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China's Economic Gains Give Way to Hazy Future

Policies and Trends Aiding Big Growth Set to Wind Down

By ANDREW BATSON and JASON DEAN

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BEIJING -- China has just hosted the most lavish Olympic Games ever by a developing nation, the capstone to an extraordinary run of achievements.

Since it began opening its economy three decades ago, the nation has lifted more people out of poverty than any other nation in modern times and is poised to become the world's third-largest economy.

Yet maintaining that growth will challenge China's leaders.

Much of the extraordinary growth of recent years has come from policies and trends that will be winding down in coming decades. It stemmed from a mix of political stability and economic liberalization that enabled a largely agricultural and technologically backward country to catch up to the rest of the world in many areas.

Now China's population is growing older and more urban, while its industry is less isolated from the outside world. "The strategies that have helped China grow from poverty to its current levels will not yield the same dividends in the future," says Homi Kharas, a scholar at the Brookings Institution and the World Bank's former chief economist for Asia. "China needs to adapt to this reality."

How China fares in that effort will ripple across the world. Many in the West are anxious about competition from China -- a subject sure to feature in the closing months of the U.S. presidential election. But many smaller developed countries depend on China's continued success.

"Americans who worry that China might overtake the United States are worrying about the wrong thing," U.S. Treasury Secretary Henry Paulson wrote in an article

published last week. "Serious troubles in China's economy could threaten the stability of the U.S. and global economies."

Three challenges especially stand out for the Chinese: The nation's changing work force, a widening in the gap between rich and poor and severely constrained supplies of energy and environmental resources.

Population

The precedents aren't encouraging. Many developing countries in Latin America and the Middle East stagnated after periods of rapid growth. Economists sometimes call this the "middle-income trap" because so many countries have failed to achieve consistent growth that would deliver higher prosperity.

In the next few years, China will cross the threshold to a majority-urban society. China's urbanization rate is about 40% to 45% now, well below levels of about 75% in most of Western Europe and Latin America, but statistics show that growth in China's urban population is already slowing. Since urban workers earn more than three times as much as rural ones, the annual migration of more than 10 million farmers into cities has boosted the economy.

Moreover, a smaller number of workers will have to support an increasing number of elderly. The United Nations projects that China's working-age population will account for a decreasing share of the total after 2010, and will start shrinking in absolute terms after 2015 -- the long-delayed effect of the strict family-planning policies that came in the 1970s.

The "demographic dividend" from a young and growing work force may have been responsible for a quarter of China's growth to date, says Wang Dewen, a demographer at the Chinese Academy of Social Sciences. In the future, he and other scholars argue, China will have to grow by making more productive use of fewer resources -- working not just harder, but smarter.

Resources

China's growth has depleted global supplies of energy and raw materials, as well as its own resources of clean air, fertile land and drinkable water. Without improvements in efficiency, China's expansion will be constrained by the finite supply of such essentials. In recent months, the nation has been plagued by shortages of gasoline and electricity, illustrating the limits to its consumption.

Some adjustments already are happening. Qiu Jiaxin, a 26-year-old school administrator in Shanghai, bought a Buick Excelle a year ago. But he hasn't touched it for the past month, since the government raised fuel prices. "Now, my car is a burden to me," Mr. Qiu says. He is taking a shuttle bus to work instead.

Mr. Qiu and the rest of China's 1.3 billion people each consumed the equivalent of 1.4 tons of oil in energy last year, a relatively low figure. If each Chinese was to consume the same amount of energy as each person in the U.S. does -- the equivalent of 7.82 tons of oil -- then China alone would consume nearly as much energy as the entire world does now.

So far, China's government is falling behind in its drive to cut the amount of energy required to produce each yuan of economic output. It managed a reduction of just 2.9% in the first half, less than last year's 3.7%. Economists say China's low state-set prices for energy need to become more market-based to create pressure to conserve.

Inequality

Just 30 years after it began moving away from socialism, China has become one of the world's most unequal societies, based on measures of the gap between richest and poorest.

Initially, the widening disparity was beneficial -- forced equality under Mao Zedong prevented people from being productive. Today, it increasingly contributes to social instability, as people who lose their homes to make way for factories and others displaced by development express displeasure in sometimes violent protests.

Addressing that will require repairing a dilapidated network of social services -- something the government says it is working on.

But the Chinese are getting bolder in challenging the state. The Communist Party will need to expand its avenues for doing so legally or risk widening battles with its citizens that could make it harder to deal with all of the challenges it faces.

"The party will need to take itself on in very difficult ways to address this issue," says Minxin Pei, a China scholar at the Carnegie Endowment for International Peace in Washington. Addressing inequality "will be a wedge issue among the ruling elites -- not just an issue that divides the haves and the have nots."

--Bai Lin in Shanghai contributed to this article.

Write to Andrew Batson at andrew.batson@wsj.com and Jason Dean at jason.dean@wsj.com

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