

# The Chinese Economy: At A Turning Point

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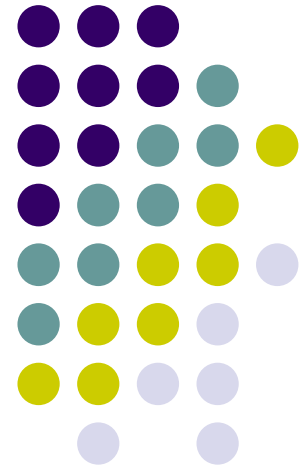
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# A Snapshot of the Chinese Economy



- GDP in Q1 2009 was US\$ 962 billion
  - Grew 6.1% in Q1 2009 vs. 10.6% in Q1 2008

Jan – Apr 2009	YoY change
Exports	-20.5%
FDI	-21.0%
Fixed asset investment	+30.5%
Retail sales of consumer goods	+15.0%

# How Did the Chinese Economy Grow During the Last 30 Years?



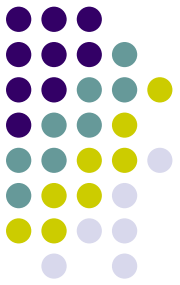
- GDP per capita was US\$ 3,313 in 2008 vs. US\$ 300 in 1978
  - The Chinese people suits a market economy
    - Agriculture, FDI, private enterprises, high savings
  - Political stability with a right direction
  - Rapid global trade expansion
    - Exports in 2008: US\$ 1.43 trillion (YoY +19.8%)
    - Domestic demand is not enough

# Consequences of Much Slower Exports Growth



- Slower income growth leading to slower consumption growth
- Slower industrial investment
- Limits of fixed asset investment (mostly infrastructure) in compensating for slower exports growth
- Can't maintain 8% growth rate if world trade doesn't resume growth soon

# How Can China Achieve Another 30 Year of Rapid Growth



- Can we and should we?
- The key is to create a more domestic demand driven economy
- Increasing consumption through
  - a better social safety net?
  - increasing income?

# Raise Income to Increase Consumption



- Raise income by investing the savings efficiently to grow tens of millions of vibrant SMEs
  - High savings rate is not going to change much and is not a problem
  - Income is better distributed
- The key is to decentralize the financial system
  - Capital is allocated truly by the market rather than by the government
  - Role of regulation



# A Turning Point

- Success will lead to another 30 years of rapid growth, pulling the world along
- Failure will lead to a long period of slow growth
  - Chinese exports will not resume double digits growth year after year
- Signs: China is moving toward more fundamental reforms
  - Capital markets, private entry into restricted sectors, etc.