China’s Growth and Win-Win Engagement with World

Arvind Subramanian
Senior Fellow
Peterson Institute for International Economics and Center for Global Development
China Development Forum
March 17, 2012, Beijing
Summary

• Robust medium-term growth of 6 ½ percent feasible

• China will be economically dominant but not-so-rich: Will it be willing and able to preserve current economic system?

• China’s interests fundamentally aligned with an open, rules-based, multilateral economic system

• But win-win engagement to preserve this system will require effort on all sides:
  – Greater Chinese leadership
  – China’s partners must embrace multilateralism not regionalism; and empower not contain China
Medium-Term Growth: A Convergence Perspective

• China’s growth will slow down from 8 ½ percent per capita (PPP) because of “convergence”

• But 5 ½ percent per capita (6 ½ percent aggregate) feasible. Why?

• Considerable scope for catch-up
  – Today, China only 20-25 percent of US standards of living
  – Even with 20 years of 5 ½ percent growth, China will be 45-50 percent of economic frontier
Threats to Growth

• Financial crisis: Western disease with Chinese characteristics
  – China has policy space and political will to recover

• Middle-income trap
  – Several countries have grown at 5 ½ percent for 20 years at comparable stage of development

• Ageing
  – Demography is not destiny on the way up or down

• Social and political challenges
  – A combination could derail growth. How likely?
Economic Dominance

• China today is as economically dominant as United States and will overtake rapidly: G-1 by 2030?

• 2010: Largest economy (PPP dollars), exporter, net creditor, and CO$_2$ emitter; and large donor and large FDI exporter

• 2030: China will pull away on all these indicators plus have an international reserve currency
Index of Economic Dominance
ECLIPSE
Living in the Shadow of China’s Economic Dominance
Arvind Subramanian
Peterson Institute for International Economics
Doubts and Dilemma

• “Zai zhongguo keyi tiaozhan meiyuo qian, zhongguo bixu yao jilei 50 (wushi) nian” (Deng Xiaoping)

• But unlike previous two superpowers—and unlike China’s history—China will not be amongst the richest

• As dominant power will it be willing to preserve open economic system?

• As not-so-rich power, will it be able to preserve this system?
Good News: Congruence of Interests

• Post-1978, China relied on openness and reaped the benefits of an open system

• Going forward: Pursuing reforms and development domestically will sustain the open economic system
  – SOEs, financial system, environment, and innovation

• But is basic congruence enough?
External Threats to China’s Development

• Global financial instability

• Protectionism

• Climate change
Strengthening IMF

- Tectonic shift: Rich countries are debtors

- Substantially bigger IMF ($1-2 trillion)

- China must take the lead by contributing and in return get power equivalent to US and Europe
  - No more veto for US and EU
Revitalizing WTO

• Protectionist threat
  – Grim medium term economic outlook in US
    • Structural middle class problem
  – Intellectual climate change: Samuelson, Krugman, Spence (Nobel Prize winners), Summers and Blinder

• Many trade concerns involve China

• Need a China Round of trade negotiations in WTO (Mattoo and Subramanian, 2011): China must take lead
Reviving Cooperation on Climate Change

• Costs of climate change greater for China and India than US and EU

• Nightmare: West may decide to adapt to climate change than to prevent it

• Need a new *Greenprint for Cooperation* (Mattoo and Subramanian, forthcoming)
  – China (plus other developing countries) takes the lead
  – Focus is on technology generation
  – All contribute but in different ways
China’s Role

• Articulate its vision for the global economic system

• Leadership unavoidable: The dilemma of the Precocious Superpower

• China will have to respond to partners’ concerns

• But win-win because actions in China’s interest and good for partners and good for system
What Rest of World Should Do

• Embrace multilateralism, eschew regionalism and bilateralism

• Empower not contain China
Why Multilateralism

• Basic congruence is not enough: Why? History’s counsel
  – Germany before World War I

• Chinese actions gives rise to doubt and systemic vision unclear
  • US not always benign hegemon

• Multilateralism offers insurance, namely, protection against the strong exercising unbenign hegemony. How?

• Multilateralism provides collective heft on the other side to negotiate/bargain with China and enforce rules against China
  – Even US can no longer do it alone

• Multilateralism also defines what is legitimate: China will be sensitive to being seen as deviant from multilateral norms
Empower not Contain

• Rest of the world must empower not contain China and reinforce China’s stake in current system

• Bigger role in IMF and World Bank

• Avoid encirclement a la Trans-Pacific Partnership (TPP)
Paradox: Empowering Already Powerful

• Limited Options: Making a virtue of necessity

• What if China pays back by going regional itself?
  – Follied fragmentation of inter-war years

• Take advantage of China’s “backwardness”

• Historical perspective: How China responds will be conditioned by how the West acts especially in relation to legitimate demands