

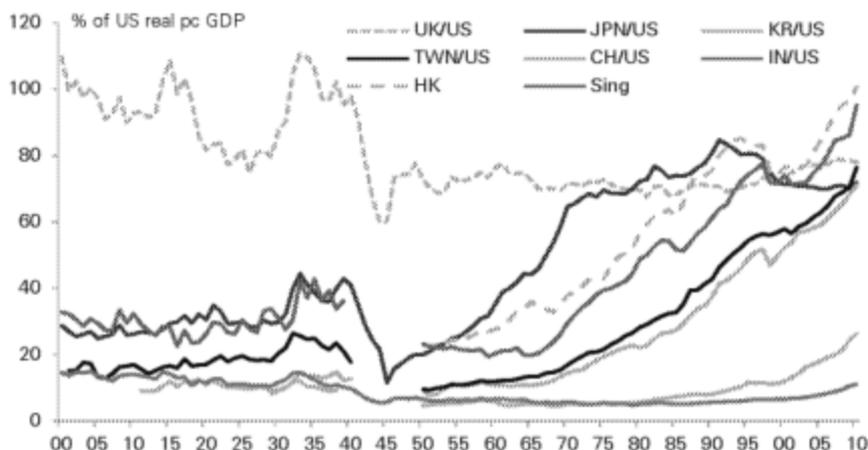


production function approach to measuring potential growth would be a little lower.² All of the different measures of potential growth reported in that study, though, agree that it is slowing. The main culprits, they note, are slowing total factor productivity growth and a declining marginal productivity of capital.

So, a reasonable baseline for growth in China is that its underlying tendency will be to slow unless reforms are implemented to improve capital allocation and foster productivity growth. Maliszewski and Zhang refer to forthcoming work that argues that if China implemented the reforms announced in the Third Plenum in 2013, the economy could continue to “sustain long-term growth at the path broadly consistent with the experience of fast-growing Asian economies” (p. 19).

As an indication of what that might mean, we plot below the level of per capita real USD GDP in a number of economies relative to that of the United States since 1900. We hesitate to call it a regularity, but the advanced economies for the most part show a pattern similar to that of the UK: having in some cases initially been richer than the US, the latter caught up and passed them or at least grew relatively quickly in the first half of the last century and income levels in Europe have stabilized at about 70% that of the US. Japan’s explosive post-WWII growth saw its relative income level rise from about 20% of the US level at the end of the war to about 70% in recent decades. “Catch-up” in this respect took about 40 years.

Figure 3: 110 years of real per capita GDP relative to the US



Sources: Penn World Tables PWT 8.1 and Deutsche Bank Research. Feenstra, Robert C., Robert Inklaar and Marcel P. Timmer (2015), “The Next Generation of the Penn World Table” forthcoming *American Economic Review*, available for download at www.gdpic.net/pwt/.

Intriguingly, it took Hong Kong, Singapore, South Korea and Taiwan also about 40 years to take per capita incomes up from about 20% of the US level to about 70% in 2010 (higher, at least in 2010 in Hong Kong and Singapore).

China only reached 20% of US real per capita incomes just as the GFC began, having doubled its relative USD per capita GDP in only eight years. If it implements the right policies and repeats the East Asian “miracle” countries’ experience, then its period of high growth might continue until 2040. As an exercise, with US per capita growth assumed to be 1.8% -- its long-run average growth rate -- China could reach 70% of US per capita GDP in 2040 even if its growth rate slows by nearly 0.2% per annum. Note that at such a

²See Maliszewski, Wojciech and Longmei Zhang, “China’s Growth: Can Goldilocks Outgrow Bears?”, IMF Working Paper WP/15/113, May 2015.