



Centre for Air Power Studies (CAPS)

Forum for National Security Studies (FNSS)

Title: CHINA: IS THE PARTY OVER?

Chairperson: Air Marshal Vinod Patney SYSM PVSM AVSM VrC (Retd),
DG CAPS

Speaker: Shri Mohan Guruswamy, President, Centre for Policy
Alternatives

Rapporteur: Capt HPS Sodhi, Senior Fellow, CAPS

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- A talk on China's economy by Shri Mohan Guruswamy was arranged at CAPS auditorium on 14 Jun 2016 as part of the visitors' series. The speaker is founder of the Centre for Policy Alternatives, an independent think- tank. He is the author of several books on policy issues concerning economy, the latest being 'Chasing the Dragon: Will India Catch-up with China?'
- The talk was essentially focussed on the current slowdown in the Chinese economy including its background, contributing factors and comparisons with other major countries. The speaker made extensive use of charts, graphs and plenty of statistical data to explain the nuances of Chinese economy, its ingredients and reasons for the slowdown.
- He started off with graphs depicting contribution to global GDP (in percentage) by different countries of the world over the last 100 years. It showed that, by the year 2050, China will contribute maximum to the World GDP and occupy no 1 position, followed by India. Being the largest contributor to global GDP, China's share was about 21.8% in 2015 as compared to India's share of about 9.9%. Its GDP grew exponentially from 1980

onwards. However, since 2013 the global growth of GDP is slowing down and has come down to about 2.4% in 2015, from 2.6% in 2014.

- China has always been an export oriented country with dealing in labour intensive products. It became the largest exporter in the world by 2009 and biggest trader by 2013. During the first decade of current century, China's exports saw sharp increase from US\$ 266 billion to US\$ 1578 billion. However, the situation is not going to remain in China's favour any more. The US, under President Obama, has decided to reduce its trade deficit gradually and ultimately bring it to zero by 2020. If this move is successful, it will adversely affect China's exports and may hit their economy drastically. China's industrial sector was the biggest contributor to its GDP at 49.8% share till 2010. However, it has started declining since 2011 and now China is becoming a service sector economy.
- Another very important aspect of world economic growth/ decline covered by the speaker was that of demography. Explaining an interesting concept of the 'Wheels of Life', he highlighted that China, because of its strict one child policy in the past, has now arrived in a situation that its working age cohort is shrinking as compared to the old age group. Because of this mismatch the dependency factor, the ratio of working age and non-working age cohorts, has become high as compared to other countries. As per the speaker, although China has relaxed its population control measures, the rise in population is negligible because the expanding middle class does not want to have more kids.
- China is following Japan as a country of aging population; with 14% of their citizens over 60 years of age in 2010. As of today, about 10% of their population is above 65 years of age. Their fertility rate is also at a disappointing low of 1.4% as compared to 2.5% of India and around 2.0 of the United States, UK or France. The speaker was of the opinion that China may follow countries like Japan, South Korea and Taiwan whose growth has almost stopped.
- While talking about India's growth potential, the speaker stated that a significant portion of the decade-long UPA rule, under Prime Minister Manmohan Singh, witnessed unprecedented growth, averaging 7.8%, which is highest so far. If India concentrate on

its industrial sector and utilises its young working class of the vast population base, the GDP will witness an upward trend.

- In reply to question regarding any opportunity for India during this slowdown, he said that China is now concentrating on production of high end precision equipment, automobile and other sectors requiring less labour. Whereas, India through its 'Make in India' programme should focus on labour intensive manufacturing units making garments, shoes, electric appliances, construction, infrastructure development of SEZs etc. India must learn some lessons from China's experience and concentrate on creating jobs for the population. Instead of agriculture, which does not contribute much to the GDP, the government should shift its focus towards Industrialisation to improve contribution to the country's GDP. This will also provide more employment opportunities to the Indian workforce.
 - On the question of China – Pakistan economic corridor, he was of the opinion that a major part of the Chinese investment will go back to them for procuring steel and cement required for the infrastructure development and Pakistan may not get much benefit out of this project as there are no local markets or economic zones along the route to utilise the potential.
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