



Leverhulme Centre
for Research on Globalisation and Economic Policy

Global meltdown gives China once-in-a-century chance to complete rise

by Shujie Yao

China could now boast the world's second-largest economy – a decade ahead of most predictions – thanks to the credit crunch, a leading Chinese economist has claimed.

Professor Shujie Yao says China might already have overtaken Japan and, thanks to the devastating effects of the global downturn on its rivals, could now catch up with the US within the next 20 years – completing its stunning ascent to pre-eminence.

Professor Yao, regarded as one of the world's foremost scholars specialising in China's economy, is Head of the University of Nottingham's School of Contemporary Chinese Studies, the leading centre in Europe for research, teaching and policy analysis on contemporary China.

He is also co-ordinator of the *China and the World Economy* programme at the prestigious Globalisation and Economic Policy Centre, also based at the University of Nottingham.

Two years ago he forecast that China's economy would overtake Japan's by 2018, but the extraordinary events of the past 18 months have forced him to dramatically revise his opinion.

He said: "The current economic crisis has hit every country hard, and China is certainly no exception.

"But the crisis actually gives China a once-in-a-century opportunity to achieve a much speedier economic convergence with the world's largest industrialised economies.

"China had already become the third-largest economy in the world by 2007, and 2008 reinforced that position.

"It is now most likely that it will surpass Japan to become the second-largest in nominal dollars either in 2009 or, at the latest, 2010 – and it may even have reached that point already.

Policy briefing

"With this trend, it will greatly shorten the time needed to catch up with the US and become the world's largest economy."

Professor Yao's prediction is presented in his article *Chinese Economy 2008: A Turbulent Year Amid the World Financial Crisis*, published by the China Policy Institute as a discussion paper for policymakers both in China and the UK.

Professor Yao acknowledged China did not escape the global financial meltdown in 2008, which saw it mark 30 years of the economic reforms that have transformed the nation.

Yet it suffered far less than its competitors and still managed to achieve "significant and positive" growth in trade, GDP, foreign direct investment and state revenue.

The country also possesses the best fiscal conditions in the world, with its debt accounting for only 20% of GDP – compared with around 60% in Europe and 80% in the US.

Professor Yao said this, coupled with continued growth prospects, meant the Chinese government could carry out "bold and expansionary" policies to target an 8% economic growth rate.

He added: "By and large, China ploughed through an unusually tough year with a performance that was more satisfactory than not.

"It will even benefit more than any other economies from depressed prices of oil and raw materials in the next stage of its industrialisation and urbanisation.

"The immediate problem now is how to survive the next few months amid a severe global recession by using a stimulus package most efficiently and effectively.

"If it can handle the crisis well it has the opportunity to

shorten the time needed to catch up with the more advanced economies and so enhance its status."

Earlier this month China's leaders vowed to act "quickly and decisively" in the event of the country's economy needing more help.

Premier Wen Jiabao announced that government spending would grow by 24% this year in a bid to maintain the 8% growth target.

Zhou Xiaochuan, governor of the Central Bank, added that the economy was "stabilising and recovering" and that policies to date had achieved "significant results".

He said: "We have to prevent being too slow-handed or light-handed in responding. We must err on the side of being quick and decisive."

However, Professor Yao warned China might itself become the source of another economic meltdown.

He said: "If it fails to deal with the current crisis properly it may lose its growth momentum, undermining the hard-gained achievements of the past 30 years."

"The biggest challenge is not only to cope with the present crisis but to avoid a similar one that could be triggered by China itself in the next 10 years."

Study author

Shujie Yao is a Professor of Economics and the Head of School at the University of Nottingham's School of Contemporary Chinese Studies.



He is also the co-ordinator of the Globalisation and Economic Policy Centre's *China and the World Economy* programme.

Before joining the University of Nottingham in 2006 he worked with Oxford, Portsmouth and Middlesex Universities as a Research Fellow, lecturer, Professor and Head of Economics.

In an article published in the *Journal of Asian Economic Literature* he was ranked in the top 10 Chinese scholars specialising in the country's economy. He is chief editor of the *Social Science Edition* of the *Xi'an Jiaotong University Journal* and founder editor of the *Journal of Chinese Economics and Business*.

He has been a consultant to organisations including the World Bank, the EU and UNCDF.

About GEP

GEP is based at the University of Nottingham and is substantially funded by the Leverhulme Trust.

It is one of the major centres in the world studying the impacts of globalisation and economic policy, and its staff have advised organisations and institutions including the Treasury, the Bank of England and the World Bank.

In January 2008 it opened GEP in Malaysia at the University of Nottingham's Semenyih campus, and in November 2008 it launched GEP in China at the University of Nottingham, Ningbo, China.

The Centre is keen to promote its research work and is committed to communicating its expertise through the media and to assisting journalists whenever able.

Website: www.gep.org.uk

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The School of Contemporary Chinese Studies is widely recognised as a leader in high-quality, discipline-based degree programmes incorporating the study of China.

Established in recognition of the national and global importance of understanding contemporary change and transformation in China, it undertakes and promotes advanced interdisciplinary social sciences research into key aspects of the rapid changes in the country.

The School houses the highly-regarded China Policy Institute, which is the UK's only think-tank dedicated to the analysis of China policy. The Institute aims to expand knowledge about and offer insight into contemporary China.

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