

# A FEW QUICK THOUGHTS ON CHINA

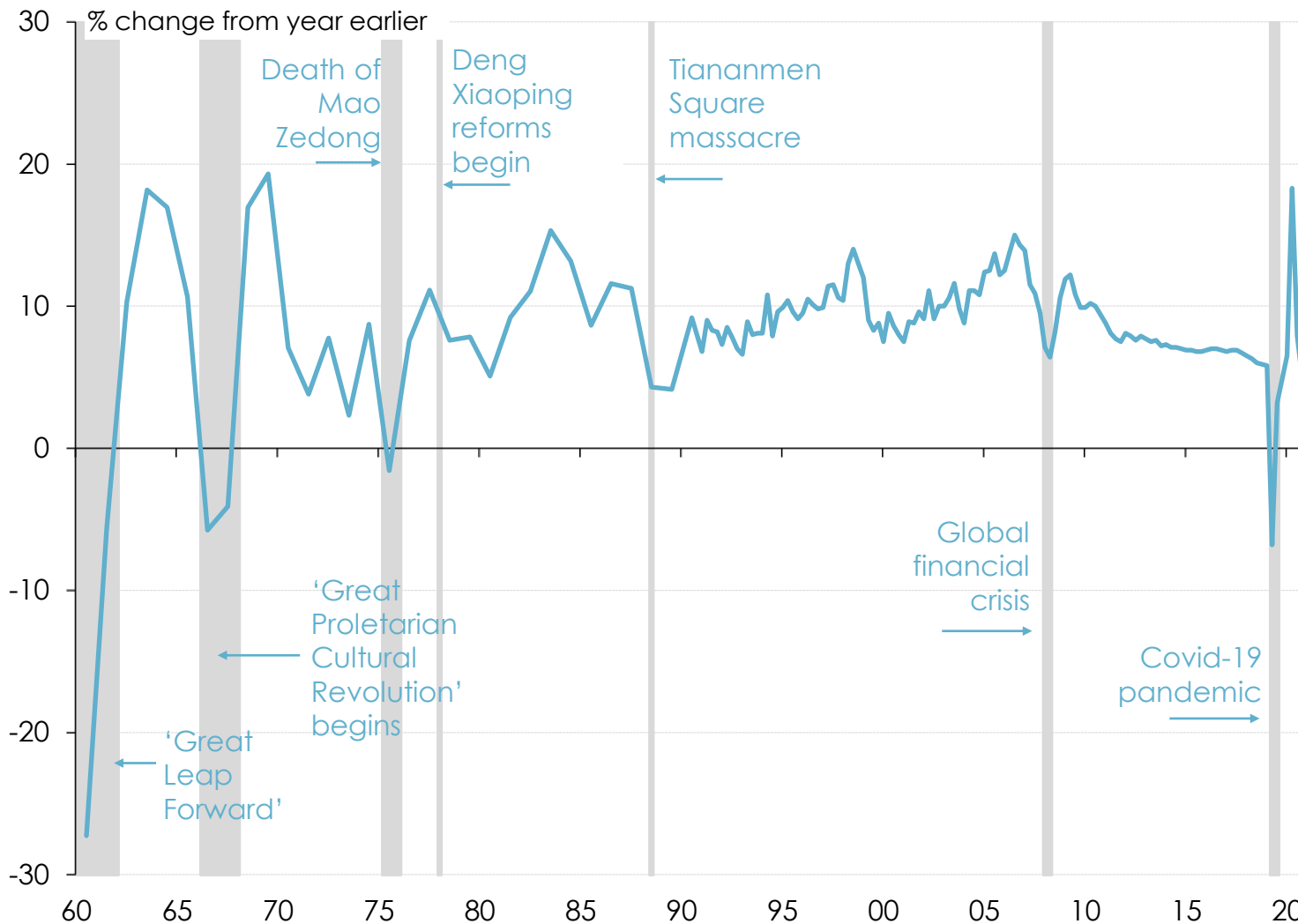
19<sup>TH</sup> OCTOBER 2021

**SAUL ESLAKE**

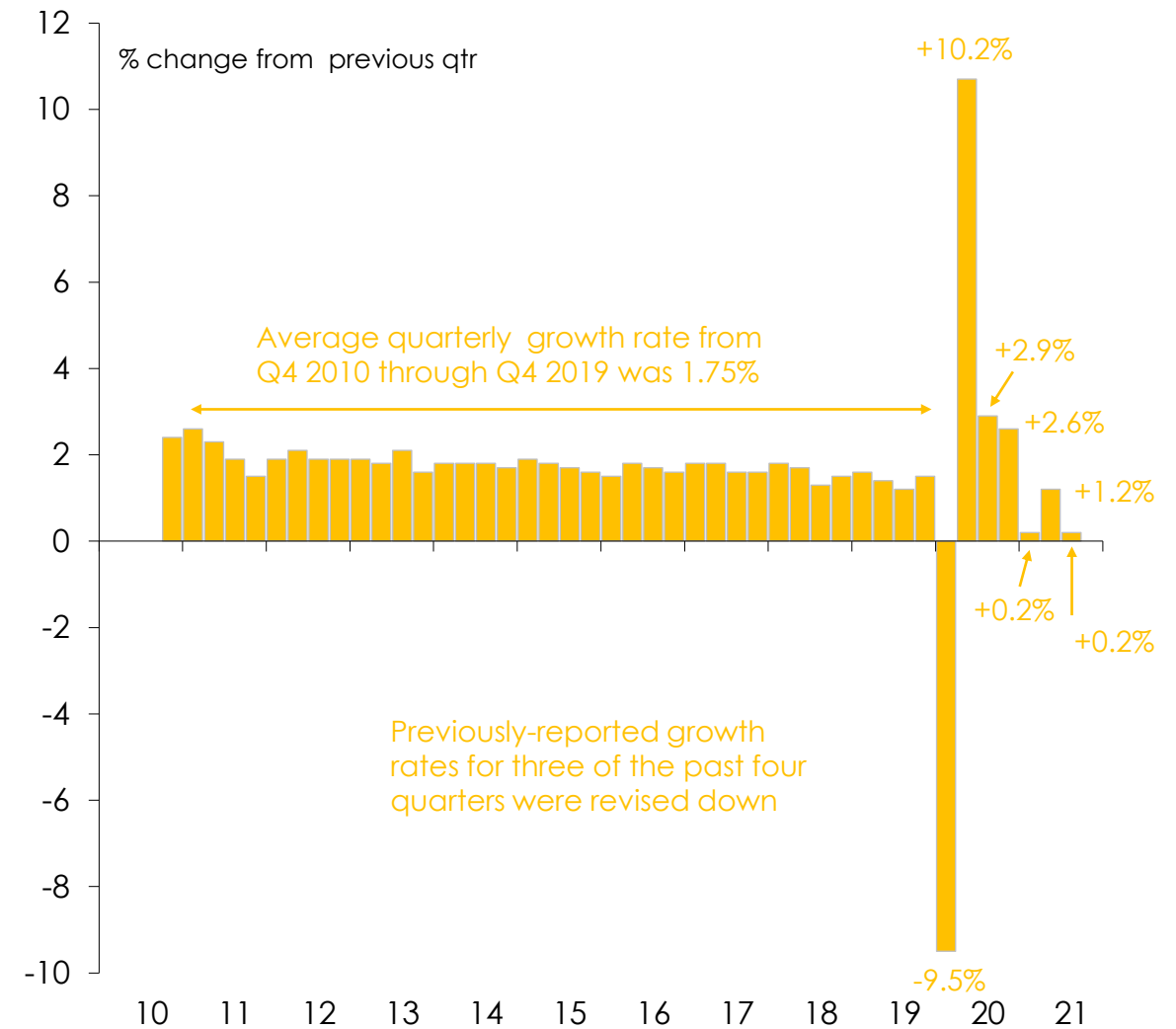
CORINNA ECONOMIC ADVISORY  
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# China's real GDP grew by only 0.2% in Q3, cutting the annual growth rate to just 4.9%, the slowest in at least 30 years except for last year

## Real GDP growth, from year earlier, 1961-2021



## Quarterly real GDP growth, 2010-2021



Note: In the left-hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Source: [China National Bureau of Statistics](#). [Return to "What's New"](#).

# A simple but useful framework for thinking about what determines long-run economic growth

$$\begin{aligned} \text{GDP} &= \text{population} \times \frac{\text{employment}}{\text{population}} \times \frac{\text{hours worked}}{\text{employment}} \times \frac{\text{GDP}}{\text{hours worked}} \\ &= \text{population} \times \text{'employment rate'} \times \text{average hours worked} \times \text{labour productivity} \end{aligned}$$

$$\Delta \text{GDP} = \Delta \text{population} \times \Delta \text{'employment rate'} \times \Delta \text{average hours worked} \times \Delta \text{labour productivity}$$

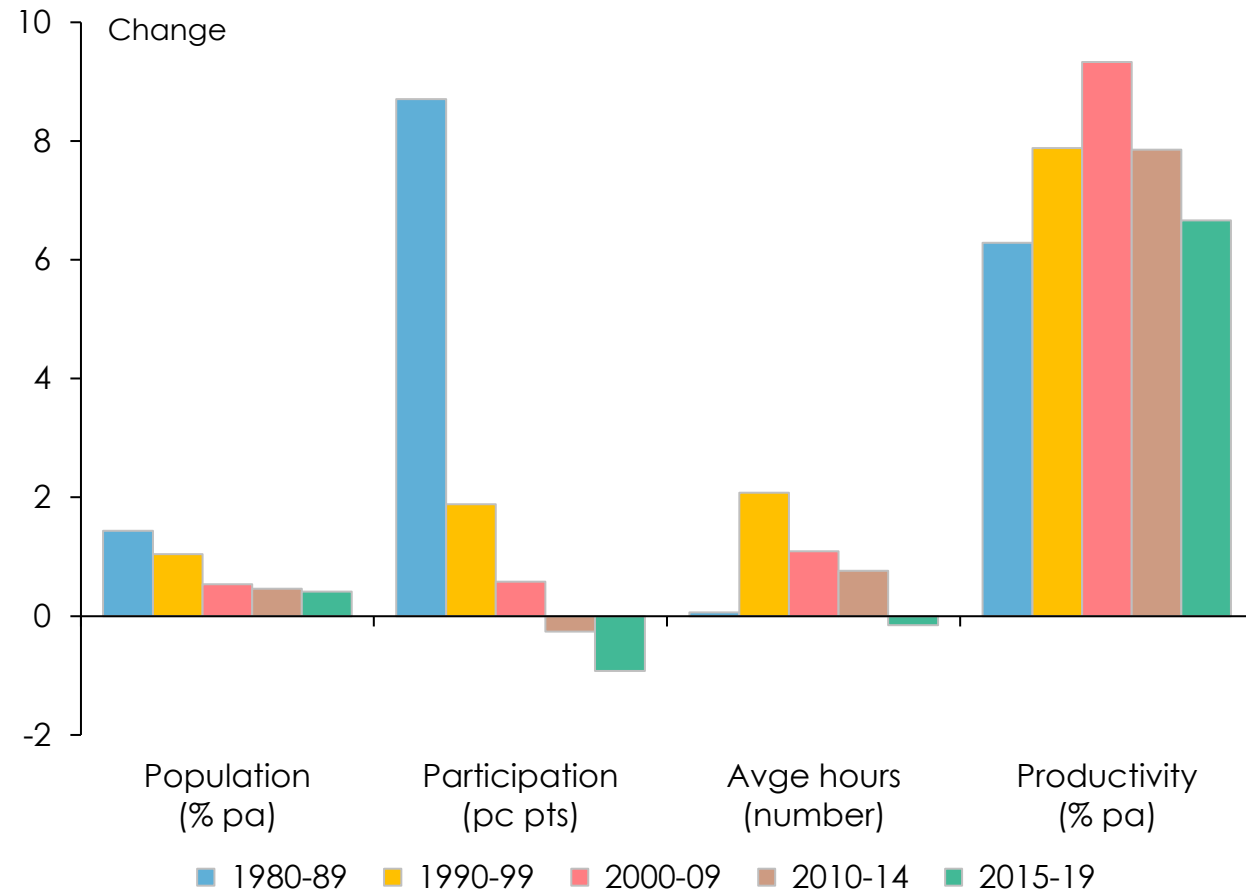
# China's economic growth rate is likely to slow – and perhaps to slow quite sharply

$$\Delta Y = (\Delta P) \times \Delta (N/P) \times \Delta (H/N) \times \Delta (Y/H)$$

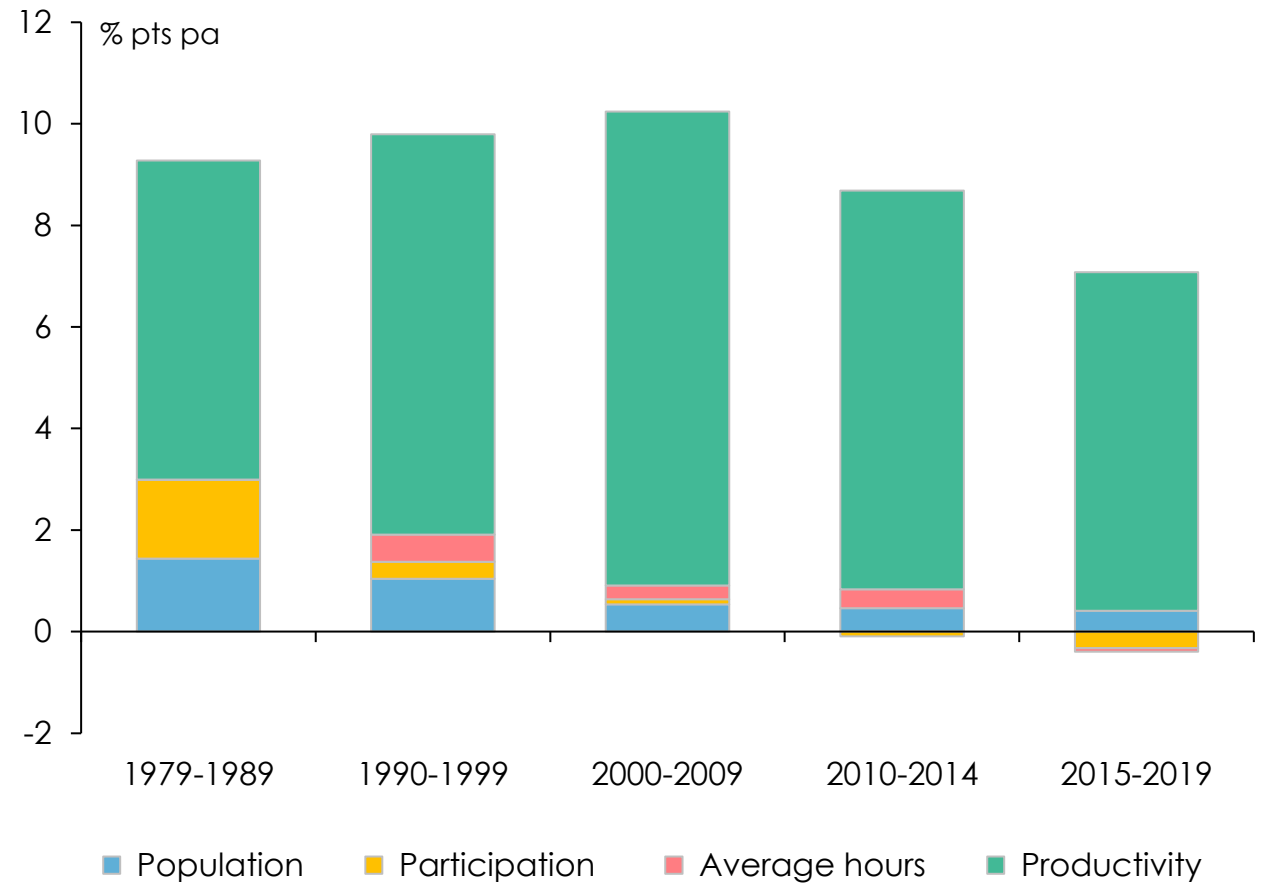
Y = GDP ; P = population ; N = hours worked

N/P = participation ; H/N = average hours ; Y/H = productivity

## Sources of Chinese real GDP growth



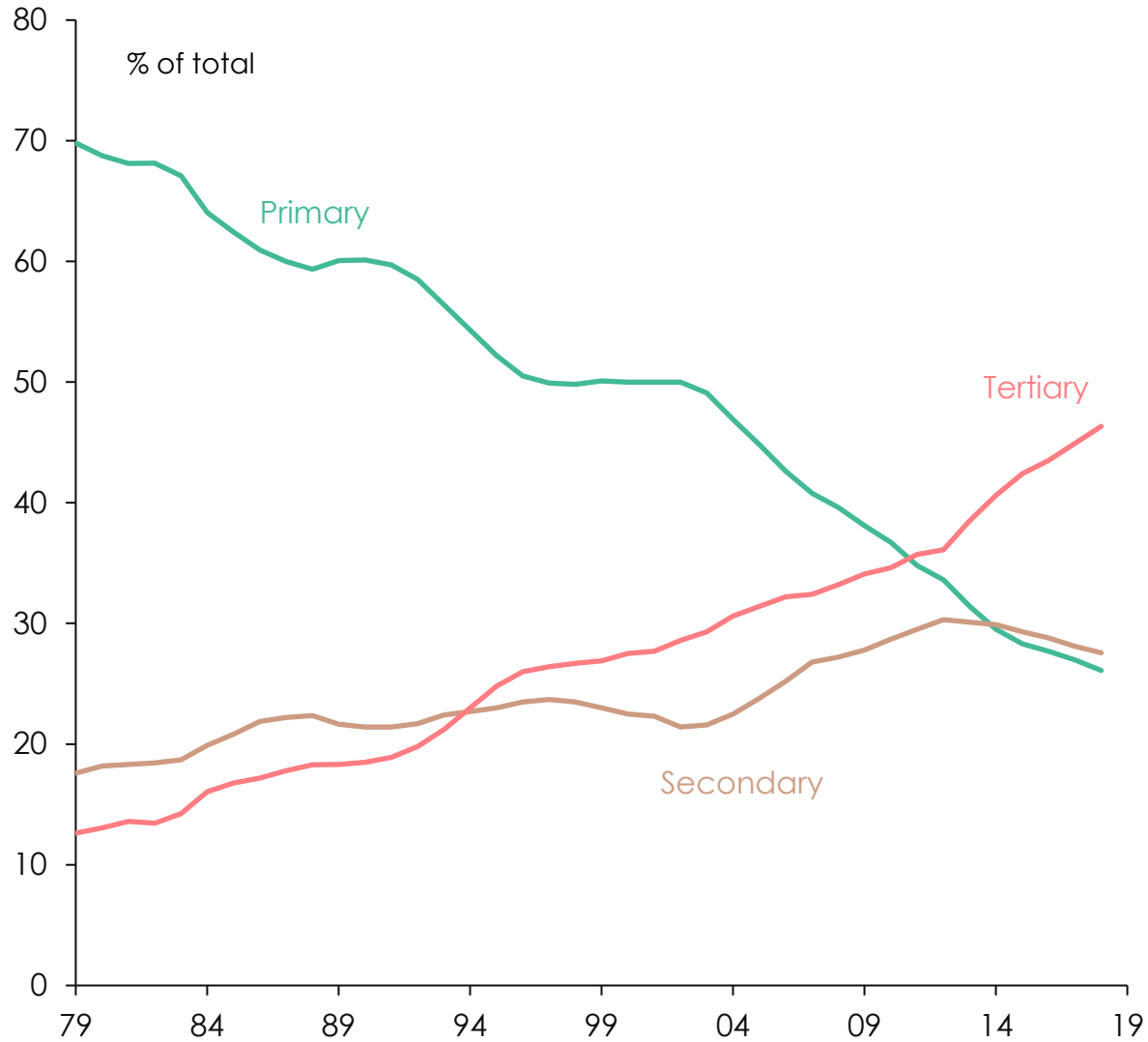
## Contributions to Chinese real GDP growth



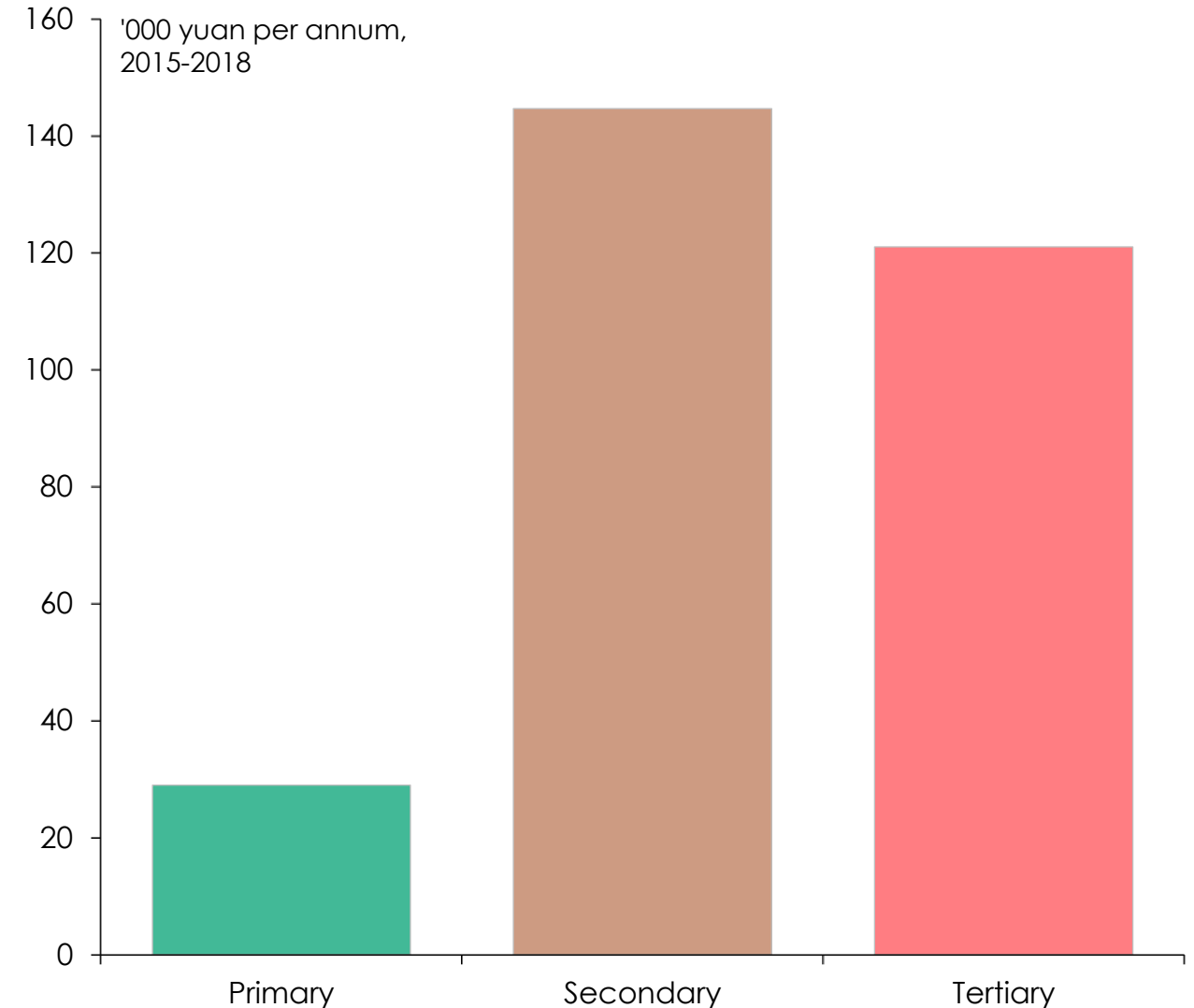
Source: The Conference Board, [Total Economy Database](#), 2021; Corinna.

# The scope for boosting productivity by moving factors of production out of agriculture into manufacturing is just about exhausted

## Share of total employment by sector



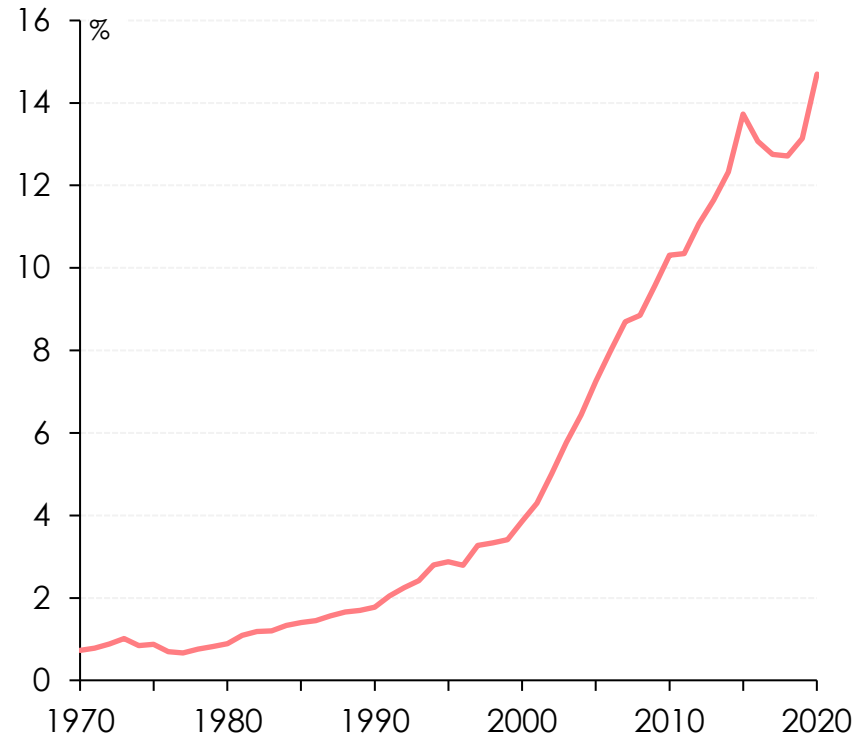
## Output per person employed, by sector, 2015-2018



Source: China National Bureau of Statistics, [China Statistical Yearbook 2019](#); Corinna.

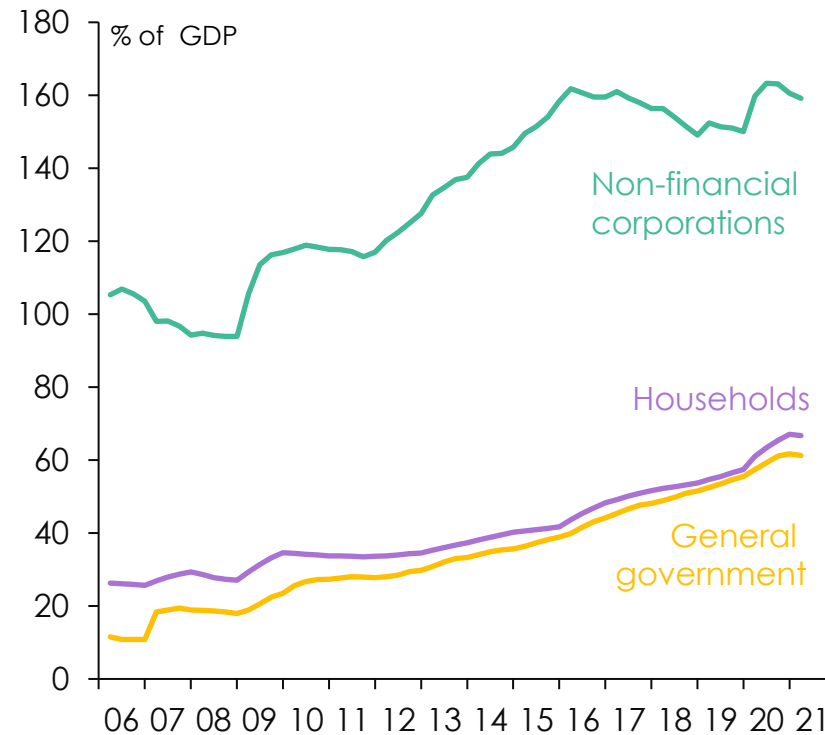
# There are also other reasons for expecting Chinese economic growth to slow

China's share of world merchandise exports



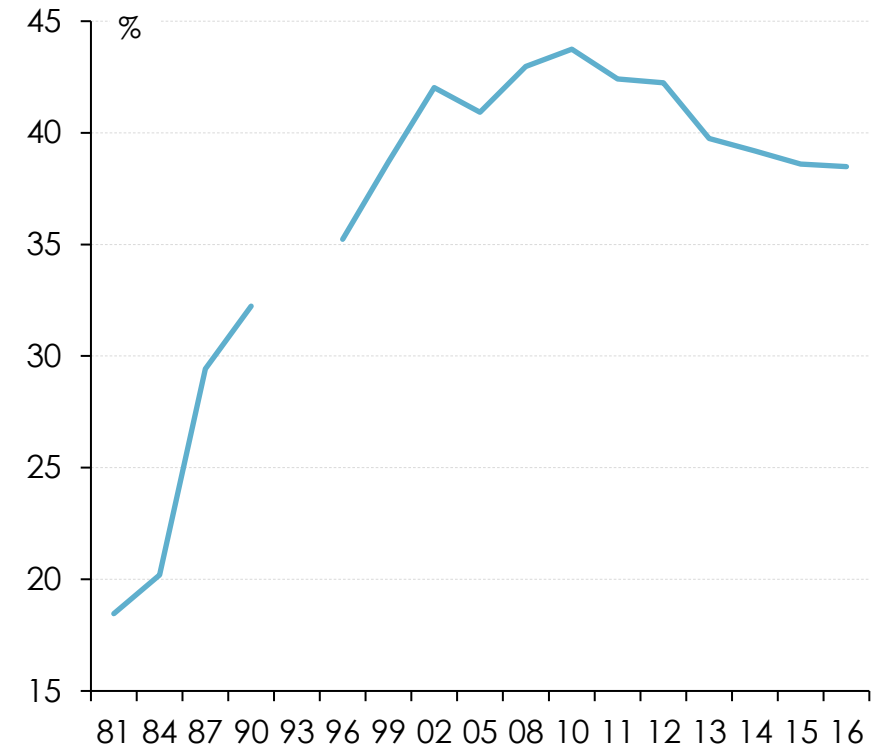
- ❑ The rest of the world can't (and won't) absorb growth in Chinese exports at the rate it did between 2000 and 2016
  - and China knows this – hence the 'dual circulation strategy' formally adopted as part of the 14<sup>th</sup> Five Year Plan in February

China's debt as a pc of GDP, by institutional sector



- ❑ Chinese authorities have been focussing on 'financial stability' since its financial crisis in 2015-16
  - China has abandoned leverage as a driver of economic growth and regulatory constraints are starting to bite

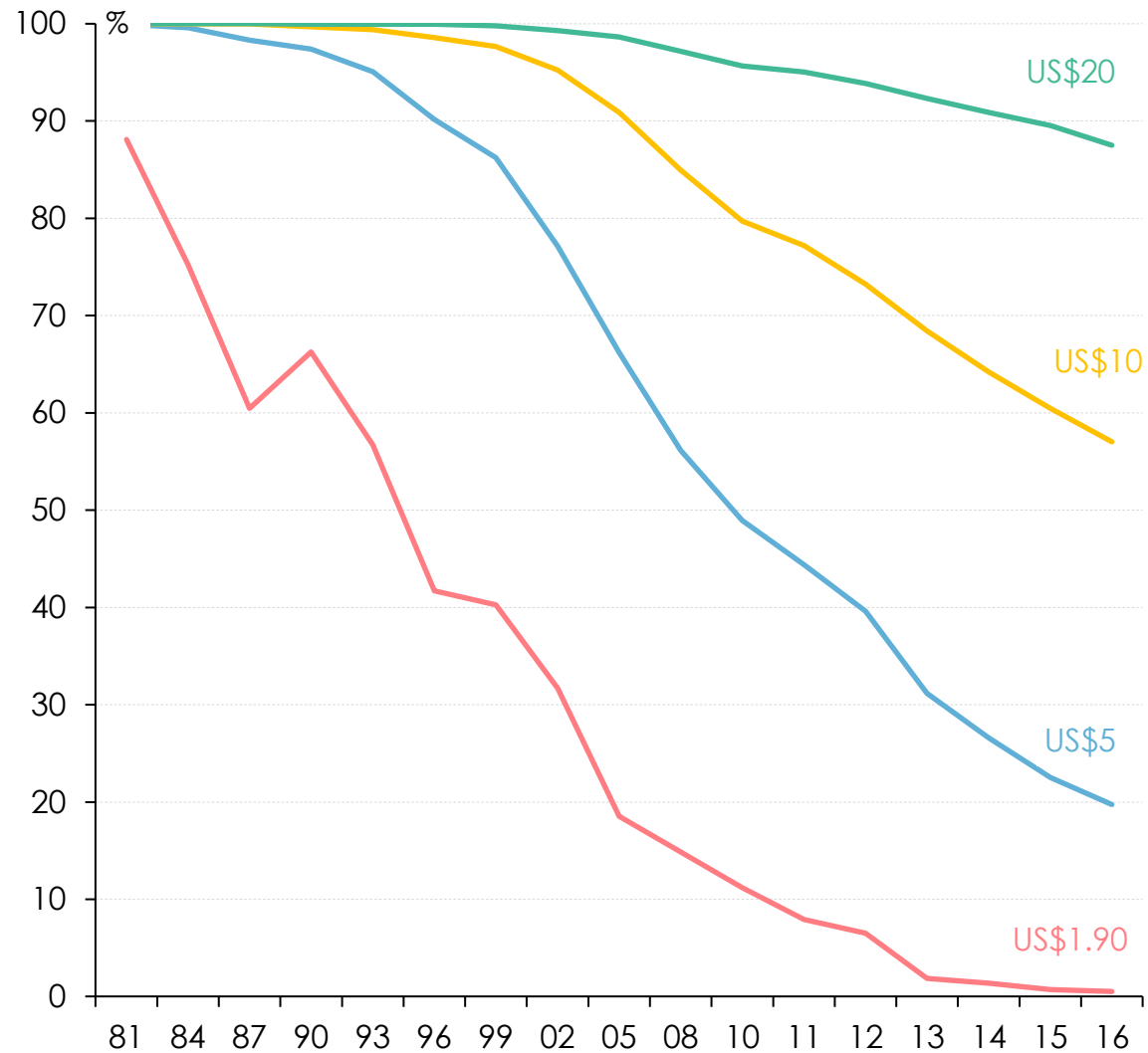
China's Gini co-efficient (a measure of income inequality)



- ❑ Xi Jinping's quest for 'common prosperity' is motivated by concern over rising inequality
  - and is a major factor driving the regulatory crackdown on 'big tech', private education etc

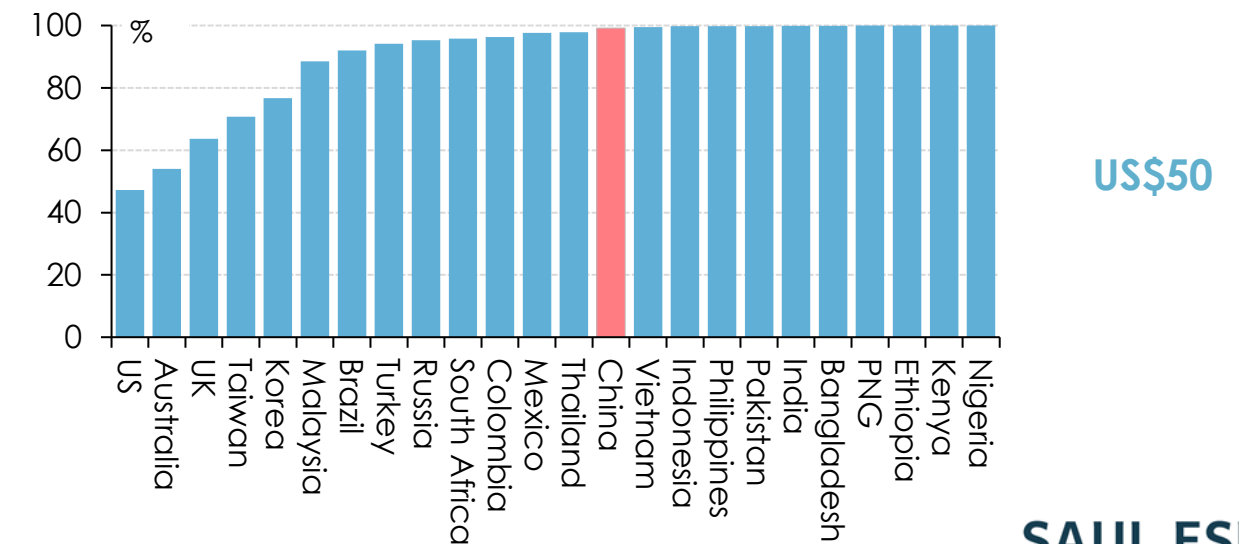
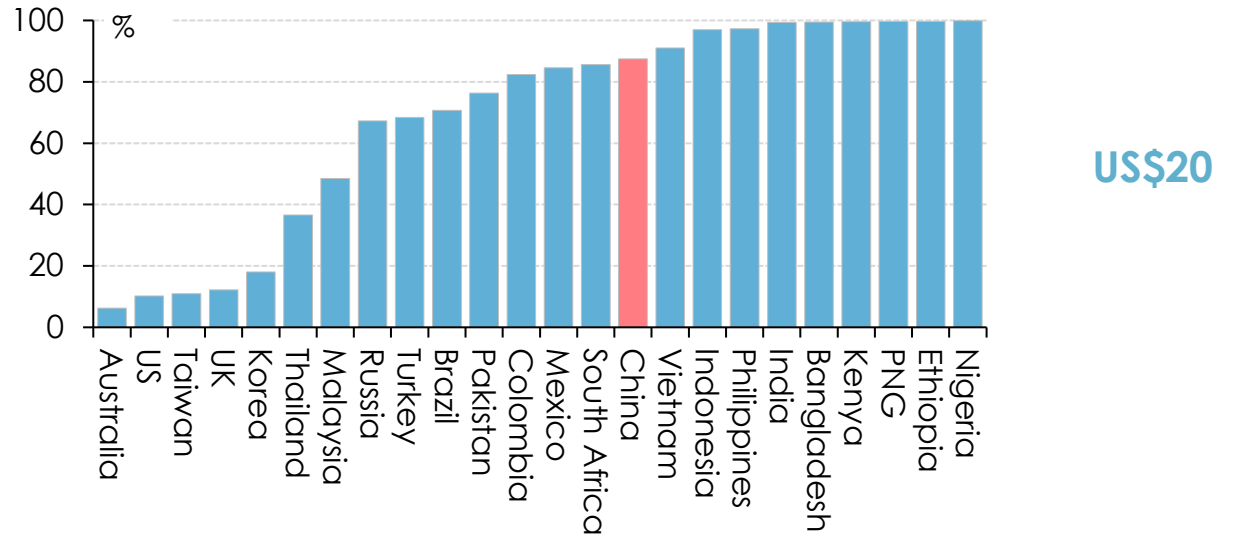
# China has done an amazing job of reducing absolute poverty – but there is still an enormous number of very poor people in China

Proportions of China's population living on less than specified amounts of US\$ at 2011 PPPs



Source: The World Bank, [PovcalNet](#); Corinna.

Pc of population living on less than specified daily amounts, 2016 or latest available



# ‘Common Prosperity’ in Xi Jinping’s own words

- ❑ “In our efforts to seek happiness for the people and continuously consolidate the Party’s foundation for holding power over the long term, we shall focus on driving common prosperity for all”
- ❑ “Common prosperity does not mean prosperity for a [selected] few, nor is it neat and tidy egalitarianism”
- ❑ “While we should allow some people to get rich first, it should be emphasized that those who become rich first [shall] lead and assist those who are not yet rich ... Getting rich by underhand means shall not be supported, and those who break the law and violate regulations must be dealt with according to the law”
- ❑ “We must ... implement precise policies to push low-income earners into the middle-income bracket ... We should increase efforts to improve the training of skilled talent, raise the salary of skilled workers, and attract more highly qualified talent to join the ranks of skilled workers”
- ❑ “We must improve the business environment for owners of small and medium-sized enterprises, reduce their burden of taxes and fees, and provide them with more market-based financial services”
- ❑ “We must improve the housing supply and support systems, and insist on the position that housing is for living in and not for speculation”
- ❑ “We should reasonably regulate excessive income, improve the personal income tax system and regulate the management of income from capital ... and encourage high-income groups and enterprises to give more back to society”
- ❑ “We must clean up and regulate unreasonable incomes, strengthen the management of income distribution in monopolistic sectors ... and clean up the chaotic situations of distribution, such as increasing the income of executives in disguise in the name of reform”
- ❑ “We must protect property rights and intellectual property rights, and protect legitimate wealth creation”

Source: Xi Jinping, [扎实推动共同富裕](#) ('Solidly Promote Common Prosperity'), *Qiushi*, 15<sup>th</sup> October 2021, based on a speech he gave to the 10<sup>th</sup> meeting of the Central Financial and Economic Affairs Commission (the CCP’s top economic policy setting institution) on 17<sup>th</sup> August; translation by Adam Ni of China Neican (内参).



# 'Common Prosperity' may be cemented into a CCP resolution on 'history' next month

- ❑ It is being **reported** that the CPC will adopt a new 'Resolution on the Party's Major Achievements and Historical Experience of the Past 100 Years' at the Sixth Plenum of the 19<sup>th</sup> Party Congress to be held from 8<sup>th</sup>-11<sup>th</sup> November
- ❑ 'Resolutions on History' are rare events for the CCP – there have only been two of them before, and both of them have been used to assert the incumbent leader's authority
  - the **first** was in April 1945, and was a vehicle for Mao Zedong to assert his leadership, repudiate rivals and strengthen the CCP's allegiance to Stalin
  - the **second**, in June 1981, was used by Deng Xiaoping to hold Mao "chiefly responsible" for the "grave Left error" of the Cultural Revolution, asserting that Mao made "grave mistakes", explicitly repudiating the idea that "class struggle ... constitutes the principal contradiction" and establishing instead the need to "seek truth from facts"
- ❑ A third 'Resolution on History' would be another platform for Xi Jinping to consolidate his power, gain an unprecedented third five-year term as CCP General Secretary and President
  - "who controls the past controls the future; who controls the present controls the past" (George Orwell, 1984)
- ❑ Xi Jinping has already defined a new '**principal contradiction**' (the thing that, in Marxist dogma, 'defines' the society') at the opening of the 19<sup>th</sup> Party Congress in October 2017
  - instead of 'the ever-growing material and cultural needs of the people versus backward social production' (as it had been since 1981), the 'principal contradiction' is now "between unbalanced and inadequate development and the people's ever-growing needs for a better life"
- ❑ The Sixth Plenum will likely formally abandon the pursuit of numerical targets for economic growth in favour of 'common prosperity'
  - and this will mark the 'official' end of the Deng Xiaoping era of 'reform and opening up', and the beginning of Xi Jinping's 'new era' ('socialism with Chinese characteristics' and all that)