

## **Is China's Current Strategy Economically and Socially Sustainable?**

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Panel Discussion  
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### **Current Strategy**

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- A new development path has emerged since 2001
  - Very strong export growth
  - Massive fixed asset investment
  - Strong growth in (heavy) industry
- This is continuing in 2006 and beyond

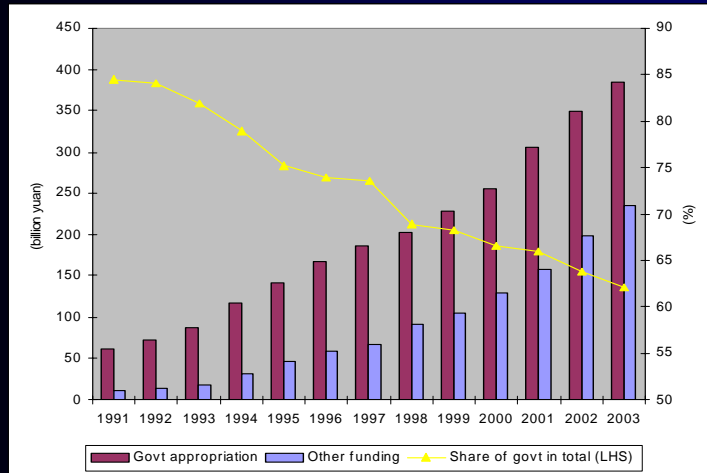
**Table 1. Trends in Fixed Asset Investment  
and Exports, China, 1991-2005**

	Investment in fixed assets (billion yuan, 1991 prices)	Ratio of investment in fixed assets to household consumption (real terms, %)	Exports (US\$billion)	Exports/GDP in yuan (%)	Ratio of change in exports to change in GDP over period, in yuan (%)
1993	896.0	69.7	91.7	15.0	15.0
1997	1382.5	78.3	182.8	19.2	18.9 <sup>1</sup>
2001	2044.7	86.9	266.1	20.1	14.8 <sup>2</sup>
2002	2384.9	94.4	325.6	22.4	46.1
2003	2981.0	110.8	438.2	26.7	60.3
2004	3581.1	114.2	593.4	30.7	53.3
2005	4263.5	123.6	762.0	35.6	70.0

## Unsustainability in Several Dimensions

- Energy use and the environment
- Global financial/trade imbalances
- Flow of benefits to urban elites; less for broader population
- Low level of key services (e.g. health); increasing reliance on private funds, greater inequality in access

**Chart 1: Government and Other Funding of Education in China, 1991-2003**



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**Table 2: Expenditure on Health in China, by Funding Source, 1997-2003**

	1997	2001	2003
	(billion yuan)		
Government <sup>1</sup>	52.2	80.1	111.7
Social <sup>2</sup>	93.8	121.1	178.9
Individual <sup>3</sup>	192.5	301.4	367.9
<b>Total</b>	<b>338.5</b>	<b>502.6</b>	<b>658.4</b>
	(per cent of GDP - %)		
Government <sup>1</sup>	0.71	0.84	0.82
Social <sup>2</sup>	1.28	1.27	1.31
Individual <sup>3</sup>	2.63	3.15	2.69
<b>Total</b>	<b>4.63</b>	<b>5.25</b>	<b>4.82</b>
	(billion yuan)		
<b>GDP</b>	<b>73143</b>	<b>95728</b>	<b>136584</b>

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## Options for a Revised Development Strategy 1

<i>Limitations of Existing Strategy</i>	<i>Towards a New Strategy</i>
<b>Emphasis on export oriented manufacturing</b>	<b>Reduce preferential climate for exports</b>
<ul style="list-style-type: none"> <li>Low employment growth in industry</li> <li>Low wages, limited broader benefits</li> <li>Big trade surplus, foreign exchange</li> <li>Heavy call on energy resources</li> </ul>	<ul style="list-style-type: none"> <li>Higher value for yuan</li> <li>Constraints on energy intensive activities</li> <li>Market pricing for energy and other inputs</li> <li>Higher wages/improved conditions in industry</li> <li>Reduction of incentives for foreign investment</li> </ul>
<b>Over-emphasis on investment activities</b>	<b>Control Over-Investment</b>
<ul style="list-style-type: none"> <li>Possibility of excess/unproductive investment</li> <li>High energy and other resource use</li> <li>Development of speculative activities</li> </ul>	<ul style="list-style-type: none"> <li>Limitations on local government competition</li> <li>Market pricing for energy and other inputs</li> <li>Use interest rates and credit controls to avoid bubbles</li> </ul>

## Options for a Revised Development Strategy 2

<i>Limitations of Existing Strategy</i>	<i>Towards a New Strategy</i>
<b>Labour and energy intensive growth</b>	<b>Strengthen knowledge and technology intensive growth</b>
<ul style="list-style-type: none"> <li>Concentration on low value added activities</li> <li>Advanced technologies not available</li> <li>Inefficient transport and consumer energy use</li> </ul>	<ul style="list-style-type: none"> <li>Become market leader in use of advanced technologies</li> <li>Mandate leading transport and consumer energy use</li> <li>Require global companies to bring advanced technologies</li> <li>Seek greater external value adding to resource imports</li> </ul>
<b>Low growth of health, welfare and services</b>	<b>Develop public and private sources of services growth</b>
<ul style="list-style-type: none"> <li>Low public spending; high private requirement</li> <li>High savings; low consumer spending</li> <li>Unequal access to basic services</li> </ul>	<ul style="list-style-type: none"> <li>Higher taxation of incomes and growth sectors</li> <li>Increased public outlays on 'soft' social infrastructure</li> <li>Development of public health sector/other services</li> </ul>
<b>Low social dividend from growth for many</b>	<b>More employment and better services</b>
<ul style="list-style-type: none"> <li>High level of rural poverty despite growth</li> <li>Limited access/high cost of rural services</li> </ul>	<ul style="list-style-type: none"> <li>Higher employment growth, especially in services</li> <li>Develop rural health, education and other services</li> </ul>

## How to Get There

- Green rising
  - Carbon tax with spending on environmental technologies
  - Advanced regulations, full pricing
  - Global leader, global effects
- Science and technology leadership
  - Proceeding
- Increased public spending on health, education and related services
  - Revised use of tax revenues
  - Chart
- Use of special purpose payments

## Chart 2: Components of Public Expenditure, Selected Countries, 2002 (Share of GDP)

