

## Can the PRC's economy still become number one?

**Speaker:** Professor Guanghua Wan, Director, Institute of World Economy, Fudan University

**Moderator:** Professor James Laurenceson, Director, Australia-China Relations Institute, University of Technology Sydney

October 26 2022

Online

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### Dr Corey Lee Bell:

Good afternoon members of the audience and special guests. Before I begin proceedings, on behalf of all those present, I would like to acknowledge that this webinar is hosted on the lands of the Gadigal people of the Eora Nation. I'd also like to pay respects to the Elders past, present, and emerging, acknowledging them as the traditional custodians of knowledge for this land. This session will now be recorded. We will record audio, screen share, and our presenters. We will not be recording any video or audio input from our audience.

Welcome to all UTS students, staff and all friends of ACRI and UTS. My name is Corey. I'm a Research Officer at the Australia-China Relations Institute at the University of Technology Sydney, or UTS:ACRI. UTS:ACRI is an independent, non-partisan research institute established in 2014 by the University of Technology in Sydney. Chinese study centers exist in other Australian universities. UTS:ACRI, however, is Australia's first and only research institute devoted to studying the relationship between these two countries. UTS:ACRI seeks to inform Australia's engagement with China through research, analysis and dialogue, grounded in scholarly rigour. If you'd like to know more about UTS:ACRI and the Australia-China relationship, details are available on our website at [australiachinarelations.org](http://australiachinarelations.org).

Today we're happy to host a webinar, 'Can the PRC's economy still become number one?'. This discusses how demographic issues, trade disruptions stemming from tensions between the US and China and a nascent trend towards deglobalisation might defy predictions that China's economy will overtake that of the US in the short to medium term. The main presentation in this webinar is from Professor Guanghua Wan. Professor Wan is a prolific author and has worked in the United Nations and the Asian Development Bank. He now serves as Director of the Institute of World Economy at Fudan University. After the presentation, we will have a panel discussion featuring a man that needs no introduction, but will get one anyway. UTS:ACRI's Director and esteemed economist James Laurenceson. James will then moderate an audience Q&A session. For the audience, if you'd like to submit questions for the Q&A session, please do so via the Q&A button on the bottom bar. I'll now hand you over to Professor Laurenceson.

**Professor James Laurenceson:**

Thanks very much, Corey.

I hope I'm coming through loud and clear. I'm excited for this event today. As an economist myself, it's just a real privilege to be in conversation with a professor of Professor Wan's calibre. I've long held the view that when it comes to China – and relations between Australia and China, and Canberra and Beijing – Australians need to more frequently hear from informed Chinese voices,; people with a combination of subject matter expertise and on-the-ground experience and smarts. And Professor Wan absolutely ticks that box. Professor Wan, thank you so much for making yourself available to speak with us today.

**Professor Guanghua Wan:**

My pleasure.

**Professor James Laurenceson:**

It's timely to be having this discussion. Just on Monday, two days ago, we had the latest data dump out of China and that included the latest GDP growth figures. Many of you will be aware that in the third quarter, China's GDP growth coming in at 3.9 percent. Now that was up from 0.4 percent at the end of the second quarter, but still quite significantly short of the 5.5 percent target set at the beginning of this year and of course still quite a way down on the more than 6 percent growth the Chinese economy was recording several years ago.

So here's the way we're going to structure this discussion today. I'm going to pass it over to Professor Wan to deliver a short 10-minute presentation that's going to provide an overview of how China's economy got to where it is today. That is the point where the International Monetary Fund says that after adjusting for cost differences between countries, China already accounts for 18.6 percent of the global economy. Now that compares with 15.5 percent for the United States, albeit in US dollar terms, China still lags the United States 18.3 trillion versus 25 trillion. This presentation's going to bring us all up to speed with the essential background and help to contextualise the discussion that will follow. And that discussion is going to home in on the multitude of challenges facing the Chinese economy today. Okay, I will hand it over to you, Professor Wan.

**Professor Guanghua Wan:**

Thanks so much, James, for the earlier introduction.

It's a pleasure to come back to Australia and to share some of my thinking, which relate to the Chinese economy, which I've been working on throughout my academic life. I will talk about 10 minutes or around 10 minutes. I will try to keep it short.

But let me start with sharing this screen. So the title, as we already know, is to try to assess whether China will become the largest economy. James already mentioned, [the] IMF says China is already the largest economy, but that's really based on their adjusted prices, called purchasing power parity [PPP]. But purchasing power parity has its advantages and disadvantages. But in the Asian Development Bank, the president, at the time I was there, he certainly objected the use of PPP, which surprised [me at] that time. But if you look at the ADB [Asian Development Bank] publication now, after they got rid of this PPP, they use exchange rate, which, of course also has its pros and cons. So in reality, I don't know how many people will think China is still the largest economy. To me, I think it's on the way to be there.

In the end, I will conclude with some prospects of when China might become the largest economy. And of course, we all know China has been growing very fast. And of course, we also see some slowdowns in the last 10 years or so. And I just want to remind our friends, I don't think we should really look into this year, last year, or even 2020, because for researchers, they are [a] very unusual time, and even, particularly, we try to project in the long-run, you've got [to] look at the fundamentals, and that's why I'm not going to look into, really, [the] last couple of years. This growth, which we already know, which actually changed the landscape of the world economy and I want to use this argument to show that.

Here is the total GDP, by exchange rate, of all the leading economies in the world. The G7, we all know, and I also added India and Russia. Russia used to be one of the superpowers of course. And India, in my mind, in the last 20 years also. I've been trying to advise the Chinese government to pay a lot of attention to India the last 20 years. Even my daughter, I asked her to look into India when she was in year three. She did not listen that well, but I think she realised that advice was somehow to the point. So, if you look at this picture, so all the large economies in the world, and you see the red line is China. And you can see China has been taking over all the major economies and a critical year in history is 2010. Many people are paying attention in 2010 because that year, by official exchange rate, China overtook Japan, the second largest economy before then, [to] become the second largest.

So between China and the United States, there was nothing. And to me that's where that's leading to this— earlier we called it competition and rivalry – and now even using some other words, which I think you can see in the media. So it's related to this sort of growth. And that's where actually, I started to think about this back in about 2006 and 2008 when I joined [the] ADB. I actually talked to the board office of China and saying, 'The world is going to change.' But of course that was 12, 13 years ago and nobody listened, obviously.

I'm going to show you something as well. What's the present stage of the world economy as James mentioned? Well, this is former IMF. It's the 17th member, which is more or less similar. We don't have to stick to the precise numbers. It's what I call a tri-polar, a picture of the world economy. We have, of course, United States, the very large economy, then we have China coming after, then we have, of course, European Union as a whole, as the third polar. And if you use number from this picture from the IMF in 2021, [the] PRC accounts for close to 74 percent of the US economy. So they did use this official exchange rate in doing this picture.

So China is catching up and now we are still behind by the official exchange rate. If the world stays at this stage, things may be different. But the thing is, I, as an economist, I always actually look forward. 20 years ago, 15 years ago, 10 years ago, and if we look forward, you would think differently. Let's look at some projections. There are many different projections by the institutions around the world, many of them including from Australia. But I'm going to stick to the projections by the Asian Development Bank, which I was part of it, which I did not necessarily agree. But that was an official final projection. 2050, middle of the century, this picture, that's the projection by the Asian Development Bank. It says Asia will account for over 50 percent of the world. Right now, probably in the high 30s – not to 40s. But I've been saying to many friends, 'If you are Americans, if you are Europeans, and we see this picture, what will you think?' That's why I've been saying this in the national landscape; job politics, will change forever with China's growth. Now it's not the time to talk about job politics.

Now what's happening in China? This is between different continents. What will happen to [the] Chinese economy? According to the same projection, this is the conversation of Asian's economy. Earlier we just saw, Asia will count for more than 50 percent, and by the very same projection, China will count for 45 percent. Right now China counts for about 40 percent of Asia's GDP. And if you do a simple calculation, it really means China will count for – even the projection of course is right, everything goes according to projection – China would account for about 20 to 23 percent of the global economy. And that's exactly the number where United States is right now. And that's why I remind you, if you are Americans or Europeans, and, what do you think? By 2050 China will become number one. Actually, it's just simply not number one, but it's going to replace the United States, sitting right in that position.

So this whole thing caused a lot of changes. That's what I called 'a world in disarray.' We see many things. Actually I'm a fairly quiet person in [the] public arena, but in April 2020, I actually sent this WeChat, what do you call it, a friend circle? And actually one word I said is that the world is going to be in a chaotic state in the next many years. Of course that time China was locked down and some friends said, 'Hey Guanhua, you okay?' They thought, I said, because I had some problems – psychological problems. I said, 'No, no, no, no, no. I've been saying this for many years and just never said so.' If you look at it, outside China, we have the Russian-Ukraine war is happening, which was surprising. Then we have something related to Australia. We have all these changes in the national sort of scene.

And in China there are many things happening as well. The growth is slowing down and the students find a little more difficult to find jobs. And the companies and ordinary people, I also have found some changes. And that's all related. And again, I'm not going to provide the elaboration on that. I want to spend a minute, or less than a minute. I actually sensed that in 2008, when I talked to our member of board in ADB, and I wrote a paper. I start[ed] to write a paper in 2009, but I couldn't really get it published until 2011, one way or another after many, many changes. But if [you can read Chinese], you can actually search, find the original paper, it's still there. But very simply, to summarise what I wrote, the most important message from that writing is the Sino-US and Sino-West confrontation is inevitable. Now, I can be still wrong, but I think some people may say, 'Hey, you probably got it right to a certain extent.'

And then I also made some suggestions that you've got to nurture the Sino-India relationship. Very important at that time. You got to manage urbanisation well as part of the homework. If we cannot, there are things beyond our control as a country, but we can manage urbanisation inside China. We've got to reduce reliance on the global market. It's clearly written there. It's in Chinese. And of course by now, I think many people realise China actually now is already turning into that. The urbanisation has been going on so fast in the last 10, 15 years, maybe beyond even the most optimistic expectation of some of the economists inside and outside [of] China.

Sino – in their relationship, China, I think made a lot of efforts. I'm not going to draw a conclusion on that – And this global marketing, I will come into that later on. What I'm trying to say today is this geopolitical change which is related to the growth of China in the last many years, people did not link to the geopolitics. This deglobalisation, I expected 15 years ago, and I wrote here, China [has] got to try to – I'm not objecting to the globalisation, China benefits so much from globalisation, which is good – I talked about that yesterday, James knows that. But I'm saying with such high reliance on the global market, and with this possible confrontation between China and other parts of the world, China has got to be prepared. That was my message. That's already happening. It's been happening, but particularly in the last year or so, particularly in the last two years, and [when] you look back, even three, five years.

This change certainly has an impact on growth, which we are interested – all our friends attending this webinar are interested. Because of all these changes, we can discuss it later on, it actually contributed to the slow-down of the Chinese economy. If you look at this picture, this is a picture of the growth rate of major economies in the world. You can see that China, US, France and Japan and Britain and Germany, all the large economies, you can see after 2008, we all slowed down, but most of them recovered, not totally recovered, but recovered to a large extent. And China really had a certain recovery in 2010 after the four trillion [RMB stimulus package]. But since then, we never had recovered. We've been continu[ing] coming down until 2019, which was six percent, from more than 10 percent to six percent, almost half. In my judgment, it's related to the geopolitical issue and also the deglobalisation trend which happened. So we've got to ask, if you want to assess say, whether China will recover. Earlier, I think I still remained optimistic about the Chinese coming in the fairly long run. But what about short, maybe even medium run? Well, then we're going to look at whether this geopolitics and deglobalisation will change. Well, in order to answer that question we're going to ask what caused this current state. I'm just going to mention, I'm going to put up evidence. I do have evidence. Actually, I wrote a paper on this deglobalisation. I did a presentation in 2016. I gave a talk in China in 2018. I wrote a

paper and I actually eventually published in 2020 in July about deglobalisation. I just attribute [it to] these three major reasons.

One is something I think many of us or most all of us know, it's the unequal sharing of the globalisation benefits between different countries and within countries. I think quite a lot are being written even in the public media and also in some academic circle. But I want to emphasise the main challenge with this issue is the benefits, how to allocate benefits between countries. I don't see any possibilities of resolving this in the next 10, 15, even 20 years. I'm trying to emphasise, it's a long run now. I'm trying to do the timing. It's an issue. We always have issues in life, with economy, with politics, but issues comes and go, but we want to see how long, [we] want to assess whether China can accelerate its growth, and this unequal sharing of globalisation benefits is unlikely to be resolved in the short term.

The second reason really underlining this deglobalisation is this technological revolution. We have robots, we have AI, which – actually, we know this globalisation is part of carving specialisation, and trade, and capital looks for cheap labour. But if robots are going to, say, replace 40 percent of the labor force, you can check some of the numbers, they oversee the need for this kind of globalisation not going away, but certainly will decrease. And that [is] going to affect the labour here, in the national economy. For economists know – if you're not [an] economist, you may not know – but it's going to affect the share of the pie, of the national pie going into [the] labour force, because robots and AI are capital, and the benefits go to the capital. This will actually reinforce the first factor. Now the fourth industrial revolution will itself have damping effects on the need for trade, and FDI flows which affects globalisation, but also through this sheer inequality, effects will even have further impact on globalisation.

The final one, I just mentioned, the third one is the geopolitics. But geopolitics, actually I don't see the short term solutions. In the last three or four years, people, some of them got excited, saying their relationship is going to improve and there are certain things that's happening. And when Biden comes to power, people got so excited. I'm sorry. In the last 15 years or so, I said there's no way. You look at the fundamentals. You have to look at the fundamentals. If the main drivers of globalisation stays in the short running, the growth for China will [be] under pressure. I'm not saying we won't grow, we won't recover, but we will have pressures. There are many impacts of this geopolitical issue and deglobalisation.

I want to tell you that, really, the impact which [for] China is very, very important, there are many implications, but the key thing I've been focusing on my research is this sluggish demand. Of course, demand consists of two parts. Whenever you set up [a] business or service, you've got to sell your service and the products and you can either sell overseas, that's called external demand. External demand – US used to be the number one buyer and then European Union, and then we have Asia, but now, it's changed in the last few years. Asia became a large trade partner with China. I call easternward move of trade, but I just want to mention the trade between China and Europeans and Americans are different from trade with Asians. I'm not going to elaborate. External demand, although our trade numbers are still growing but it's different. The same rate of growth actually means differently for China's growth as far as promoting China's growth is concerned.

Forget about this external demand, what about domestic demand? Well, domestic demand is something China has been having problem [with] at least since mid or late 1990s. I actually published the first paper in [the] year 2000 talking about why China's domestic demand cannot pick up and China has been ever like that since mid-1990s. But we have the trade. We can still do [i.e., sell] overseas. So we released – we found a way out of these difficulties. If you look at this picture, China saves so much because we export a lot. At once, we saved over 50 percent of our GDP. It's coming down a bit, but we still save more than 10 percent with more than 20 percent of the global average. If you say East Asia, they also like to save, but we are even 10 percent higher than East Asia's savings rate.

So, in other words, we have a problem with domestic consumption, and that's where if the globalisation still goes on, then of course, there's no problem, but because of the deglobalisation, what do we do? It's a short run. It's a provisional thing. If you cannot sell your things for three months, [that] might be okay, six months, you struggle, nine months, you might say, 'Okay, I can stay,' but a year or beyond? You are dead. That's the external side, geopolitics, and technology. Then of course, if you talk about growth in China, you cannot get away from domestic drivers of growth. Without external factors, wanting domestic drivers, economists all know first of all, most importantly, investment, but I'm telling you, there's little potential for China to raise investment rates because China already invests so high. It's an issue.

Economists has been already saying China invests too, too, too high, too much in the economy. Investment is important, but when you invest too much, of course, the efficiency of investment will tend to be low. And actually, it's happened. The returns to investment in China has been coming down from 25 percent to 20 percent, 18 percent, 15 percent, 12 percent, now down to under 10 percent. Now when the rate of returns to investment becomes low, of course, people will have much less incentive to invest.

Then of course, the labour. China has been reaping what you call this population dividend for many years, but we are facing a major challenge of ageing. We are going to see the peaking of the total population. We are already seeing that, and we are going to see the declining of labour force very soon. So expecting putting more labour to work and get[ting] growth, this is not going to happen.

So these two things, and of course, generational factor, productivity growth, well, that really relies on reforms. Reforms beyond economic reforms in China and something we can also try to assess. That's why the Chinese government started this dual circulation strategy in 2020. But I'm not going to, again, elaborate on that. Why do they do that? And whether they're going to succeed? I want to give you a few numbers. 2020, average consumption Chinese is about 20,000 Chinese, which works up about just over 3,000 US dollars. And that's only 29 percent of GDP. From this number, right away, you know circulation is going to be very, very difficult relying on domestic consumption, the amount. Because you only consume less than 30 percent of what you produce. Of course, there are other parts you got for investment for next year, but another chunk is going overseas, sending to the overseas market - and we already spend enough time on that.

Why we only consume 29 percent of GDP? Well, I'll tell you, GDP in China 2020 was 72,000 Chinese, which is about just over around 10,000, now, with this current exchange in the last few days, about 10,000 US dollars. But the trouble is, the share of this cake of GDP going to household pockets, ordinary people, is less than half of it. So it's about 32,000. The amount of money going to household is only 44 percent of GDP. Of course, the rest going to the government and going to the firms. Now in western countries, firms keeps very little, almost zero percent, nothing, very little. In China, firms do keep and they actually keep about 10 percent to 12percent, [with] the rest going to the government.

**Professor James Laurenceson:**

Professor Wan, I might just ask if you can wrap it up as soon as you can, then we'll get to some Q&A.

**Professor Guanghua Wan:**

Yeah. So that means the consumption rate is about 66 percent. The dual circulation strategy, will that work? Well, we will see whether we can divert some more income into household pocket. That's the thing. In order to raise the consumption, encourage domestic demand, we need to solve what we call the inequality problem in China. Can China achieve common prosperity which China started this year? Well, we got to look at this picture. That's the inequality picture. I can give you many pictures regarding inequality. This is by two different indicators. The inequality in China has been rising so fast and stays at the very high level. It's moderated. It's maybe stabilised. But it remains at the very high level. How we're going to solve this inequality issue is going

to [remain a] major problem. Apart from the inequality, we have the ageing issue mentioned, we have climate change, we have this international geopolitics, and we also have market-oriented reforms.

With all that, it all comes down [to] the prospect of China's growth, or whether China become number one, is of course, come down to how China and US will grow, how fast they grow. Really in the end, it's a very simple exercise – depending on the difference in the growth rate between China and the United States. I have three different scenarios here. I think China [is] growing four percent faster than [the] United States, which has been averaging 2.5 or about three percent in the last many years, after the Second [World] War, is going to be difficult. Earlier, I think it was possible, but now, I think it's pretty difficult. I'm more looking to about 3 percent advantage. That means China will grow about six percent, or 5.5 percent and the 6 percent in the long run. If that's the rate, the demand in China can maintain total GDP. China's GDP will reach United States in about 12 years, 10 to 12 years, but average GDP even on purchasing power parity terms, will be about 45 years.

Of course, if it will drop below that, that work much longer. The issue is whether China can grow 5.5 percent or six percent in the next many years. And also, when you mention whether China can overtake the United States, depending on whether you look at total GDP or you look at per capita or look at the combination of this two. I will just leave there and we're happy to take some questions. Thank you.

**Professor James Laurenceson:**

Okay, thank you so much for that.

Professor Wan, that was a really good background as to where the Chinese economy sits, particularly relative to the United States today. Look, there's so many questions that I could ask you. I could talk about demographics, debt, the property sector, an endless list. So let me just hit you with a couple, I think, of the key concerns on people's minds, and just invite your quick assessment of each and then we'll go onto some Q&A from our audience. Let's start with what's perhaps the most pressing challenge for the Chinese economy right now, and that is Beijing's dynamic Covid-zero policies. We know that there are localities including in Beijing that are being locked down even today, sometimes entire cities. Mass testing continues to be a daily reality for most Chinese citizens. How damaging is the dynamic Covid-zero policy for Chinese economy, or not? Do you see any light at the end of the tunnel where these policies will be relaxed and if they're relaxed, does China's economy just bounce back in its growth rate, or has this three years of ongoing lockdown, is that going to leave some scars for the Chinese economy going forward?

**Professor Guanghua Wan:**

Thank you. Some assessment. The Covid policy, in my assessment, have been always consistent as well. It's going to stay. Now how long will that stay? I don't know, but of course it cannot stay forever. Now it's a matter of timing. I expect next year we'll see some changes, but I don't expect they're going put or leave it like what's happening in Australia. The simple reason is that, of course, the government knows the cost to the economy. Affecting demand, affecting supply, particular demand, which of course have impact on supply and including international globalisation affecting that part. But I just want to alert our friends to the fact that in China, or in any other country, you've got to consider political costs as well. So if you can think of this word, political costs, two words, then you probably can understand, you might think in a different way about this policy, about this policy staying, and actually they are actually strengthening that right now. So, quick answer, will stay, we're still a while, will go away, but when [it] go[es] away, that really – you've got to weigh between the economic cost and the political cost.

**Professor James Laurenceson:**

And just a quick follow up again, so when it does finally get relaxed, does the Chinese economy immediately bounce back in your view? Or having been locked down for three years, does that have ongoing more permanent effects?

**Professor Guanghua Wan:**

Certainly because – one thing of course it affected demand so much. Particular for those in the service sector like hotels, like restaurants. You are sad to see so many closing down and the bankruptcies in that front. Now for those sectors, particular service sectors, they will recover once the demand comes back. But there are also certain things which are not coming back. We see there are people moving away from Shanghai and not mentioning – they [are] coming and moving away from Hong Kong, and that part – some of them may still come back, but there are certainly some of them, the personnel and the investment are not really coming back. And of course it also affects many people's mind and that probably will leave some scars there and were affected, where they going to send their kids? Where they going to put their savings – and all that. So overall, it will come back to some extent as the amount recovers, but it will have some longer term impacts as well.

**Professor James Laurenceson:**

Thank you for that. We could talk about debt and demographics and property, but I think, if you don't mind, I might go to another couple of questions on my list that were rather than on specific challenges, like debt and demographics and property, are more about the direction of travel, of economic policy making in China. I think our audience will be interested in this because this will help them to form some views about the future. Let me again hit you with a couple of narratives that have been very common in Australia, and dare I say, the West, in recent years, about economic policy making in China in recent years, and get your take on whether they're largely accurate, or if they're misinformed, or some combination of the two? Here's the first one. The first is that in China, in recent years, the private sector is in retreat. Instead, what's happening is Beijing is throwing its weight behind supporting a more robust state presence in the economy. Now many economists, including myself, would be concerned about that, because typically state owned enterprises have a significantly lower rate of productivity and profitability than privately owned firms have. But is that story largely accurate in your view, or does it miss the mark significantly?

**Professor Guanghua Wan:**

About the SOEs [state-owned enterprises] and private sector, I think some of the firms knows these numbers of five, six, seven, eight, nine, 10, means the private sector contributes 50 percent of tax, and 60 percent of GDP, 70 percent of innovation, 80 percent of jobs, and 90 percent of number of firms. And so the government do know fairly well the importance of the private sector, and that's not going to change in any way, as long as you want economic growth. But on the other hand, I want to come back to my first answer, which is there are other considerations. Ideological considerations, whether it's good for the country overall, just not in terms of economics, income growth, but, for some, China is a socialist market or need to reform, and a country, and that's what I think you were trying to say. You have market which is somehow Western, and then you have socialism, which is somehow Chinese, and it's a balance. China has been trying to really sort out this kind of balance. And right now we are seeing this again. And you are right, the government certainly, even in the Party Congress, the 20th Party Congress, actually they mention about this, they still support the private sector, but they want to make the SOEs very strong.

**Professor James Laurenceson:**

So it sounds like there's certainly some merit to this view that even if the private sector is not so much in outright retreat, the state sector is certainly being emphasised. How about we say that?

**Professor Guanghua Wan:**

Yes.

**Professor James Laurenceson:**

A second narrative, and this one relates to geopolitical frictions or the Chinese response to geopolitical frictions, most notably with the US obviously, but again more broadly with the West. There is a narrative that these geopolitical frictions are causing China to embrace self-sufficiency, and for Beijing to prioritise privileged domestic firms and production over foreign invested companies in China, and indeed international trade. Again, in your view, accurate or a misreading?

**Professor Guanghua Wan:**

My answer is that I don't think that's in the interests of China or the Chinese leadership, to be frank. The leadership wants opening up, they want more investment coming to China, they want more trade with the outside world. But the reality, I think, in reality there are other considerations and of course it's a game. You have the other parties. So overall, in the end, they start this dual circulation strategy, which is that, they're going to take the mass circulation as a main component, but they want also external circulation as well. It's an adjustment. I think it's adjustment. I mentioned also since 2008, I've been also thinking, not objecting globalisation, but you got to think about what they call security, economic security. If you have so much vulnerabilities coming from the outside world, it may hurt the economy as well. So I think that's a move, it's not a secret. They want to increase domestic, the importance or the prominence of the mass market, the mass sector versus the outside.

**Professor James Laurenceson:**

And just to be sure, and to be fair, it's certainly not just China that's having – China's leadership that's having that discussion. It's certainly happening in Australia and even more so in the case of the United States. You started off mentioning something earlier based on your previous research, and I'd really like to circle back to that because for me this is a core issue about how sustainable China's growth is going to be. I gave a talk not so long ago where I referenced a quote from the former Chinese Premier Wen Jiabao. Now this was back in 2007, and he said that to make China's growth more sustainable, domestic consumption had to be emphasised, less emphasis on investment and trade. I think you mentioned that you were writing about that 22 years ago, and yet you and I and many of our audience know that if you look at the economic data, the Chinese – the household consumption share of GDP in China has hardly budged.

If I'm right over the last five years, I think it's risen a few percentage points, but it's still below 40 percent, and that's a long way behind most other economies. So Professor Wan, my question for you is this, what is the blockage here? Does this point to some deep seated political economy problem in China that perhaps vested interests that are making the implementation of much needed economic reforms difficult to put in place? Or what's your explanation for why that low household consumption share of GDP seems to be stuck? Because in my assessment, if it stays there, dual circulation is always going to be more of a slogan than a reality, but you know better than me, over to you.

**Professor Guanghua Wan:**

Thanks. But I agree. As I mentioned in one of my PPTs, how you can rely on the mass circulation where the household consumption is only 29 percent, under 30 percent of the GDP? You've got to somehow handle the other 71 percent. There are two issues in my mind, it's actually related to my research. One, as I mentioned, it's the sharing of the national cake, this huge cake of the Chinese economy, between three actors of the economy. The households, the entrepreneurs or the firms, and the government. For me, the government, I don't know what they share. The Chinese government, the revenue and tax, accounts for about maybe around 30 percent of GDP, which is not terribly high. If you compare with Northern Europe or even some European countries, maybe a bit high than some others. Even with Australia [as a point of comparison], I think it's not terribly high.

So the main problem to me is the firms actually retains a large percent, unusually large percent, of profits. And I think that's the reason I've been asking around what happened. 12 to 15 percent of GDP, which is a huge, huge amount. And I think that has something to do with this taxation system, where our personal taxation rate goes as high as 45 percent, like what I pay in China, and that's close to you. I know Australia used to be 48, I don't know whether it's dropped to 45, so as high. But China is not a rich country yet. And then the company rate, off course you have various rates, but on average it's about 20, even below 15 to 20 percent. So as long as they can take advantage of the loophole in this taxation system, they try to keep some profits in as company retention and they utilise that. And so that's one.

The second reason is China facing this high inequality even after redistribution. Now we all facing pretty high inequality in many countries, I think Australia included. So before the transfers and taxation, gini coefficient, a measure of inequality, goes about 40 percent, 0.4. And after redistribution, like, Northern Europe, will come down to 0.22. Australia might come to 0.25, 0.28. But China, the trouble is we have a Gini coefficient as high as that. But after redistribution, it's still in the high 30s. And when you have high inequality, of course, it means you have some people very rich, have a lot of money. They consume, but they don't increase the consumer anymore. But you have large proportion of people, they want to consume but they don't have the financial means. So now to answer your question, China, first of all [has] got to sort out this problematic taxation system and this problem [of the large gap] between corporate tax rate and the personal income [tax] rate. And you try to squeeze the retention 10 to 15 percent of GDP somehow, one way or another, out for the mass consumption. The second is you got to try to really reduce inequality by [wealth] transfers and some other means.

**Professor James Laurenceson:**

Thank you for that. This is why, certainly my own view is, I find it hard to write the Chinese economy off in the long run because with the right POP suite of policies, I think you can have sustainable growth in China for decades to come. But of course, the flip side of that is if the policies aren't put in place, then growth will be ground down as we've been seeing over the last decade or so.

Let's go to a couple questions from our audience right now.

Let me just have a look at this one. There's one here from my colleague at Griffith University, Colin Mackerras, and he asked a very topical question. I think a lot of people in our audience will want to hear your views on this. A few weeks ago we had the Biden administration in the United States put in place quite an extraordinary package of restrictions on China's access to advanced semiconductors. Just paraphrasing Colin here, in your view, what is the Biden administration trying to achieve, and do you think that these US government measures, these export controls, although frankly they're much wider than export controls now, what impact do you think that will have on the Chinese economy?

**Professor Guanghua Wan:**

Well, thanks. See, the Chinese economy, like any economy, you rely on expanding inputs, capital and the labour, which we already mentioned. But the major driver of any economy in the modern time is technology. So I think the US, of course, knows that, if we restrict – in my view is that has been consistent in the last, many, many years are written in 2008, right? US, if you are American or European, says I'm the number one, and now somebody's coming up behind me and becoming number one, it may replace me. I mean, obviously [it's] got to do something. Maybe, of course you can do this by different means, but unfortunately, right now it's confrontation. And the official, I mean government official position now is also recognise its confrontation – it's friction, it's some kind of up and down – it's confrontation.

And in that aspect, I wasn't surprised at all with all these moves, including this semiconductor ban, not only just the chips, but also the actual ban on personnel. I mean, they're going recall their personnel from China

working in this sector, going back to the United States. You choose. Stay in China [for good] or come back. So it is full confrontation, the impact will be quite significant.

**Professor James Laurenceson:**

Right. Okay. Alright, thank you for that.

But there's another interesting question here. It's not a purely economics question. In fact, it's a question about public thinking, but it relates to the economy. So this is from Julian, again, just paraphrasing it. In the United States when Japan was coming up behind the United States, there was a very feverish public discussion about Japan becoming the number one economy.

**Professor Guanghua Wan:**

Yes.

**Professor James Laurenceson:**

I think in the United States today that is now being replicated except with respect to China. So my question is this, or Julian's question, I should say, is this: in China today, what are public expectations around China's economic status in the future? Is it taken as a given by the average Chinese citizen? Now of course there's a lot of variety amongst Chinese citizens, but what would you say is the mood of the Chinese public? In 15 years time, do they consider it to be inevitable that China will have the world's largest economy?

**Professor Guanghua Wan:**

That's a question of course, has been hanging on in my mind for many years. The large majority of Chinese, I think, are fairly optimistic. They're seeing the fast miracle growth in the last many years. Of course, they know there's a slowdown in the last 10 years or so. But you do realize there are a lot of different explanations on this slowdown. At least for the majority of people, they think it's already become a part of the – it's understandable to them. So they accept it, this coming down to a moderate growth rate. Now, and the majority, they don't really know this importance of five, six percent we just mentioned. What's the mood? Well, I think it's obviously such a large country and views are divided. I mean you have a minority are very much concerned, but majority, I think they remain optimistic.

**Professor James Laurenceson:**

Right. Okay. Okay.

Another question that's a very common one, whenever we start talking about the economy, and I think I'd be keen to get your take on it. It relates to the Chinese economic statistics. Now, Professor Wan, you would know as well as I have, the quality of Chinese economic statistics are debated endlessly. People come down with different views on how reliable they are. I'm sure you've been asked this question before. What's your take? I mean, we know the latest GDP figures actually were delayed by one week and there was some discussion about why that was the case. They were released on Monday, I think it was about one week late. Does that, in your view, reflect government concerns about the quality of them or their level? How do you come down on the quality of China's economic statistics?

**Professor Guanghua Wan:**

Yeah, thanks. As you mentioned, earlier this year in March they set a target of around 5.5 percent. I mean they [are] no longer sticking to a number in the last few years. And it looks like this year is going to be about three

percent. We're going to end up about three percent. And that, of course, we know the reason, it's Covid. And of course there are debates on whether this is worth it, and I actually also posed this question, up to 2.5 trillion Chinese [RMB], whether it's worth it. And that's the question we've all got to think about.

Now, whether this statistic is correct or not, well, I mean we are not going to talk about 100 percent accuracy, but I'm not saying it's totally made up. I don't think so, because the State Council, the Prime Minister many months back said, if anybody fabricate, you're going to be in big trouble. Now that of course won't prevent some possibilities [of fabrication]. But one point I just want to mention, James, is that these three percent growth, what are they? I think I should just alert to our friends here, I mean, you got to think about, okay, we achieved three percent in end, but the three percent, how much goes to this - all this tests you mentioned? Now in Shanghai, you do that every day. We started with three days, we do one test, then shorten to 48 [hours]. These days we got to do 24 hours, every day you got to do that test. And of course production and doing that test and so on, all producing GDPs.

**Professor James Laurenceson:**

Yeah, right. So there's two issues. One is there's the debate around the quality of the statistics themselves. And the second is the debate about how you interpret the number, whatever it is, in terms of how indicative is that of improvements in living standards, or indeed not.

**Professor Guanghua Wan:**

Exactly.

**Professor James Laurenceson:**

Yeah.

Now look, here's another question from Ming. And this is probably a bit unfair, because I know you're focused on the Chinese economy, this is a question about the Australia-China relationship, but I'm hoping you've been following the Australia-China relationship, at least peripherally. She asks, what's your assessment of the outlook for Australia-China trade? I mean, we have a slowing Chinese economy, that doesn't look like it's going to turn around in the short run. It's no secret there's been political tensions between Canberra and Beijing since at least 2017. Mind you, on the other hand, generally speaking, for most of that period, trade, at least at an aggregate level, has remained quite robust. Do you think the best days of Australia-China trade are behind us or in front of us?

**Professor Guanghua Wan:**

Ah, that's hard. It's a hard question. You cannot start doing predictions. I mean, although I did, but I was really looking at the long run fundamentals. I mean, honestly, I don't know enough about the bilateral political relationships. And now of course I know the bilateral economic relationships. Actually, I mean that's one of the reasons I've been telling my family, Australian growth, why they're growing for so long, and I mean certainly China contributing substantially to that growth.

Now, looking forward, in the end, I think it's how the government will handle the Sino-Australia relationship. And I mean, I don't know enough, but if you ask me, and I can just answer bluntly, I'm not very optimistic, because, the way I view it is that if you look at the - I mean we already mentioned Sino-US relationship is we would have up-down sometime, but in the long run, I think it's still going down before you can come back, maybe 20 or 30 [years] or even longer time.

Now, the next question is if Australia must line up [with the United States] and it's inevitable. In the past we didn't have to, right? I mean, United States is a world leader and China is a growing economy. We tap and take advantage of the market in China, but we also have United States. But now I think it's coming to this stage where some countries, particularly like Australia and Japan [have] got to line up. And if you line up, you don't have a choice. You cannot straddle on the wall between two families, right? This dividing wall. And that's where I think the answer is. I mean, if we line up with China, I mean, we're going of course derive some economic benefits, but whether Australia will take that road, I doubt it.

**Professor James Laurenceson:**

And indeed, I think that's the position that Canberra's taken as well, since at least 2017, and there have been some economic repercussions of that. There's still about a dozen Australian exports that have had their access to the Chinese market disrupted. That remains the case.

Look, just one final quick question if I can. This is from my colleague, Will, and he asks, we've just had President Xi return for a third term. There's concern amongst international investors about what that means for the Chinese economy and their own prospects of investing into that economy. How worried do you think international investors are and how worried do you think they should be as they look at the next five years? Is this environment which foreign investors themselves, sorry, I'm just editorialising a bit here, but foreign investors themselves have been saying that it has become a tougher environment for them in the last couple of years. Do you think that environment's going to remain challenging going forward? Just a quick response.

**Professor Guanghua Wan:**

Well, very similar. I mean, China, including the leadership, certainly they welcome investments. But there are of course, I mean, gesture is one thing, but there are certainly many other considerations when you decide whether you invest or not. And that's something you've got to really think – look into a bit longer run.

**Professor James Laurenceson:**

Yeah, and I guess we did see this selloff on some markets on Monday and Tuesday, and that might, I think, give us a signal at least to what many foreign investors are indeed thinking.

Okay, look, I'm going to wrap it up now with one final question from myself, and, Professor Wan, this is again a completely unfair question for one economist to ask another. But I'm going to ask you to stare into a crystal ball. Now, the Australian government itself in April this year put out some new forecasts and it said that in 2035, it expected China would account for 24 percent of global GDP compared with 14 percent for the United States. Too optimistic, or about right, or do you think China can go even higher? What's your take?

**Professor Guanghua Wan:**

Well, I think I already answered that question, right. And by the ADB projection, which somehow, in – to some extent, I think with uncertainty right now, whether China can take up 23 percent or so by 2050, now you are attending me 2035, 24 percent? I think that's a little optimistic, in my mind. I think that, of course, any projections comes with confidence intervals, but I think this confidence interval is a bit too wide than I would like to see.

**Professor James Laurenceson:**

Well, I'm breathing a sigh of relief because I've told a few people that I think it sounds a bit optimistic as well. So to have your confirmation of that makes me feel much better indeed. And at least if I'm wrong, I'll be wrong together with you. Okay.

Okay, Corey, I'm going to throw it back to you now to wrap things up so we can get our audience away by 1:30 as we promised.

**Professor Guanghua Wan:**

Thank you.

**Dr Corey Lee Bell:**

Okay. So thanks James. Thank you to Professor Wan for your very excellent presentation.

So to the members of the audience, we'll send an email to everyone present today, asking you for your thoughts on how this webinar went. So if you could please fill out the feedback form, we'd really appreciate it. It will help us to make UTS:ACRI events a better experience for everyone involved moving forward. So once again, if you want to know more about the Australia-China relationship and about our research, more details are available on our website, at [australiachinarelations.org](http://australiachinarelations.org). The discussion today will also be available there. So please follow us on Twitter for the latest news. And that's it for today. So thanks again to our speakers and all our attendees, and we'll see you next time.

Thank you.