

What Will China Look Like in 2035?

Here's what economists at China's official government think tank predict for the future of the mainland

by Robert Lawrence Kuhn



In years past, foreigners were skeptical about China, doubting whether it would ever become a stable society and have a decent economy. In years recent, foreigners are nervous about China, worrying whether China will take over the world (at least economically). But how do China's own researchers and leaders think about the future of the mainland?

Researchers at the Institute of Quantitative & Technical Economics of the Chinese Academy of Social Sciences, which is the official government think tank housing more than 3,000 scholars and researchers, have shared some of their insights with us. The institute's English-speaking director, Professor Wang Tongshan, says the forecasts assume a significant slowing of China's growth, but he warns that similar estimates proved wildly wrong in the past.

In the 1960s, forecasters assumed that China's gross domestic product would about double between 1960 and 2000, but the annual economic growth rate sped up so astonishingly that the GDP grew almost 17 times (in real terms). Even China's most sophisticated researchers sitting in Beijing and Shanghai did not appreciate how China's huge population enabled growth to exceed forecasts. The same conditions, he says, might be still true today, making forecasted numbers conservative. With that caveat, here are China's own forecasts for China 2030-2035.

Population: The institute sees slowing growth in the number of Chinese, from approximately 1.31 billion in 2005 to 1.47 billion in 2030 and 1.49 billion in 2035.

GDP: China's GDP (nominal), expected to be about \$2.8 trillion in 2007, is forecast to grow to about \$5.9 trillion in 2030 and \$6.7 trillion in 2035. (In comparison, U.S. GDP in 2007 is about \$14 trillion.) By 2030-2035, the economic growth rate is forecast to decrease to about 2% to 5% per year. Western economists, almost unanimously,

forecast a much higher GDP for China. The Chinese researchers are quite aware of foreigners' forecasts, but still stick to their own numbers, which they freely admit are conservative.

GDP Per Capita: China's projected GDP per capita shows an even starker gap with the U.S.: \$1,867 in 2005, increasing to about \$4,000 in 2030 and \$4,500 in 2035. In 2006, the U.S. GDP per capita was about \$44,000. (A GDP per capita analysis by purchasing power parity would, of course, find a smaller gap.)

The Service Economy: China's huge trade surplus is driven by its excessively high dependence on export manufacturing. Only when China's service industry increases its percentage of GDP, reflecting a more consumer-oriented economy, will trade imbalances ease. But while the researchers forecast that service industries will grow from 40% of the economy in 2005 to 48%-49% in 2030-2035, Professor Wang himself thinks service industries will make up 55%-60% in the target years.

Income Inequality: In the 1950s through 1970s, everyone in China was equally poor. Since the beginning of reform, China has followed Deng Xiaoping's dictum, "Let some people get rich first," all too well, and the country's Gini co-efficient (an economist's measure of income inequality) has been rising steadily and, to some, alarmingly (from below 0.3 four decades ago to 0.46 today; some say it is nearly 0.5). Researchers state that income inequality will moderate steadily over the next 30 years. But the institute director, disagreeing with his own team, is not so optimistic.

Energy Efficiency: Professor Wang expects progress—energy efficiency is a prime national directive—but expresses doubt about the optimistic projections of his researchers. The researchers respond: "A fourfold increase [in efficiency] is possible because the majority of China's companies are small with very low energy utilization. With the advancement of technology and the changing mindset of basic consumption, it is possible to enhance the efficiency by a large margin."

Imported Oil: About 150 million to 160 million tons are imported annually now, forecast to rise to about 350 million tons annually by 2035. Why only this modest increase, considering China's voracious energy appetite? Higher efficiency in energy use, the researchers state, and increasing use of alternative energy.

Trade Surpluses: Not likely to continue at today's levels, but no dramatic change. Although China's share of world manufacturing is forecast to continue to increase, the institute director insists that China's dependence on foreign trade must decrease as a percentage of GDP.

World-Class Companies: Thirty to forty additional Chinese companies are forecast to enter the world's top 500 by 2030-2035, most likely in telecom, petrochemicals, electric power, banking, autos, electronics, and computing. Currently, based on revenue, there are 22 Chinese companies among the world's top 500.

Automobiles: In 2006, there were 7.3 million automobiles in China. High growth is forecast: 2030, 46.7 million; 2035, 53.4 million.

Mobile Phones: In 2006, there were 480 million mobile phones in China. Low growth is forecast due to saturation and the emergence of new technologies and products: 2030, 535 million handsets; 2035, 542 million.

Internet Users: In 2006, there were 137 million Internet users in China. Modest growth is forecast to 2030, with 221 million users; low growth thereafter, with 223 million in 2035. With the progress of urbanization, the Internet will be accessible to approximately 70% of the total population.

Economic Reform: By 2030, China's economic reform will have been basically completed. The major issue will be the "adjustment of interests" among different classes.

Competitiveness in Global Markets: Chinese corporations are forecast to reinforce their international competitiveness by higher research and development and the continued advantage of comparatively low labor costs and huge economies of scale.

Financial Sector Reform: By 2030, a contemporary financial market system will be in place. Nonetheless, financial reform is forecast to be relatively slow due to the large burden of nonperforming assets on the banks.

Science and Technology Level: The nation's level of science and technology will be hampered, the government researchers state boldly, by what they call the country's "serious, systematic deficiencies." They focus on two issues: the talent dearth and the poor state of intellectual-property rights protection. China will face a shortage of top science and technology talent in the next two decades, they say, due to the "existing talent nurturing system." Thus China must make full use of overseas-trained professionals, and those trained in the U.S., Japan, and Europe will play an increasingly significant role. The researchers then made the refreshingly honest statement that only if the market economy is fully developed, and only if intellectual-property rights are protected, can China capitalize on its economies of scale in R&D to become a major world innovation center. In all cases, China's basic sciences will still lag far behind the U.S.

Telecommunications: If current barriers to free competition can be eliminated by 2030, the telecommunications sector is forecast to become the most dynamic element in China's national economy.

Social Reform: The establishment of comprehensive social security and Medicare-like systems will be the most vital aspects of social reform. The large numbers of elderly citizens, however, will impose high maintenance costs on the new social systems.

Health Care: A comprehensive health-care system must and will be set up.

Education: China will relax restrictions on its education market, which will enable "the fair competition between public education and private education." Those who know China find this forecast surprising and encouraging.

Sustainable Development/Alternative Energy: Advanced technology combined with decreasing demand for high energy-consuming products will gradually achieve sustainable development. Alternative energies, such as wind, gas, and bioenergy, will enjoy expanding markets.

Pollution: Pollution, the researchers claim, is now at its peak. Government policy and public pressure to protect the environment will attenuate the impact of products that produce high pollution. A national initiative to develop pollution-combating technologies, together with increasing public concern, will mitigate environmental problems.

Water Resources: The shortage of water is a major restraint to China's development. Unfortunately, instead of improving, China's water resources are forecast to continue to deteriorate, even through 2030–2035.

Family Planning Policy: China's strict one-child-per-family policy will be gradually abandoned.

U.S.: Along with closer economic ties between China and the U.S., the two nations will find more and more common interests in trade, regional security, and the war on terrorism.

Taiwan: The relations between the mainland and Taiwan will become more equal and hence more harmonious. Economic and trade cooperation will replace political disputes.

Russia: China's strategic cooperation with Russia will be upgraded. However, the lack of competitiveness of Russian exports will generate unbalanced trade, which will reinforce the Russian public's growing concern of a "China threat."

Africa and Latin America: Politically, China will maintain friendly relations. However, if African and Latin American countries cannot improve the competitiveness of their manufactured products, they will not be able to change their role of simply providing China with commodities. (The researchers fear that this long-term asymmetry may trigger a backlash against China.)

Military Development: It is naive, the Chinese researchers say, for foreigners to hope that China does not enhance its military power. As its technological capabilities continue to grow, China will be able to supply itself with more self-produced military equipment. However, even out to 2035, China will still be dependent on imports for its most advanced military systems (which, they say, will limit the nation's options).

"Sensitive": Several areas were deemed too "sensitive" to forecast, including political reform, labor unions, and religion.

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Part II: “China’s Elite Aims for Stability”

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