

The Reform and Opening of the Chinese Economy and the World

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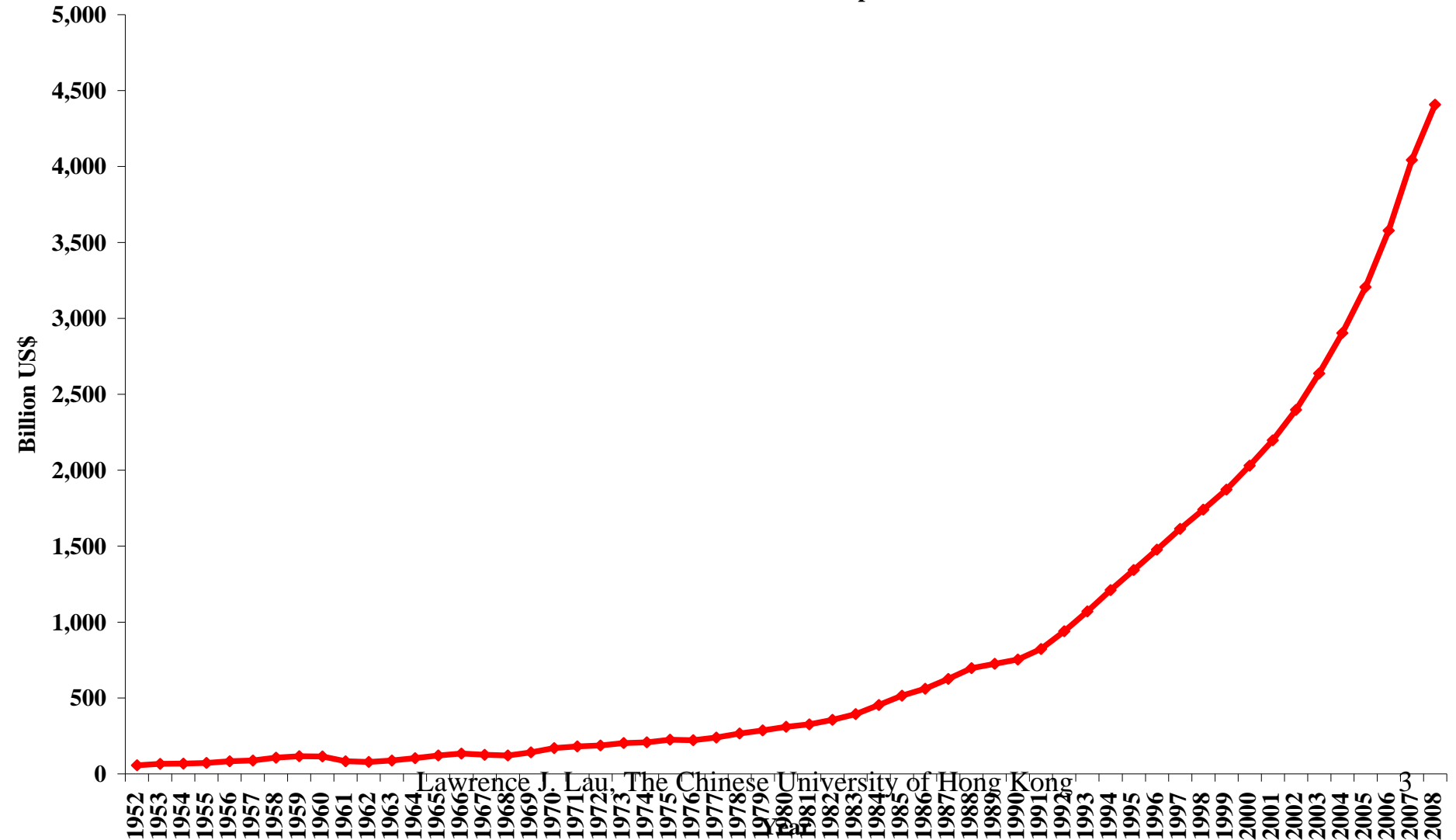
The Chinese Real GDP and Real GDP per Capita: Past, Present and Projected Future

	1978	2008	2020
	US\$	(2008 prices)	
Real GDP (trill.)	0.267	4.41	9.00
Real GDP/capita	277	3,320	6,250

Thirty years of Chinese Economic Reform

Real GDP in US\$ (2008 Prices)

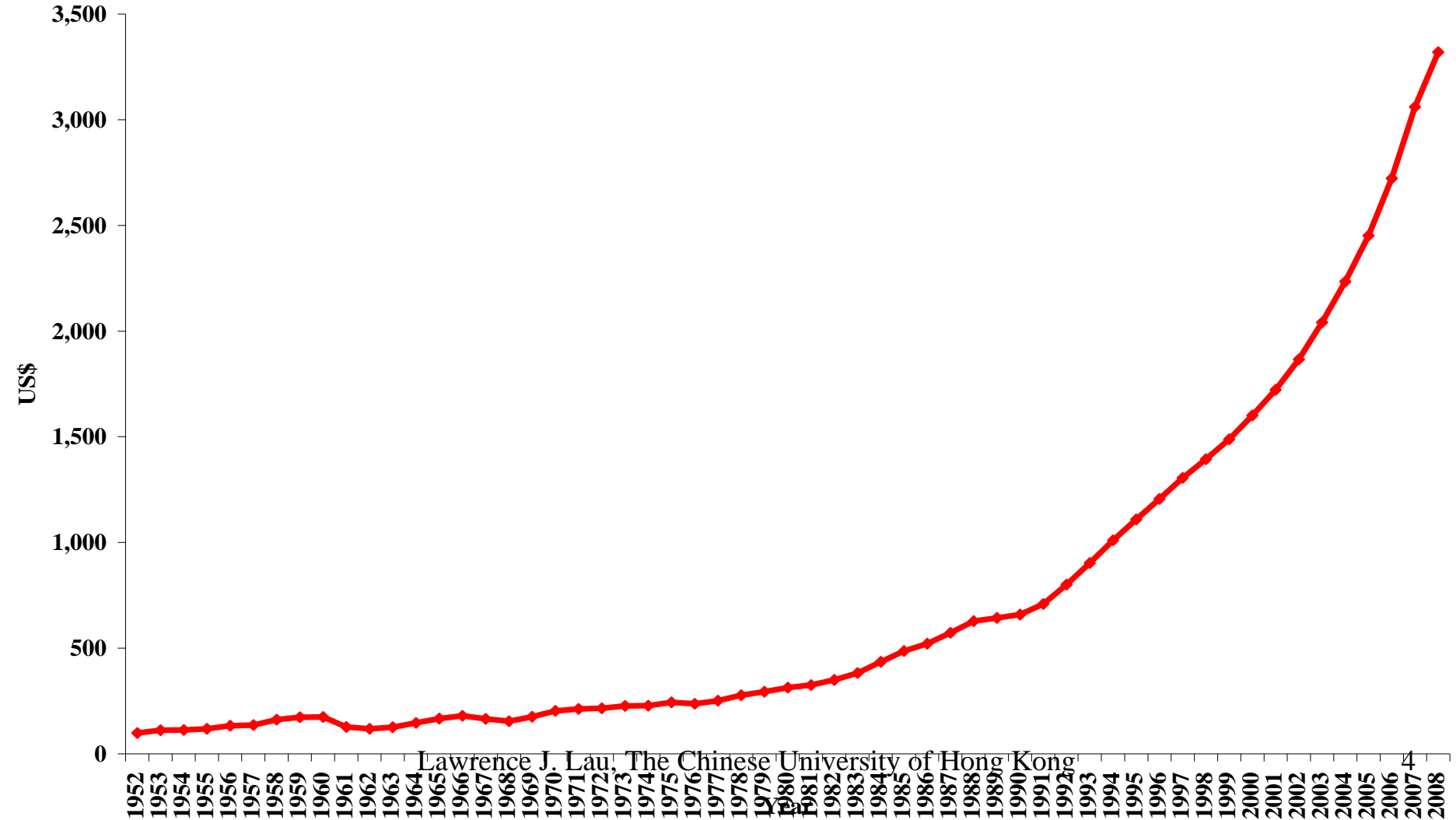
Chinese Real GDP in 2008 prices



Thirty years of Chinese Economic Reform

Real GDP per Capita in US\$ (2008 Prices)

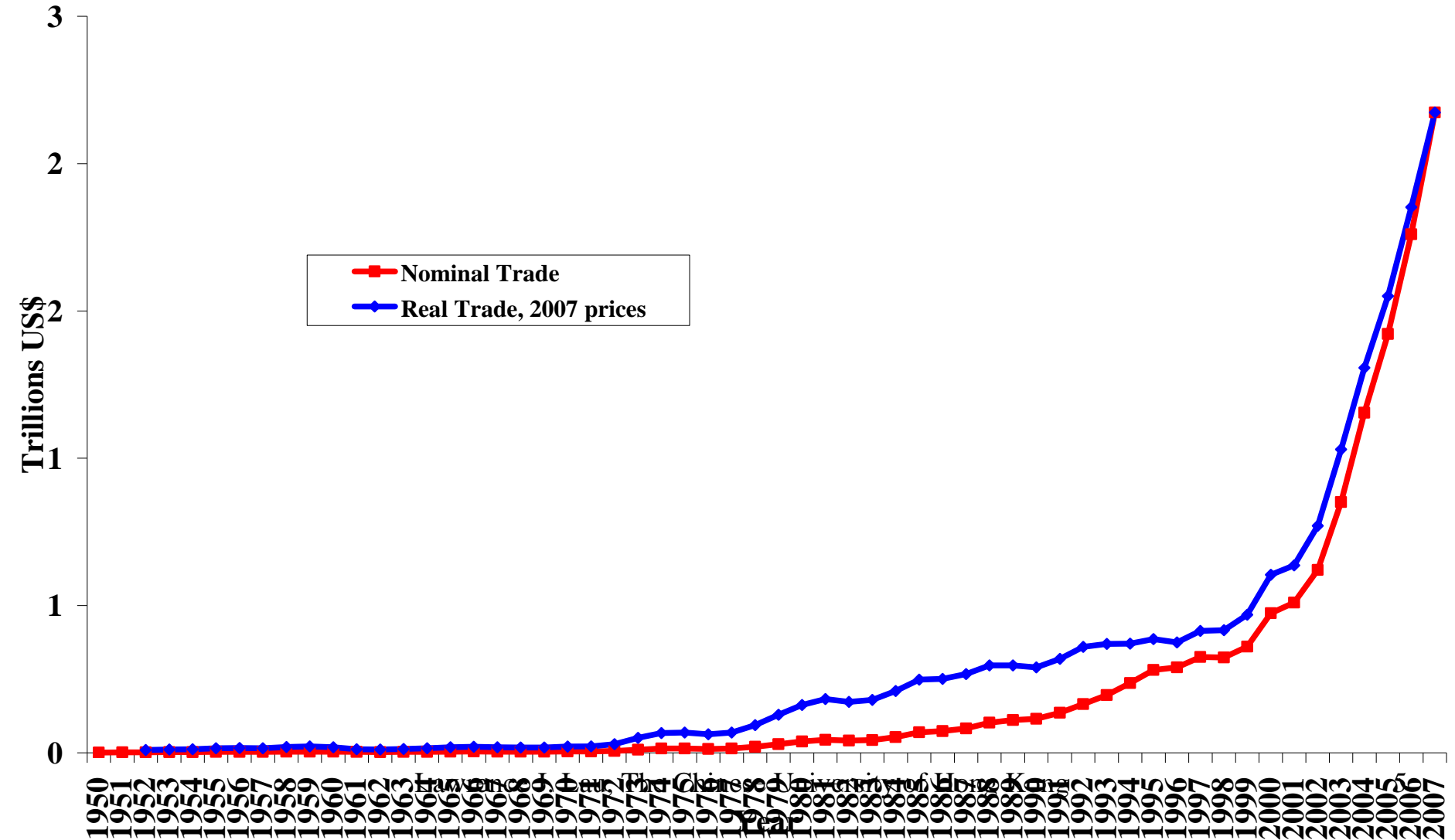
Chinese Real GDP per Capita in 2008 prices



Thirty years of Chinese Economic Reform

Nominal and Real International Trade

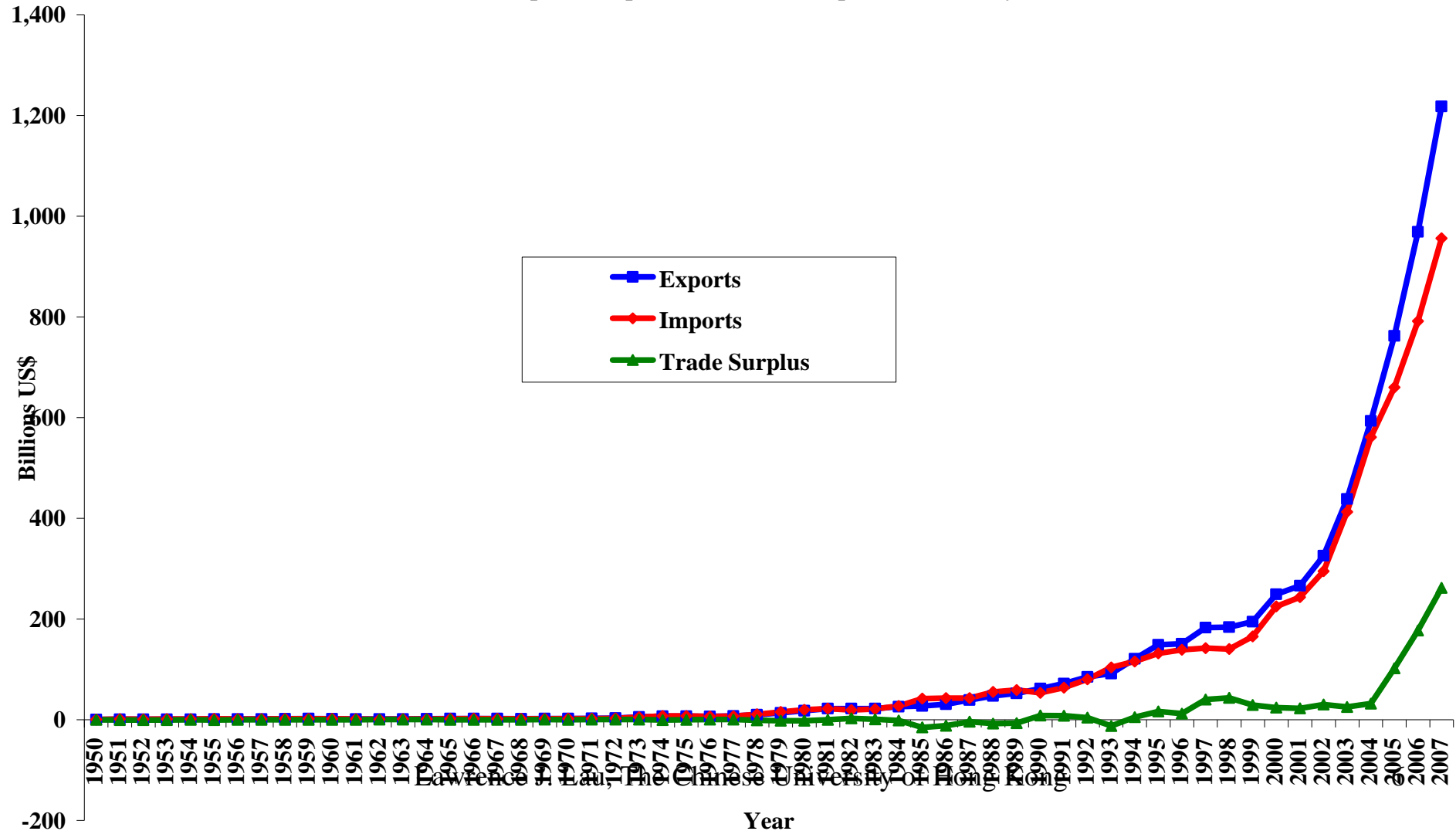
Total Nominal and Real International Trade



Thirty years of Chinese Economic Reform

Exports, Imports and Trade Surplus, US\$

Chinese Exports, Imports and Trade Surplus, Goods Only, US\$



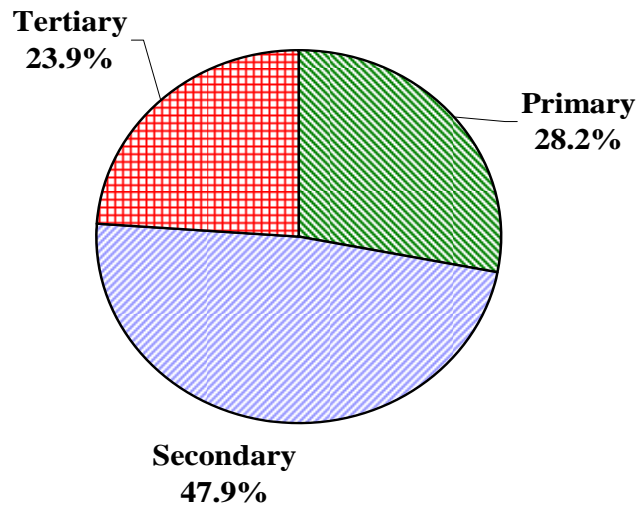
Thirty years of Chinese Economic Reform

	Growth Rates	
	percent per annum	
	Pre-Reform	Reform
	1952-1978	1978-2007
Real GDP	6.15	9.82
Real GDP per Capita	4.06	8.65
Real Consumption	5.05	9.04
Real Consumption per Capita	2.99	7.87
Exports	9.99	18.11
Imports	9.14	16.68
Inflation Rates (GDP deflator)	0.50	5.45

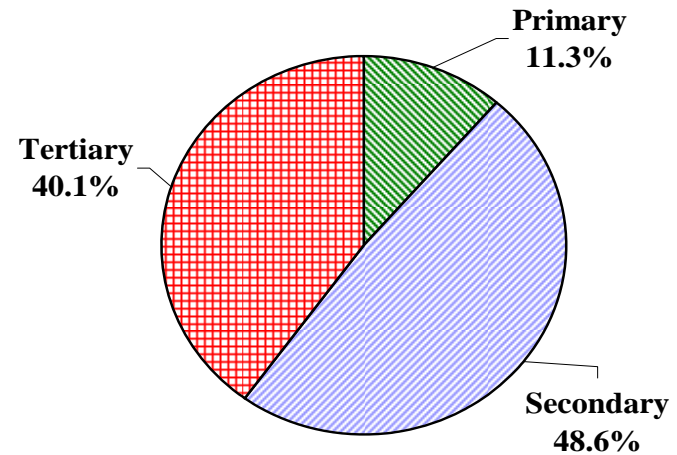
Thirty years of Chinese Economic Reform

GDP by Sector

GDP in 1978



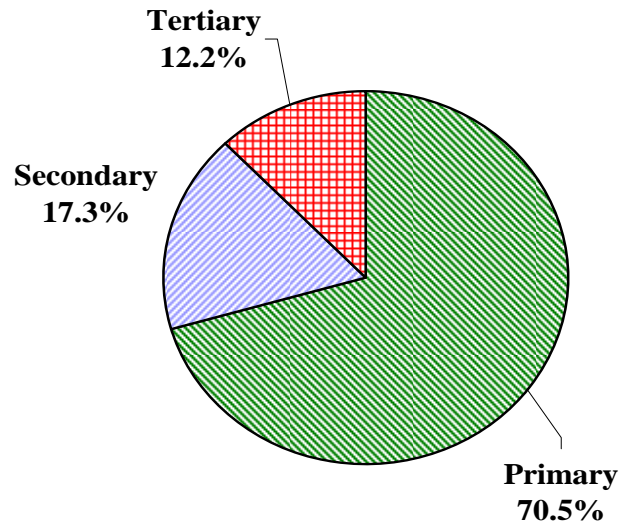
GDP in 2007



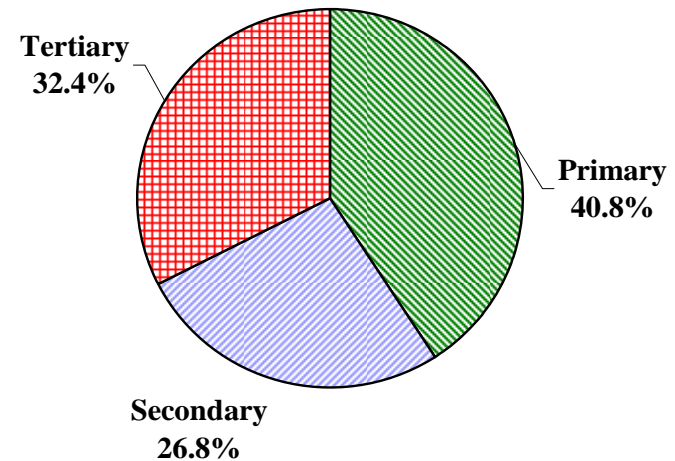
Thirty years of Chinese Economic Reform

Employment by Sector

Employment in 1978



Employment in 2007



Chinese Economic Reform and the World

- ◆ Moreover, Chinese economic growth has not been at the expense of the Rest of the World. It has not been a zero-sum game. Almost every country has benefitted from China's economic progress and its opening to the world.
 - ◆ The addition of new participants enhances welfare for all.
 - ◆ The consumers in the developed economies are able to enjoy low and stable prices for their everyday light-manufactured consumer goods.
 - ◆ China has become the most important export destination country for and runs a trade deficit with almost every other country and region in East Asia, including Japan.
 - ◆ China has become a major donor of development aid and assistance to developing countries, especially those in Africa.

Reasons for the Success of Chinese Economic Reform

- ◆ What are the principal reasons for the highly successful Chinese economic reform that began in 1978? China can be an example to other developing economies, especially those who were centrally planned economies..
- ◆ They are the strong Chinese economic fundamentals
 - ◆ (1) An unlimited supply of surplus labor
 - ◆ (2) A consistently high domestic savings rate greater than 30 percent on average and occasionally approaching 45%
 - ◆ (3) A huge domestic market of 1.3 billion consumers

The Chinese Advantages in Innovation

- ◆ In addition, China has the advantage of relative backwardness:
 - ◆ The ability to learn from the experiences of successes and failures of other economies;
 - ◆ The ability to leap-frog stages of development (e.g., the telex machine, the VHS video players, the fixed landline phones); and
 - ◆ The possibility of creation without destruction (e.g., online virtual bookstores like Amazon.com do not have to destroy brick and mortar bookstores which do not exist in the first place).
- ◆ The large potential domestic market enables active Chinese participation in the setting of product and technology standards and sharing the benefits of such standard-setting.
- ◆ An abundance of scientific and technical manpower the cost of which is a fraction of the cost in developed economies. (According to the latest statistics, China has recently become the second largest producer of scientific articles indexed in the Science Citation Index (SCI) and the Social Science Citation Index (SSCI).)

Reasons for the Success of Chinese Economic Reform

- ◆ But the strong fundamentals have always been there, in China, at least since the 1950s. They are necessary, but not sufficient, for the success of Chinese economic reform.
- ◆ Why did the Chinese economy not take off earlier?

Reasons for the Success of Chinese Economic Reform

- ◆ The introduction of the market system, and autonomy of economic units, first in the rural area, and then in the urban area, must be regarded as the primary reason for the success of the economic reform.
- ◆ But the former Soviet Union and subsequently Russia also introduced the market system, with disastrous economic results for the entire first decade. Other developing market economies languish in the world.
- ◆ Why was China able to do it while others failed?
 - ◆ Chinese economic reform is characterized by openness
 - ◆ The Chinese economic reformers are characterized by their pragmatism

The Partial De-Coupling Hypothesis

The Shifting Economic Center of Gravity

- ◆ The economic center of gravity of the world has been gradually shifting to East Asia from the United States and Western Europe and within East Asia from Japan to China.
- ◆ In 1960, East Asian GDP, comprising of the GDPs of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) + 3 (China (Mainland only), Japan, and South Korea) was less than 12 percent of World GDP. Today, East Asian GDP accounts for approximately a quarter of World GDP.

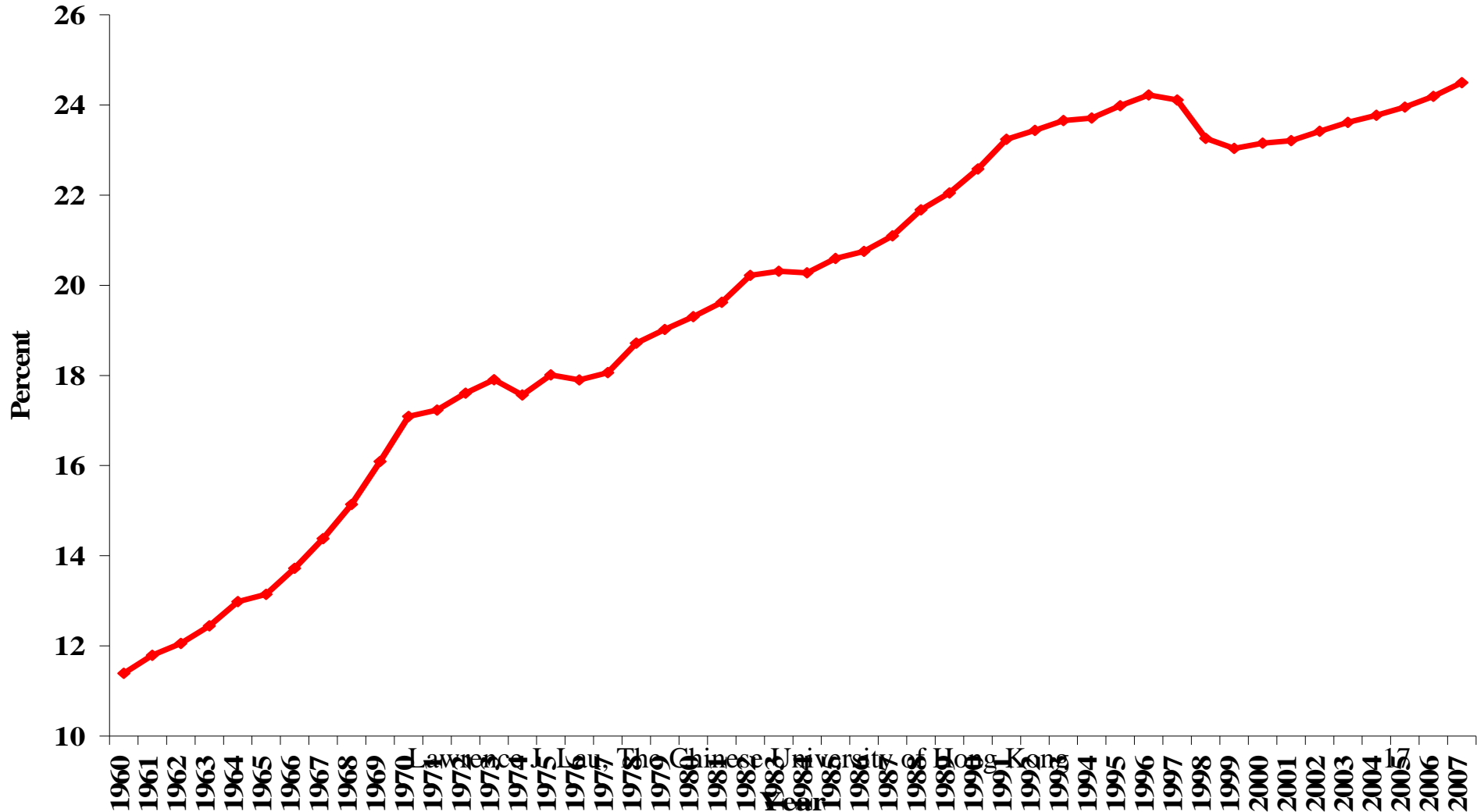
The Partial De-Coupling Hypothesis

The Shifting Economic Center of Gravity

- ◆ East Asian shares of world exports, imports, and international trade have also grown from approximately 10 percent in 1960 to a quarter in 2007, paralleling the growth of East Asian share of world GDP.
- ◆ Because of the rapid economic growth of China and the rest of East Asia outside of Japan, and the demand and supply that such economic growth has generated, the East Asian economies now trade more with one another than with economies outside of East Asia, including the United States. Approximately half of East Asian trade is among East Asian economies. This is a sea change compared to say thirty years ago when most of the East Asian trade was between East Asia and the United States and Western Europe.

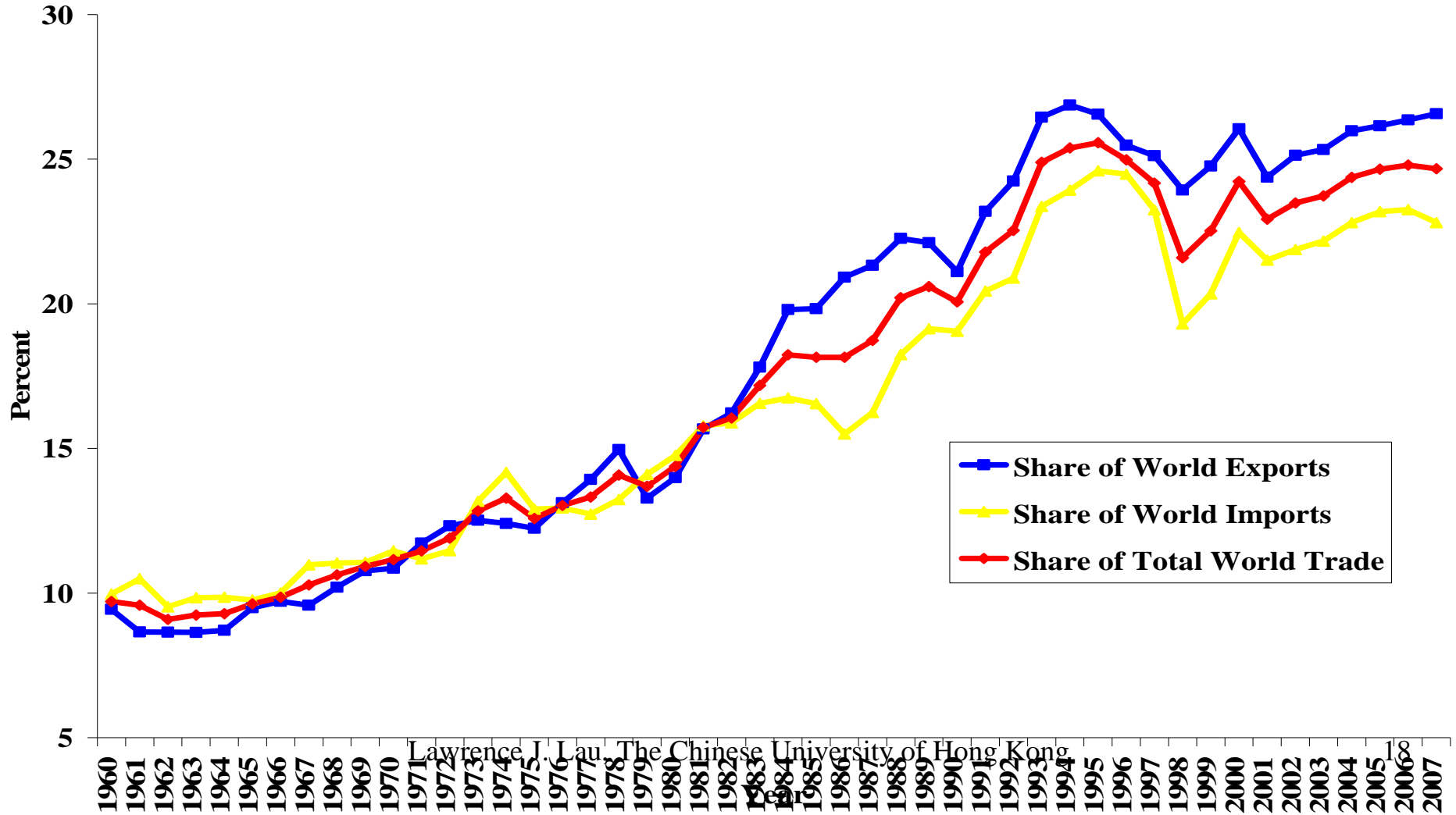
East Asian Share of World GDP, 1960-present

East Asian Share of World GDP, 1960-present



The Rising Ratio of East Asian Trade in Total World Trade, 1960-present

East Asian Share of Total World Trade, 1960-present



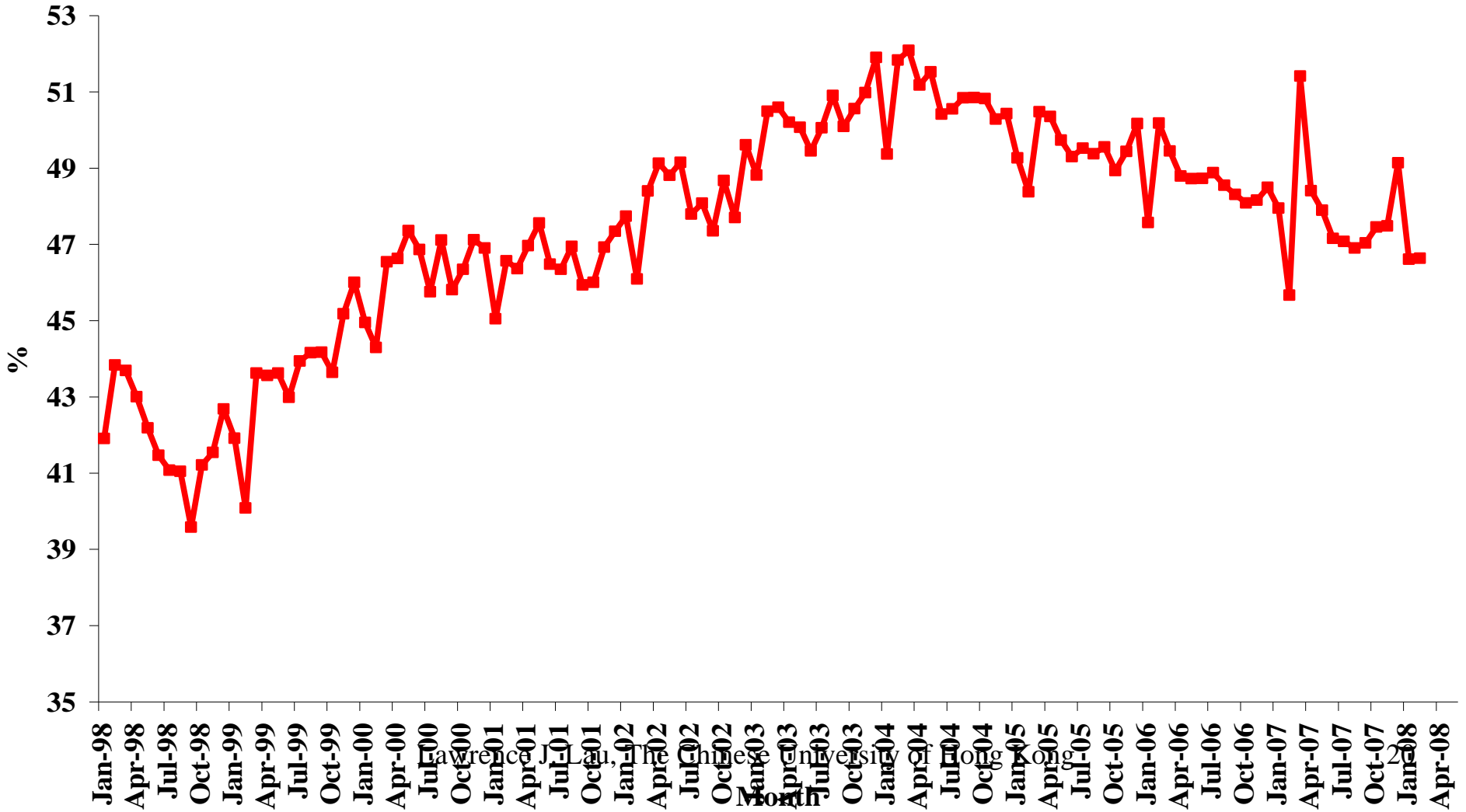
The Partial De-Coupling Hypothesis

The Changing Pattern of World Trade

- ◆ Interdependence of the East Asian economies has been rising sharply over the years and East Asian dependence on the United States and Western Europe has declined.
- ◆ The ASEAN Free Trade Area as well as its variations (+1 (China); + 3 (China, Japan and South Korea)) are rapidly becoming a reality.
- ◆ This is what gives credence to the idea of partial “de-coupling” of the world economies—that the Chinese and East Asian economies can continue to do reasonably well despite the current economic problems in the U.S. and elsewhere. However, China and East Asia are not large enough to turn around the whole world.

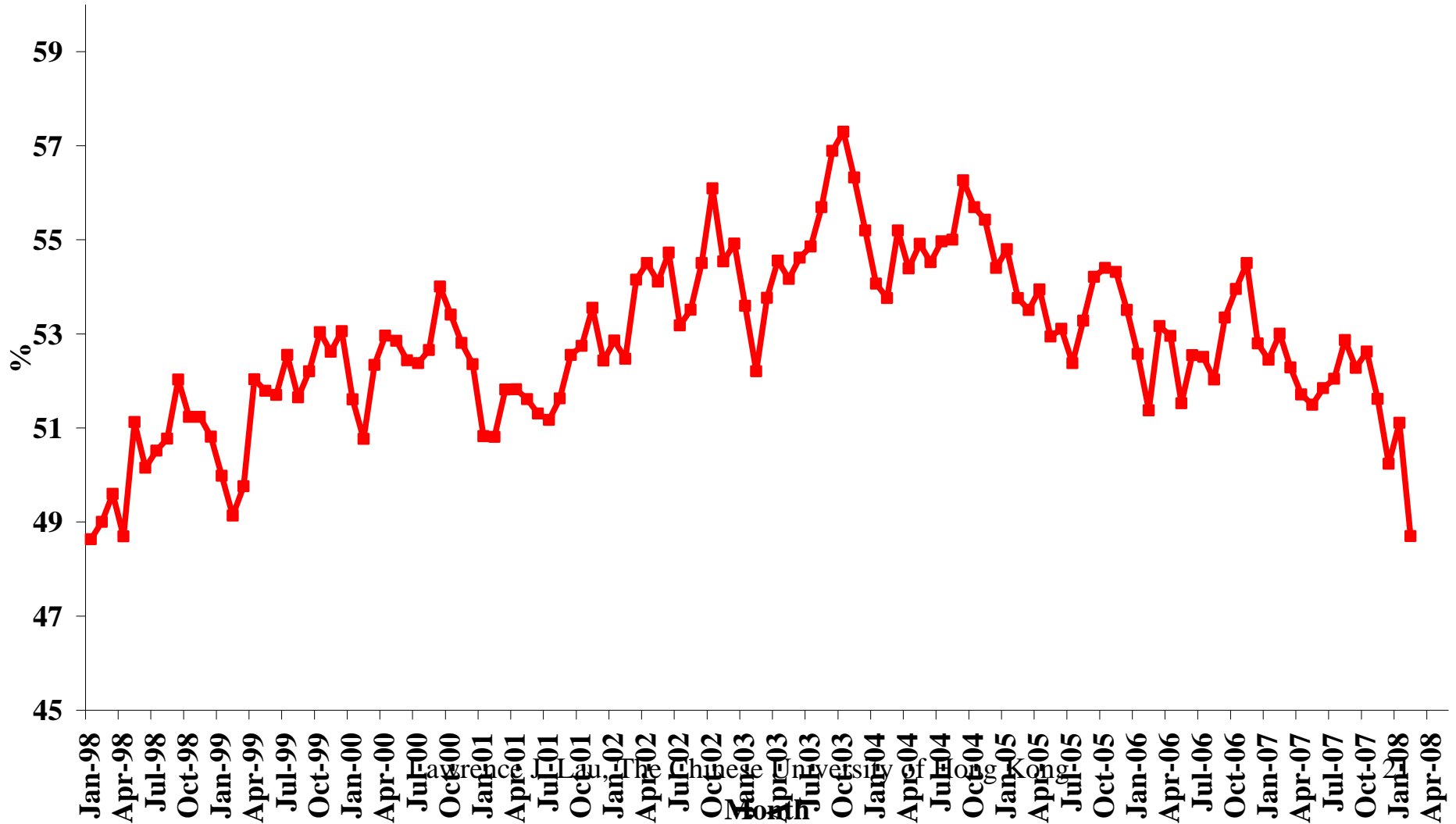
The Share of East Asian Exports Destined for East Asia

The Share of East Asian Exports Destined for East Asia



The Share of East Asian Imports Originated from East Asia

The Share of East Asian Imports Originated from East Asia

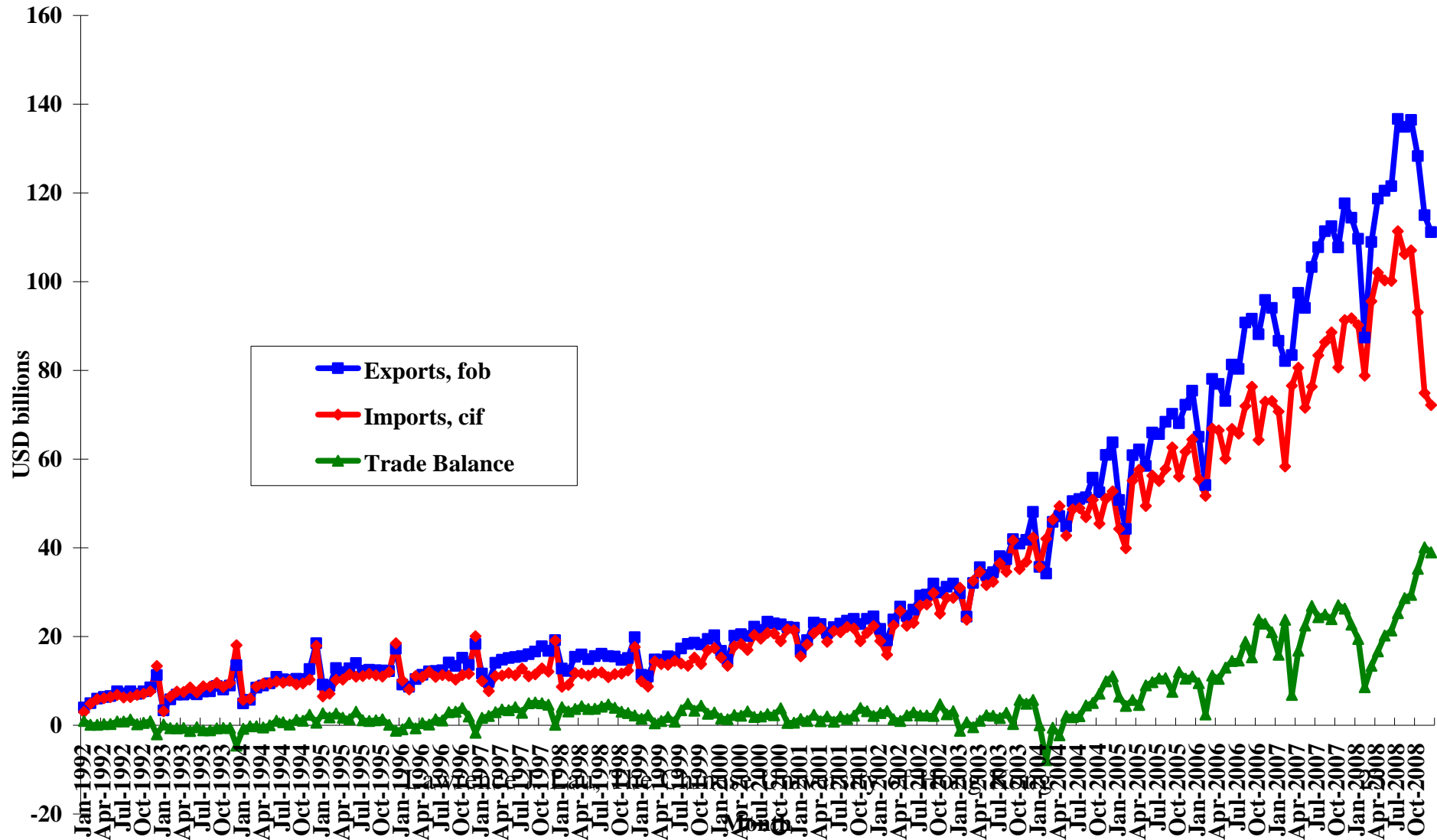


Can Mainland China Grow at 8% ?

- ◆ Is 8% economic growth achievable?
- ◆ Yes, despite the difficulties in the export sector, there should be sufficient aggregate demand to sustain a rate of growth of 7-8%.

Chinese Exports, Imports and Trade Balance, US\$, Monthly Data

The Levels of Exports, Imports and Trade Balance of Goods at the End of the Month, in U.S. Dollars

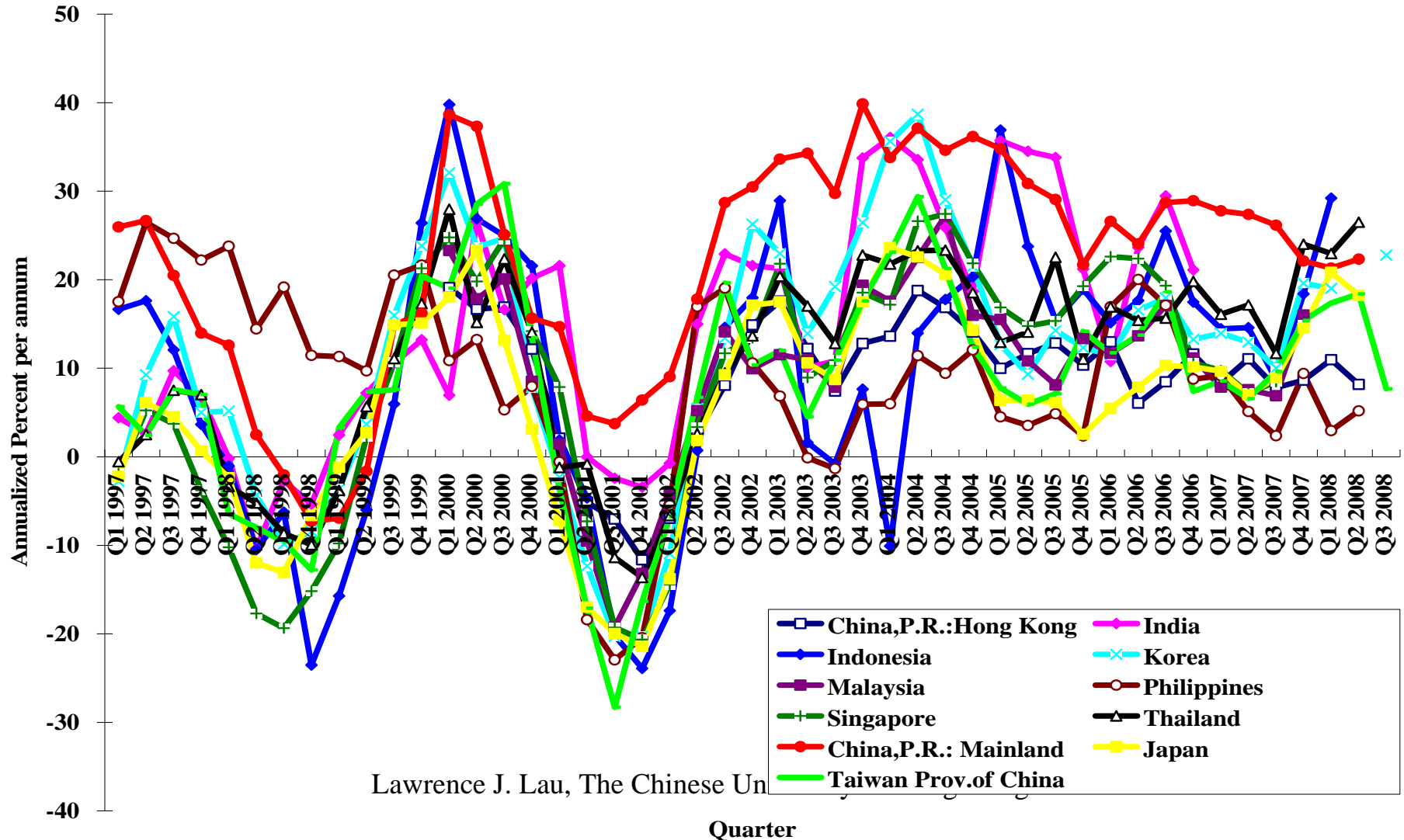


Reasons for the Success of Chinese Economic Reform: Reform without Losers

- ◆ Chinese economic reform has been implemented in such a way that it is mostly Pareto-improving, that is, almost everyone is made better off by the economic reform and no one is made worse off, which maximizes support, minimizes opposition and preserves social harmony.
- ◆ In the 1980s and early 1990s the central plan operated side by side with the market and complemented each other. The maintenance of the central plan prevented the occurrence of losers during the reform process.

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

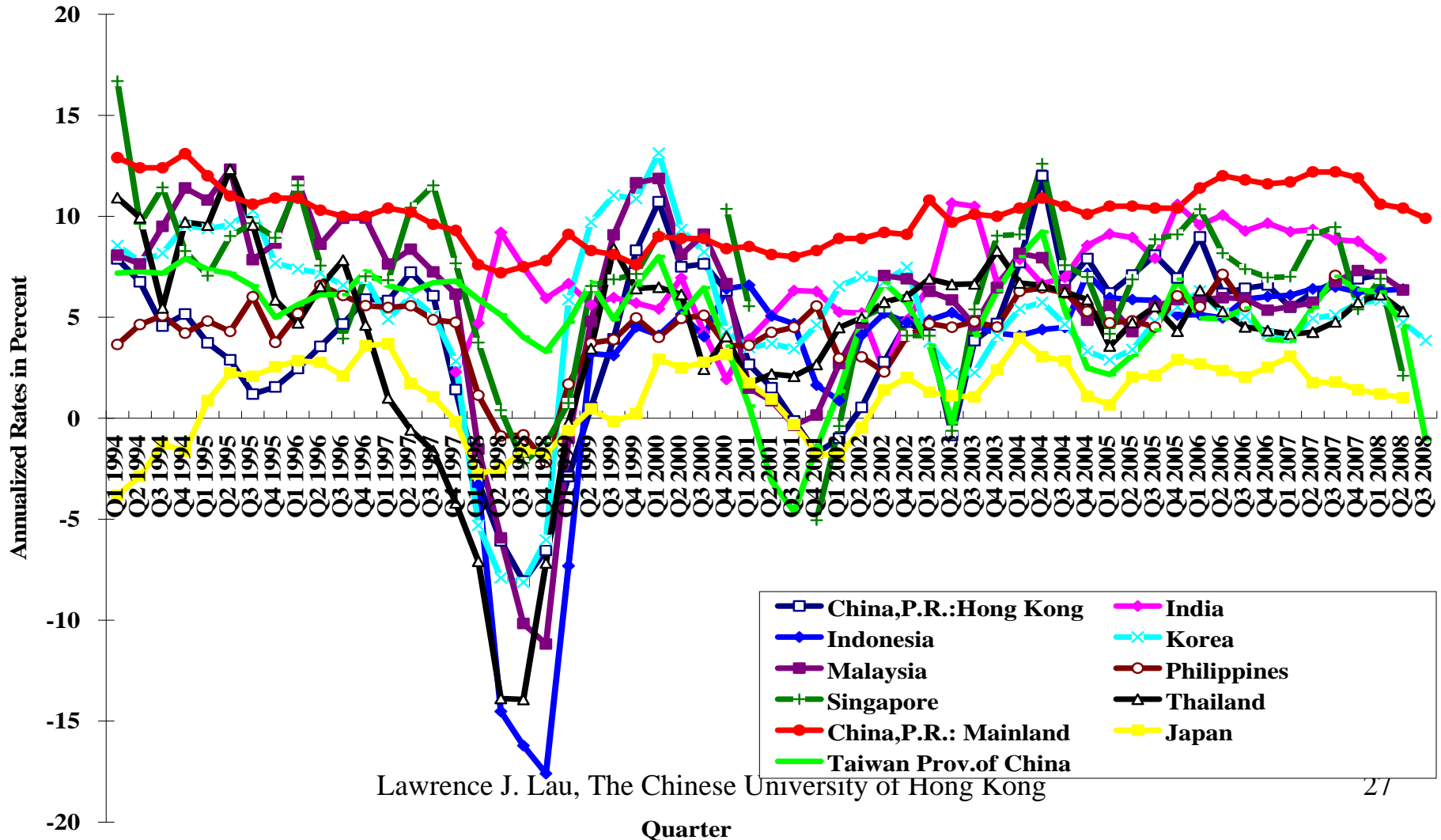
Figure 3.2: Year-over-Year Quarterly Rates of Growth of Exports of Goods in US\$ (Percent)



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Quarterly Rates of Growth of Real GDP: Selected East Asian Economies

Figure 3.1: Quarterly Rates of Growth of Real GDP, Year-over-Year, Selected East Asian Economies



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Concluding Remarks

- ◆ The Chinese economy should be able to weather the current global financial crisis.
- ◆ Some time between 2030 and 2040, aggregate Chinese GDP may reach the same level as aggregate U.S. GDP.
- ◆ However, even by 2040, Chinese GDP per capita will remain low relative to the industrialized economies (G-7).
- ◆ It will probably take another two to three decades beyond 2040 for Chinese GDP per capita to reach the same level of GDP per capita as the United States.