

GLOBAL VIEWS

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No stunting growth

Trade war with the US will have limited impact on China's irrepressible economy

A report in The Wall Street Journal on July 15, 2019, pinpointed the Sino-US trade war as the main reason behind China's growth decelerating to 6.2 percent in the second quarter of the year, but to what extent has the trade war been a drag on China's economy? China's dependence on foreign trade has gradually been reduced, starting with the outbreak of the global financial crisis. And the declining share of trade in goods as a percentage of GDP — from its peak of 28.7 percent in 2006 as a result of its rapid integration into the world market to 18.2 percent in 2018 — indicates China's growing reliance on its domestic market. In this sense, China has a rising position in the world market, which can be seen in the share of China's exports of goods as a share of global total, which rose to 12.7 percent in 2018 from a mere 3.8 percent in 2000.

So what is behind China's slowing growth? The answer lies in the declining growth in domestic demand, which is reflected in the shrinking contribution of gross capital formation to growth and the rising share of consumption expenditure, with the latter overtaking that of the former. This indicates China's transition from a lower-middle-income country to an upper-middle-income one, with the focus now on high-quality growth rather than high-speed growth as before.

While the main growth engine was investment in the past, the Chinese economy is now mainly driven by consumption, household consumption in particular, a change that is consistent with the general course of development of all economies. In other words, with China's growth slowing to between 6 percent and 7 percent from around 10 percent, the impact of the trade war on the Chinese economy will be limited. There will be a dip but it will not be definitive, chronic or a fundamental shock.

If we look at things from the perspective of economic growth, we can see changes in at least three key factors.

First, the growth of the labor force has stalled and shrunk. During the period of the 11th Five-Year Plan (2006-10), the labor force in China grew at a rate of 0.49 percent per year on average. Growth declined in the five-year period that followed, to 0.35 percent, with the labor force peaking at 776,640,000 in 2017, before declining by 540,000 to 775, 860,000 in 2018, with the agricultural sector losing 6.86 million jobs and the industrial sector, 4.34 million — 11.2 million in total, surpassing for the first time the number of jobs gained in the service sector (10.66 million), which has had an overall negative impact on economic growth.

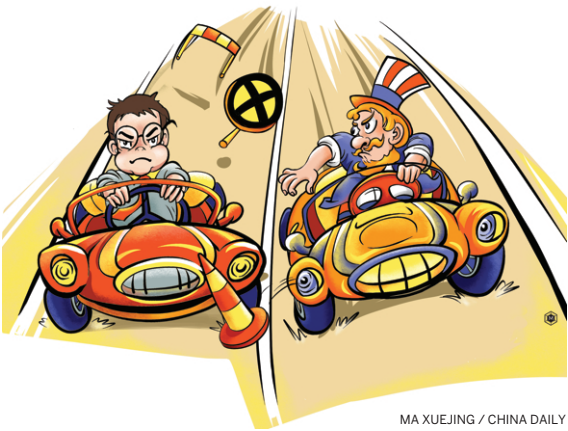
Second, there is continued decline in the growth of gross fixed capital formation, from 15.2 percent in 2014 to single-digit growth of 9.8 percent in 2015 before dropping to 5.8 percent in the first half of 2019, the second lowest since it slumped to 5.1 percent in 1999. The decline reflects the effect of the investment growth rate on the economic growth rate; in other words, a slowdown of the former leads, inevitably,

bly, to a decline in the latter. Let's look at previous five-year periods. During the period of the 11th Five-Year Plan, gross fixed capital formation grew at 25.5 percent per annum, and nominal GDP growth grew at 17.1 percent. Elasticity of investment growth stood at 1.49. In other words, investment needed to grow by 1.49 percentage points for the economy to expand by 1 percent, which reflects high investment growth elasticity. During the period of the 12th Five-Year Plan (2011-15), gross fixed capital formation continued to show robust growth at 19.3 percent per annum, with nominal GDP growing at 10.7 percent, and elasticity of investment growth at 1.80 percent. In other words, investment needed to grow by 1.80 percentage points for the economy to expand by 1 percent, which showed ultrahigh elasticity. Between 2016 and 2018, gross fixed capital formation grew at 4.7 percent per annum, and nominal GDP growth expanded at a rate of 9.5 percent. The elasticity of investment growth was 0.49 of a percentage point. In other words, investment had to grow by 0.49 of a percentage point for the economy to expand by 1 percent, which is low elasticity.

Third, science and technology are playing an ever larger role. During the period of the 13th Five-Year Plan (2016-20), China adopted for the first time an indicator to measure the contribution of scientific and technological progress to growth, with a target of 60 percent by 2020. With the sustained decline in the growth of labor and capital inputs and continuous development of innovation capacity, the contribution of science and technology to growth has risen from 55.1 percent in 2015 to 58.5 percent in 2018. Science and technology are playing an increasingly important role in China's economic growth, marking an important change in the country's transition from a lower-middle income economy to a higher-income one, and from a model of high-speed growth to one of medium-high-speed quality growth.

Overall, China's economy is still on a path of steady, robust and vibrant growth, and is likely to sustain only limited damage as a result of the Sino-US trade war. This is because China has a huge market, abundant human resources, enabling conditions for its industries and is rapidly developing new growth drivers, which means the Chinese economy is resilient, with bright prospects and plenty of space to achieve its objectives through macro-control measures. Even if the Sino-US trade conflict evolves into an all-out trade war, China will still be able to accomplish its first centenary goal of building a well-off society on schedule by 2020 and it will continue to be an economic powerhouse and engine of global growth.

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Means to an end

Belt and Road Initiative can play key role in achieving the UN's 2030 Sustainable Development Agenda

Among the 65 member countries involved in the Belt and Road Initiative, five countries are low-income countries (whose annual income per capita is less than the World Bank standard of \$1,005); 18 countries are lower-middle-income countries (between \$1,006 and \$3,955); 23 countries are higher-middle-income countries (between \$3,956 and \$12,235) and 19 countries are high-income countries (above \$12,235).

Overall, there is great heterogeneity in terms of the level of economic, technological and social development among the Belt and Road countries. To implement the initiative, immediate and long-term challenges both at home and abroad must be overcome, including economic issues (such as poverty), regional environmental issues (air, water and soil pollution, management of waste and other public hazards), and global environmental protection (global warming, biodiversity, desertification, ozone layer depletion and trans-boundary pollution). Sustainable development is the key to addressing these issues.

Sustainable is a concept as old as time. For example, this concept is found in biology in the forms of maximum allowable cut and maximum sustainable yield, and in Asian philosophies such as the belief that man is an internal part of nature, and that the Tao follows the way of nature. Sustainable development was defined as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" for the first time in 1987 in a report titled "Our Common Future" by the United Nations World Commission on Environment and Development. Sustainable development as a concept has since met with increasingly wider acceptance.

Sustainability science began to take shape as a trans-disciplinary science at the beginning of the 21st century. It studies the interaction between three systems — the economic system based on resource endowment; the social system based on countries and the human system based on human development. It aims to find ways to repair the relationship between the three systems and achieve growth in all three in order to solve pressing global issues such as global warming and address the consequences of excessive production.

The 2015 United Nations Summit attended by over 150 heads of state saw the adoption of the 2030 Sustainable Development Agenda and the 17 Sustainable Development Goals as the guiding framework for global development. The SDGs have 169 targets, such as eliminating poverty, ending hunger, ensuring health, promoting welfare, addressing climate change, improving water-use and energy efficiency, promoting effective use of energy in consumption and production and enhancing international cooperation and partnerships.

The Belt and Road Initiative promotes the free flow of the factors of production, effective allocation of resources and deep integration of markets to achieve the coordination of economic policies among the countries involved in the Initiative; expands international cooperation in terms of scope, level and depth and collaboratively seeks to build an architecture of regional economic cooperation that is open, inclusive, balanced and beneficial to all. While the Belt and Road Initiative is imperative for stepping up reforms at home, it also provides a platform for member countries to find solutions to economic, social and environmental issues at home through international cooperation in an effort to achieve the SDGs.

In this sense, the UN's SDGs and the Belt and Road Initiative are mutually reinforcing. The success of the Initiative will lie in whether it helps achieve the SDGs. In order to implement the Belt and Road Initiative and achieve the SDGs, we must learn the hard lessons of excessive production, consumption, emissions and pollution. With this economic model, we ended up with more pollutants than the environment could handle, more non-renewable resources were depleted than the renewable resources we were able to extract, and even the latter are dwindling.

Therefore, it is important to establish an international cooperation model that is based on market rules and shared benefits and risks as we implement the Belt and Road Initiative. It is also essential to carry out rigorous environmental evaluations and the Plan-Do-Check-Act assessment system in order to heed Japan's lesson, also known as "ODA public hazard". In the 1970s and 1980s, Japan moved some of its polluting companies to developing countries,

exporting public hazards alongside official development assistance projects. In other words, when designing and implementing the Belt and Road Initiative projects, we must aim for the following: maximize resource efficiency; minimize the environmental impact; achieve harmony between human beings and nature; build a society of harmony and trust and create better and smarter social, economic and technological systems.

The Belt and Road Initiative projects require investment, technological progress and capacity building, and attention must be paid to whether these projects can help the member countries to alleviate poverty; clean up public hazards and protect the global environment. At the same time, being the largest developing nation and emerging economy, China must also share its development experience with other developing countries and help the latter with capacity building. For example, China could set up a North-South University within the framework of the United Nations based on the shared principle of equal emphasis on development and the environment, cultural diversity and sustainable development. This could help train regional and international leaders who can put into practice sustainability, including senior public officials and senior managers.

Setting up a North-South University could help address the unique and common issues faced by developing and developed nations alike. It would be tasked with achieving the visions of countries and nations; overcoming the challenges facing all of humanity; understanding world history and the international community; teaching multidisciplinary skills such as languages, communication, negotiation, leadership and multiculturalism and developing culturally competent leaders to contribute to global governance and educating global talent who can help achieve the UN's SDGs.

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