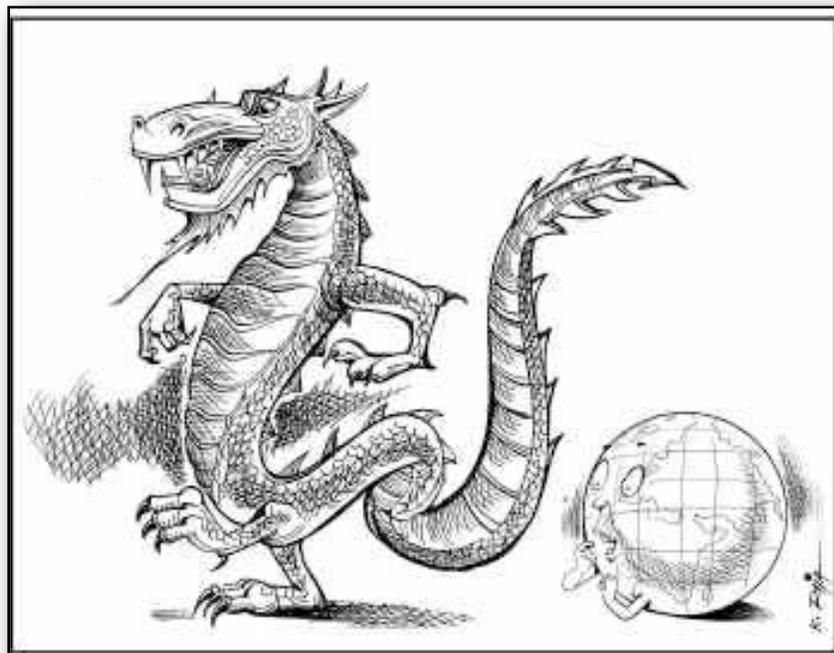


Global Imbalance and Transformation of Economic Growth Model in China



Good afternoon, ladies and gentlemen!

If we want to use one word to depict global economy in the past decade, it must be “imbalance”. That is, on the one hand, some developed countries, especially United States, maintain a persistent current account deficit, while on the other hand, emerging economies, especially China, run a long-term current account surplus.

To this phenomenon, i.e. global imbalance, there are many theoretical explanations. For the deficit countries, taking United States as an example, dominant role of U.S. dollar in the international monetary system, overconsumption driven by reckless policies and too lenient social welfare, are some drivers to deficit. For the surplus countries, taking China as an example, industrialization, export-led economic growth model, and “saving glut” (as Fed Governor Bernanke named it) caused by problem of income distribution and lack of social safety network, are believed to be the fundamental of surplus.



I agree with these explanations. But I also want to add another one: global imbalance, to some extent, is just a natural result of labor division between developed and less developed countries in the context of globalization and industrialization process happened in later ones, such as China. Whatever, we need not to waste time on figuring out who should be blamed for this imbalance. We just need to do something, to correct or re-balance the imbalance if it can't sustain by itself due to this global crisis. In this respect, it's no doubt that responsibility relies on both surplus and deficit countries- both of two needs to adjust their domestic economic model and policies.

Luckily, China, as a main surplus country in the past decade, now is undergoing a significant re-balance process: the ratio of net export to GDP has already declined from more than 9 percent in 2007 to 2.8 percent last year. And contribution of net export to GDP growth is expected to be even lower in this year.

The re-balance process of China economy is not just a consequence of decline of demand from developed countries for China export. I think it's also an encouraging signal of development model transformation that Chinese economy is experiencing and will experience in the second and third decade of this century. This transformation is urbanization.

As we know, in the past 30 years, urbanization in China lacked much behind than and actually has been driven by industrialization. In the process of this kind of urbanization, i.e. urbanization led by industrialization, rural residents move to cities for the jobs in the manufacturing industry. Although they can get higher income than that in agricultural sector, most of these rural residents have no opportunity to become real urban residents. Just like migrant birds, during every Chinese New Year, they have to move between cities where they work and countryside where their families reside. Therefore, they are dubbed as "migrant workers".

The straight result of this kind urbanization is high saving rate and low consumption rate. Because, without social welfare enjoyed mainly by urban residents and no permanent habitat in city, these migrant workers have to save for their future and only spend money on necessities such as food, and clothing in cities, while their expenditure on housing, durable goods, education and medical care remain in rural areas.

This kind of urbanization is undergoing a dramatic change now. First, after this global crisis, the eastern coastal region, where China's manufacturing industry heavily concentrates, has to forgo many low-technology and labor-intensive industries because of increasing cost of factors and urging need to upgrade technology and industry. These relatively low technological and labor-intensive industries then move to hinterland and western regions with comparative advantage in factor cost. This move not only creates an economic boom in these regions- actually, the global crisis is viewed as a great opportunity and hailed by many local officials of these regions, but also, to the large extent, solve the habitat problem of migrant workers because now they can work and have much more opportunities to buy apartments in the small towns near their homes.

Second, with the demographic transition, the so-called "new generation migrant workers", children of the first generation migrant workers, have become the main bulk of migrant workers. According to the statistics of 2010 from the National Bureau of Statistics, the number of the new generation migrant workers amounted to more than 100 million, accounting for 60% of the total migrant population. This new generation is no longer satisfied with scraping by living far away from home, they increasingly tend to settle down in cities where they work and they ask for higher payment and better social services for their work. The shift from the "migrant bird" to permanent residency not only demands the stable development of manufacturing industry, but also brings tremendous new needs for urban service sector, social management system and public services.

This change has some very profound implications. First, investment in urban infrastructure will maintain momentum for a while. In the former industrialization-led urbanization model, migrant workers do not seek to be urban residents, living in crowded temporary sheds and factory dormitories and feeding themselves with simple food. Therefore investment goes only to building production facilities in industrial clusters areas, and employers provide migrant workers with very simple housing facilities. In the new kind of urbanization where more migrant workers move to cities, houses, public transport (metro, for instance), water, electricity, heating and the Internet connections would be seriously needed. Namely, there will be huge demand for urban infrastructure.

Second, when the new residents settle down, the demand for medical care, education and other services will rise notably, which will increase employment in the service sector and in turn allow consumption to make more contributions to economic growth.

Third, the lack of cheap labor experienced by eastern developed regions will force these regions to transform their development model. The old model relying on abundant labor, cheap land and capital, coupled with environmental pollution will be replaced by economic growth model mainly driven by technological improvements and development of modern service sector, such as financial service.

All these implications can be translated into one thing: less dependency on external demand. That is to say, the re-balance responsibility on China's side may most probably be fulfilled, although we still have great challenges in many respects, such as reform of financial system and social networks. So, will surplus countries be able to do that? As we see, the deficit of United States is still 4 percent of GDP, nearly equal to the level before crisis.

Ladies and gentlemen, re-balance of world economy is our common responsibility and prerequisite of global prosperity. Let's work together to achieve that grand goal.

(Speech at the 2012 London Book Fair. by Li Yang, vice President of the Chinese Academy of Social Sciences)