	1.7	4.1
2010	2.0	9.5	14	4	8	43	2.9	6.1
2020	3.0	8.5	18	10	18	52	6.9	12.7
2030	3.0	7.5	24	22	35	64	15	24
2040	3.0	6.5	33	45	63	78	30	42
2050	3.0	5.5	44	82	104	95	53	67
2060	3.0	4.3	59	131	152	116	83	96
2070	3.0	3.0	80	178	199	142	109	123
2080	3.0	3.0	107	244	262	174	146	159
2090	3.0	3.0	144	335	348	214	197	208
2100	3.0	3.0	194	466	466	262	271	271

Note: *Italics* for 2005 imply 1985-2005 average real growth.

Five-dimension Explanation of Success

0. Values, Norms and Principles

I. Institutional economic leadership capacity

II. Heavy focus on public goods provision

III. Conscious attention to demand adjustments

IV. Rapid strengthening of profit incentives

The End
Thank you

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