

PROSPECTS FOR CHINA'S ECONOMIC DEVELOPMENT IN THE NEXT 20 YEARS

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The 3rd Plenary Session of the 11th National Congress of the Communist Party of China held in 1978 marks an important milestone in China's economic development. Since this historical event, some important changes have taken place in the Chinese economy: (1) The economic system has step by step stridden into a socialist market economy from the traditional central planned economy. (2) The closed economy is in a transition to an open one. (3) The pace of China's industrialization and urbanization has accelerated. These important changes in the economic system and structure have promoted the economic development. China has achieved an impressive economic growth since the launch of economic system reform and opening to outside world. The annual GDP growth averaged 9.6% from 1978 to 1998, much higher than the annual growth rate (5.98%) in the first three decades after the founding of the People's Republic of China, and than the world average in the same period.

Table 1. Economic Growth Rates in China and the Rest of the World (%)

	1980—1988	1989—1997	1979—1997
World	3.4	3.2	3.3
China	10.1	9.5	9.8
Developing Countries	4.3	5.7	5.0
Asia	6.8	7.8	7.3
Hong Kong, China	8.2	4.8	6.6
Malaysia	5.8	8.7	7.2
Republic of Korea	8.1	7.3	7.7
Singapore	7.3	8.5	7.9
Thailand	6.7	7.8	7.2
Latin America	2.7	3.1	2.9
Africa	2.3	2.6	2.4
Developed Countries	2.7	2.2	2.5
The Unites States	2.7	2.3	2.5
Japan	3.8	2.4	3.1
The European Union	2.3	2.0	2.2

Source: *Brilliant Achievements in 20 Years*, edited by the State Statistical Bureau, 1996

The rapid economic growth in the past two decades has led China to improve its people's life by quite a big margin and has greatly raised China's international standing. However, the

next two decades would be a crucial period for China's economic development. If we can maintain the relatively rapid growth in the coming period, we will be able to further narrow our gap with the developed countries, further raise the level and quality of the people's life, and lay a solid foundation for realizing the strategic objectives for the third phase of the economic development. The aim of this paper is to project the China's economic growth in the next two decades. We first analyzed the potentials and challenges of China's economic development. Then a dynamic computable general equilibrium (CGE) model of the Chinese economy was used to explore the possible growth scenario over the period 1995 to 2020 in areas critical for China's economy.

1. The rapid economic growth in China in the last two decades has mainly originated from the fast capital accumulation and improvement in the economic efficiency brought about by the economic restructuring and open-door policy

To look ahead towards the future economic development, it is important to review the past and current economic situation, since these represent the basic starting conditions and the underlying constraints for the future development. They also provide useful lessons from the success or failure of various policies.

From a long-term point of view, the potential of economic growth is determined by improvement in the productivity, change of the quantity and quality of capital and labor and their efficiency. The analysis of long-term growth should be based on the study of productivity, labor input and capital input.

The high growth rate achieved in the past 20 years mainly benefited from the fast accumulation of physical capital and the increase in productivity, while the contribution of the growth in labor force was relatively small. The study on the economic growth accounting shows that, in the period from 1978 to 1997, capital input contributed nearly 60 percent to the GDP growth, improvement in the total factor productivity contributed 30 percent while the expansion of labor force contributed only 12 percent.

First, the rapid growth in the capital input. Since the reform and open-door policies were adopted, the investment rate in China has maintained at about 35%. In the 20 years from 1978 to 1998, the investment rate in about a half number of years approached or exceeded 40%. One of the reasons for the high investment rate is the fast increase in the household income and the high saving tendencies. The total bank deposit increased from RMB160 billion in 1980 to RMB 9569.8 billion in 1998, of which the household savings increased from RMB 40 billion to RMB5340.7 billion with the proportion rising from 25% to 56%. Another reason is the large inflow of foreign capital due to the preferential policies for foreign investment. From 1979 to 1998, China had utilized foreign investment with an accumulative amount of US\$406.71 billion.

Second, improvement in the productivity. The following factors have promoted the improvement in the productivity:

- (1) Technical progress, which has increased the technical content of capital, and raised the output level of capital;

- (2) Improved education level of natives, which has increased the technical content of labor and raised the output level of labor;
- (3) Improved efficiency of resource allocation. The market-oriented reforms have promoted the rational flow of resources particularly of labor among different sectors and regions and improved the efficiency of resource allocation, and heightened the motives of enterprises to seek profits;
- (4) The demonstrative effect of foreign investment. Introduction of foreign investment has not only made up the inadequacy of domestic capital supply, but also introduced advanced foreign technologies and management experience, promoted the formation of competition mechanisms and the improvement in the competitiveness of domestic firms on both the domestic and international markets.

It is believed through a host of researches that the improvement in the productivity in the last two decades was primarily due to the optimized resource allocation as a result of the reforms, and then the contributions of improved micro efficiency of enterprises, technical progress, and the effect of foreign investment and foreign trade as a result of marketization. Technical progress is not the main factor of improvement in the productivity. The re-allocation of labor among industrial sectors and regions represents a very important source of growth. The transfer of labor force in large numbers from the agricultural sector of low productivity to the secondary and tertiary industries of higher productivity has resulted in the rapid economic growth. Study shows that the transfer of agricultural laborers contributed 0.8 to 1 percentage point amongst the average annual growth of 9.8% in the period of 1978-1997.

2. Potentials and challenges to the future economic development in China

In a middle and long period of time, the Chinese economy will still maintain fast growth, though the speed may be lower than that in the last two decades. This is because the deepened reforms and expanded opening up will further promote a sustained growth in investment and continuous technical progress.

- (1) It is estimated that the investment rate will be maintained at the current level of 35-40% in the next 5 to 15 years. There are many examples of maintaining relatively high savings rate and investment rate for a long period of time, such as the cases in Taiwan Province, Japan and Republic of Korea.

Sustained growth in household income will bring about rapid growth in household savings. Despite the impact of aging of population, there will be no remarkable change in the high propensity to save in China. Secondly, the stable political and economic environment and the huge market in China have a strong appeal to foreign investors. The increased standardization and transparency of the foreign investment policies after China's entry to WTO will strengthen the confidence of foreign business people to invest in mainland China. Therefore, there will be fast inflow of foreign capital in a long-term point of view.

- (2) The growth of labor force is expected to be about 1.2% annually in the next decade, which will meet the demand of economic growth for labor. With the development of

education and urbanization, there will be increasingly improved quality of labor force. Compared with the situation in the last two decades, human capital accumulation will play a greater role in the economic growth. The main problem in this decade in terms of demand for and supply of labor force is that the rapid growth in the labor force and economic restructuring may aggravate employment pressure.

- (3) While improving the quality of laborers, the implementation of the strategy of "invigorate the nation with science and education" will improve the ability of the whole nation to carry out technical innovation. While absorbing foreign investment, the opening up efforts will continue to introduce advanced foreign technologies and management experience. As a technologically less advanced developing country, there is huge potential for China in terms of technical progress, and it is expected that the contribution of technical progress to the economic growth will exceed that in the last two decades.
- (4) China is still on the way of industrialization, and the dualistic structure widely exists. The transfer of resources particularly labor resources amongst different sectors such as that from agricultural sector to non-agricultural sectors will result in further raised productivity and the growth in gross national output.
- (5) With the establishment of the structure of the socialist market economy, and the expansion and deepening of opening-up, the competition among enterprises will be intensified and will result in the improvement in the efficiency of overall economic activities.

Despite these favorable factors for the development in the next 20 years, we should also see the challenges and constraints facing China's future development.

(1) Constraints of natural resources

China is endowed with rich natural resources. But its large population results in the low per capita possession of the resources, and the quality of many kinds of the resources is relatively low. The area of arable land accounts for only 8.9% of its total land area and forestland is 13.39%. The per capita arable land area of only 0.08 hectares is even less than one third of the world average (0.26 hectares per person). The per capita fresh water stands at 2,300 cubic meters, equaling one fourth of the world average. On the other hand, the growing population and dwindling natural resource endowment are further diminishing the per capita possession of natural resources like fresh water, arable land, forest, grassland and minerals. Natural resources will be one of the restraining factors to fast growth of the Chinese economy.

(2) Environmental protection and sustainable development

Since the reform and open-door policies were adopted, remarkable achievements have been scored in China's environmental protection. While the scale of the economy has been expanded rapidly, the deterioration in the environmental quality has not happened concurrently to the degree that had been experienced by the developed countries from the 1950s to 1970s. However, China will still face grave environment problems as pollution is intensifying and the task to bring it under control is arduous. Coal accounts for over 70% of the non-renewable resources of energy and such an energy structure cannot be altered fundamentally in a long

period of time, thus air pollution is still posing increased pressure. The economic development will place China as one of the leading greenhouse gas emitters in the world. Although the per capita volume of the emission is still very low, the pressure to reduce it is on the rise. As for the water resource, on one hand, the dwindling per capita possession will exacerbate the unbalance in regional distribution, and, on the other hand, a growing quantity of sewage is being discharged to aggravate water pollution, adding to the debt accumulated over the past years. The disposal of solid wastes cannot be ignored either. If insufficient attention is paid to the ecological environment and no essential measures are taken, China's economic development will be constrained, and the benefits from the development will be offset by the deterioration of ecological environment, and it will be difficult to improve the quality of the people's life. We should put more resources to make more rational and economical use of our natural resources and into environment protection and control so as to achieve sustainable development.

(3) Population and labor force

China is abundant in human resources. Its demographic structure determines that in the next decade, the population of work age (15 to 64 years old) will keep growing quickly. The industrialization and urbanization will free a large number of laborers from the agricultural sector. Such a situation indicates that China has an abundant labor supply, but also means that sufficient new job opportunities must be created to cope with the employment problem brought about by the newly increased work force and the laborers transferred from the agricultural sector.

After entering the 21st century, China will soon encounter the challenge posed by an aging population. By 2002, over 10.15% of the population will be aged 60 years and above (SSB, 1996). Judged by the standard of aging society (according to the proportion of people aged 60 and above) defined in China up to now, China will enter an aging society by then. Even under the prevailing international criterion (according to the proportion of people aged 65 and above), China will step into an aging society no later than 2020. Different from the developed countries, China will turn into an aging society at the stage of lower middle-income. The increased burden of such an aging society will affect to a fairly big extent the consumption structure and the social development.

(4) Income distribution, regional disparity and poverty alleviation

China is a low-income developing country and also a country with a vast territory and a big population. There have been development imbalance among regions and income disparity due to varied locational, geographical and climate conditions, as well as humanistic and historical factors and different development conditions and speeds. Since the reform was started, China has achieved speedy growth in its overall economy with all the provinces, municipalities and autonomous regions having benefited from the growth, but these localities vary greatly in terms of economic growth rate. For example, from 1978 to 1995, the growth rate of GDP averaged 14.2% a year in Guangdong Province, while the rate was only 4.28% in Heilongjiang Province. Such a state of affairs has widened the gap in the economic development among regions and the gap tends to further widen in the coming years. To minimize the disparity among regions by coordinating regional economic development will remain an arduous strategic work.

China had quadrupled its per capita GDP in 1997 from the amount in 1980 and had greatly improved the living standards of its people, but there still exists a large poor population. Even in the relatively affluent provinces such as Guangdong, poor areas can still be found. It is estimated that 70 million people are living under the poverty line in Chinese cities and rural areas. Calculated according to the standard of the poverty line of one U.S. dollar a day set by the World Bank, 22 percent of the Chinese population are living in poverty. Poverty alleviation will be a problem calling for urgent solution for China in the future.

3. Prospects of the economic development in the next 20 years

Based on the different assumptions about the key underlying factors, we have simulated two alternative scenarios for the Chinese economy over the next 20 years, using a dynamic computable general equilibrium model. The first scenario assumes that the Chinese economy could maintain the past growth performance and achieve relatively rapid economic growth, which we call BaU (Business-as-Usual). The second scenario emphasizes that the risks and challenges in the process of future economic development could result in reduced speed of economic growth, which we call LG (Low-growth). It should be pointed out that the value of these scenarios analysis does not lie in predictive accuracy of specific economic conditions or events, but in revealing and clarifying the basic factors which are likely to influence the future economic growth and development. The comparison and analysis of the quantitative simulated scenarios can also facilitate our understanding of risks and uncertainties in our future economic development, so that we can define the future development objectives and strategies on a more solid basis. Therefore the GDP growth rate and other economic indicators should be regarded neither as a forecast, nor as upper or lower limits of the future economic growth rate.

(1) Population and labor force

In the next two decades, China's population will keep growing at a low pace and the growth rate will tend to further slow. From the year 2000 to 2010, the growth rate will fall to 0.82% from the current 1%, and will further drop to around 0.67% from 2010 to 2020. The population is expected to reach 1.47 billion in 2020.

The family planning policy China adopted in mid 1970s has reduced the proportion of children in the total population and increased the share of the working age population. In the period from 1980 to 1996, the total population grew at an average annual rate of 1.4%, but the growth rate for working age population (15-64 years old) increased by 2.1%. In 1997, the people aged between 15 and 64 accounted for 68% of the total population, while in other low-income countries and all the middle-income countries, the proportion of people of this age group in the total population stands at 57% and 61.5% respectively. The trend of rising proportion of working age population will continue to 2010 when the proportion will reach its peak of 71%. Afterwards, the slow fall in the children population and the fast aging process will gradually reduce the proportion of the working age population. From 2000 to 2010, the working age population will grow at an average annual rate of 1.23%, but the growth rates will decrease to 0.54% from 2010 to 2015 and 0.06% from 2015 to 2020, and the growth rate of working age population will be negative after 2025.

The proportion of the aging population will constantly increase in the next 20 years with the growth speed picking up remarkably from 2010. The annual growth rate of the aging population will stand at 2.5% from 2000 to 2010, but will rise to 4.2% from 2010 to 2020. In 2020, people aged 65 years and above will amount to over 10 % of the total population, leading China into an aging society.

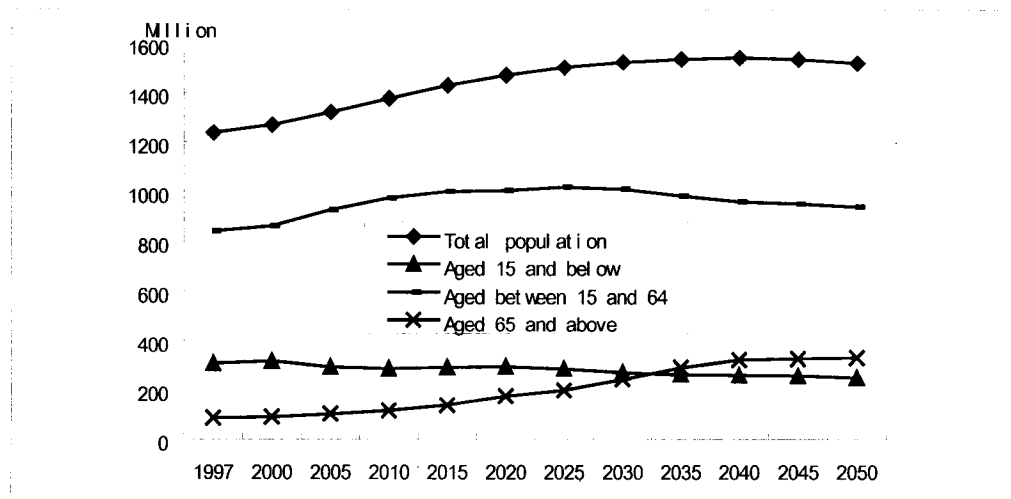
The changes in the age composition of the population will lower the dependency ratio by a relatively big margin in the first decade of the 21st century, but the number will gradually pick up after that.

Table 2 Population Growth and Age Composition (1997—2020)

Growth rate (%)	1997-2000	2000-2005	2005-2010	2010-2015	2015-2020
Total population	0.88	0.82	0.82	0.76	0.58
Aged 14 and below	0.95	-1.56	-0.34	0.28	0.16
Aged between 15 and 64	0.80	1.46	1.01	0.54	0.06
Aged 65 and above	1.31	2.60	2.33	3.58	4.83
Age Structure (%)	2000	2005	2010	2015	2020
Aged 14 and below	25.0	22.2	21.0	20.5	20.1
Aged between 15 and 64	67.8	70.0	70.7	69.9	68.1
Aged 65 and above	7.1	7.8	8.4	9.6	11.8
Dependency ratio*	47.4	42.8	41.5	43.0	46.8

Source: China's Population Information and Research Center

*Dependency ratio is defined as the ratio between the non-work age population (children population plus aging population) and the work age population.



Source: China's Population Information and Research Center

Figure 1 China's Population Growth, 1997-2050

The changes mentioned above have far-reaching significance to the future economic development and employment in China. They will not only determine the supply of labor force directly, but also produce indirect impacts on national savings and public expenditures. The fast growth in the supply of labor force and falling dependency ratio at the beginning of the next century will facilitate the rapid growth of the economy on the supply side, but will also pose grave challenges to employment. However, the slow growth of labor force and the increased dependency ratio after 2010 will result in the decelerated economic growth and falling level of savings. The increased aging population will add to the burdens of the social security system and further affect the economic growth.

(2) Economic growth

The baseline scenario is built on the relatively optimistic assumptions about the domestic and international policy environments for the future development of the Chinese economy. It assumes that, in the coming two decades, China will continue to pursue its reform and open-door policies; the socialist market economy system will be established and perfected step by step; agricultural labor force will be constantly transferred to non-agricultural sectors; the opening to the outside will be expanded and deepened, and the international environment will remain stable. And the combination of all these factors will enable China to maintain productivity growth rate in the next 20 years equivalent to the achievements made over the past 20 years. That is, total factor productivity (TFP) will keep growing at an annual rate of 2.5 to 3% .

Whereas the low-growth scenario reflects a relatively pessimistic assumption on the future growth, which stresses major challenges and risks for the future economic development in China:

- (1) The banking reforms and enterprise reforms are not entirely satisfactory, such as the slow development of the capital market, which will unavoidably lead to low efficiency in the use of capital in the beginning of the century and longer period of time;
- (2) The strategy of “invigorating the country with science and education” has not been implemented conscientiously. The elementary education has not been popularized and the quality of labor force has been improved slowly;
- (3) There are still obstacles for the transfer of agricultural labor force to secondary and tertiary industries with slow progress;
- (4) The changes in the mentality of residents have resulted in the reduced propensity to save and lowered level of household savings, while the investment rate can not be maintained at the level of above 35-40%;
- (5) While China gradually enters an aging society, the traditional mode of family support for dependents has been gradually disintegrated, while the government has to take considerable responsibility in terms of social security, leading to increased financial deficits and tax burden. In this scenario, we assume that, due to the above factors, the

The total factor productivity of the Chinese economy rose 2.9% a year on average in the 19 years from 1979 to 1997, among which the annual rate averaged 4.1% from 1990 to 1997 (Zhai, 1998).

improvement in the productivity could not be maintained at the level as in the last two decades. The annual growth would be only 1.5-2%, along with reduced household savings and slow transfer of agricultural labor force, which would be about the average levels in recent years. And after the year 2010, the public expenditure and the taxation would tend to increase.

In BaU scenario, China's GDP growth will average 7.3% a year in the period of 2000 to 2020. From 2000 to 2010, the average annual growth will reach 7.9%, but will slow down to 6.6 % from the year 2010 to 2020.

Economic growth in the next 20 years will still mainly count on the accumulation of capital and the improvement in productivity. As labor force stops to grow after 2010, its contribution to the economic growth will gradually decrease to zero. In the first 10 years of the next century, the expected fast capital growth along with the higher productivity will provide impetus to rapid economic growth. But after the year 2010, the capital growth will tend to slow down and labor force increase will gradually stop, dragging the annual average economic growth rate to drop by 1.3-1.4 percentage points from the annual average in the period of 2000-2010.

Table 3 Economic Growth and its Sources in the BaU (1990-2020)

Annual Growth Rate (%)	1990-1995	1995-2000	2000-2005	2005-2010	2010-2015	2015-2020	2000-2010	2005-2020
GDP	12.0	8.2	8.1	7.8	7.1	6.2	7.7	7.2
of which:								
Labor	0.5	0.5	0.7	0.6	0.3	0.0	0.5	0.3
Capital	6.4	5.1	4.9	4.4	3.9	3.3	4.4	4.1
Total Factor Productivity	5.1	2.5	2.5	2.8	2.9	2.9	2.7	2.8

In the period from 2000 to 2010, the fast growth in the capital stock will benefit chiefly from the sustained high domestic savings level and high investment ratio. The saving propensity of the Chinese people at a relatively high level is unlikely to change in a short period and the absence of a sound social security system demands an increase of their savings. Moreover, the relatively fast growth in the working age population and the decline in dependency ratio at the beginning of the next century will stimulate the savings rate to further climb. At the same time, the prudent fiscal policy adopted by the government will keep fiscal deficit at low or even zero level. These factors will keep the overall investment ratio at about 40% in the period from 2000 to 2010. But after 2010, the rise in the dependency ratio, particularly the aging population, will lead the savings level to decline. By 2020, the overall investment ratio will be down to below 35%.

In the low-growth scenario, we assume that the household propensity to save tend to decrease, while the public expenditures on social security, environmental control and some others tend to increase. And the overall savings level would be lower than the BaU, and the investment rate would be reduced gradually from nearly 40% in 2000 to 32% in the year 2020. The relatively slow capital accumulation would be one of the main reasons for the slow GDP growth in the low growth scenario. In this scenario, the annual GDP growth would be 5.9% in

the period of 2000-2020. In this period, the average annual GDP growth from 2000 to 2010 would be 6.6%, and 5.2% from the year 2010 to 2020.

Table 4 Economic Growth and Its Sources in the LG Scenario (1990-2020)

Growth rate (%)	1990-1 995	1995-2 000	2000-2 005	2005-2 010	2010-2 015	2015-2 020	2000-2 015	2000-2 020
GDP	12.0	8.2	6.9	6.4	5.6	4.7	6.3	5.9
of which								
Labor	0.5	0.5	0.7	0.5	0.3	0.0	0.5	0.4
Capital	6.4	5.1	4.2	3.7	3.1	2.6	3.6	3.2
Total factor productivity	5.1	2.5	2.0	2.2	2.2	2.1	2.2	2.1

4. Conclusions

(1) It is still possible for China to maintain its relatively fast economic growth in the next 20 years.

China has achieved rapid economic growth in the past 20 years, and still has the potential to maintain a high economic growth rate in the next 20 years. China will continue to stick to its reform and opening-up policies. It can be expected that the fast growth in its productivity can be sustained in the coming 20 years through establishing and perfecting the socialist market economy system, expanding and deepening the opening up efforts and implementing the strategy to invigorate the country with science and education. The total labor force will increase fairly fast in the first 10 years of the coming century. The accelerated process of industrialization and urbanization and the continued movement of large numbers of surplus agricultural laborers to the secondary and tertiary industries will provide sufficient labor force for the development of those industries. The massive agricultural force and the low capital/labor ratio supply us with the potential for further capital deepening in the coming 20 years, while the people's high savings rate will guarantee speedy capital accumulation. At the same time, the success in the reform of the banking system and the gradual establishment of the capital market will lead to higher efficiency in the use of capital. All these factors will give the Chinese economy the potential for maintaining fast growth in the next 20 years. Our scenario analysis based on the above preconditions shows that the potential economic growth rate will average 7.3% a year from 2000 to 2020, and the GDP in 2020 quadrupling the level of 2000 at constant price. By then, China's exchange-rate-derived per capita GDP will surpass US\$ 5,000, about the same as the world average per capita GDP in 1997. The total amount of GDP of China will exceed that of Japan, taking the third place in the world, next only to the United States and the European Union. It would draw close to that of the United States if measured by purchasing power parity.

It must be pointed out that the above estimation on the potentials for the growth of the Chinese economy reflects a potential long-term trend in the economy. Considering the reality of the radical reforms of the state-owned economic sectors and the fact that the factors that have resulted in the economic declination are likely to generate impact in the coming years, the actual economic growth may be slower than the potential speed. Restructuring of industrial sectors and the reforms of state-owned enterprises will force the inefficient enterprises to

withdraw from the market gradually, leading to decreased demand of enterprises for laborers, reduced stock and enterprise investment. The banking reform has increased the independent character of banks and their awareness of risks and reduced loaning to the inefficient investment projects. These institutional transformations and the changes in the enterprise behavior are beneficial in a long-term perspective and will improve the efficiency of the economy. In a short-term point of view, however, these factors will lead to reduced demand and depressed growth of the economy. When analyzing the long-term growth potentials, we assume that the productive factors such as capital and labor would be fully utilized. But at the transitional stage during which the structural adjustments take place, there are inevitably idleness, to a certain degree, of some productive factors such as labor. Therefore, in a mid-term period of 2 or 3 years, China's economic growth will be, to a certain extent, lower than its potential level. If we can reduce the transaction costs, accelerate the enterprise reform and promote the technological transfer to the domestic firms and the development of non-state sectors, it is possible to achieve a future productivity growth faster than that in the last two decades. And it is possible that, after a short period of declination, the economic growth rate will go up again. However, if the financial reform could not succeed and adapt to the challenge of opening up to the outside world, the growth of the Chinese economy would be depressed.

(2) Numerous challenges confronting future development

The economic growth described above is the possible scenario based on the assumption that all the factors contributing to the fast growth in the past 20 years would continue to be brought into full play. We should also note that there will be numerous difficulties, risks and challenges on the road of future development. These will include:

- the restraints of resource supply to the fast growth;
- the grave situation in ecological environment and the formidable task in the environmental protection,
- the 70 million people living in poverty, and widening income gap between urban and rural areas, among regions and among social strata which could affect social and economic stability.
- severe employment problems stemming from the fast growth in the labor force in the first 10 years of the next century,
- immense economic fluctuations as the result of mistakes in the macro-economy management,
- frictions and conflicts produced by the change of various interests in the reform process.
- after 2010, the increase in the aging population and the need for social security will also result in huge public spending, lowering the national savings level and exerting higher pressure on government expenditure.
- There will also be some risks and uncertainties in the future development, such as financial sector crisis and monetary crisis, government debt crisis, uncertainties resulted from aging population, challenge of globalization, etc.

All these factors are likely to hamper the role of the above-mentioned motives and potentials. Therefore, the well-chosen strategies, policies and measures will represent the prerequisites to turn the potentials into reality.

(3) The opportunities and challenges in the next 20 years will be not evenly distributed, and the period from 2000 to 2010 will be critical to the reform and development in China.

Because of the demographic structure change in the next 20 years, the Chinese economy will manifest different features in the first 10 years and the following decade of the 21st century. In the first 10 years, the fast growth in labor force and the continued decline in the dependency ratio will be very favorable to the economic development. But after 2010, China will start stepping in an aging society with the labor force growth slowing down to gradually sink to zero and dependency population, particularly the growth of aging people, going up. Consequently, the economy will experience relatively slow growth. Our analysis indicates that from 2000 to 2010, the potential annual growth of the Chinese economy can reach 7.9%, but slow down to 6.5% in the period from 2010 to 2020.

The aging of population will be an important feature for the period from 2010 to 2020, posing challenges to the economy and society. Growing aging population will bring down savings level and weaken the potential for economic growth. Heavier social security burden means greater public spending and government fiscal deficit, aggravating the tax burden and further affecting the economic growth. The expansion of the economic scale in the period will bring about greater resource and environmental pressures than those in the period from 2000 to 2010. Therefore, the challenges and problems will become more prominent in the years from 2010 to 2020, which will be a period of slow growth.

The features of the future development in the next 20 years signify that the years from 2000 to 2010 will be crucial to the reform and development in China. It requires us to grasp the opportunity of high economic growth in the first 10 years to keep forging ahead by stepping up the reforms of enterprises, banking system, social security system and other micro-economic fields. We should speed up the process of industrialization and urbanization, promote the development of science, technology and education and improve the population quality. We must bring into 2010 a Chinese economy characterized by a sound socialist market economy system, a fine economic and social infrastructure, the labor force with relatively high quality, a consolidated and highly efficient banking system and an effective but not enormous social security system. Only by doing so can we meet greater challenges in the future and bring about sustained rapid growth to better prepare for the next 20 years and lay a solid foundation for achieving the strategic objectives of the third stage development.

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