

Chapter VII

Economic Forecast of China

As explained in Section 2 of Chapter 4, China will probably adhere to its reforms and open door policy even after the demise of Deng Xiaoping. The flow of FDI into China will be strong and can be expected to rise along with the increasing investment in the inland regions and the increasing sophistication of the industrial structure. The rate of growth of FDI, however, will gradually decline from the 25 percent of 1997 and is assumed as dropping to 9 percent in 2005. Exports will continue to rise by double-digit levels up to 2005, but will decline from the 16 percent growth of 1997 to 12 percent in 2005 (see Table 4).

Assuming the above explained conditions, the Chinese economy will return to the double-digit growth of 10.3 percent in 1997 from the 9.7 percent of 1996. The government is targeting a rate of 8 percent. The reason for the projection of double-digit growth here is first that the inefficiencies of the system of refunds of the value added tax at the time of export, which had served to brake exports in 1996, in particular exports of the state-owned enterprises, will be dealt with and exports can be expected to rise in growth. Second, there had been a flood of last minute FDI and an accompanying jump in imports in 1996 just before the government re-evaluated import related incentives to foreign

ventures. In reaction to this, growth in imports is expected to be blunted in 1997.

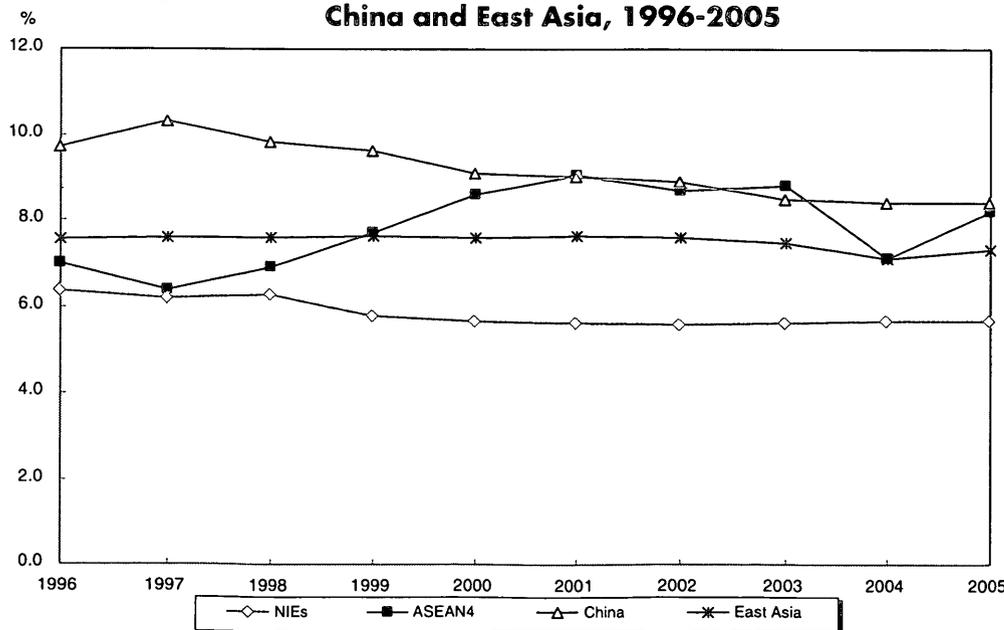
The Chinese economy, as shown in Table 5 and Figure 7, will continue to grow in the 9 percentile range from 1998 to 2001 and will slow to the 8 percentile range from 2002 to 2005. Inflation in China dropped to the single-digit level in 1996. The rate of inflation is forecast to remain at the single-digit level in China in 1997 and on as well.

The changes in China's rate of economic growth and rate of inflation over different time frames are shown in Tables 6 and 7. From 1996 to 2000, the rate of inflation will be an average annual 7.6 percent or 2.1 points down from the annual rate of 9.7 percent from 1986 to 1995. The average annual rate of economic growth in 1996 to 2000 will be 9.7 percent or substantially the same as the annual 9.9 percent of the previous 10 years.

From 2001 to 2005, the average annual rate of inflation will fall a further 1 point from the previous five years to 6.6 percent. Clearly, prices will stabilize. The average annual rate of economic growth from 2001 to 2005 will drop 1.1 points from the prior five years to 8.6 percent. Combined with the forecast trend in prices, the Chinese economy is clearly projected to attain soft-landing smoothly.

A look over the next 10 years shows that China will enjoy an average annual 9.2 percent of economic growth in the next decade thereby maintaining the 9 percentile level. The average annual rate of inflation over the next 10 years will be 7.1 percent or 2.6 points below the 9.7 percent average annual rate of inflation of the previous 10 years indicating that economy is stabilizing.

Figure 7. Forecast Economic Growth Rates of NIEs, ASEAN4, China and East Asia, 1996-2005



Note: Figures are from Table 5.