# If Exports Shrink, What will Drive China's Growth?

Both the domestic and foreign markets matter for the Chinese economy. Nevertheless, the contribution of the domestic market has risen over the past decade.

At the same time, China's exports as a percentage of its GDP (which previously ran above 30%) began to decline after the 2008 global financial crisis, have now fallen below 20% and will continue to trend downward in the future.

China has grown much faster than the rest of the world. As the size of its economy increases, China's export growth (or the growth of overseas demand) will inevitably lag behind that of the overall economy, resulting in a shrinking share of exports as part of the GDP. Furthermore, as the world's second largest economy, China's reliance on foreign markets is naturally lower than smaller economies. Nevertheless, in the short run, turmoil in the global market and a gloomy world economic outlook are bound to negatively impact China's exports.

This, however, doesn't herald a growth bottleneck for most companies in China since the Chinese market itself is big enough. Before China's reform and opening-up, Western European and American markets collectively represented a population of merely 650 million (less than 800 million even with the addition of Japan). Nevertheless, these economies managed to prosper by acting as each other's trade and investment partners, without forging any significant trade ties with the former Soviet Union, Eastern Europe or many developing countries.

This doesn't, however, mean China can close its door to other economies. In 2020, the Chinese government repeatedly reaffirmed its commitment to establishing a 'dual circulation' development pattern, in

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which domestic and foreign markets can boost each other, with the domestic market as the mainstay. The pronouncement of this policy demonstrates that China will give full play to its domestic market while continuing to open up to the outside world.

What then are the key driving forces underpinning China's rapid economic growth in the past few decades? To what extent has international trade contributed to this growth?

The world's merchandise trade-to-GDP ratio has shown a general upward trend, climbing from less than 20% to roughly 50%. Unfortunately, however, this uptrend stalled after the 2008 global financial crisis. Over the same period, global economic growth has fluctuated greatly and generally trended downward. Nevertheless, we can at least see that trade itself does not determine economic growth.

So, if trade and globalisation haven't played the decisive role, what are the real driving forces behind China's growth?

There are three engines of economic growth – investment, education and technological progress. These are different from the popularly known troika of consumption, investment and exports (the three demand factors affecting short-term economic fluctuations).

We shouldn't confuse long-term economic growth and short-term economic fluctuations. In economics, 'economic growth' is normally defined as a sustained rise in productivity. In the long term, a country's consumption and exports are determined by its ability to produce competitive products. A country is poor not because its people are reluctant to consume, but because it suffers from a generally low level of productivity. In China's case, however, its extraordinary economic growth is mainly driven by internal factors.

In addition, compared with other developing countries, China has some unique cards up its sleeve – namely, savings and education – which financially and intellectually enables China to learn and absorb Western technologies. In addition to human capital, investment is also essential for the adoption of advanced technologies.

It is worth noting that domestic demand involves not only consumption but also investment – the latter of which actually has a greater impact on economy. In terms of investment, private sector investment deserves the highest attention since, when it declines, a sluggish economy often follows. To bolster China's private investment, it is important to create a positive business environment supported by more consistent and stable policies. As such, the Chinese government may decide to focus on fostering investor confidence and sense of security of property rights, while avoiding intervening too much in daily operations of private companies.

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