

# Is China's growth sustainable?

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# Recent developments of Chinese economy

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(1) High growth rate and low inflation

CPI (2007) is estimated to be 4.5%, a result of structural problems

(2) Rapid urbanization rate – up to nearly 44%

(3) The role of market becomes more critical in allocating resources

95.6%      consumer goods

91.9%      production goods

(4) More integrated into global economy

# Drivers of Chinese economic development – reasons behind the sustainability

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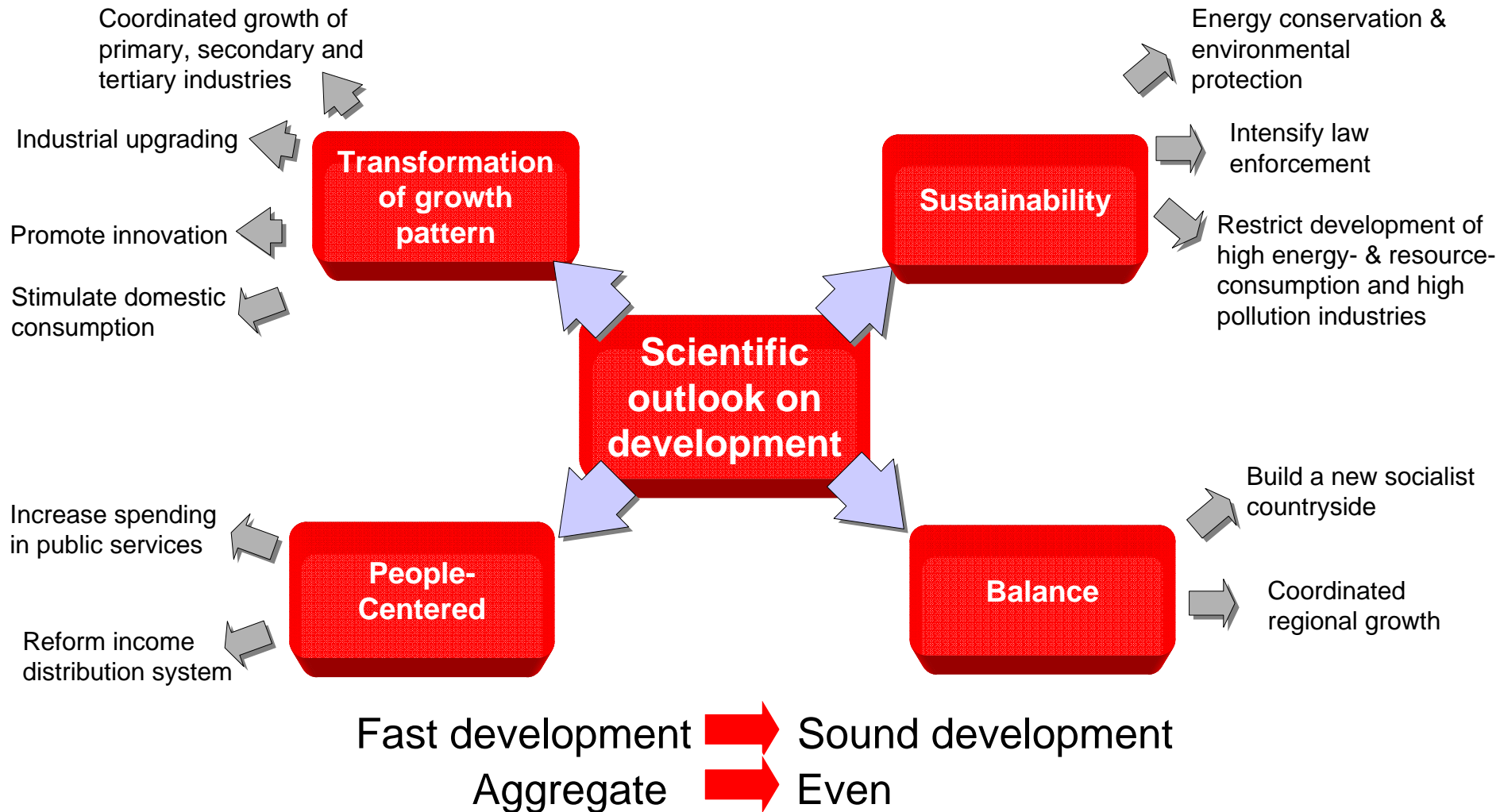
- (1) Shift in industrial structure – a response to the upgrading consumption structure
- (2) Rapid urbanization stimulates the demand for infrastructural projects and property
- (3) A more vibrant economy with the emergence of new entrepreneurs
- (4) Smart government initiatives to correct the imbalance of the Chinese economy

# Problems encountered by China

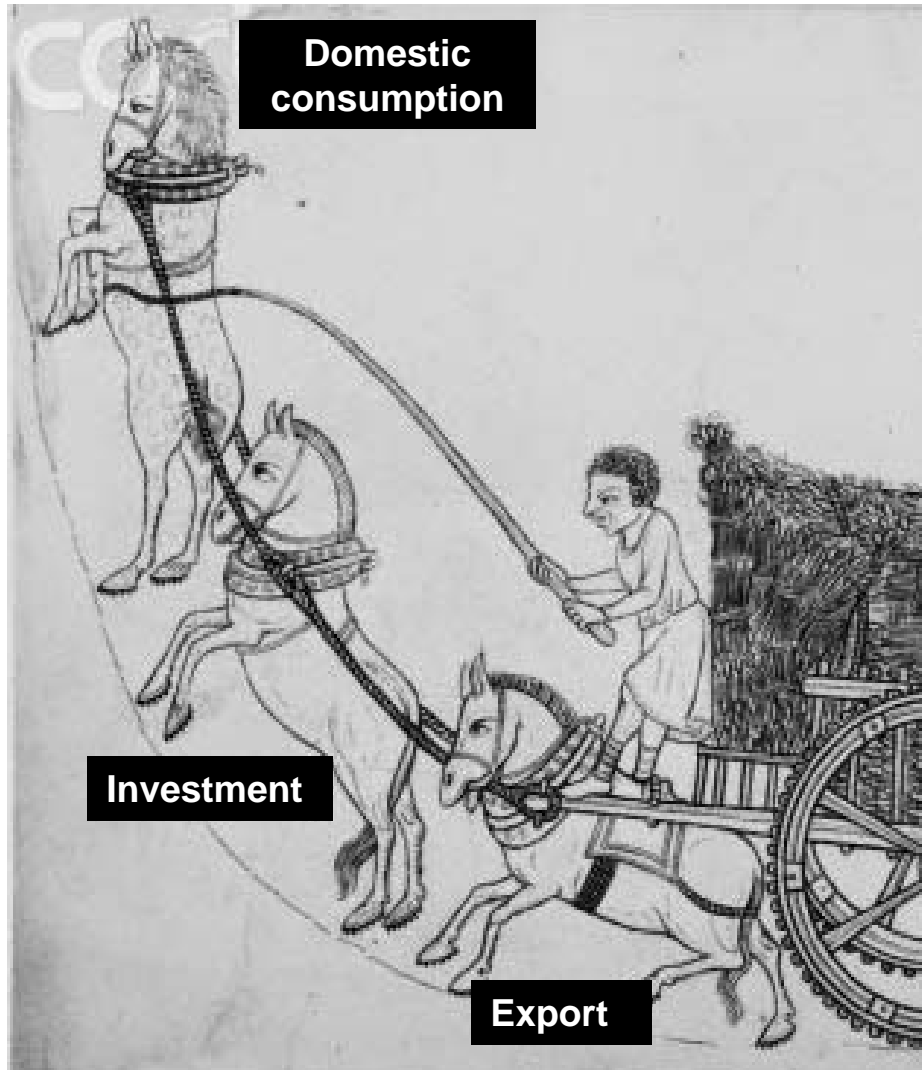
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- (1) Unbalanced – still a lot of structural problems to be solved
- (2) Unstable – imbalance of external trade resulted in excessive liquidity and bank loans and fueled the asset bubble
- (3) Challenges in environmental degradation and resource depletion
- (4) Issues affecting people's interest
  1. Insufficient medical and education provision
  2. Rural-urban income disparity
  3. Problems arising in land expropriation and housing demolition etc.

# Strategic thinkings & policy orientation



# New growth driver – Domestic consumption



- Discourage exports of low-end products and encourage imports
- Stimulate consumption by improving public welfare, raising minimum wages, improve infrastructure to facilitate product circulation, etc

## Impacts

- Narrow trade surplus
  - ❑ Curb liquidity
  - ❑ Reduce trade friction
  - ❑ Release pressure on RMB appreciation
- Less reliance of foreign markets
- Absorb domestic production capacity



# Increasing production costs

## Example: Cost escalation in the PRD

Source: HK Trade Development Council studies

<b>Labor</b>	Wages 、 social insurance 、 other welfare	Increased by 25% in the past 2 years
<b>Exchange rate</b>	Renminbi appreciation	Accumulated appreciation reached 8.58% after China allowed managed floating exchange rate
<b>Utilities</b>	<ul style="list-style-type: none"> <li>▪ Power/ water shortage</li> <li>▪ Continuous increase in utilities costs</li> </ul>	E.g. In Dongguan, peak-hour electricity tariffs for large industrial users soared by 27%
<b>Higher environmental protection requirements</b>	Intensified law enforcement, higher investment in environmental protection by enterprises, additional environmental protection charges, Green Lending	E.g., in Dongguan, sewage treatment charges more than tripled from RMB0.25 per tonne to RMB0.8 per tonne
<b>Raw materials</b>	Soaring raw material prices in international market	General metal price has almost doubled in the past 2 years. Price of key metals such as copper and zinc surged by 130% and 190% respectively.
<b>Tightening of processing trade policy</b>	<ul style="list-style-type: none"> <li>▪ Removed / reduced VAT rebate</li> <li>▪ Customer duty deposit system</li> </ul>	

**Over the past 2 years , total costs has increased by 6%-12% , or even 30%**



# Policies and measures for the next 5 years (1)

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- (1) To enhance China's capacity of independent innovation and make it an innovative country
- (2) To accelerate transformation of the mode of economic development and upgrading of the industrial structure
- (3) To balance urban and rural development and push forward the building of a new socialist countryside
- (4) To improve energy, resources, ecological and environmental conservation, and enhance China's capacity for sustainable development

## Policies and measures for the next 5 years (2)

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- (5) To promote balanced development among regions and improve the pattern of land development
- (6) To improve the basic economic system. To consolidate and develop the public sector; to encourage, support and guide the development of the non-public sector. To accelerate the formation of a modern market system that is unified and open, and that allows orderly competition
- (7) To deepen fiscal, taxation and financial restructuring; and improve macroeconomic regulation
- (8) To expand opening up in scope and depth

# Economic and social development work priorities set by the State Council in 4Q07 (1)

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- (1) To strengthen efforts on agriculture, countryside and farmers
- (2) To curb excessive investment, especially in industries and projects that are energy-intensive and highly-polluting, and sectors with over-capacity. To tighten supervision on the granting of bank credits
- (3) To conserve energy and reduce emission, and to fully implement the “environmental economic policy system”

## **Economic and social development work priorities set by the State Council in 4Q07 (2)**

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- (4) To check inflation of consumer goods, and to strengthen market supervision. To closely monitor the price changes, and ensure sustained supply of major farm produce. To firmly crack down on all kinds of illegal pricing behavior
- (5) To rein in the fast-rising housing prices and provide more affordable housing for low-income families
- (6) To strengthen supervision of work safety in key industries and enterprises
- (7) To push forward reforms of the financial systems, fiscal and taxation systems

**Thank you !**

