Grow China’s GDP through Investment, not Consumption

Everyone, or at least those with a public opinion, seems to believe the key to China’s GDP growth is consumption. We bet China's continued growth on investment.

NEW YORK, NY, THE U.S.A, August 1, 2013 /EINPresswire.com/ -- Many in the world are obsessed with predicting China’s GDP. It is obvious that China will not grow at double digits in the near future, or, perhaps, ever again. Everyone, or at least those with a public opinion, seems to believe the key to China’s GDP growth: invest less and consume more.

Forget about the fixation on increasing consumption; this is happening and will naturally continue with a growing middle class. In reality, in spite of its growth, for the foreseeable future consumption will not replace investment as the key driver of China’s GDP. Most Chinese feel they live with a sword of Damocles hanging over their heads, i.e., a fast-growing and rapidly aging population, soaring inflation and a growing deficit (RMB18.3 trillion or US $2.95 trillion) in the government provided “social security” program.

Our bet is on investment, not just in infrastructure projects such as highways, bridges or residential high rise buildings which China has in relative abundance, but on some industries that will not only significantly boost GDP growth, but also will have a big impact on people’s quality of life.

It is not difficult to identify some industries that meet these criteria. Environmental improvement and protection, first and foremost is an obvious candidate. China’s air and water quality is deteriorating as the result of two decades of destructive manufacturing activities. According to Elizabeth Economy of the Council on Foreign Relations, China is currently spending 1.3% of its GDP on environmental protection initiatives, half of which goes to infrastructure development and other projects not directly related to the protection. According to the European Commission, in 2011 the environmental protection expenditure of the EU-27 was 1.2% of total GDP. Given the severe environmental challenges facing China, much more investment should be channeled into this industry. It will help create more job opportunities, facilitate R&D and encourage more international companies to participate in China’s market and will result in more than just economic gain.

Another sector of the Chinese economy that presents tremendous opportunities for growth is the medical device industry. China’s per capita consumption in 2012 of medical devices was $14 vs. $370 in the U.S. Of the more than 16,000 Chinese manufacturers, the largest 200 comprised less than 20% of total production in 2012 and most of them manufacture low-end products which incorporate limited technology. More than 67% of medical devices consumed in China are imported.

In the past few years, some city governments, e.g., Suzhou, Jiangsu Province, have established successful industry parks to incubate biotech companies. But there is so much more that can and should be done. For example, both the central and provincial governments could help Chinese companies in the areas of technology licensing and commercialization by facilitating financing through establishment of seed funds. Additionally, the government could encourage local companies to focus on innovation through tax incentives and better IP protection.

In spite of heavy investment in Chinese public infrastructure over the past twenty years, there are still many ways to improve this type of investment in the future. For instance, China's bullet trains make traveling much easier and faster. However, many newly constructed bullet train stations do not have elevators or escalators. Passengers must carry or shoulder their heavy luggage up and down stairs, which are often seemingly endless, especially to those shouldering heavy loads. Once train travelers exit the station they often struggle to find public transportation. Few stations directly connect with a bus or subway terminal and obtaining a taxi is often literally a physical battle.

Needless to say, China still has tremendous growth potential. With a more thoughtful and prudent public and private investment approach, the country may continue to achieve sustainable high growth while also enhancing and improving the lives, health and overall well being of its people.

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