



**Asia and Pacific Regional Round Table:  
“The China and India Factor: Implications for  
Developing Countries in the Asia and Pacific Region”**

**PRESENTATION**

**By Panelist**

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# China's Economic Growth and Challenges

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This Round Table addresses the theme of “the China and India Factor: Implications for Developing Countries in the Asia and Pacific Region”. Unfortunately, as I am not an expert specializing in Indian studies, my knowledge on the situation in India is modest. Therefore, I will be able to address only the picture in China. In his paper, Professor Dukgeun Ahn offers a solid and enlightening analysis of the performance and sustainability of China's economic growth. As I am in agreement with his basic judgments, I intend to add my observation from the aspects of China's economic growth, challenges and their implications.

1. Professor Ahn believes that the Chinese economy will keep growing at an annual average of 8%-10% in the years to come, which is in line with our projection. In addition to the reasons cited by Professor Ahn, I want to make a point of emphasizing the factor of urbanization, which plays a pivotal role in the country's economic growth. The GDP of 120 cities in China combined accounts for three quarters of the entire economy. (World Bank, 2007) The ratio of urbanization in China rose from 17.9% in 1978 to 43.9% in 2006. Yet that remains below the world average. It is estimated that each one percentage point rise in urbanization will contribute, directly and indirectly, more than two percentage points to the nation's economic development. With continued urbanization, such factors as investment in public facilities, demand for goods and services, and labor supply will generate sustained momentum for growth in the Chinese economy and the world economy at large.

2. Professor Ahn has taken note of the challenges that resources and the environment pose to China's economic growth. He also points out that if utilized more efficiently, a drop in resource mobilization will not have negative consequences for economic growth. This observation has hit the nail on the head. In the recent past, growth in the country has come at the expense of high energy consumption. Take as an example energy costs as a share of GDP. In 2005, the ratio was 13% for China and 7% for the United States. The massive usage of coal as a source of raw materials has resulted in a relatively high amount of greenhouse gas emissions. As a manufacturing powerhouse, China has played the de facto role as “the world's kitchen”. While it churns out quality goods and services for the whole world, the country has found itself shouldering an increasingly heavier burden in terms of its energy consumption and environmental degradation.

In a bid to put its growth on a sustainable footing, the Chinese government has embraced a “scientific outlook on development” that calls for “all-round, balanced and sustainable” development. It has identified resource conservation and environmental preservation as part of its development objectives. The central government has adopted “energy efficiency and resource conservation” and “pollution and emissions abatement” as the binding measurements used to assess government performance. Under the “Eleventh Five-year Development Program”, the Chinese government has set explicit targets on energy conservation and emissions reduction. Specifically, from 2005 through 2010, energy consumption per unit of GDP will be cut by 20% and emissions of sulfur dioxide and chemical oxygen demand will have to

drop by 10%. So far, the central government has hammered out a detailed plan for assessing compliance with the two targets. The overall targets have been decomposed so as to specify how local governments at various levels and businesses should comply. Furthermore, the Chinese government has taken a string of supporting measures by, among other things, restricting the number of new projects that are energy-intensive and highly polluting, appropriately raising the price of resources and pollution levy, and incorporating environmental stewardship in the system for assessing local officials' performance. The first three quarters of 2007, for the first time ever, saw a simultaneous drop in the total amount China's two leading pollutants discharged. Emissions of sulfur dioxide declined by 1.81% year-on-year and the amount of chemical oxygen demand fell by 0.28% over the same period last year. (Zhou Shengxian, 2007) With the implementation of various measures, the 2010 targets for energy efficiency and emissions cut set forth in the "Eleventh Five-year Development Program" are achievable.

3. In his paper, Professor Ahn also addresses the enormous challenges that development imbalances in China pose to the country's economic growth. Such disparities are felt across regions, sectors, between rural and urban areas, and among different segments of society. In fact, income inequality has risen dramatically. It is calculated that the Gini-coefficient on income distribution nationwide hit 0.46 in 2002. (CDRF and UNDP, 2005) To cope with this challenge, China's government has pursued a host of economic and social policies alike to accomplish its objective of delivering a harmonious society.

Currently, social reform has emerged as one of the areas that attract the greatest amount of attention in China. Lying at the heart of social reform are the efforts to rebuild a system of social welfare. (1) With respect to the fight against poverty, the Chinese government has adopted the two approaches of relief and development. On the one hand, a "minimum living allowance" has been put in place across-the-board in both rural and urban areas. In particular, the government, for the first time ever, has expanded the coverage of a living allowance for low-income segments of society to include the countryside. At present, the number of rural and urban recipients of the minimum living allowance stands at 48.09 million. Nationwide, the average benefit for the recipients is 1,032 yuan per person per year. On the other hand, a sizable amount of government and private funds have been devoted to poverty alleviations programs through development. That has helped improve infrastructure, living and working conditions in the impoverished parts of the country. (2) On the education front, in recent years the government has boosted its spending on rural compulsory education and bolstered its efforts to develop vocational and higher education. Starting in 2005, the government exempted the tuition and incidental fees for rural students receiving compulsory education. It has provided students of modest means with free textbooks and living allowance for boarding students. These initiatives have directly benefited 150 million rural students. The aggregate amount of government expenditure on education has witnessed a visible rise. On the internationally comparable basis, China's budgetary outlay on education as a share of its GDP exceeded 3%. (3) When it comes to health care, the system for providing basic medical care in cities and the countryside has been improving gradually with an expansion of the coverage. By March 2007, the scheme of basic health insurance for urban workers had covered 162 million workers. Over 400 million farmers have participated in the new type of rural cooperative medical care. (4) Regarding the issue of housing, in order to ensure housing affordability for middle- and low-income households, efforts are being made to establish and improve a "low-rent" housing program and other schemes aimed at making housing more affordable. (5) With respect to old-age support, the pension insurance programs for rural and urban

resident have seen growing coverage and higher benefits. In addition, in terms of employment, a pro-active employment policy has started to be implemented. Laws and regulations aimed at upholding workers' right of employment have been improved. The goal of the Chinese government is to ensure that all our people enjoy their rights to education, employment, medical and old-age care, and housing. Social equity will improve dramatically by 2020 when a moderately prosperity society in all respects materializes across the country.

4. As with the theme addressed at this meeting, China's economy has become more closely integrated with the world economy with increasingly deeper interaction. Since it acceded into the WTO in 2001, China has opened itself wider to foreign participation amid emerging new trends:

(i) While China has continued to be a sizable recipient of inward FDI, the country has seen a growing size of its outward FDI with structural changes. From January through September 2007, China's total outward FDI flows had hit 14.1 billion U.S. dollars, representing a 1.8-fold increase year-on-year. The targeted sectors have diversity away from trade to resource development, industrial manufacturing, transportation, catering and hospitality, counseling, research and development, agriculture and real estate. The targeted geography has seen a shift away from developed countries and regions towards a host of emerging economies in Asia, Africa and Latin America.

(ii) Alongside the expansion of its foreign trade, China's domestic market has boomed with rapid and sustained growth. The country is in the midst of a transition from a low-middle income nation toward a middle-income one as the number of residents with an annual income in excess of 3,000 dollars is soaring. The size of such a segment of the population will reach 420 million by 2015. In light of the experience of Japan and South Korea, annual growth in China's consumer spending and retail sales will average roughly 20%. (Nomura Securities, 2007) At present, rural consumption and rural markets have also moved into a phase of accelerating expansion. The potential in the home market has continued to be unleashed. That represents a huge opportunity not only for China, but also for the entire world economy at large.

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## **China's Economic Growth and Challenges**

**Mai Lu**  
Secretary General  
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### **OUTLINE**

- China's Economic Growth: Factor of Urbanization
- Challenge of Resources and the environment
- Challenge of Development Imbalances
- Implications

Slide 3

China's Economic Growth: Factor of Urbanization

Economy or region	GNI per capita (US\$, 2005)*	Population		Urban population	
		Total (millions, 2004)	Growth rate (%, 2000-05)	Share of total (%)	Growth rate (%, 2000-05)
Cambodia	380	14.5	2.4	19	5.5
China	1,740	1,313.3	0.7	39	3.2
Indonesia	1,270	222.6	1.3	46	3.9
Lao PDR	440	5.8	2.3	21	4.6
Malaysia	4,960	24.9	1.9	64	3.0
Mongolia	670	2.6	1.3	57	1.4
Myanmar	—	50.1	1.1	30	3.1
Papua New Guinea	660	5.8	2.2	13	2.3
Philippines	1,250	81.4	1.8	61	3.1
Thailand	2,750	63.5	1.0	32	1.9
Vietnam	620	82.5	1.3	26	3.2
East Asia and Pacific	1,610	1,869.5	0.8	41	3.1
Hong Kong, China	26,810	7.1	1.1	100	1.1
Korea, Rep. of	15,810	48.0	0.6	80	0.9
Singapore	24,220	4.3	1.7	100	1.7
Developing East Asia	1,680	5,360.8	1.3	43	2.5
Australia	27,100	19.9	1.0	92	1.4
Japan	37,210	127.8	0.1	65	0.3
World	6,329	6,365.0	1.2	49	2.1

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China's Economic Growth: Factor of Urbanization

- In China, 120 cities accounts for about three-quarters of the country's GDP a year.
- The ration of urbanization in China rose from 17.9% in 1978 to 43.9% in 2006.
- It is estimated that each one percentage point rise in urbanization will contribute, directly and indirectly, more than two percentage points to the nation's economic development.

Chinese economy will keep growing at an annual average of 8%-10% in the years to come.

Challenge of Resources and the environment

- High energy consumption

**Energy Efficiency of Various Countries (%)**

	Italy	Japan	Western Europe	USA	China
<b>Year</b>	1978	1975	1972	1972	2005
<b>Energy Utilization Rate</b>	42.5	36.4	33.23	47.49	34.1

- High amount of greenhouse gas emissions

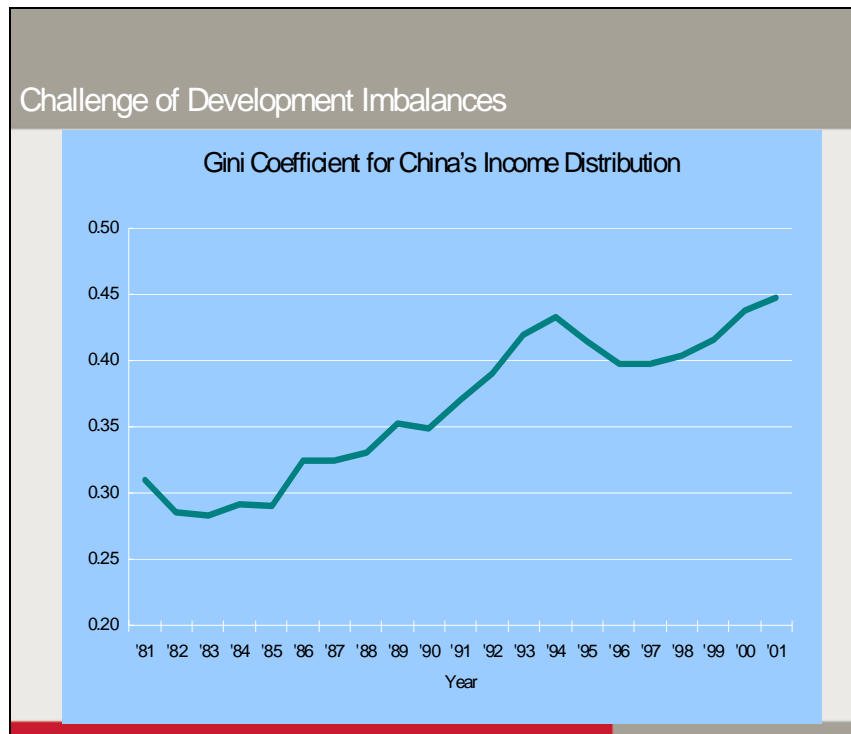
**The World's kitchen**

While it churns out quality goods and services for the whole world, the country has found itself shouldering an increasingly heavier burden in terms of its energy consumption and environmental degradation.

Challenge of Resources and the environment:  
**Efforts**

- Energy efficiency and resource conservation
- Pollution and emissions abatement
  - From 2005 through 2010, energy consumption per unit of GDP will be cut by 20% and emissions of sulfur dioxide and chemical oxygen demand will have to drop by 10%.
  - The first three quarters of 2007, for the first time ever, saw a simultaneous drop in the total amount China's two leading pollutants discharged. Emissions of sulfur dioxide declined by 1.81% year-on-year and the amount of chemical oxygen demand fell by 0.28% over the same period last year.

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Challenge of Development Imbalances :  
**Efforts**

- Anti-poverty
- Education
- Health care
- Housing
- Old-age support

The goal of the Chinese government is to ensure that all our people enjoy their rights to education, employment, medical and old-age care, and housing.

## Implications I

### Outward FDI

- Growing size
  - From January through September 2007, China's total outward FDI flows had hit 14.1 billion U.S. dollars, representing a 1.8-fold increase year-on-year.
- Structural Changes
  - The targeted sectors have diversity away from trade to resource development, industrial manufacturing, transportation, catering and hospitality, counseling, research and development, agriculture and real estate.
  - The targeted geography has seen a shift away from developed countries and regions towards a host of emerging economies in Asia, Africa and Latin America.

## Implications II

### China's Domestic Market

- Growing size
  - The country is in the midst of a transition from a low-middle income nation toward a high-middle income one as the number of residents with an annual income in excess of 3,000 dollars is soaring.
  - The size of such a segment of the population will reach 420 million by 2015.
  - In light of the experience of Japan and South Korea, annual growth in China's consumer spending and retail sales will average roughly 20%.

This represents a huge opportunity not only for China, but also for the entire world economy at large.



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**THANK YOU**

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