

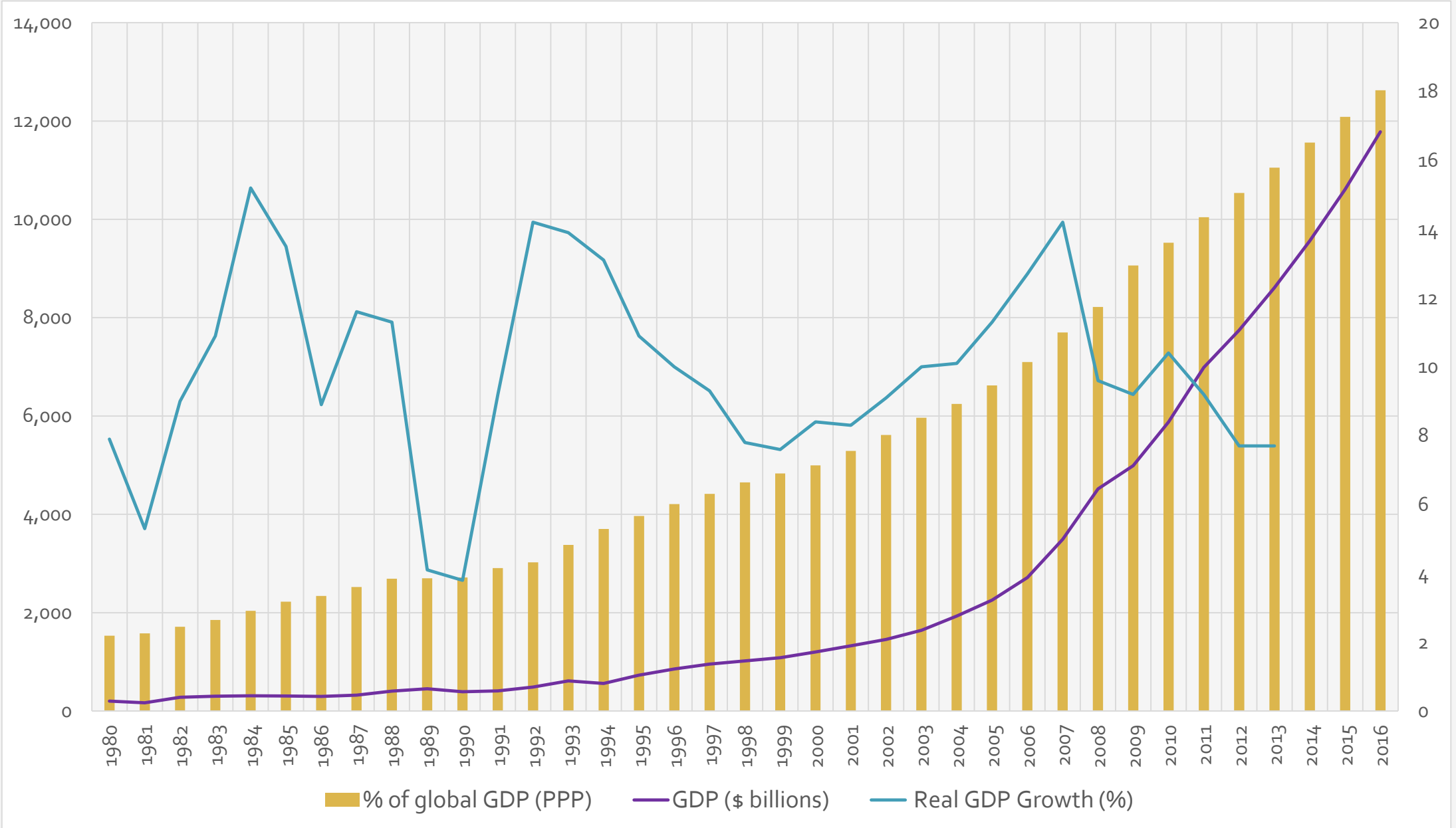
CHINA AS NUMBER ONE:

SO WHAT?

Damien Ma

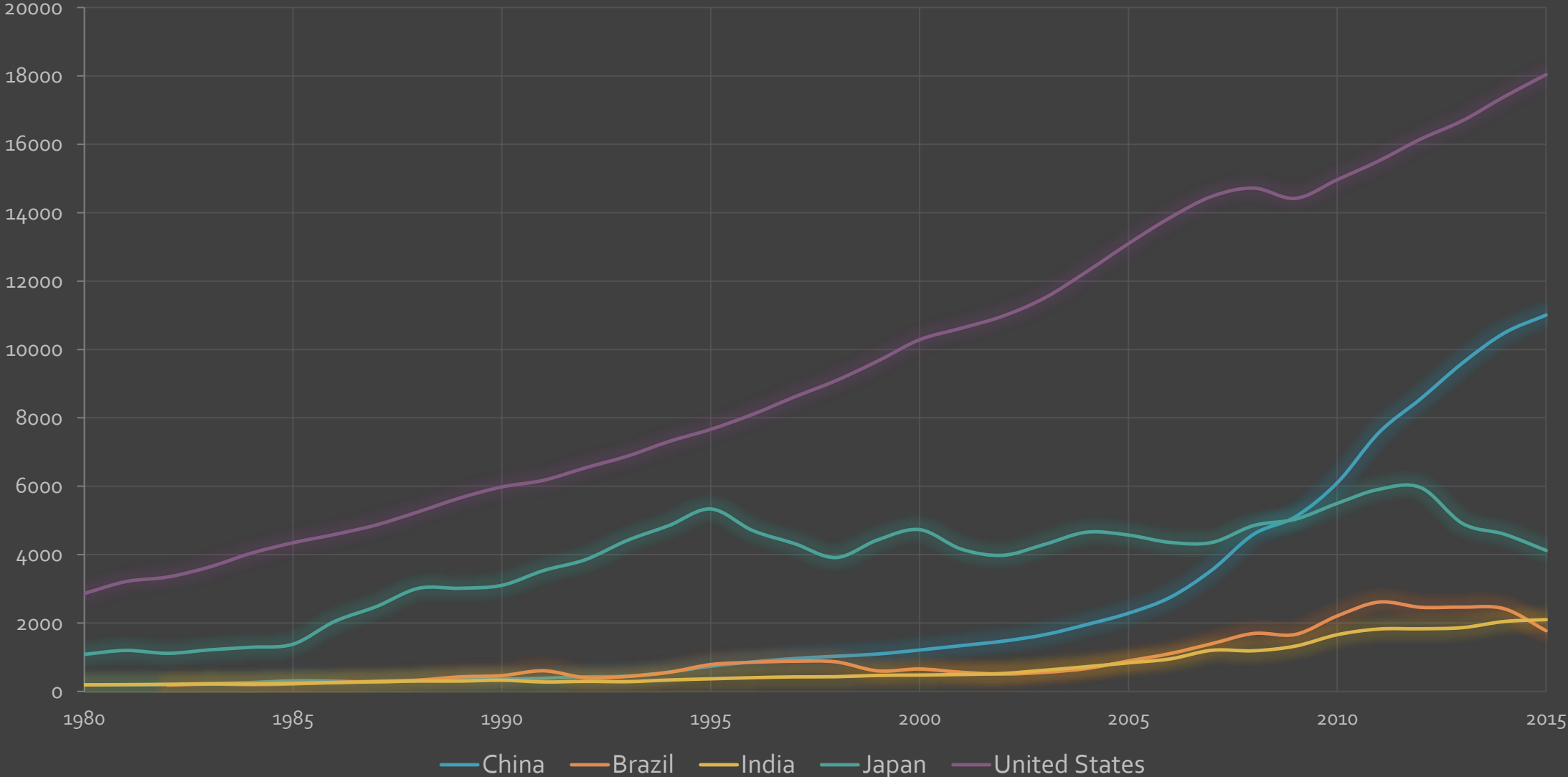
Alaska World Affairs Council

April 2017

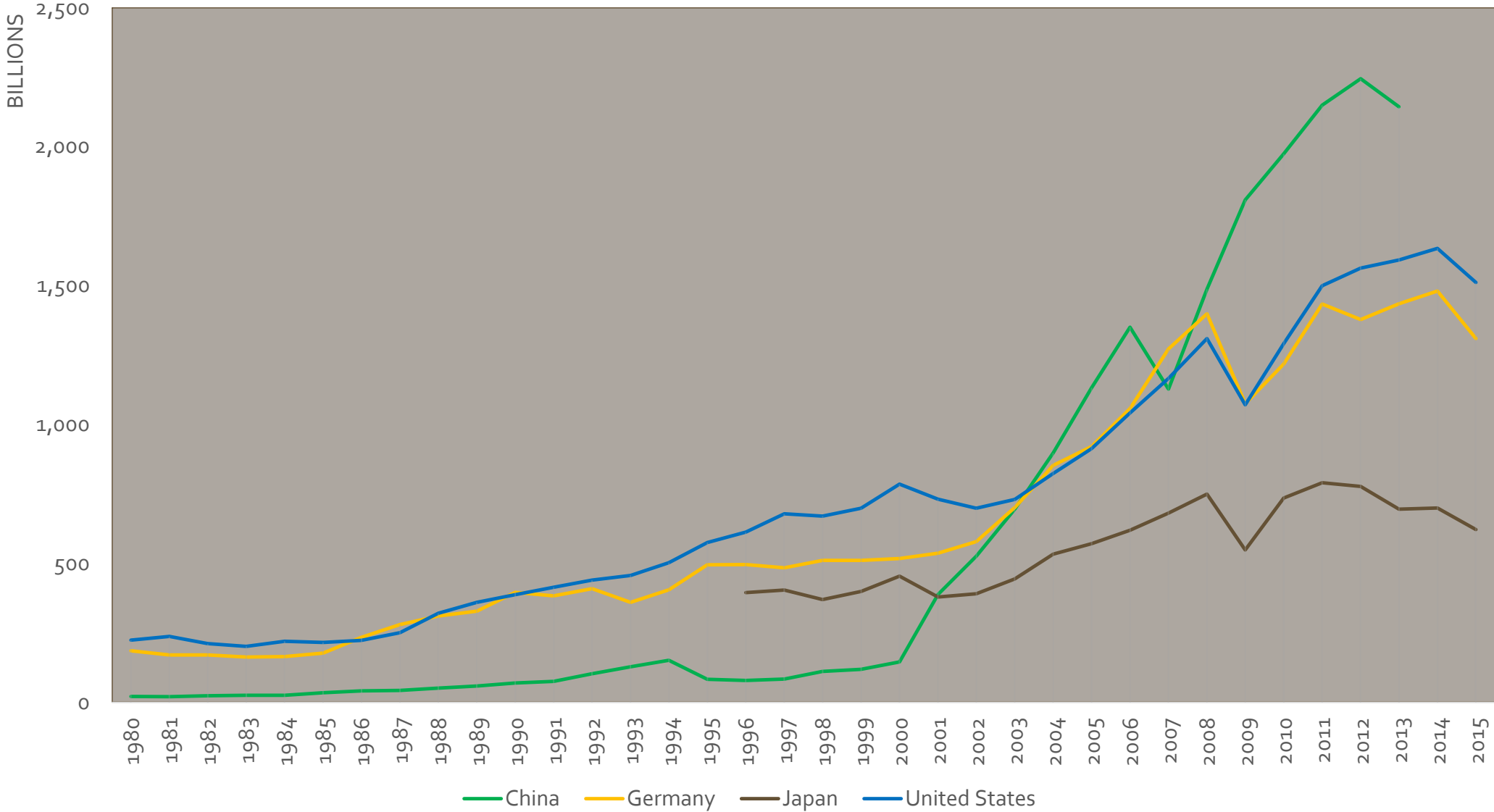


Source: World Bank

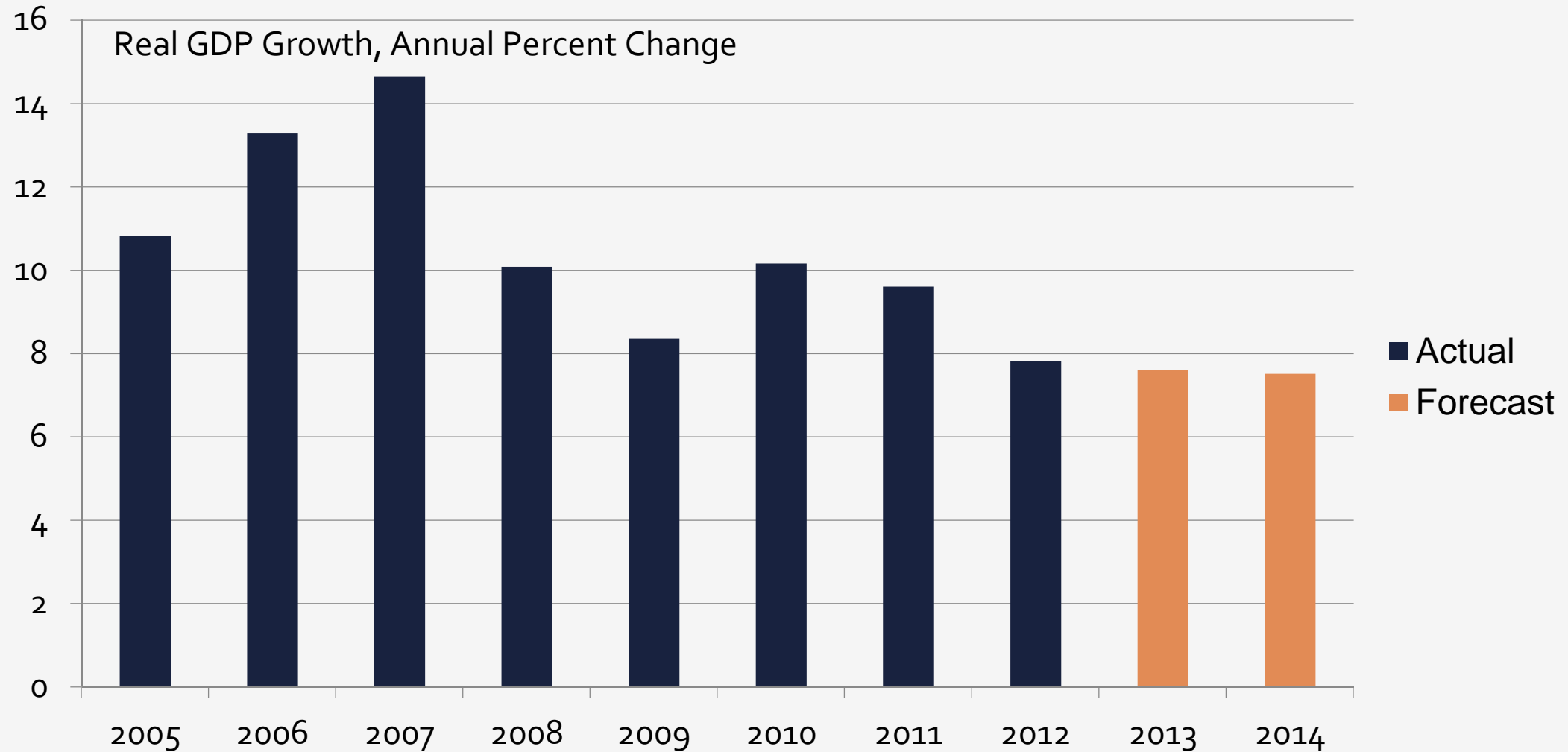
Convergence



Export Powerhouse




The era of double-digit growth is over



Source: China National Bureau of Statistics, The PNC Financial Services Group

The Middle Income Trap:

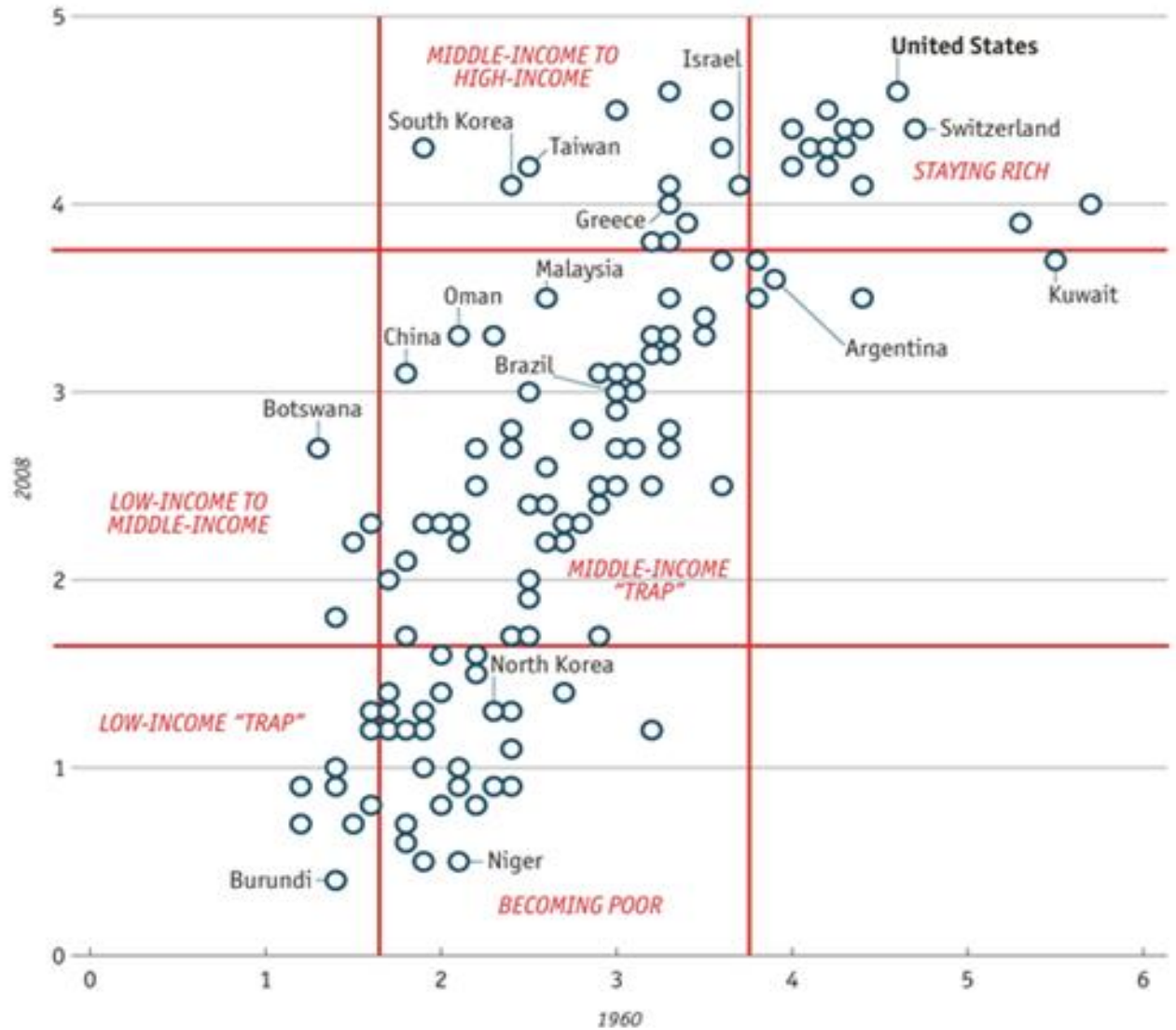
~\$15,000 Per Capita GDP



- Since 1960, only 13 countries have moved from middle income to rich
- 5 of the 13 happen to be Asian economies, or the so-called “Asian Tigers”
- Most Latin American economies have not escaped the trap

The middle-income trap

Income per person relative to the United States, log of %



Source: World Bank



\$8000



China's "Two 100 Years" Goals:

- Moderately prosperous country by 2020
 - High-income country by 2049
 - Implies 6.5% average growth through 2020
-
- 

Reforming Its Way Out:

- Financial capital
 - Human capital
 - Social capital
-



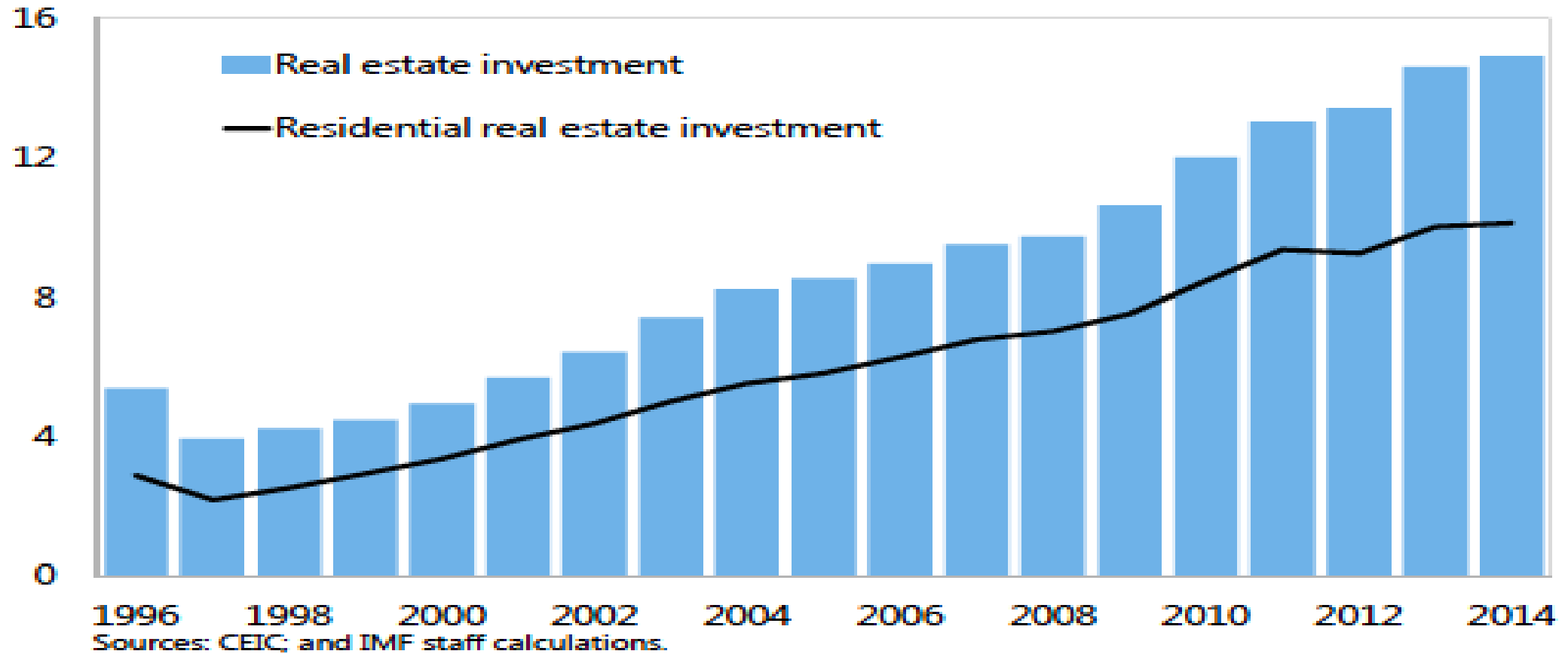
1987



Property investment is about 1/6 of GDP

Real Estate Investment

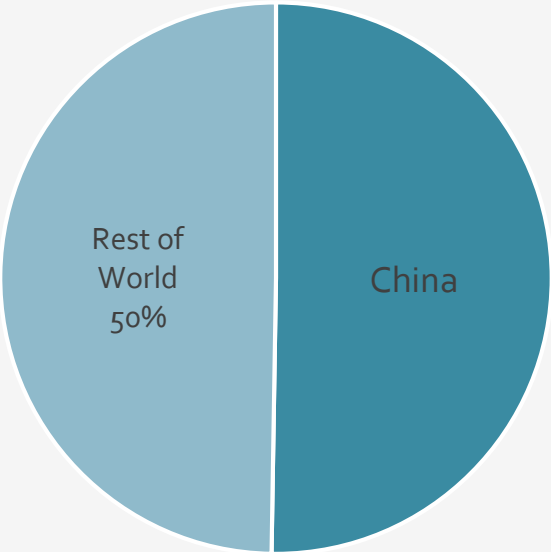
(In percent of GDP)



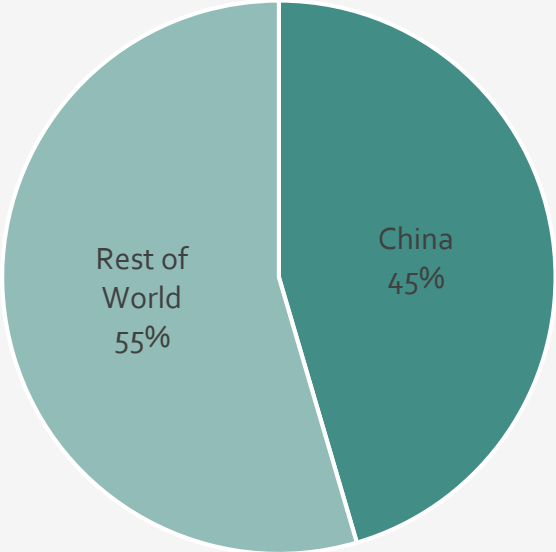


Source: New York Times

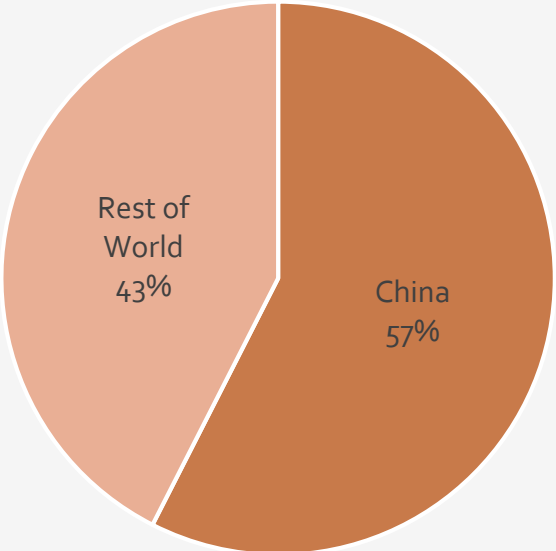
Steel Production, 2014



Aluminum Production, 2013

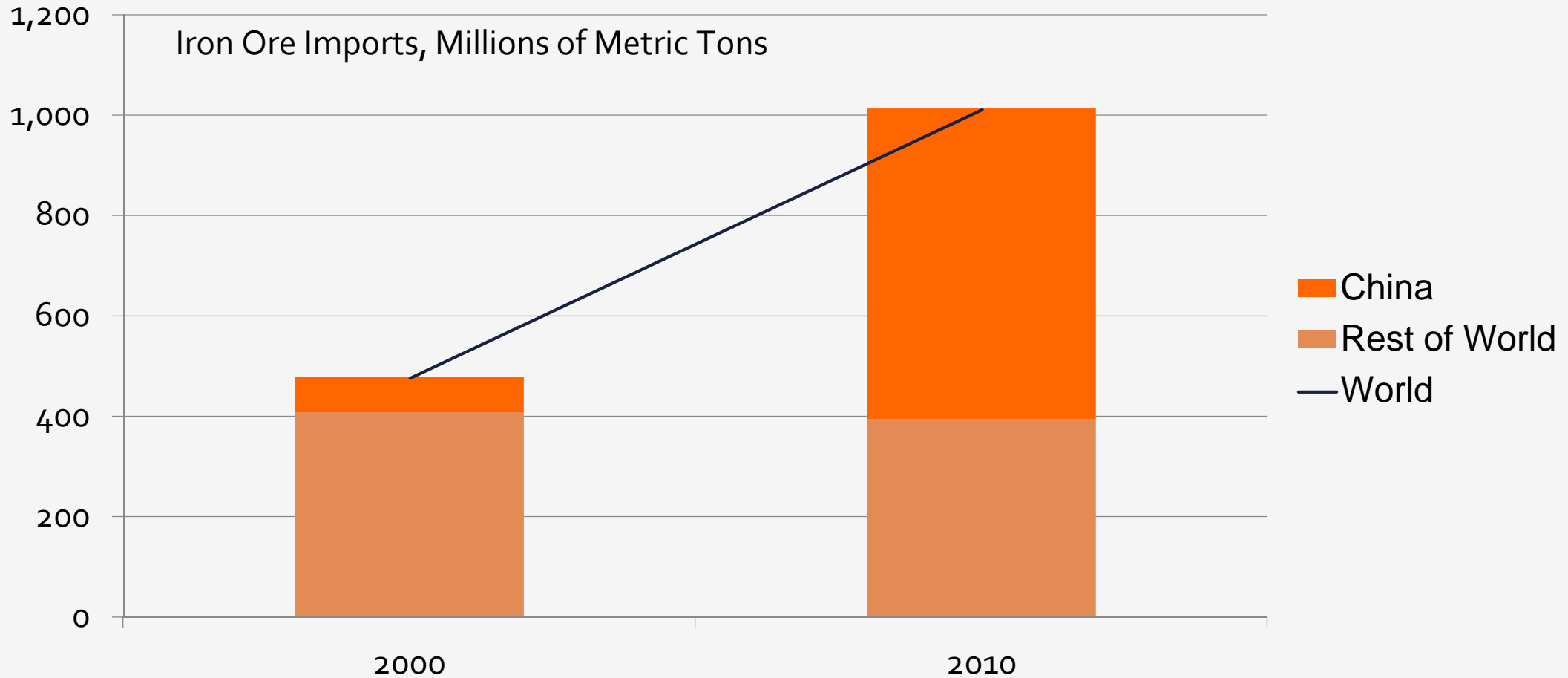


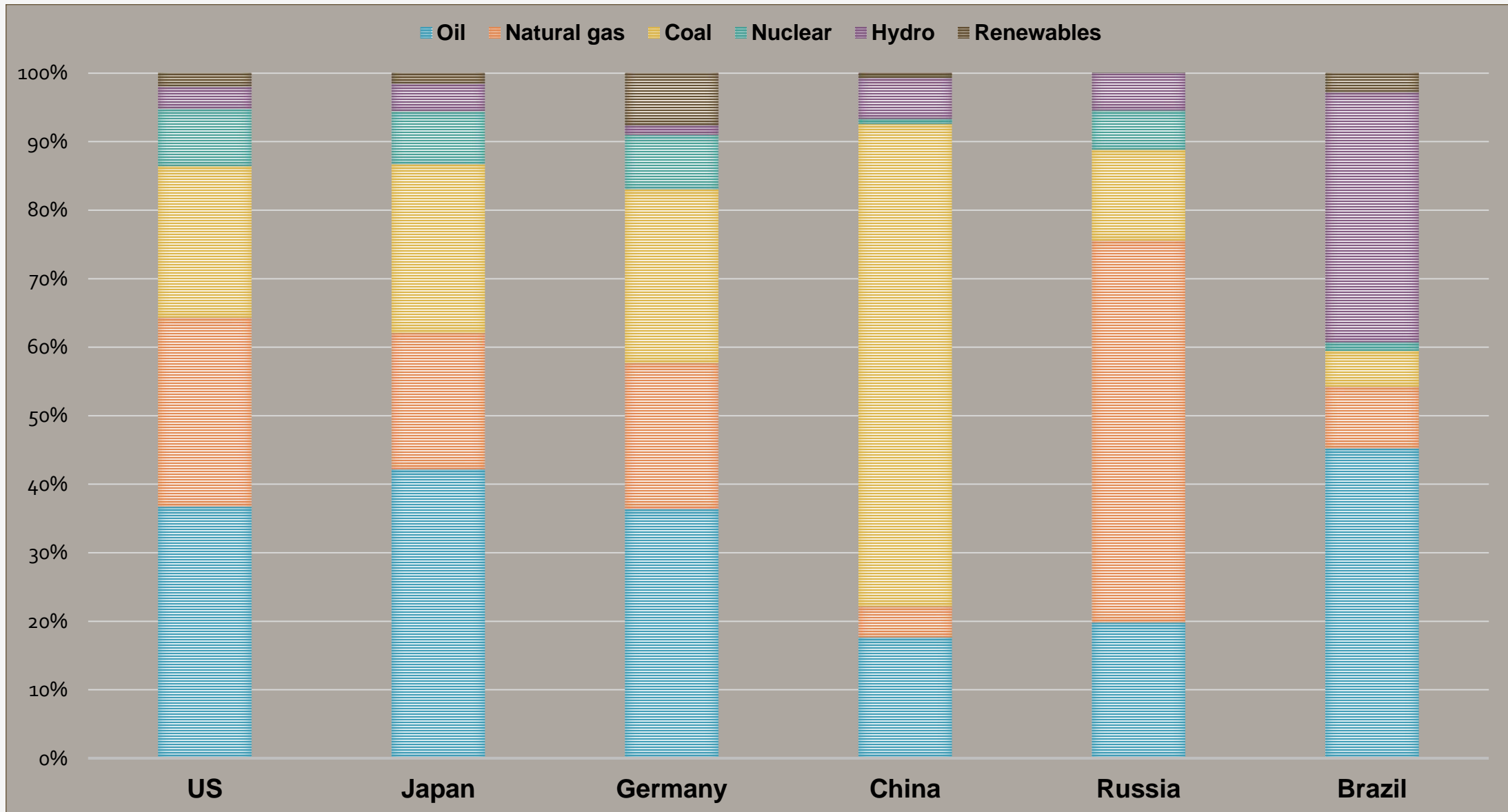
Cement Production, 2013



Sources: World Steel Association, US Geological Survey

A resource-intensive growth model, despite resource scarcity





Source: BP Statistical Review of World Energy, 2012

What Does Hebei Have in Common with The EU?



- They produced the same amount of steel in 2012 (~164 million tons)
- Hebei produced 50 mn tons more than Japan, 1.8x US production, 2.1x India, 2.3x Russia, 3.9x Germany
- “China #1, Hebei #2, Tangshan #3”



“Crazy Bad”



Blade Runner or Beijing Airport?

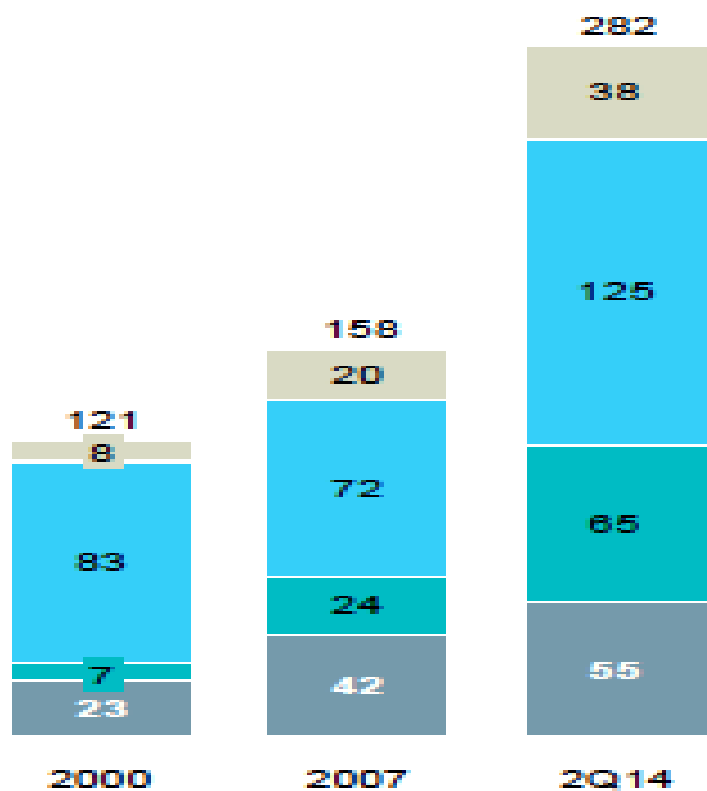


China's debt reached 282 percent of GDP in 2014, higher than debt levels in some advanced economies

Debt-to-GDP ratio
%

Government Non-financial corporate
Financial institutions Households

China

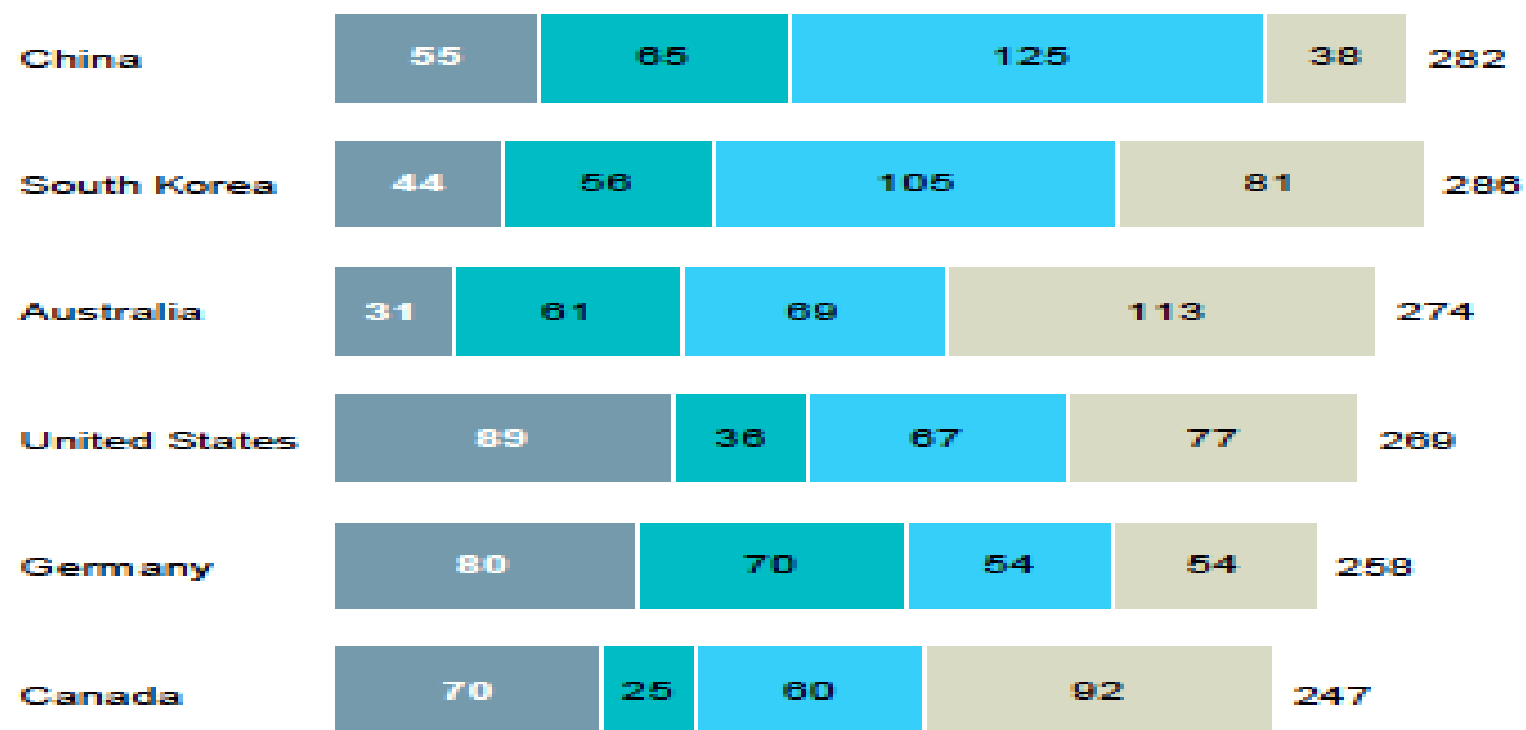


Total debt 2.1 7.4 28.2
\$ trillion

NOTE: Numbers may not sum due to rounding.


SOURCE: MGI Country Debt database; McKinsey Global Institute analysis

By country, 2Q14



From Coal to Pork

Pigs slaughtered for food

 = 20 million

1995

China 406,403,450



US

94,591,921



2005

China 551,859,157



US

98,859,704



2014

China 735,100,000

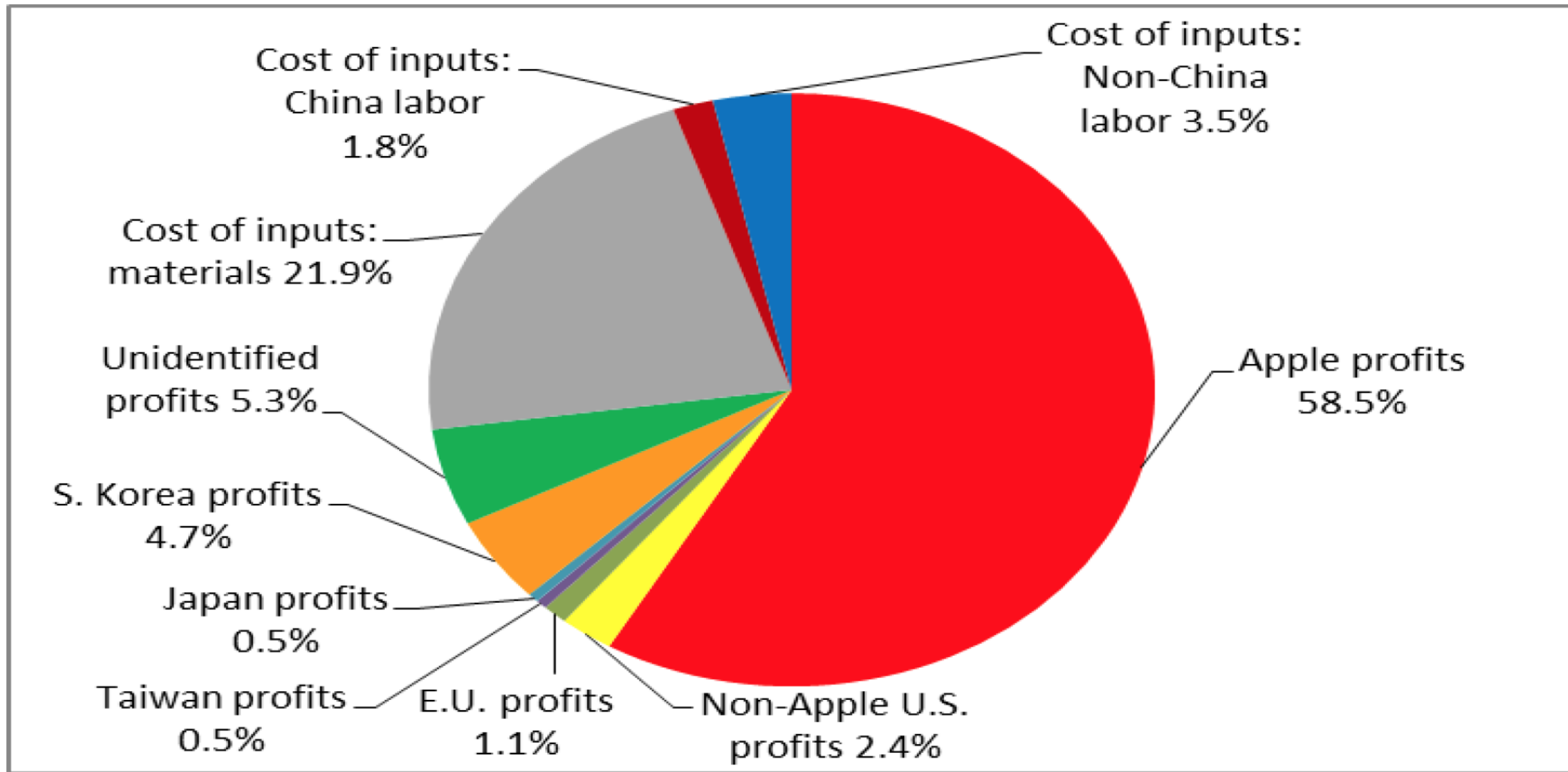


US

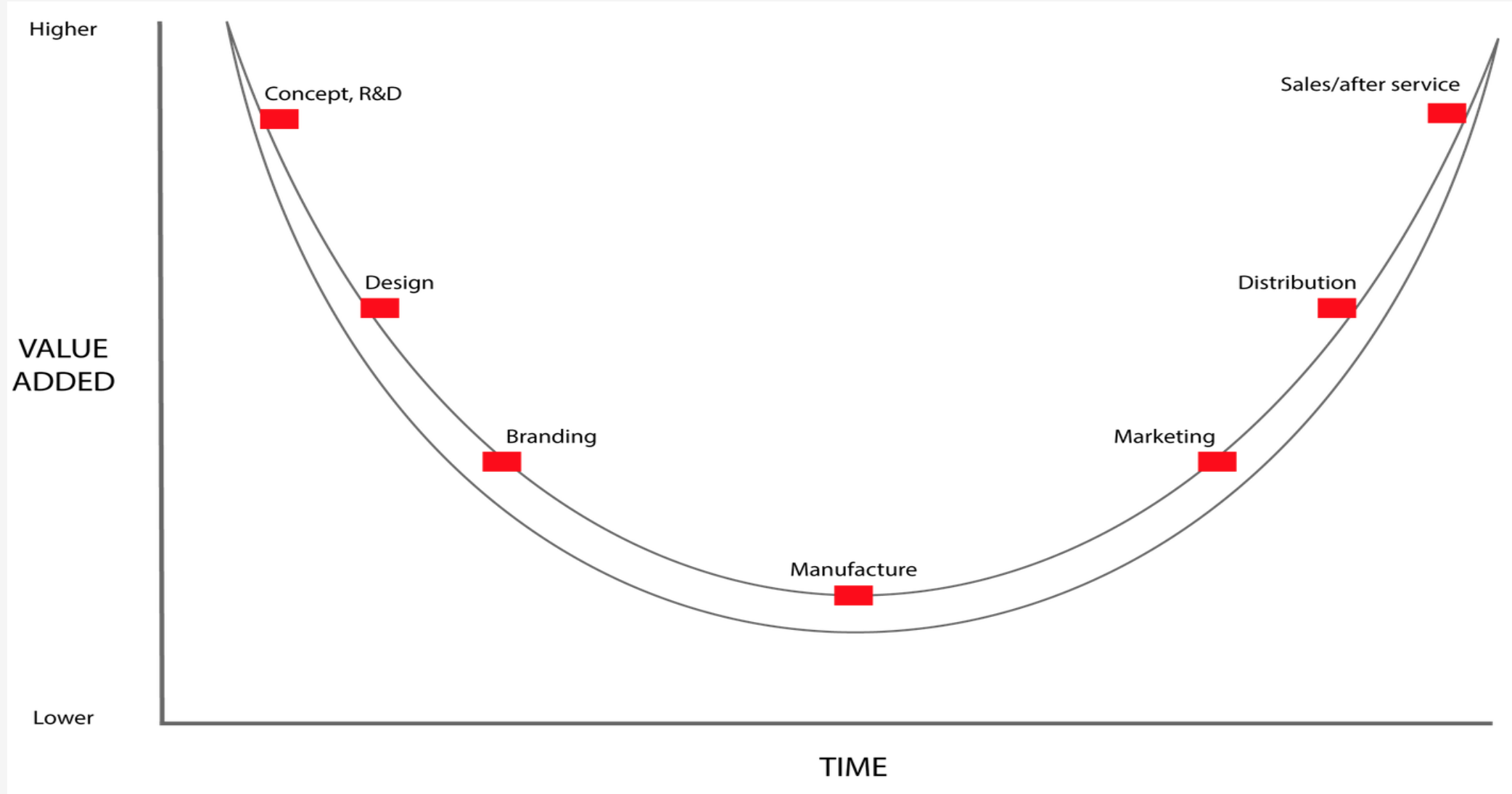
106,957,700



Figure 1. Distribution of value for iPhone, 2010

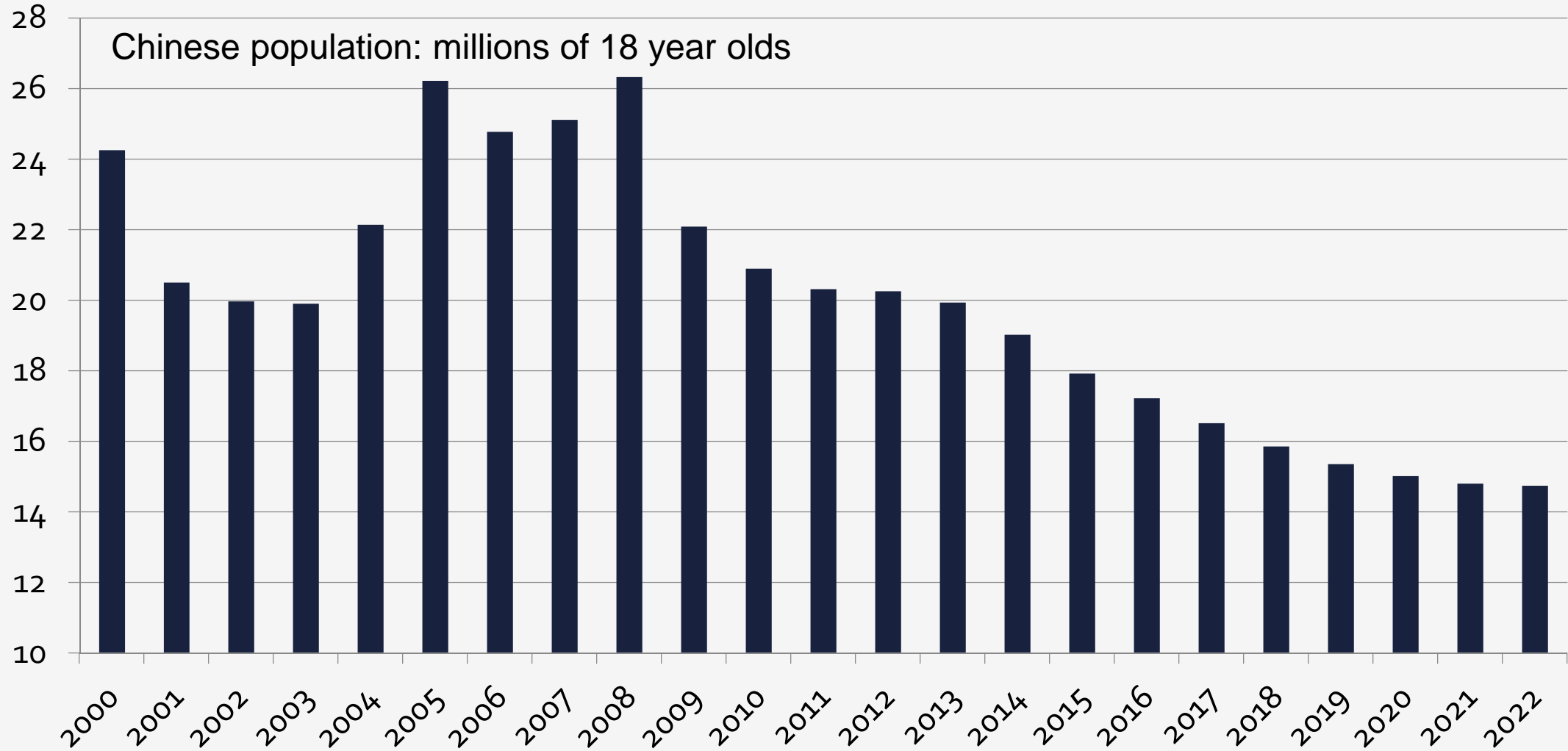


The Smile Curve



Note: IT value chain concept first proposed by Taiwan's ACER founder Stan Shih

Labor has gone from surplus to scarcity



Source: US Census estimates and projections

1992

Social Capital

Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)... Together with the standard constraints of economics they define the choice set and therefore determine transaction and production costs and hence the profitability and feasibility of engaging in economic activity... Institutions provide the incentive structure of an economy; as that structure evolves, it shapes the direction of economic change towards growth, stagnation, or decline.

Digital Number
High : 63
Low : 0

0 25 50 100 km

2008

- Douglas North

The Thucydides Trap:

Rising Power vs. Established Power



Historical record...
...not so good

	Period		Ruling Power	Rising Power		Result
1	First half of 16th century		France	Hapsburgs		War
2	16th–17th centuries		Hapsburgs	Ottoman Empire		War
3	17th century		Hapsburgs	Sweden		War
4	17th century		Dutch Republic	England		War
5	Late 17th–early 18th centuries		France	Great Britain		War
6	Late 18th–early 19th centuries		United Kingdom	France		War
7	Mid-19th century		United Kingdom, France	Russia		War
8	19th century		France	Germany		War
9	Late 19th–early 20th centuries		Russia, China	Japan		War
10	Early 20th century		United Kingdom	United States		No war
11	Early 20th century		Russia, U.K., France	Germany		War
12	Mid-20th century		Soviet Union, U.K., France	Germany		War
13	Mid-20th century		United States	Japan		War
14	1970s–1980s		Soviet Union	Japan		No war
15	1940s–1980s		United States	Soviet Union		No war
16	1990s–present		United Kingdom, France	Germany		No war

Three Decades of US-China Trade (\$ millions)

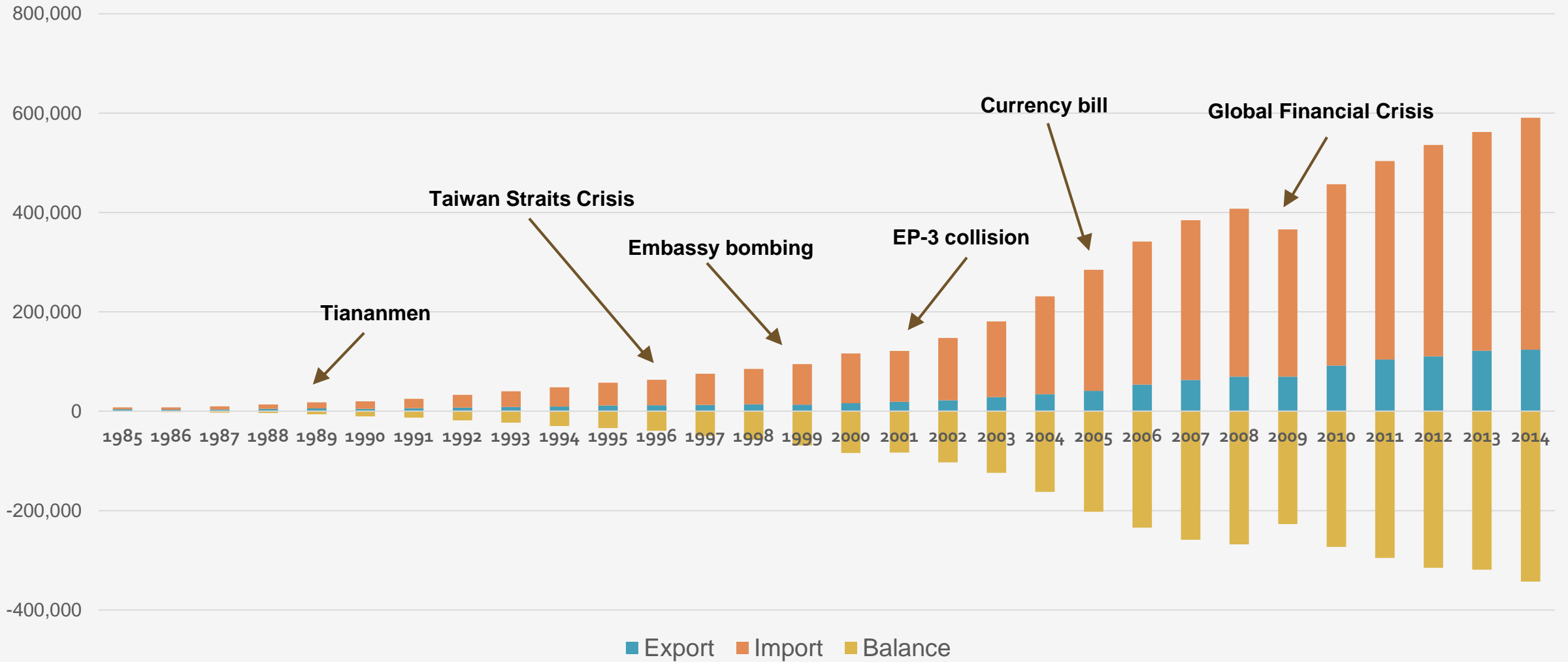


Figure 1: Manufacturing Share of U.S. Nonfarm Employment, 1939 - 2015

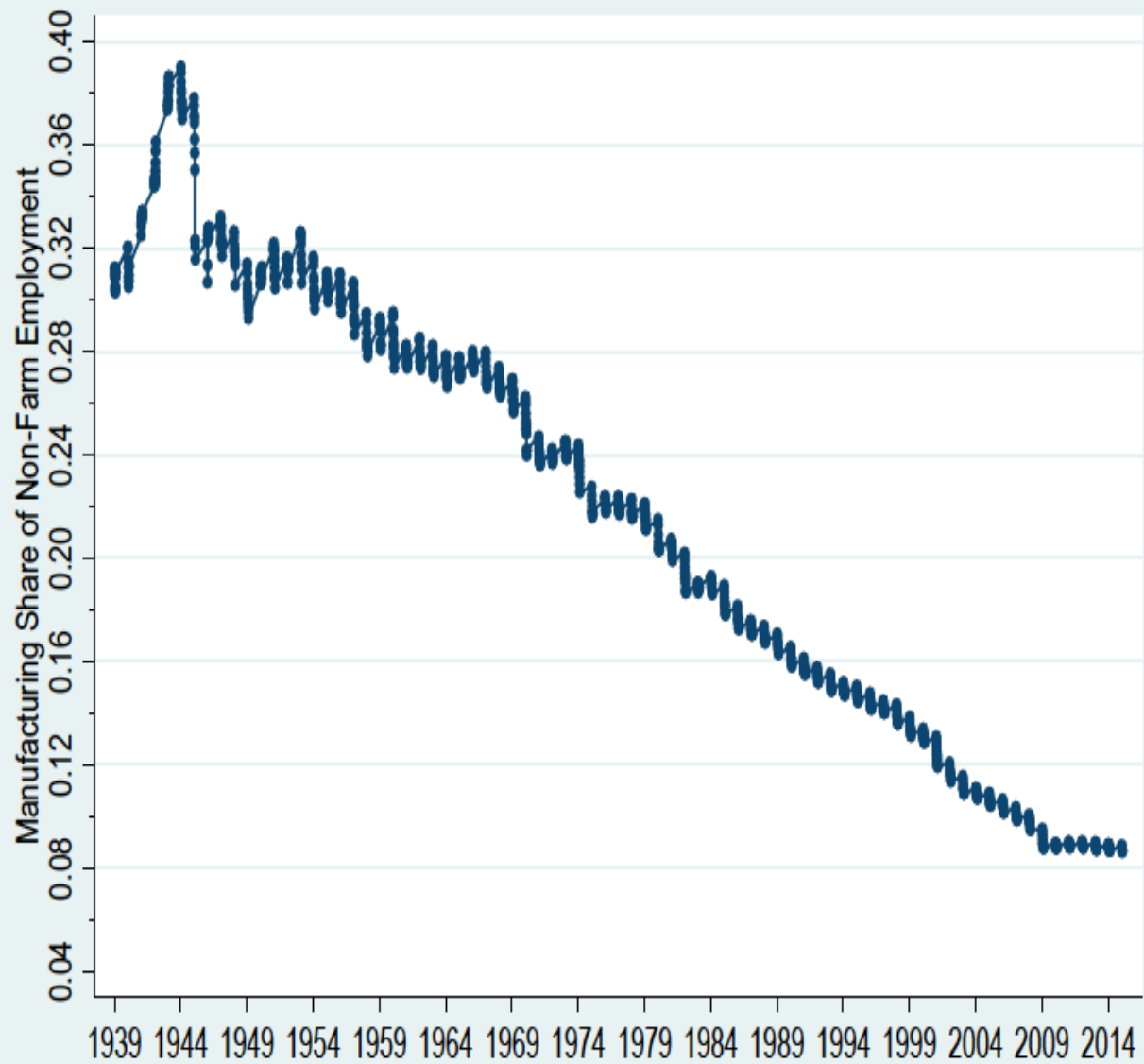
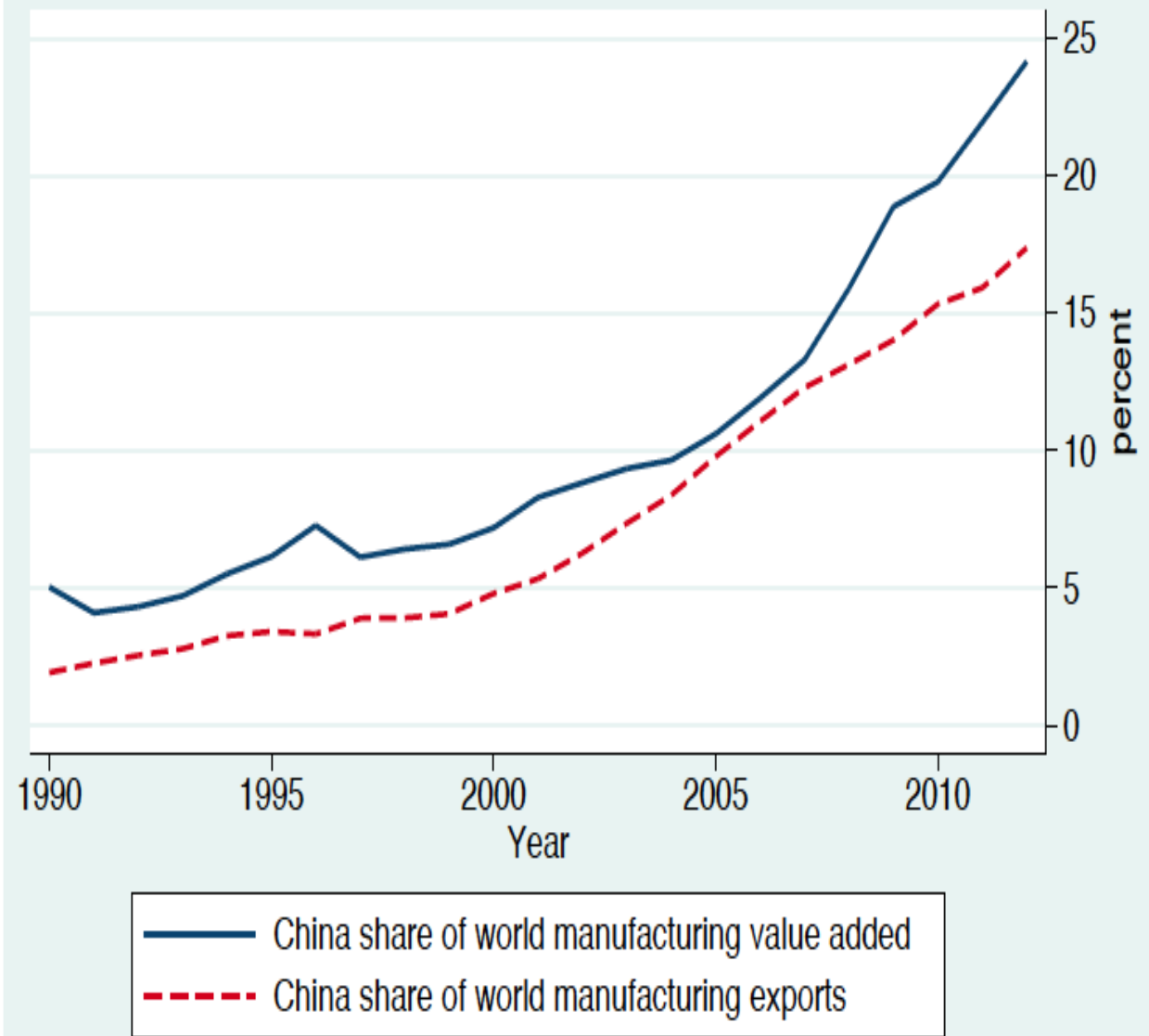


Figure 2: China's Share of World Manufacturing Activity, 1990 - 2012



Source: World Development Indicators.