

# The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit





## **The Rise of China**

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

# **Contents**

<b>The context</b>	<b>2</b>
<b>The economic impact</b>	<b>4</b>
<b>The intellectual impact</b>	<b>5</b>
<b>Political impact</b>	<b>5</b>
<b>Ways to capitalise</b>	<b>7</b>



## The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

This Economist Intelligence Unit paper, based on a presentation given by Robert Ward at a recent conference in Beijing, takes a look at some of China's key economic trends in a global and historical context. It provides a sense of China's (and Asia's) impact on the world economy and the underlying issues that China must face if it is to take advantage of the opportunities confronting it.

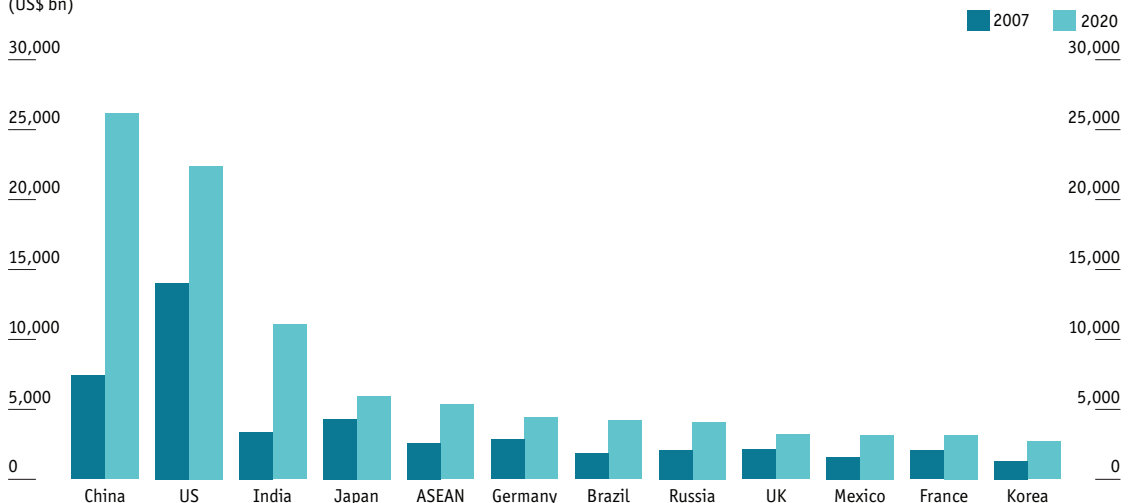
## The context

Back in the 1980s—a long time ago—Japan was the future of Asia. In those days, when growth in Japan was less than 3%, it was considered a recession. So much has changed in such a short space of time—and of course that observation also applies to China, where a great deal has been changing in a very, very short space of time. Crises accelerate existing trends. Nowhere has that been more the case than in Asia. And China is emblematic of Asia: When we talk of Asia's rise to preeminence in the global economy and the shift of the global centre of gravity to Asia, we often are referring to the situation in China.

We have had global decoupling, recoupling, first-time coupling . . . these all represent shifts that are extremely important. It is the reconnection of countries within the world towards Asia. To consider China's rise, we need also to talk about the impact, including the intellectual impact, of the shift in global focus towards China and try to determine how China might capitalise on its rise to preeminence.

This bar chart below illustrates the size of the major global economies in 2020. The first thing to notice of course is that China is number one, and it will become number one in about 2020. When it does, there will be an outpouring of grief in western newspapers, as happened in Japan when China overtook Japan. In the following charts it becomes clear that there are issues with China as number one. It also becomes clear that this is an Asian century.

**GDP, purchasing power parity**  
(US\$ bn)



Source: Economist Intelligence Unit.

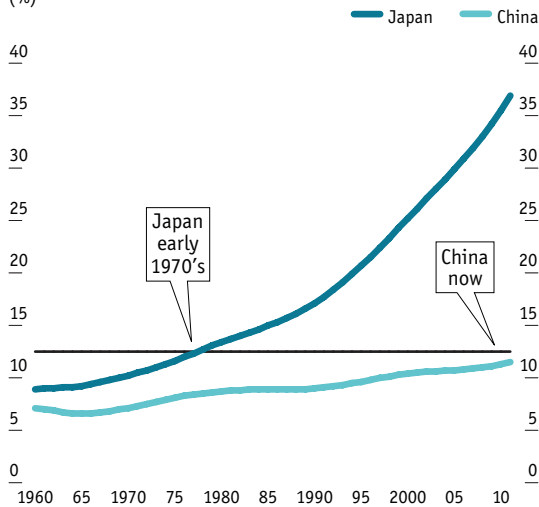


## The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

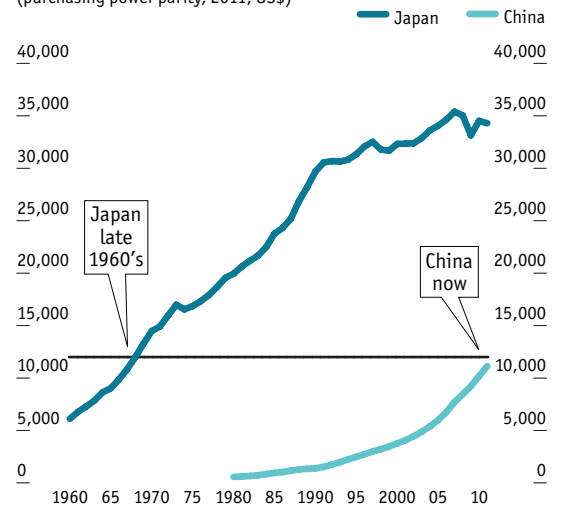
In the 12 top countries in terms of GDP purchasing power shown in the bar chart above, about 5 are Asian (ASEAN can be considered a “country” for this purpose). In 2029, Indonesia will be in the top 10, so it is really an Asian century. But why is China having difficulty? Well, China’s rise has been unique in terms both of speed and of the country’s size. This is also the first time that a middle-income country has been number one. No other country has been so old and so poor at the same time, as the chart below on demography in China shows.

**Old age dependency ratio**  
(%)



Source: World Bank.

**Real GDP/head**  
(purchasing power parity, 2011; US\$)



Sources: Economist Intelligence Unit; BLS.

In terms of wealth, China today is where Japan was in the 1960s. In terms of demographics, China today is where Japan was in the 1970s. So really China risks getting old before it gets rich, but at least the Chinese population will live long enough to reach old age. The economic impact of this circumstance is far-reaching.

China is now an exporter of jobs to Asia. Ten years ago, the ASEAN countries were worried that they would lose their foreign direct investment to China. Now China is an FDI investor in the region. In 2017 it will be a net outbound investor—an achievement accomplished in just a decade. The lower-value-added goods are being shipped to countries such as Vietnam, Indonesia, and so on—and not just to Asia but also to African countries such as Ethiopia. Chinese Ethiopian-made shoes represent another transition point for China, which is changing the economic relationships within the world as a result of its economic rise—a shift is evident in items such as Chinese shoes in Ethiopia.

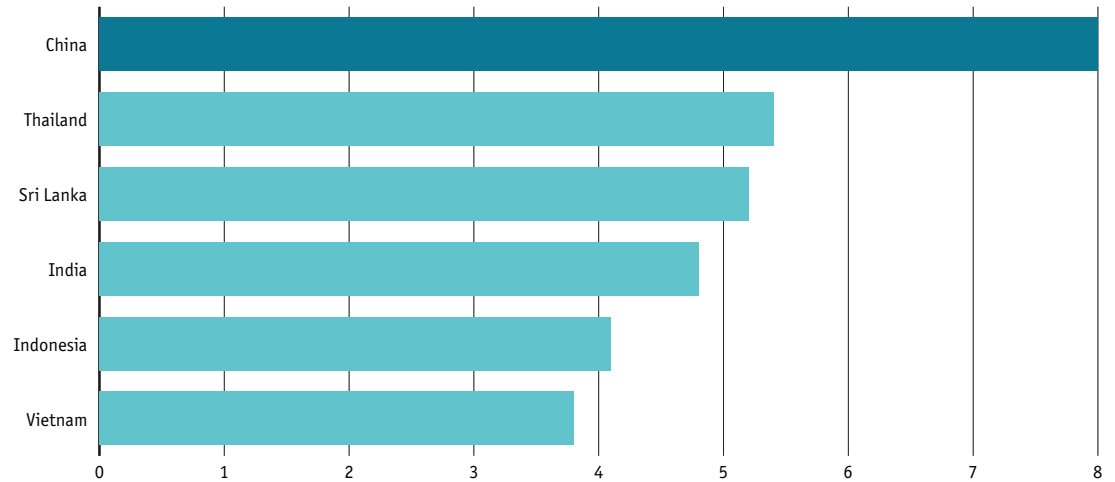


## The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

### Labour productivity growth

(Growth in GDP at PPP, per worker)



Sources: Economist Intelligence Unit; World Bank.

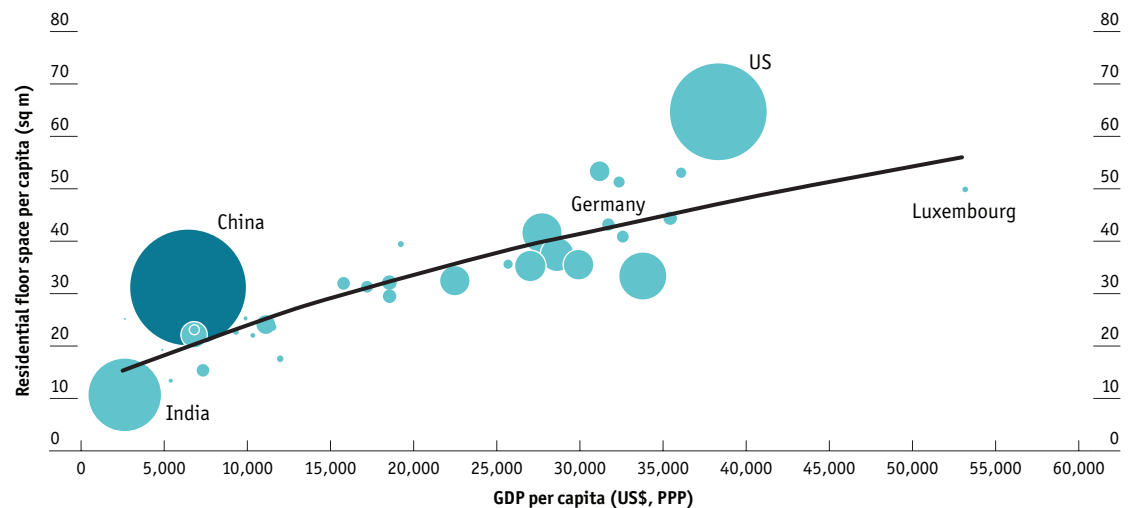
## The economic impact

China's construction industry, which we think is actually the most important single sector in the world, provides a good indication of the country's global economic performance (see the graph below). We discovered that China has enough construction capacity to build a city the size of Rome every two weeks, extraordinary. It can build Spain in a year, and it can build Europe in 15 years, so this is a very, very important sector to watch.

The rise in south-south trade is a result of the extension of Chinese economic power. Last year was the first in which emerging market-to-emerging market trade in value terms overtook emerging

### The path a larger home

(circle area represents total residential floor space stock)



Sources: Economist Intelligence Unit; National statistical offices; Eurostat; UNECE.

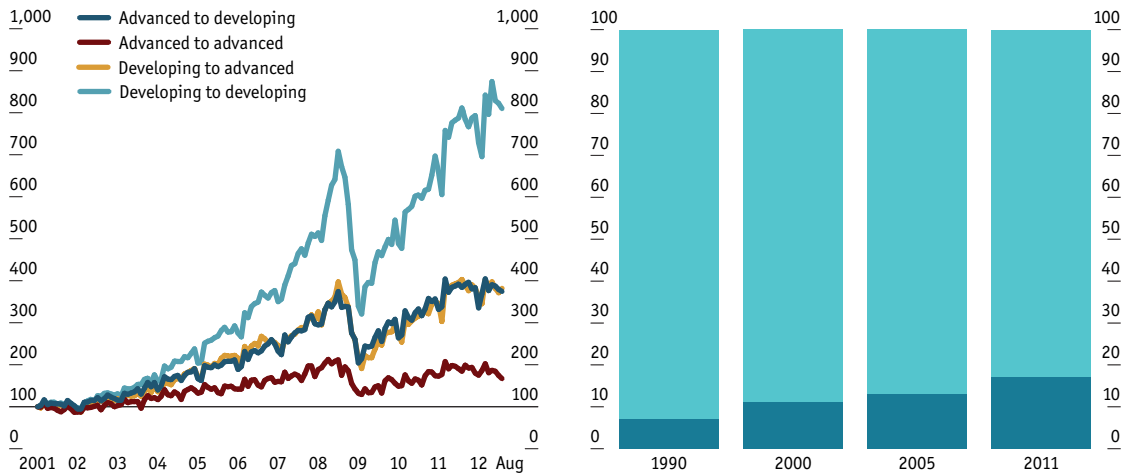


## The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

market-to-developed country trade. The light blue line in the graph below is really rising fast; this reflects again the impact of China. If you strip out Japan, Korea and Taiwan, you see interregional trade also rising very fast indeed. The world becoming increasingly China-centric; it is sort of recoupling, as noted earlier, towards China and decoupling from the West. This is extremely important for the global economy.

Exports. Em Asia, IMF definition



Source: IMF.

## The intellectual impact

The intellectual impact of this recoupling is very interesting, because historically creditor nations have set the tone for the global economic debate. That was the case before the first world war with Britain and then after the Second World War with the United States. The wealth that is piling up in Asia, in China particularly, consists of foreign exchange reserves. This is where the global wealth now resides (see chart next page). The system that eventually replaces the Bretton Woods system will probably have an Asian name, maybe even have a Chinese name. The region has a unique opportunity to start to set the intellectual trends for the global economy going forward.

## Political impact

Unfortunately, the euro zone is really out for the count. This is a real shame, because the euro zone does have a great role to play in terms of rules-based governance. We think the euro zone will survive, but the crisis is going from acute to chronic. Chronic seems great after an acute situation, but unfortunately Europe will be inward looking. Also the US has serious political issues, so it will not be really setting the global trend. Thus China is presented with a unique, once-in-a-generation opportunity to start setting the global trend.

To extend this theme of the rise of state capitalism, the bar chart below shows the top 10 global

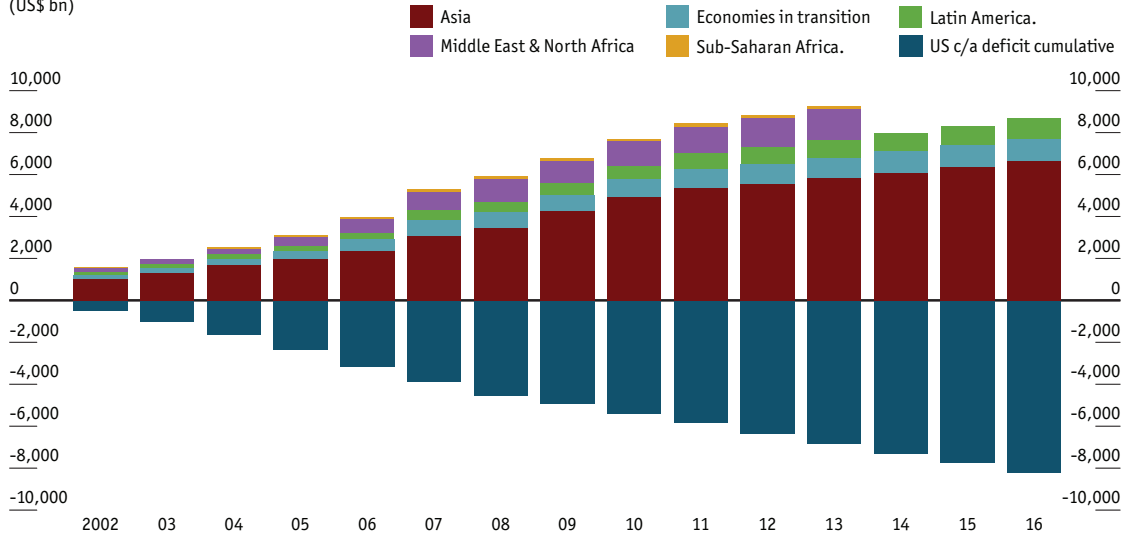


## The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

### Foreign-exchange reserves

(US\$ bn)



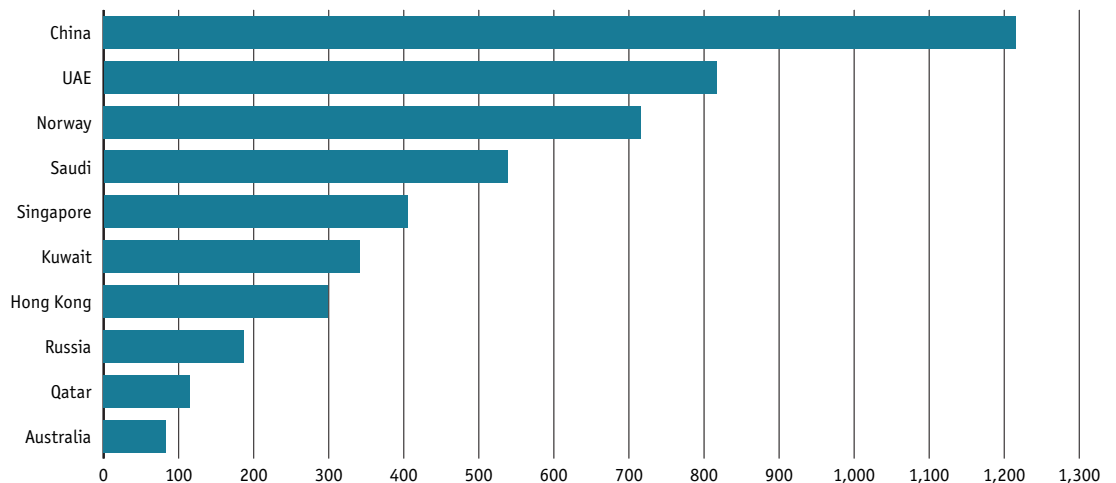
Source: Economist Intelligence Unit.

countries with sovereign wealth funds. It is no surprise that China is number one, with over a trillion dollars of wealth in the Chinese sovereign wealth funds. No surprise again that Asia, if you include Australia, has about four countries in the top 10. These sovereign wealth funds, state capitalism, SOEs—call them what you will—can transform the face of global industry and global finance. Already some sovereign wealth funds are linking up with other sovereign wealth funds and bypassing the traditional centres of finance, such as London and New York. Again, China can play a key role here.

The politics discussion gets a little bit more difficult. Although China has the economic hardware, to really capitalise on this situation it needs the software, and that of course is politics. Although China is

### Sovereign wealth funds

(US\$ bn)



Source: SWFI.



## The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

preeminent in Asia, there is real competition for who leads in Asia. Asia is also fragmented, as shown in the map below. These are all the areas for which there are geographical flashpoints, and together they form a necklace of troubles around China. This of course is sometimes why China feels threatened, but it is also why it is really important now for China to act, to fine-tune, its politics.

### Geopolitical flashpoints



In Japan, they are using a new word—Abenomics—composed from “Abe” for Prime Minister Abe, and “nomics” for economics. The term refers to a great experiment in monetary policy. But even within Japan, there is a lot of conflict about Abenomics, and some senior people believe that this experiment with monetary policy, with fiscal policy, is a bad idea. But the interesting point is that Abenomics is not only an attempt to revitalise Japan from the inside, it’s also an attempt to reposition Japan’s leadership within Asia. Even though Japan is going to be number three, as we saw, in 2020, it will be competitive again.

## Ways to capitalise

The ASEAN economic community wants to kick off in 2015. This may also be an attempt to limit Chinese power in the region. So of course the soft area of Chinese policy now is so important. Whether China gets this right or wrong will really determine how effectively both the Chinese government and Chinese companies are able to really capitalise on this opportunity to take the leadership role.

Finally, it’s really all about the fine-tuning, the software, and formulating a clear idea of what constitutes Chinese national interests. Sometimes from the outside it’s not clear what those interests





## The Rise of China

A talk by Robert Ward, Country Publishing Director, The Economist Intelligence Unit

actually are. Often, strikingly, in areas such as open trade, Chinese national interests actually dovetail very well with US national interests. Attempting to fine-tune the government and provide a bigger role for the Foreign Ministry is very important. We want policy to be coordinated. At the moment, policy in China is split between the Army, the President, the Prime Minister, and the Foreign Ministry; that needs to change. The country needs to speak with one voice in terms of policy. Multilateral institutions will also need a far bigger role, because China will be number one in 2020 as we've seen. There is absolutely no reason why the Americans and the Europeans should still dominate.

A real touchstone of the Chinese attitude towards reform will be the Chinese attitude towards the renminbi. This can be seen as a benchmark for the Chinese government's attitude towards broader economic policy reform, but of course the renminbi is also seen as a political tool by the government, which makes it very difficult to do anything drastic about it. But until this is done, in my view, China will fail to take its real position within the global economy.

Finally, it's really all about the fine-tuning, the software and formulating a clear idea of what constitutes Chinese national interests. Sometimes from the outside it's not clear what those interests actually are: China does not publish national security strategies like other major powers do. Often, strikingly, in areas such as open trade and a number of international security issues, Chinese national interests actually appear to dovetail very well with US national interests. Yet, unfortunately, a sense of these shared interests does not often come through in public interactions between the two countries, reflecting how politicised the bilateral relationship has become.

Stronger voices are needed within China to make the argument that the country's future role lies at the heart of international society. In this regard, attempting to fine-tune the government and provide a bigger role for the Ministry of Foreign Affairs is very important. We want foreign policy to be co-ordinated. At the moment, there are too many bodies involved in decision-making—from the military to state-owned enterprises—each of which is focused on its own narrow interests. Too often the foreign affairs ministry is left to pick up the mess. The country needs to speak with one voice if it is going to have any hope of reassuring others. China also needs to take on a bigger role in multilateral institutions to reflect its economic heft. There is absolutely no reason why the Americans and the Europeans should still dominate such institutions; giving China a stake in such bodies may dissuade it from taking a more unilateral path.

Finally, fashioning an ambitious domestic economic reform agenda could generate good will for China on the world stage. The new leadership appears to understand the need to reorient China's economy towards consumption-led growth. Difficult reforms aimed at achieving this transition, such as the liberalisation of controls over the exchange rate, capital account and interest rates, are all being considered. The fact that debate is now being had over the rightful role of state-owned enterprises, and lifting restrictions on foreign investment, is also encouraging. Such changes would not only go a considerable way to unwinding the imbalances that have distorted the global economy in recent years but would also signal to other countries that they will benefit from China's continued economic rise.



# Access China

## Data, analysis and forecasts for the world's largest emerging market at provincial, prefecture and city levels.

For many years, China has been viewed as the path to riches by a number of businesses. It is a market that offers enormous opportunities for companies seeking to both successfully enter and expand their presence in China.

But companies should not underestimate the challenges of doing business in a market as complex as China. In fact, the experience of countless businesses suggests that the “Chinese market” is actually a collection of different markets. For instance, in 2009, average urban disposable income in China's richest city was four times higher than in its poorest city.

Not only is China one of the world's most diverse markets, it is also arguably its fastest-changing one. The urban population is likely to increase by 143m over the next ten years, and average urban incomes are set to more than double during that period. By 2025, there will be 21 cities in China with a population of over 5m.

Access China is a unique service that will help your business to succeed in China. It is the only single source of data, analysis and forecasts for all 31 provinces and 287 of China's largest cities, providing you with a comprehensive understanding of China today, but more importantly giving you confidence that you will still understand China in ten and twenty years' time.

### What will Access China allow you to do?

- Benchmark in detail provinces and prefectures of China using consistent and comparable data.
- Understand the market potential for your products and services in any location within China.
- Investigate operating costs, infrastructure development and labour markets to help you to make investment decisions.
- Monitor what other businesses are doing in various regions.
- Gain a forward-looking perspective on how fast China's cities and its regions are growing.
- Feed reliable data into your own China business strategy models.

### Who should use Access China?

- Organisations that require an understanding of how the Chinese market works, or are already operating in or looking to enter the Chinese market.
- Companies already operating in China that need to benchmark their performance in particular provinces and assess the market potential for products and services in any region or city.
- Government agencies can use Access China to assist trade mission efforts and exporting companies, and as research tool for understanding China's internal and external dynamics.
- Academic institutions use Access China to help faculty and students conduct detailed political, economic, and business research across China.



## Access China

### What will you receive with Access China?

#### *Up-to-date business intelligence*

- Quarterly reports on all 31 provinces and 40 top cities with the latest developments in the business environment, including economic profiles of each region—ideal for a quick, up-to-date overview on business and economic activity in a specific location.
- Monthly review of economic developments around China, presenting our view on the latest data releases and events from China's regions to keep you posted of the latest developments.
- Weekly articles with analysis of key trends that will affect your business.
- Annual regional outlook presenting our forecasts in the next five and ten years.

[www.eiu.com/china](http://www.eiu.com/china)

Should you wish to speak to a sales representative please telephone us:

Americas: +1 212 698 9717

Asia: +852 2585 3888

Europe, Middle East & Africa: +44 (0)20 7576 8181



# Access analysis on over 200 countries worldwide with the Economist Intelligence Unit

The analysis and content in our reports is derived from our extensive economic, financial, political and business risk analysis of over 203 countries worldwide.

You may gain access to this information by signing up, free of charge, at [www.eiu.com](http://www.eiu.com).

Click on the country name to go straight to the latest analysis of that country:

## G8 Countries

- Canada
- Germany
- Japan
- United Kingdom
- France
- Italy
- Russia
- United States of America

## BRIC Countries

- Brazil
- Russia
- India
- China

## CIVETS Countries

- Colombia
- Vietnam
- Turkey
- Indonesia
- Egypt
- South Africa

Or [view the list of all the countries](#).

Further reports are available from Economist Intelligence Unit and can be downloaded at [www.eiu.com](http://www.eiu.com).

## Should you wish to speak to a sales representative please telephone us:

Americas: +1 212 698 9717

Asia: +852 2585 3888

Europe, Middle East & Africa: +44 (0)20 7576 8181



# Access analysis and forecasting of major industries with the Economist Intelligence Unit

**I**n addition to the extensive country coverage the Economist Intelligence Unit provides each month industry and commodities information is also available.

The key industry sectors we cover are listed below with links to more information on each of them.

## **Automotive**

Analysis and five-year forecast for the automotive industry throughout the world providing detail on a country by country basis

## **Commodities**

This service offers analysis for 25 leading commodities. It delivers price forecasts for the next two years with forecasts of factors influencing prices such as production, consumption and stock levels. Analysis and forecasts are split by the two main commodity types: “Industrial raw materials” and “Food, feedstuffs and beverages”.

## **Consumer goods**

Analysis and five-year forecast for the consumer goods and retail industry throughout the world providing detail on a country by country basis

## **Energy**

Analysis and forecasts to 2020 for the energy industries throughout the world providing detail on a country by country basis

## **Financial services**

Analysis and five-year forecast for the financial services industry throughout the world providing detail on a country by country basis

## **Healthcare**

Analysis and five-year forecast for the healthcare industry throughout the world providing detail on a country by country basis

## **Technology**

Analysis and five-year forecast for the technology industry throughout the world providing detail on a country by country basis



# Meet your specific research needs with our Custom Research service

Successful strategies leave nothing to chance. That is why business leaders throughout the world commission custom research from the Economist Intelligence Unit to enrich their insight for sharper business decisions.

EIU Custom Research was established in 2004 to provide a superior level of knowledge to clients who need a more thorough understanding of current markets and growth opportunities at a strategic or operational level. This specialist service delivers bespoke business intelligence that is deeper and broader than the published reports and subscription-based services for which we are renowned.

## **Benchmarking**

We can provide a detailed evaluation of competitors operating in a market you are considering for expansion, evaluate local human capital, the overseas talent market, labour market conditions and how local regulations will affect your organisation—positively or negatively—to help you to prioritise markets for expansion and pinpoint hidden opportunities for growth and profitability.

[Find out more by reading this case study.](#)

## **Country analysis**

We can provide you with an in-depth understanding of specific political and economics issues and forecasts including scenario analysis. You may be interested in business environment analysis or cross-country benchmarking—our global reach and ability to focus on your business needs within a cross-country framework is unparalleled.

[Find out more by reading this case study.](#)

## **Forecasting**

We are able to help you to understand where you are most likely to find the greatest demand for your products or services—now, and over time. Our unrivalled database of over 200 countries, combined with our ability to offer more granular research, allows us to do this effectively.

[Find out more by reading this case study.](#)

## **Indexing**

Our expertise is not limited to business or government applications. We can combine our analysis and modelling capabilities with access to global academic experts to develop highly customised indexes that highlight particular factors that your organisation needs to be aware of.

[Find out more by reading this case study.](#)

## **Market sizing**

We can help you to determine the best markets in which to expand, how to expand effectively, and what your organisation needs to be ready to manage this expansion. We do this by drawing from our peerless databases of macroeconomic and demographic analysis and forecasting, combined with sophisticated econometric modelling services.

[Find out more by reading this case study.](#)



## Meet your specific research needs with our Custom Research service

### **Product demand**

We can identify where the greatest demand for your product—and the greatest opportunity for expansion—may lie through our access to industry leaders, combined with our expert forecasting and analysis capabilities.

[Find out more by reading this case study.](#)

### **Risk analysis**

We can identify obstacles your company may face from exposure to new markets and new opportunities in a comparative framework that sets unfamiliar markets and situations alongside places and activities you already know. We can provide country-specific, operational and financial risk ratings to help you to make informed decisions on a number of different indicators, including early warning of possible market and industry threats in areas such as security, tax policy, supply chain, regulatory, creditworthiness and labour markets.

[Find out more by reading this case study.](#)

Visit our website at [www.eiu.com/research](http://www.eiu.com/research)

Or

Should you wish to speak to a sales representative please telephone us:

Americas: +1 212 698 9717

Asia: +852 2585 3888

Europe, Middle East & Africa: +44 (0)20 7576 8181



# Media Enquiries for the Economist Intelligence Unit

## Europe, Middle East & Africa

### Grayling London

Tommy Allez

Tel: +44 (0)20 7592 7926

Felicity McKane

Tel: +44 (0)20 7932 1833

Mobile: +44 (0) 7808 643 021

Liam Jacklin

Tel: +44 (0)207 932 1838

Mobile: +44 (0)783 432 8661

[allgraylingukeiu@grayling.com](mailto:allgraylingukeiu@grayling.com)

## Americas

### Grayling New York

Ravi Sunnak

Tel: + 1 (646) 359-2173

Kevin Maloney

Tel: + 1 (646) 284-9417

[allgraylingukeiu@grayling.com](mailto:allgraylingukeiu@grayling.com)

## Asia Pacific (excluding China)

### The Consultancy

Tom Engel

Tel: +852 3114 6337 / +852 9577 7106

[tengel@consultancy-pr.com.hk](mailto:tengel@consultancy-pr.com.hk)

Ian Fok

Tel: +852 3114 6335 / +852 9348 4484

[ifok@consultancy-pr.com.hk](mailto:ifok@consultancy-pr.com.hk)

Rhonda Taylor

Tel: +852 3114 6335

[rtaylor@consultancy-pr.com.hk](mailto:rtaylor@consultancy-pr.com.hk)

## China

### Grayling Shanghai

Harriet Gaywood

Tel: +86 21 5239 7719 / 7729 ext. 101

[allgraylingukeiu@grayling.com](mailto:allgraylingukeiu@grayling.com)



While every effort has been taken to verify the accuracy of this information, The Economist Intelligence Unit Ltd. cannot accept any responsibility or liability for reliance by any person on this report or any of the information, opinions or conclusions set out in this report.

LONDON

20 Cabot Square

London

E14 4QW

United Kingdom

Tel: (44.20) 7576 8000

Fax: (44.20) 7576 8500

E-mail: london@eiu.com

NEW YORK

750 Third Avenue

5th Floor

New York, NY 10017

United States

Tel: (1.212) 554 0600

Fax: (1.212) 586 1181/2

E-mail: newyork@eiu.com

HONG KONG

6001, Central Plaza

18 Harbour Road

Wanchai

Hong Kong

Tel: (852) 2585 3888

Fax: (852) 2802 7638

E-mail: hongkong@eiu.com

GENEVA

Rue de l'Athénée 32

1206 Geneva

Switzerland

Tel: (41) 22 566 2470

Fax: (41) 22 346 93 47

E-mail: geneva@eiu.com