

Text: The Big Questions China Has to Answer

1) Which are the challenges China has to face in the short and in the long run?

- SR: Inflation

- LR: → boost from shift of agriculture to industry largely reaped
- shrinking labor force
- productivity gains decrease because China has climbed up big part on the value chain
- Environmental degradation
- rising inequality
- overreliance on foreign markets

2) According to the author, why is China's growth model unsustainable?

China's growth model is unsustainable for two reasons: First it has grown too big to rely on export led growth (see imbalances China – U.S.), and, second, the ever higher rates of investment have already led to a strong decrease in the MPK. It will not be possible to indefinitely drive growth by extremely high rates of investment.

3) What is meant with 'middle income trap'?

If China does not reform its growth model it is in danger of getting stuck at a middle income and not achieve that of a high income country.

4) In which areas should China adjust according to the author to keep on its rapid pace of growth?

Do you already see signs of that adjustment?

- complete transition to market economy (role of government, rule of law, competition, labor market reforms etc.)
- foster innovation
- grow green
- switch from export led growth / high investment to domestic consumption based growth

-signs: wages are rising, China allows appreciation of the Yuan, also to reign in inflation

5) Why is the rule of law essential for the economy? Do you have examples from your home country or other countries as to why a lack of rule of law can harm the economy?

If investment is not safe it is less likely to take place (Yukos → Chodorkowski; also British Petroleum; expropriation of foreign enterprises by the Government: Zimbabwe, Venezuela etc.)

6) Which 'economic rebalancing' is the author referring to in the first paragraph of the text?

- Global economic rebalancing: China and U.S.; also Germany and Greece etc.
- Internal rebalancing in China: switch from export led growth to consumption based growth

7) In summary, what is the big question China has to answer?

The big question is how China will manage to switch from the unsustainable model of high investment and export led growth to a model of consumption driven growth. The answer to this question is not only extremely important for China but also for the rest of the world.