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# Growth Drivers in China in the Next Five Years

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# The 14<sup>th</sup> Five-year Plan (FYP)

- China's first centennial goal
  - By 2021, to become a well-off society
- China's second centennial goal
  - By 2049, to become a high-income country
- The 14<sup>th</sup> FYP will be the first in the quest for the second centennial goal
  - Innovation, urbanization, more equal distribution of public services, and greener growth

# 1. From capital accumulation to innovation

- China's advantages of innovation
  - High growth of human capital: 8 million college graduates each year
  - High R&D spending: 2.2% of GDP, about \$333 bil dollars
  - Complete and thick production networks: capable of producing new products quickly
  - A large market: capable of covering the cost of innovation
- Internet and information technology: a leading field in China
  - Helping enlarging the Chinese market

## 2. Urbanization

- Domestically,
  - Agri. share of national GDP is 8%, but rural population is 40% of national total;
  - But rural labor force is 28% of national total; the difference is 12 perc. points. Urbanization rate should be 72% if labor is used for the calculation.
- Internationally,
  - When Japan reached China's income level of today (mid-1970s), its urbanization rate reached 72%;
  - When Korea reached China's income level of today (mid-1990s), its urbanization rate reached 75%.

# New urbanization strategy



- Focusing on several urbanized centers
- By 2035, 75 – 80% of Chinese population will live in cities; among them 80% will be likely to live in urbanized centers

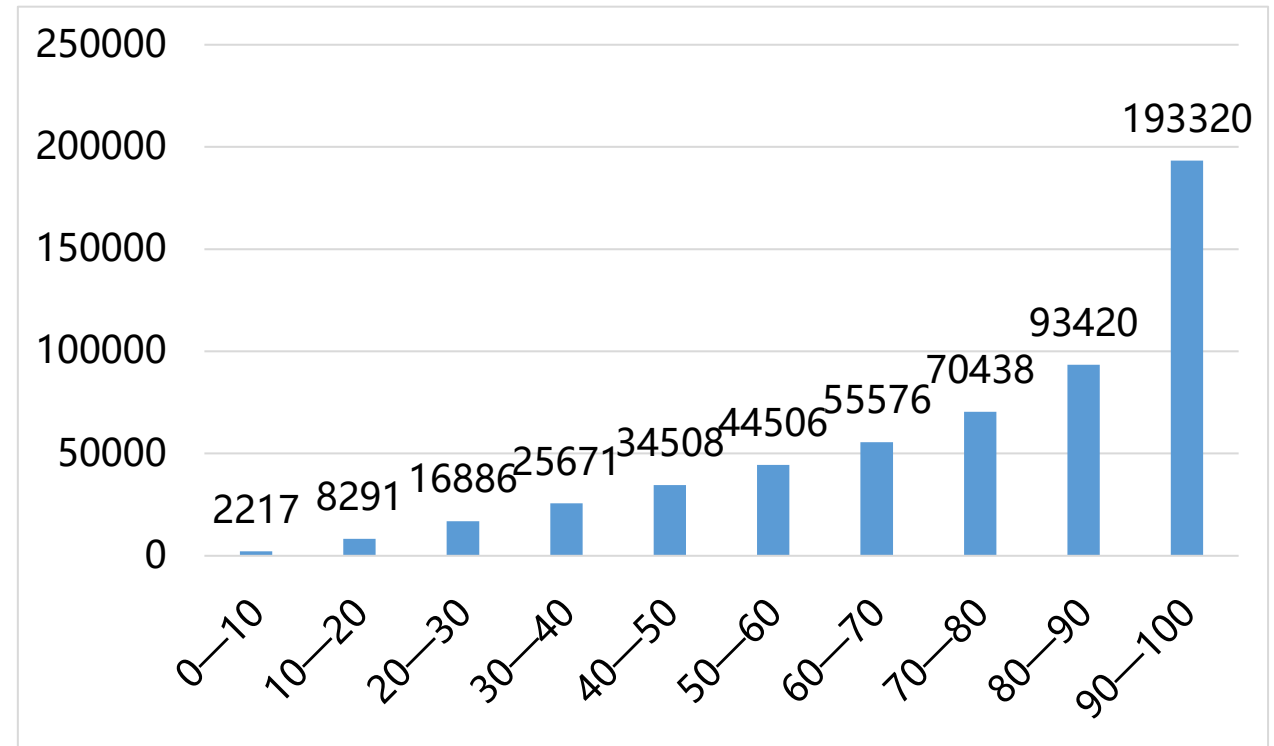
### 3. More equal distribution of public services

- Rural-urban integration
  - More rural residents will be able to enjoy modern amenities
- A nationally unified social security system
  - Facilitating freer labor movement across the country
- Increasing the income of the lower 50%
  - A large middle class will emerging

## Raising the income of the lower 50%

- The lower 50% only had 16% of total income
- The gap between the highest 10% and the lowest 10% is 87 times

Distribution of HH income (2016, yuan)



Source: CFPS.

## 4. Greener growth

- President Xi Jinping announced in the recent UN general assembly meetings
  - China will peak its carbon emission before 2030
  - China will reach net zero by 2060
- Better environment promotes consumption
  - Tourism, better mood
- Creating new income sources
  - Environmental technology will flourish







# A booming cycle is coming

- China's growth will reach 2% this year
  - The best among large countries
- Next year
  - IMF predicts 8.2% for China
- In the next 5 – 7 years
  - China's economy will pick up the boom cycle interrupted by deleveraging during 2018 – 19 and the pandemic
  - An average growth rate of 5.5 – 6% is expected

# Catch-up with the USA

	Assumption		Prediction (\$ tril)	
	Growth	Inflation	2025	2030
U.S.	2.20%	2.20%	25.94	32.17
China				
High	6.5%	3.92%	25.37	41.64
Medium	5.5%	3.52%	23.80	36.65
Low	4.5%	3.12%	22.31	32.21

- The number of years taken for China to catch up with the US is 5, 7, and 10 under China's three scenarios of growth.

Notes: U.S. growth rate and inflation rate are forecasted based on the new business cycle.

China's inflation rate = (China's growth rate – U.S. growth rate) \* 0.4 + U.S. inflation rate.

All predictions are based on 2020 figures.

# Thanks



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