

# Rebalancing China's Development Path: Issues, Constraints and Opportunities

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Realising Technological Innovation and  
Effective Policy Implementation

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## Rebalancing China's Development Path: Issues, Constraints and Opportunities

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### The need to change the development path

- Economic and social considerations (11<sup>th</sup> Plan)
- The energy imperative

### The difficulty, and progress to date

- The broad structure of GDP
- The decomposition of energy use

### GDP growth and employment: Is employment growth a constraint?

- What rate of growth for China?
- Does the need for employment growth preclude structural change?

### Constraints and policy issues

- Factors driving energy intensive industries (macro settings, incentives for local officials, big growth mentality)
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- Constraints on growing the service sector (fiscal issues, access and market structure, other factors)

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## Towards a Revised Development Strategy in the 11<sup>th</sup> Five Year Plan

<i>Limitations of Existing Strategy</i>	<i>Towards a New Strategy</i>
Emphasis on export oriented manufacturing	Reduce preferential climate for exports
Over-emphasis on investment activities	Control Over-Investment
Labour and energy intensive growth	Strengthen knowledge and technology intensive growth
Low growth of health, welfare and services	Develop public and private sources of services growth
Low social dividend from growth for many	More employment and better services

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## The Structure of China's Energy Use

	Primary energy consumption				Energy use/ value added <sup>1</sup>
	2007 (Mt SCE)	Change 1994-2001 (% pa)	Change 2001-07 (% pa)	Real value added (2007)	
Agriculture	82.4	3.3	4.3	24.4	3.4
Five Industries					
Petroleum processing	131.8	11.0	9.9	2.4	55.5
Chemicals	272.5	-2.7	12.5	5.8	47.4
Non-metallic minerals	203.5	-1.3	10.1	4.9	41.4
Ferrous metals	477.7	2.4	17.6	7.5	63.6
Non-ferrous metals	106.9	6.8	17.6	3.3	32.5
<b>Total</b>	<b>1192.4</b>	<b>1.1</b>	<b>14.0</b>	<b>23.8</b>	<b>50.0</b>
Other Industry	749.6	2.4	8.4	89.3	8.4
Services	631.4	3.5	9.7	93.6	6.7
<b>Total economy</b>	<b>2655.8</b>	<b>2.2</b>	<b>10.8</b>	<b>231.2</b>	<b>11.5</b>

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## The Difficulty of This Task: There are Other Models

Changing the development path in a rapidly growing, large and highly diverse and international integrated economy

- a challenge without precedent
- one of great difficulty

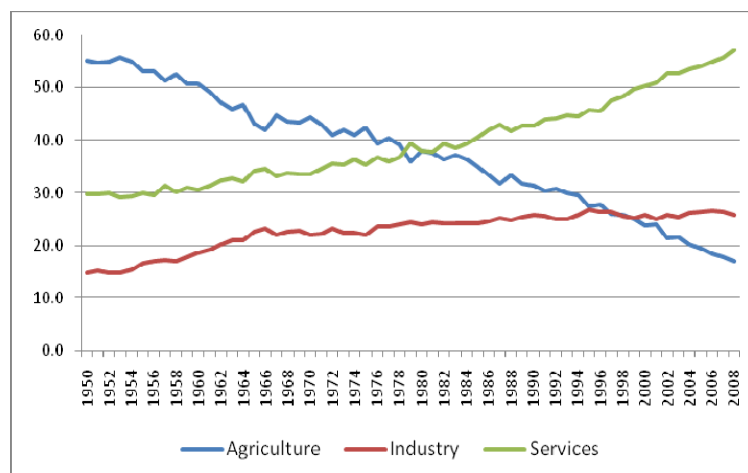
The difficulties of measurement: data issues

There are however other models of rapid growth on different development paths

- the case of India

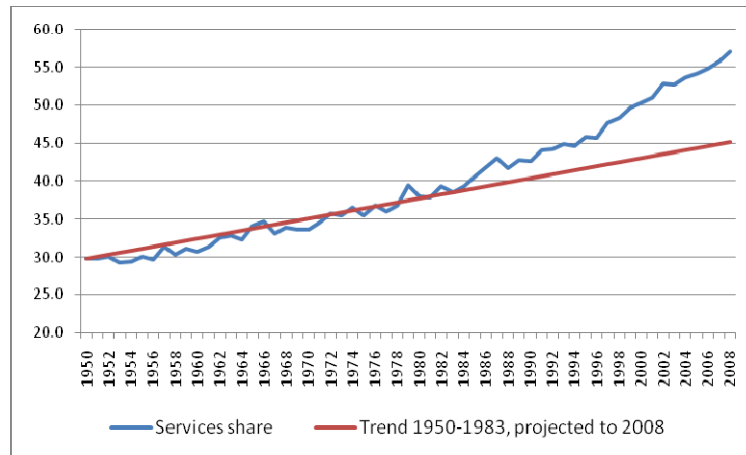
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## Sectoral shares of real value added, India, 1950-2008



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## Share of services in GDP, and deviation from trend, India, 1950-2008



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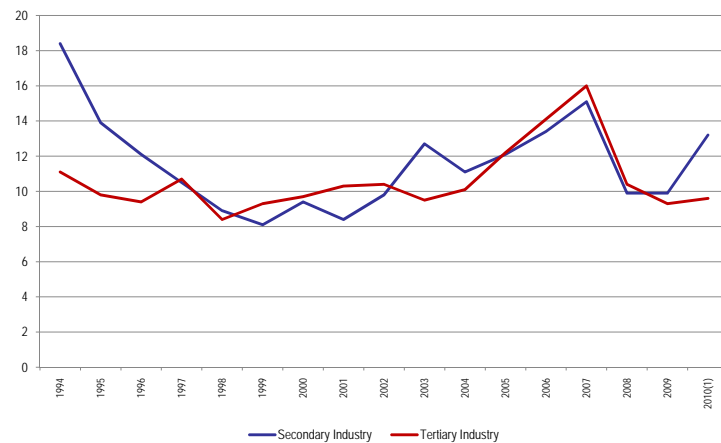
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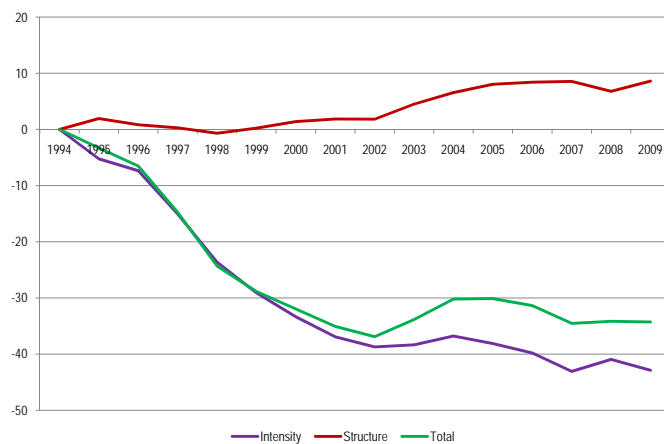
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## Outcomes: Annual rate of growth in industry and services value added, China, 1994-2007



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## Outcomes: Decomposition of changes in energy use per unit of GDP into structure and intensity effects (1994-2009)



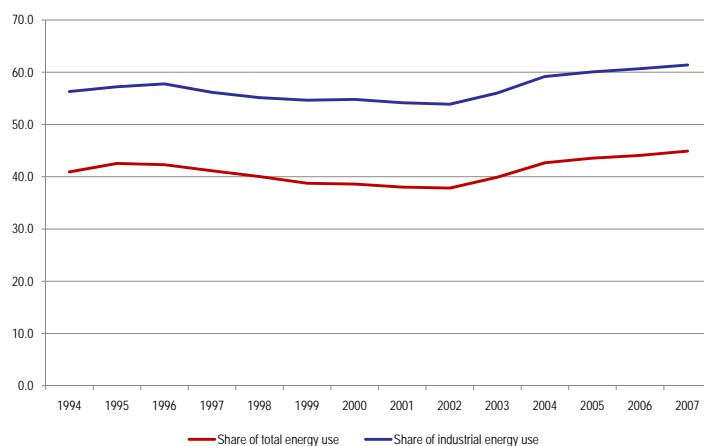
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## Outcomes: Decomposition of changes in energy use per unit of GDP into structure and intensity effects (2002-2009)



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## Energy use in the five energy intensive industries: share of total and of industrial energy use (%)



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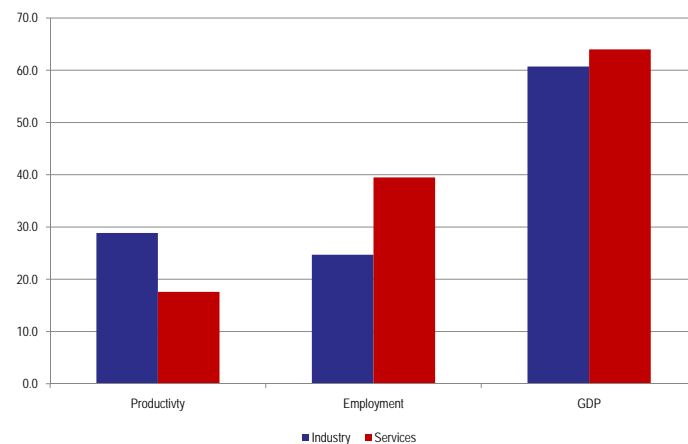
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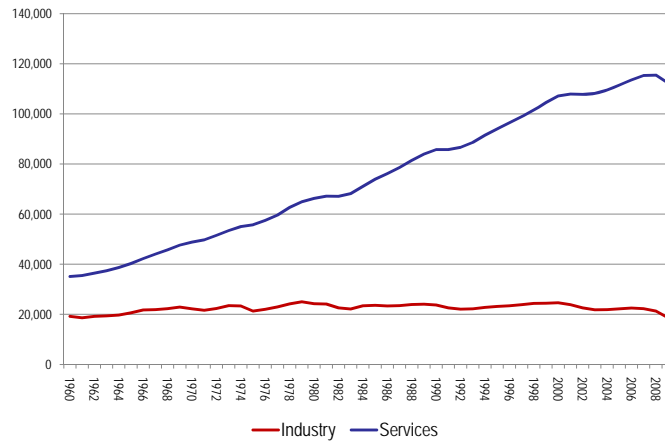
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## Total growth in value added and employment, industry and services, China, 2004-08 (%)



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## Total employment levels in the USA, industry and services, 1960-2008



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