

## Understand China's growth story before venturing there



Mr. Balakrishnan (left), NRI based in Hongkong speaking to the participants on economic scenario of China. On his is Mr. Unni Krishnan, Director, FIEO(SR).

**F**or the benefit of members who have joined the Federation, FIEO (Southern Region) organized a talk on Economic Conditions and Common Trading in China and Hong Kong on February 14, 2011. The meeting was attended by more than 25 member exporters.

The programme was addressed by Mr N. Balakrishnan, an NRI based in Hong Kong. Mr Balakrishnan, who is widely travelled and has over 25 years experience working in China and Hong Kong, highlighted the potential of China as a major trading partner for India.

China's growth story has been spectacular. From the year 1979 the country's real GDP grew at an average annual rate of almost 10%. It is because the Government is able to continue and deepen economic reforms particularly in regard to its state owned enterprises, banking

systems, etc. In addition, China is also able to attend to several other difficult challenges such as growing income inequality that threaten social stability. Trade continues to play a major role in China's thriving economy, and trade boom is largely the result of large inflows of foreign direct investment (FDI).

China's rapid economic growth can generally be attributed to two main factors: large-scale capital investment (financed by large domestic savings and foreign investment) and rapid productivity growth. These two factors appeared to have gone together hand in hand. Economic reforms led to higher efficiency in the economy, which boosted output and increased resources for additional investment in the economy.

China has historically maintained a high rate of savings. When reforms were initiated in 1979, do-

mestic savings as a percentage of GDP stood at 32%. However, most Chinese savings during this period were generated by the profits of state-owned enterprises which were used by the central government for domestic investment. Economic reforms, which included the decentralization of economic production, led to substantial growth in Chinese household savings. As a result, savings as a percentage of GDP have steadily risen, and are now among the highest in the world.

Productivity gains—increases in efficiency in which inputs are used—were another major factor in China's rapid economic growth. The improvements to productivity were caused largely by a reallocation of resources to more productive uses, especially in sectors that were formerly heavily controlled by the central government, such as agriculture, trade, and services. For example, agricultural reforms

boosted production, freeing workers to pursue employment in the more productive manufacturing sector.

Beijing's decentralization of the economy led to the rise of non-state enterprises, which tended to pursue more productive activities than the centrally controlled SOEs. Additionally, a greater share of the economy (mainly the export sector) was exposed to competitive forces. Local and provincial governments were allowed to establish and operate various enterprises on market principles, without interference from the central government. In addition,

foreign direct investment (FDI) in China brought with it new technology and processes that boosted efficiency. Its massive investment in infrastructure is also a major contributor for fast development.

China's economic growth had a strong impact on Hong Kong's economic growth and development. Hong Kong's economy has long been dominated by service industries: financial, trading and logistics, tourism, and professional services currently account for roughly 55% of its GDP and almost half of its employment. Hong Kong's

challenge will be to maintain these services industries in the face of growing competition from China itself. Similarly, growing economic ties between China and Chinese Taipei pose challenges for Hong Kong's longtime role as an intermediary provider of financial services, trade, and logistics.

Mr Balakrishnan advised the participants to visit China and understand the market before venturing into this market.

Mr Unnikrishnan proposed the vote of thanks. ■