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Transcript

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## CHINA IN THE WORLD PODCAST

Host: **Paul Haenle**

Guest: **Yukon Huang**

Episode 45: Debunking More Myths About  
China's Economy

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**Haenle:** You're listening to the Carnegie–Tsinghua China in the World podcast, a series of conversations with Chinese and international experts on China's foreign policy, international role, and China's relations with the world, brought to you from the Carnegie–Tsinghua Center here in Beijing. I'm Paul Haenle, the director of the center and I'll be your host.

Today we're delighted to be speaking with Yukon Huang, senior associate in the Carnegie Asia program. Yukon's research focuses on China's economic development and its impact on Asia and the global economy. Previously Yukon was the World Bank's country director for China and for Russia. He's an advisor to the World Bank team that prepared the joint Chinese government–World Bank China 2030 report. He's also an A-list commentator for the Financial Times and is working on a new book to be published later this year, entitled *Why Do Views on China Differ So Much?* and today, we're going to preview some of his answers on our podcast today. Yukon, thank you for joining us in Beijing, where we consider you here an honorary member of the Carnegie–Tsinghua team. Thank you for joining the podcast today.

**Huang:** It's a pleasure to be here, Paul. I come here three to four times a year, have an apartment here, I love it when I'm here.

**Haenle:** We do as well, because you have a lot of important things to say. And as I mentioned, we are interested in understanding why Chinese economic issues generate such different and extreme views. Why is the commonly accepted wisdom on these issues often misguided, how incorrect are assumptions by economists and policymakers, how can these impact Chinese economic policy? One of the things you do very well, when you come to China is you take that conventional wisdom and you examine it closely and sometimes turn it on its head. You live in Beijing part-time, I live here year-round. We know the challenges that the city faces with congestion, with traffic, overflowing sidewalks, rising rent prices, competitive and overcrowded schools. These realities lead most Beijing residents, and friends that I have here and visitors, to assume Chinese cities are too big, and too crowded, too large. And, in your analysis, do you come out in the same place?

**Huang:** Well, this is a dominant impression in China, certainly a dominant impression in Beijing or Shanghai. The government's policy therefore is to say, "If you want to move from rural areas to the cities, you can go to the smaller cities. Don't go to the big cities." My view is, this is wrong. And the reason it's wrong is that the best jobs are in the biggest cities, they're more productive. If you look at mega-cities globally—mega-cities are defined as cities with a population more than 10 million—and you compare China's mega-cities globally, you will see that China's big cities have lower densities of population than other big cities globally. And, that's because China's big cities are too spread out.

Here in Beijing, when I moved here early in 1997 to take my job, they had just finished the third ring road. Today we have the fourth, fifth, sixth, and seventh. And we encourage people to live further and further out. And the reason we do that is because the way China's cities manage land development, it's easier for them to make land available for development further out. They actually discourage dense development in the interior, so it's less dense, people have to drive further, it costs more to provide roads, schools, sewage facilities when you spread out, you get more traffic congestion. Ring roads are terrible for traffic. So, everyone gets stuck, and you have more pollution. So, my point, and I've written about this in various articles, is that if China's cities were bigger, if the largest cities were bigger and more densely inhabited, it would be less polluted

and the traffic problems would be easier to deal with, and the common wisdom out there tends to be the opposite.

**Haenle:** Let's turn to some external economic and trade issues. China trade surpluses are often pointed to as the major factor which causes U.S. trade deficits. U.S. losing jobs to China, money, excessive amounts of American dollars being invested in the United States. Can you talk about this dynamic and give us your sense of this conventional wisdom that we read about often.

**Huang:** This is certainly a source of tension between the United States and China. Most Americans in many business communities, and even labor associations, believe that China's huge trade surpluses over the last 10 years are the principle reason why America has such large trade deficits, and they carry that argument even further to say this is the reason why the United States' manufacturing has been depressed, and why jobs are being lost. If you look at the situation, the basic point to make is that China's trade balances, its surpluses, have nothing to do with America's trade deficits. And, the easiest way I can explain this is to say that America's trade deficits really became huge around 1999, 2000, and they've stayed at that level for the last 10 years, and only began to moderate more recently. So, it's a problem.

America's trade deficit problem can be traced to policies a decade and a half ago. China's trade surpluses only started to emerge significantly around 2003-2004, five or six years after America had already exhibited a major trade deficit. So, there's no logic in saying that China's trade surpluses caused America's trade deficits, they already existed six, or five or six years, before China became a significant surplus country.

**Haenle:** Interesting. Recently, a Chinese scholar at the Chinese Academy of Social Sciences said that, "Where we have seen over the past 30 years, huge amounts of foreign investment going into China," that the next phase for China is "to begin to push that, their own investment, outside of China." And, you begin to see some of this through Xi Jinping's announcement of a new Silk Road, China's announcement of the Asia Infrastructure Bank, the BRICS Bank. Can you give us a sense for what China is trying to do here? What are their objectives and how will this have an impact both regionally in China's neighborhood but also beyond?

**Huang:** Until recently, when you talk about foreign direct investment, you're really talking about money coming into China. So, China was either the first or second ranked most popular destination for foreign direct investment for the last 20 years. What you're going to see in the future is that outward flow. Outward flow of money from China, whether it's in FDI, loans, or commercial transactions, they're going to exceed the FDI amounts coming in. So, it's going to be a reverse process. Now, some of this has occurred, fairly substantially, into Latin America or Africa in the last four or five years, largely driven by resources. Now it's going to be much more centered toward what I call either money flowing to the U.S. and Europe for a variety of reasons, but increasingly within the Asian region, because of China's wish to help develop or fulfill the need for greater infrastructure in Asia. Most of these Asian countries have deficit savings within their economies, they don't have the resources. China is a savings surplus country. So, it's quite logical for China to say, "I will use some of this surplus," to basically support infrastructure investment in Asia, which builds more connectivity among the Asian countries.

Now the alternative, before all this, was essentially excess savings in China invested in United States Treasury bills or European bonds. This proposal essentially says, "Let us now use

this directly to finance more investment infrastructure in Asia," and whether it's the Silk Road Fund or the infrastructure fund, the Asian Infrastructure Bank or even the BRICS bank, China's going to be re-channeling its surplus savings into these vehicles to support more infrastructure. Now, I think this financial involvement, this outreach, is also designed to complement its external policy outreach, to try to improve relations with its neighbors, because of the tensions which have arisen over the last seven, eight years, particularly because of the island disputes.

**Haenle:** We've seen a real effort by the Chinese leadership to try to convince countries on its periphery that not only is its rise not threatening, but that countries on China's periphery will benefit from China's rise. And, I think this is one way they are trying to demonstrate that. In addition to that benefit that the Chinese get, how will the more developed infrastructure—clearly there's an effort there by the Chinese to develop that infrastructure, to bring resources and minerals and other resources that it needs, energy resources into China. That's also in their thinking, would you agree with that?

**Huang:** Well, China sees it as being mutually beneficial. They need resources. They need more trade connections. They need good relations with their neighbors. What differentiates China with, let's say, Russia? Russia, until recently, had oil. And, it felt like other countries depended upon that, on Russia. So, it actually felt that foreign policy, good relations, wasn't critical, because people would depend upon them.

China exports a broad mix of product lines. It flourishes in a good global trading economy, it needs good relations. So, the concept Xi Jinping has been putting forward, going beyond the China Dream, to the Asia Dream, is a concept of greater inclusion among all these countries, and a greater trade and investment regime which brings broad benefits to everybody. "You need more infrastructure, you need to grow more rapidly. I need your resources, I also need your markets for my finished products. This should be mutually beneficial."

Now, whether it turns out to be mutually beneficial, of course, will vary from country to country. China used to generate a lot of imports for many ASEAN countries, for example. It had tremendous trade deficits with lots of countries in Asia. Those deficits actually have moderated in recent years. So, some countries in Asia are now beginning to say, "Well, I need a relationship," whether it's an investment relationship or a trading relationship, but they're also asking themselves, "Is China going to be a big enough market for me? Are they going to continue to buy my goods if they're not just raw materials?" So, these are what I call "normal, political socio-economic tensions," and I think it's part of the discussions and concerns one has to look at for the coming years.

**Haenle:** Well, I've taken your, a lot of your time, I want to have one final question. I want to go back to the topic of your book, which you're writing which will be published later this year, called "Why Do Views On China Differ So Much?" And, I want to just ask, why is it easy to go online, or read a newspaper, see a respected scholar or economist offer such widely different views on China? What affects this? Which factors matter the most?

**Huang:** Well, let, let me try to sort through a variety of things that matter and pick out four particular points here. More than any country that we're familiar with, geopolitical positioning views toward China change dramatically depending upon whether you're in Washington, Brussels,

Tokyo, or in the region. You either have positive or negative perceptions of China, both for economic, but also for political reasons. And, that just makes it different.

The second issue is, that China shares with the United States one key characteristic: they're huge. And when they're huge, and when there are large regional variations, you cannot simplify and generalize from one economic indicator, and people tend to do so. And so, a Beijing is not the same as a Chongqing. Likewise, Kansas City is not New York, but people try to make it sound that way.

Now, third, there are vested interests in China, as there are in any other country. There are institutions in China, but they're different from the kinds of market institutions you see in the West. Therefore, what is an appropriate or an efficient policy response in China is not the same as you see in other countries. So, we tend to look at that, in that kind of textbook or traditional western framework—

**Haenle:** (simultaneously) Project our thinking.

**Huang:** —project our thinking. We misinterpret the nature of the reform or the action in China, and tend to say it's not going to be effective or it's not good enough.

And lastly, let me just point out, people look at China's economy and—they look at the financial system, the markets, the labor force, the industries, these ghost cities, whatever—they tend to see huge distortions and problems and inefficiencies. And the answer is, these are real. There are a lot of problems, there a lot of inefficiencies, there are lots of distortions in China, more so than in other countries. Yet we have this strange kind of irony that, despite these distortions, they've grown at such huge rates for three decades.

Now if China could address these problems, these remaining distortions, it also says to us that there's still a lot of potential for better outcomes in the future than there are today. Therefore, they could increase or grow, increase the GDP, grow by seven percent or seven and a half percent a year for another decade—

**Haenle:** If they can address effectively—

**Huang:** (simultaneously) —if they can address these things. There are very few countries that we actually say, "Do this, this, and this, and you could grow at this kind of rate for 10 years." And, that makes China actually really different. It doesn't mean that they will actually succeed. But, this is the challenge the leadership has had to face over the last three decades, and the question is whether this new team can do the same.

**Haenle:** Well, as usual, Yukon, you offer different views outside conventional wisdom and I find it fascinating to talk with you. Thank you so much for spending time with us today here at the Carnegie–Tsinghua Center, you're welcome to come back as often and as much as you'd like. That's it for this edition of the Carnegie–Tsinghua Center China in the World podcast. If you'd like to read Yukon's new paper on China debt, you can find this and other articles on the Carnegie website at [www.ceip.org](http://www.ceip.org). I encourage you to visit and see the work of all our scholars at the Carnegie–Tsinghua Center. Thanks for listening and be sure to tune in next time.