



China: Is the party over?

Speaker: Mr. Mohan Guruswamy

Chair: Ambassador Kishan S. Rana

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The seminar titled ‘China: Is the party over?’ focused upon the current slowdown in the Chinese economy, world economy and various factors contributing to both. The seminar started off with graphs and charts to explain the current slowdown in the world economy. These charts showed how India and China will become the biggest contributor to the world GDP by 2050. World growth was expected to be 2.3 per cent in 2015. China being the largest contributor to the WGDP (World Gross Domestic Product), contributed 21.8 per cent from 2000-2010 while India’s share was 8.6 per cent. Due to this process, millions of people are expected to be added in the middle-income group by 2050.

The Speaker then chalked out China’s progress up until now. China has always been an export-led country and export is a big component of China’s economy. China’s export rose from US\$ 266.1 billion to US\$ 1577.9 billion during year 2001-10. At present, the European Union and the United States are China’s biggest export partners. However, the speaker argued that Chinese growth rate will not remain the same.

According to the speaker, the US trade deficit is a reason why China and other ASEAN countries can have the title of the biggest exporters. However, the US has decided to bring its trade deficit to zero by 2020. This will definitely affect China’s exports. Moreover, even though the oil remains the basis of about half the World’s GDP (over \$85 trillion), crippling oil prices have put Arab economies in danger, which has further hit Chinese exports.

The speaker further argued that demography is an important aspect of the world growth and plays crucial role in any economy. The speaker explained that China was following the footsteps of Japan in demography. An aging population, accompanied by deficit financing and high-cost economy, Japan is becoming an old economy where there is no hope for high consumption. Similarly, the Chinese population is aging rapidly. Although China discontinued its one-child policy, rise in the population has not been adequate. As per the speaker, the foremost reason for the negligible rise in population is the rise of the middle class. The speaker explained that poor people consider children as their financial security for the old age. Middle class, however, does not need to have many kids because they are financially secure. The Speaker mentioned that at

the moment, 1 out of 10 Chinese is above the age of 65 years. Therefore, the Chinese economy is running out of the domestic market, consumers, producers, and savers. The workforce in China is expanding, but young minds do not want to join the labor force.

Hence, the Speaker argued that China is experiencing the transition from secondary sector being the biggest contributor of growth to the tertiary sector taking its place. Taiwan and India are said to be taking China's place in manufacturing. The increase in taxes and declining current account surpluses are threatening China's economy. Consequently, China is becoming a service sector oriented economy and there is a fear that China will lose 100 million jobs in coming years.

The speaker concluded that however, China will still be a richer economy than India. In fact, India will see a major growth spurt in next 30 years, but it will happen only if India is able to handle it well.

Discussion

While responding to a question, the speaker said that expansion of the middle class is natural. China is paying attention to service sector because of its plummeting exports which will further slow down its economic growth.

While responding to the wage rise in the PLA, the speaker said that it will be difficult to predict as PLA is a conscript army. Their military is capital intensive. On conscious efforts to improve productivity, the speaker mentioned that it is difficult to move up in the productivity ladder. Unlike the US, which benefits from immigration of young and talented minds from all across the world, India and China bring the work from outside. Therefore, America will remain as the driver of the world growth for next 50 years. Moreover, China and America have interlinked economies. Hence, America will not go to any extreme to contain China. In conclusion, India's future depends on the capability of the Indian government.

Report prepared by Apeksha Dhakorkar, Research Intern, Institute of Chinese Studies.

About the Speaker

Mr. Mohan Guruswamy is the Chairman and Founder of Centre for Policy Alternatives, an independent and privately funded think-tank, New Delhi. He was also a Distinguished Fellow at the Observer Research Foundation, New Delhi. He is the author of several books on policy issues, the latest being 'Chasing the Dragon: Will India Catch-up with China?'. A Harvard graduate, he is a frequent commentator on matters of current interest in the print and electronic media; and has held senior positions in the government and the industry.

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