IS THE CHINESE GROWTH MIRACLE OVER?

JULIAN HODGE INSTITUTE OF APPLIED MACROECONOMICS

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David Smith is the author of several books, including The Rise and Fall of Monetarism, Mrs Thatcher's Economics, North and South, From Boom to Bust, UK Current Economic Policy, Eurofutures, Will Europe Work?, Free Lunch: Easily Digestible Economics, The Dragon & the Elephant: China, India and the New World Order and, most recently, The Age of Instability: The Global Financial Crisis and What Comes Next. He has his own website www.economicsuk.com. He was born and brought up in the West Midlands and studied at the Universities of Wales, Oxford and London. He is a visiting professor at both Cardiff University and Nottingham University, and has lectured at Nottingham's Malaysia and Ningbo (China) campuses. He has won a number of awards, including the Harold Wincott Senior Financial Journalist of the Year Award and the 2013 Economics Commentator of the Year Award.

JULIAN HODGE INSTITUTE OF APPLIED MACROECONOMICS

In May 1999, Cardiff Business School and Julian Hodge Bank entered into a significant collaboration, resulting in the establishment of the Julian Hodge Institute of Applied Macroeconomics. The main aim of the Institute is to carry out research into the behaviour of the UK economy, and to study in particular its relationship with the other economies of Europe. The Institute's research work further extends across international trade, money and banking, international finance and econometrics, in a collaboration between around twenty academics, mostly in Cardiff, and some thirty PhD students.

The institute's director since it was founded has been Professor Patrick Minford, of Cardiff Business School, who is also the Economic Adviser to Julian Hodge Bank. Apart from its research projects the institute carries on the forecasting and modelling work which Minford began at Liverpool University and has been based mainly in Cardiff for more than a decade, producing forecasts and policy analysis of the UK and other major economies.

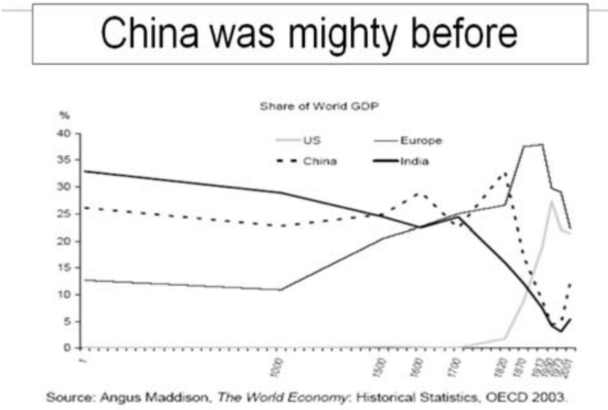
IS THE CHINESE GROWTH MIRACLE OVER?

I am extremely pleased and honoured to be giving this Julian Hodge annual lecture and to be doing so in Cardiff, a city I studied many years ago. I am very grateful to the Julian Hodge bank for arranging and sponsoring this.

We decided on the topic of China some time ago and I hope to demonstrate to you that it is relevant. It is very appropriate to be talking in Cardiff about China. Cardiff as befits a great port city, has long had important connections with China and a large and vibrant Chinese community here. In fact when I was a student I used to think that Canton in Cardiff was a reflection of those Chinese connections but I later discovered that it appears to be derived from the name of a 6th century saint. Even so, those connections are very important and these days of course the links are stronger than ever. Cardiff is twinned with Xiamen, a "modest" Chinese city, with a population of three and a half million people. There are strong connections between China and the university, with very many Chinese students studying here. Academic cooperation between Cardiff and Chinese universities is both growing and proving very fruitful.

I have two aims today which will lead me towards an answer to the question: is the Chinese growth miracle over? The first aim is to give you a potted economic history of thousands of years of Chinese progress (in some cases lack of progress). The second aim is to examine some of the challenges currently faced by China and how it is likely to deal with those challenges. So let me begin.

So let me start by going back a long way in history to where China was in the distant past, maybe not as distant a past as the terracotta warriors but certainly a long time ago. This is one of my favourite charts, not least because there are very few in economics that go back 2,000 years. It represents shares of the global economy – world gross domestic product - going back from the end of the 20th century right back to year zero, so 2,000 years of economic history encapsulated in a single chart.



There are two interesting lines. One is for India, the bold line at the top which shows that for quite a long period India was a larger economy than China. The Chinese line is the dotted line. Go back 2,000 years and China accounted for around about a quarter of the global economy - a very important economy. That continues through to more recent times when it overtakes India and becomes a bigger economy. In relatively recent economic history China and India between them accounted for 50-60% of the global economy and China alone 30-35%. Then two things happen: one is the European industrial revolution, and then the second industrial revolution – in America. Over this period the importance of China diminishes because of the rise of the West and industrialisation. One reason China was so economically important was because it had a big population; it has a big population now and by the standards of those times had a big population then, more than double the population of Europe.

So population is obviously an important driver of prosperity and that was the case for China. But also economic and technological development was very important. We didn't really know the extent of technological development in China in distant times until a Cambridge academic called Joseph Needham discovered the scope and the range of Chinese inventions; gunpowder, the

plough, pig iron smelting as long ago as the 11th century and so on. In many ways the 1st industrial revolution was in China and it is a puzzle in some ways why there was no follow-through from that. Many of the processes Europe subsequently successfully developed, China did not really do anything about. It is a bit of a mystery.

One possible answer is that for reasons that aren't immediately obvious, China decided not to engage with the world and to turn its back on the world in trade.

There is the very famous trade mission, possibly the first British trade mission. This was the mission of Lord McCartney to China; he took an array of British industrial products and cheated slightly by taking some German products as well. He presents them to the Emperor and the Emperor's court and this is the response of the emperor in a letter to George III:

"I set no value on objects strange or ingenious, and have no use for your country's manufactures,"

Emperor Qianlong, letter to George III, 1793.

Now there are two theories about this. One is that he genuinely didn't think much of the products that the trade mission was trying to get China to buy. The other is that there was a realisation even then that China had been left behind technologically and the rejection was almost an expression of defeat: we can't compete with these Western products. Either way China both lost her technological lead and became closed to the world. China became very much a closed economy. If we move more recently to the period after 1949 this is the weakest phase of Chinese economic development. The Chinese government after the revolution had advisers from the Soviet Union to advise on five year plans - economic planning for a controlled economy but a very inefficient economy. Russia's five-year plans were not particularly successful and China's experiment with economic planning was even less successful. In fact it was a 30-year period of failure. It was a time of few economic freedoms and, of course, no political freedom. This was not China's finest hour.

Deng and the revival

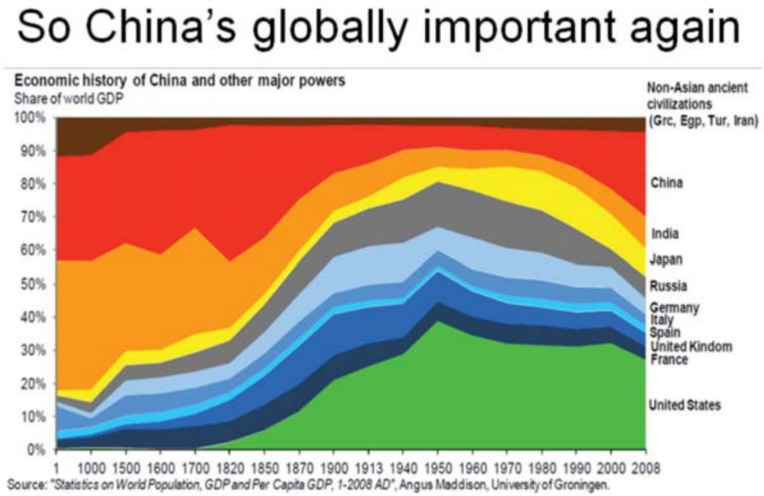
Then things changed, with the arrival of Deng Xiaoping after Mao. Maybe some of the Chinese people in the audience could enlighten us about the fact that if you go to China even now there are many images of Mao. There are not that many images of Deng Xiaoping. For me as a visitor from outside, he is not seen as the economic saviour that in my view he should be. Mao is still on the bank notes; there are posters of Mao all over in Beijing and the other cities, less so Deng Xiaoping. He hasn't achieved the recognition at home I think he deserves. Under the Deng Xiaoping reforms China emerged as a modern economic success.

I think it is fair to look at the reforms as a two-stage process. It was all about a fairly simple economic principle of introducing incentives into the economy where previously none have existed: under the old centrally planned system farmers for example would produce up to their quota and had no incentive to produce any more. By allowing them to keep their surplus production or to sell it on you introduce an incentive into the system - a market based incentive - and suddenly you get a lot more production, so the

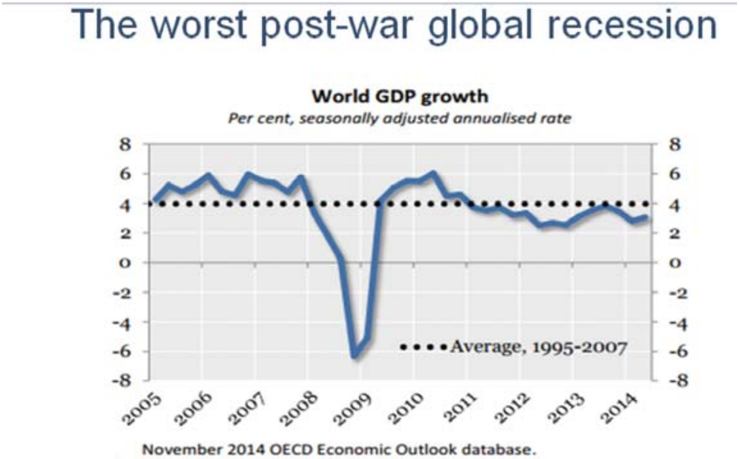
early liberalisation began in the agricultural sector then it spread gradually throughout the domestic economy. The second stage occurred after Deng's southern tour and this was opening up China to inward investment in a big way. From the late 70s to the early 90s, even while reforming domestically, China was still a relatively closed economy. Opening it up to inward investment meant China becoming the location of choice for manufacturers and multinational manufacturers: the second big stage of Chinese economic reform.

And so China becomes a big success story: a closed economy before, then the open economy and the poster boy of the globalisation era, and you see that dramatically in the figures, with the sudden acceleration of growth. If you grow by almost 10% a year- and China has grown by an average of 9.5% a year since 1978 when these reforms started to take effect - the compounding effects as that accumulates are extremely dramatic. Of course it didn't happen immediately, and it was a long time before anybody regarded China as a modern economic miracle. But the cumulative effects on GDP were dramatic indeed. Compare China's place now in the world economy with the 1970s and the end of the Mao era - probably the low point for Chinese economic influence on the rest of the world.

The 1970s was a period where some of the great groupings came together that we think about these days: the G5 the G7 and so on. They came together to deal with the oil crisis and all the things that were happening in that era and of course nobody would have even dreamed of inviting China along not just because China was a different sort of country - a communist country - but also because it was almost economically irrelevant. China had a very small share of the global economy; it was not regarded as a significant player at all. It had a big population but a very poor population. China was not invited along for those meetings because it just wasn't important enough. That was its low point in the 1970s. You see that change dramatically over the following three decades in the following chart:



The low point in the 1970s is where the red band which is China becomes pretty small; significantly below 10% of the global economy. By the time of the global financial crisis in 2008 China is important and is a significant player. That was why in the global financial crisis new groupings were formed, mainly with the aim of getting China involved. So the G20 became an important decision-making body mainly because it included China. When the global financial crisis came along – the first stirrings were in the summer of 2007 - initially it wasn't clear how serious a crisis this was. But quite quickly, you will remember, we had problems with our banking system; the run on Northern Rock was in September 2007. Then we had the really deadly phase in the autumn of 2008 running into 2009 and a banking system really in quite deep trouble. By 2009 we had the worst, comfortably the worst, global recession of the post war era.



The chart is of a measure put together by the OECD so it is more biased towards advanced economies but I think it gives a fair reflection of that "falling off a cliff" time we saw in this period once the financial crisis really hit hard. It was almost as though an economic switch had been turned off, and not just in financial markets. Trade slumped, economic activity in general slumped, and there was a broad based loss of confidence not just in the financial system but in the wider economic system.

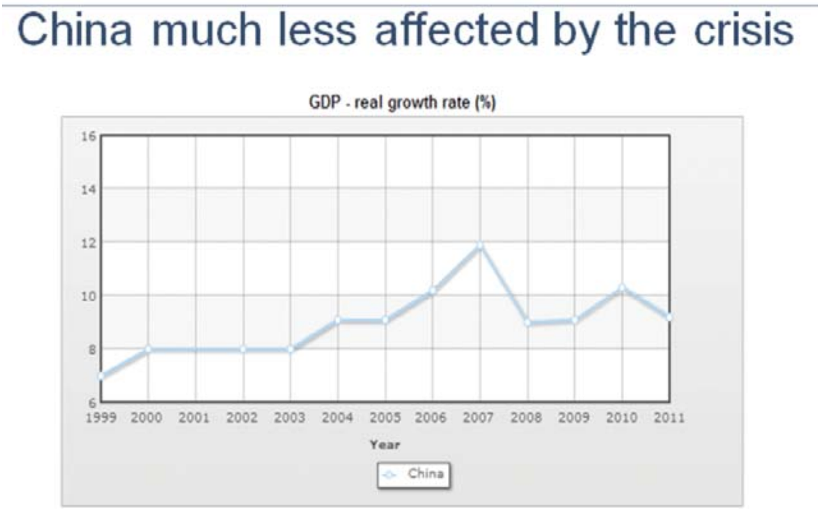
What we have had since then for advanced economies is the post crisis hangover, so when people talk about what's happened to economic growth since the crisis, all advanced economies have had to deal with "hangovers" affecting growth. One is dealing with the large budget deficits that developed as a result of the crisis so there has been a fiscal hangover. The second has been repairing damaged financial systems, damaged banking systems which has meant weak credit growth. Credit is the oxygen of the modern economy; if you don't have credit growth it is quite difficult to have very much economic growth so that has been the second hangover, the

banking hangover. Of course it has been particularly painful in the euro zone.

If you go back to the summer of 2007 and even for a time after that, there was a view you would get from European finance ministers that Europe was going to be a zone of stability in the crisis. It was somehow just a big Anglo Saxon event, based on huge over-exuberance, and would affect Britain and America but Europe would sail through. In fact Europe and the eurozone in many ways became the epicentre of the crisis and certainly the epicentre of the post crisis hangover. Across Western economies, and particularly in Europe, we have had post-crisis recoveries that have been weaker than every other post-war recovery. The fall was bigger and, because of the twin hangovers, the recovery has been slower. Slow recovery was a feature of the UK until a couple of years ago but it has applied everywhere else as well, including America.

If we look at what happened in China, China was growing very rapidly on the eve of the crisis- growing by almost 12% - and when the crisis hit in the autumn of 2008, everybody went along to these G20 meetings and asked: "What can you

do?". In the case of China is was quite a lot. China could announce a fiscal stimulus of $600 billion and they could do what is quite difficult for most Western governments to do which is instruct the banks to lend. That is an advantage of having a more controlled economy. The result of that was although Chinese growth did slow down when the crisis hit it slowed down quite modestly. I always think the year that brings out the big difference between China and the West was 2009 when the Chinese economy grew by around 8% and the US economy shrank by about 4% - that was a big and important difference, as shown in this chart.



The chart shows the evolution of Chinese growth in the run-up to and during the crisis. In the late 1990s China has a relatively slow growth rate by its standards and that was because in 1997/98 there was the Asian financial crisis, which China was caught up in. Many people see the resilience of China more recently as partly because countries like China and other Asian economies had a rehearsal for the global financial crisis; they didn't want to become as vulnerable again as they were during that crisis. In China's case it meant ensuring you could respond when things turned difficult, when your export markets turned down very dramatically. Chinese growth thus continued through the crisis period. That had interesting effects on China's place in the world, as already described.

If you look the famous Goldman "BRICs" projections; projections for Brazil, Russia, India and China, pre-crisis they show that China would probably overtake Japan sometime around 2015-2016, so roughly now. Then maybe Chinese GDP would get to be as big as US GDP around 2040 or perhaps a little bit later than that. As you can see the effect of the crisis was to bring that forward very considerably so China's GDP actually became bigger than Japan's in 2010, a few years earlier than expected before the crisis. Now on this measure it will become bigger than America's in the 2020s.

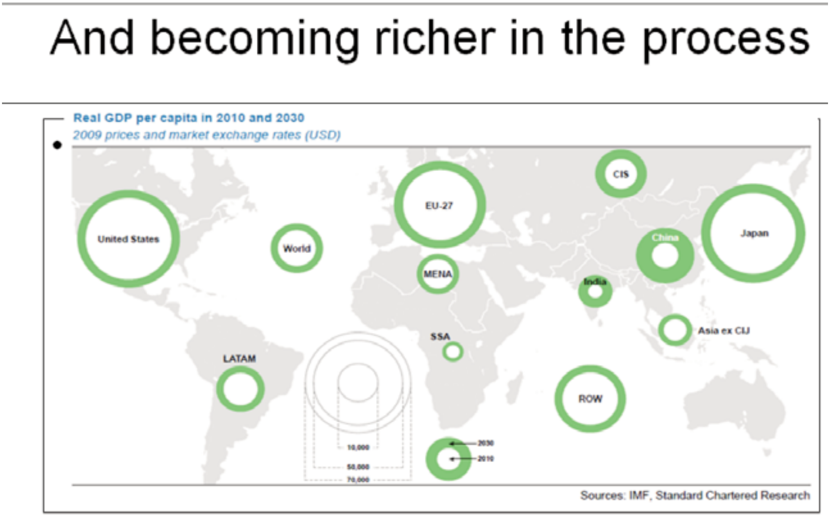
On some measures it happens sooner still. People have different ways of measuring GDP but if you measure it based on what economists would call purchasing power parity, when you adjust for the different prices in different economies (and of course price levels generally are lower in China than they are in the West), on this (IMF) measure China had already become a bigger economy than America in 2014. It shows that China's GDP in 2014 was $17,617 billion and America $17,419 billion. Britain, by the way, is way down at $2,549 billion.

Perhaps more important than the numbers is the way China has become the driver of the global economy so that many countries particularly countries in Africa, in the rest of Asia and in Latin America, look to it for a source of economic growth. Having previously thought that it was all about what was happening in Western Europe or in America they start to look to China as the driver of demand. Whether it be for commodities or other products China becomes the locomotive at least for a significant part of the global economy.

People will ask whether it is appropriate to talk about a global locomotive; it was a popular idea some years back. But certainly over the past few years the global locomotive has been China rather than America. You see that in the numbers and you see that it is not just a recent phenomenon.

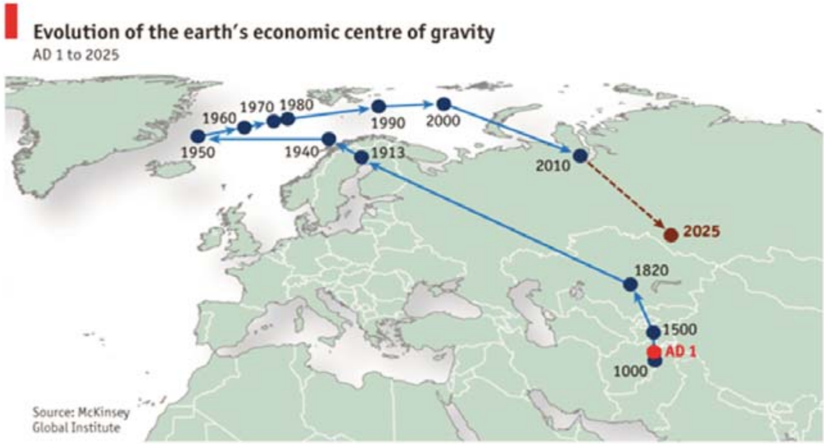
Of course if you have a relatively poor country like China you would expect a stronger growth rate than from mature economies like Japan, the Eurozone or the United States. But these have been exceptionally strong figures: the post crisis average for China has been roughly 9% a year growth. This is a considerable achievement in a world in which a lot of people said before the crisis that China could not grow unless its export markets were growing very strongly. That meant strong growth and consumer spending in America and strong growth in consumer spending in Western Europe. We have seen that without either of those things you still get these respectable growth rates in China.

Of course China has 1.3 billion people. Even though the Chinese growth story has been responsible almost single handed for reducing the numbers in global poverty, something like 400 million people taken out of poverty, income levels there are still relatively low compared with Europe and the United States. Even if you accept that Chinese GDP is similar to that of America on a purchasing power parity basis you have to divide it among four times the population America has. So relative income levels even on that adjusted basis are much lower but they are growing. You see that in this chart, which shows Chinese GDP per head in 2030 getting close to, though not quite up to where the United States and the EU were in 2010. But the gap is closing and the gap is closing quite fast, which is why everybody is obsessed with the rise of the Chinese middle class. China is the biggest luxury product market in the world but also the biggest for a range of other things.



The result of this the chart below is essentially the same chart I showed earlier but done in a nicer way and projected forward, is that the world's centre of economic gravity is shifting. Starting 2,000 years ago, the world's centre of economic gravity is way over there in the east in Asia. Then you see it begin to move across. It begins to move across with the European industrial revolution; it moves a long way across with the US industrial revolution and by the middle of the 20th century which I suppose is the period of maximum Western economic power, then you get the world's centre of economic gravity somewhere off the coast of North America. Then it starts to move back and most of the reason for that shift back is the rise of China, the modern day rise of China from the late 1970s onwards. This is where we are now so we have moved quite a long way back towards where we started 2,000 years ago and on this projection in 15 years' time we'll almost be back to where we started. The journey back east has been considerably quicker than the journey west was.

And the world's centre of gravity shifts



Another way of looking at this, which is essentially the China effect, is something I call the two-thirds/one-third rule. In the 20th century, indeed as recently as the 1990s, for China to grow it needed export growth and that inward investment coming in from the West, and so on. With relatively subdued domestic demand, the line of dependence definitely ran from advanced countries to emerging economies including China. So two-thirds of growth came from the advanced world and one-third from the emerging world. Without strong demand from US consumers and European consumers it was quite difficult for emerging economies to grow.

Then in the 21st century both in the pre-crisis period and even more so now, growth really is driven by China; it is the other way round. Two-thirds of growth now comes from emerging economies and one-third from the advanced world. A lot of that activity in the emerging world is independent of what is happening in the west. A lot of it is driven by trade within Asia, trade with other emerging economies, China-India trade and all those things. So this is a big and profound shift.

The question is how sustainable is this? Is this a reflection of just a pretty amazing 30 years for China and things will now settle down or is this the shape of things to come? I would see broadly five significant challenges for China at the moment.

The first one is that growth has slowed and maybe that is a reflection of the fact that when you are starting from a very low base it is easy to grow very rapidly for a while but then you can fall into what some economists would call the middle income trap. You get so far that you cannot go much further: you don't have either the entrepreneurs or the right kind of investment or the right kind of products or the technological knowhow to move beyond. All you have done is catch up, imitate and so on but then you run into a more challenging era in terms of economic growth.

The second is: does China have some of the vulnerabilities that we in the West had in 2007 when the crisis hit? We have seen a big rise in debt in China; is the banking system vulnerable and what are the effects of that going to be?

Third, what about the pressures for greater democracy, for greater political freedom, how serious a challenge is that for China?

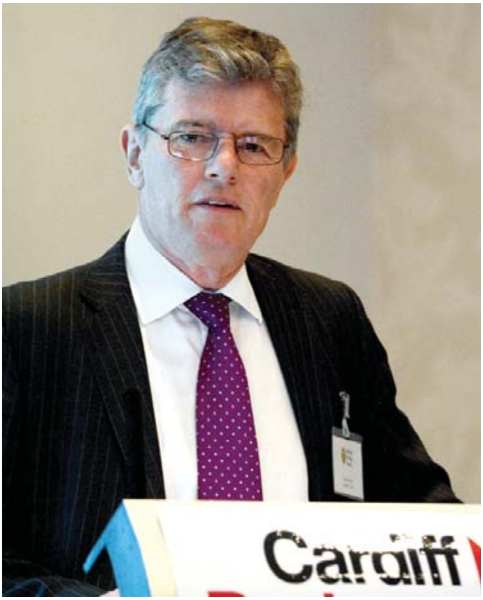
Fourth, what about demographic as opposed to democratic pressures, what does population say about the future of Chinese growth?

Finally, China has also had resource constraints going back all those many centuries into ancient times; it never had enough wood to build ships. Is it facing similar resource constraints now?

So the question is: could is all possibly go wrong for China, or how serious a challenge is it? Let me answer those very briefly and quite quickly - and then let us have a discussion.

A 7% growth economy

I think it is fair now to regard China as a 7% growth economy rather that a 9.5% or 10% growth economy. 7% is now the official target for economic growth in China and as people will maybe know China has a habit of hitting its targets, by accident or design. So 7% growth is considerably lower than we saw in the relatively recent past, including immediately before the crisis, but I think it is fair to think about China now as not the 10% growth economy that we have known but as the 7% growth economy. I would argue that we should not particularly worry about that. In the end if



you extrapolated 9% or 10% growth for too long then it just got ridiculous. Compare that to 2% or so growth in the West and China eventually becomes the whole of the world economy. Some kind of slowdown was always going to happen.

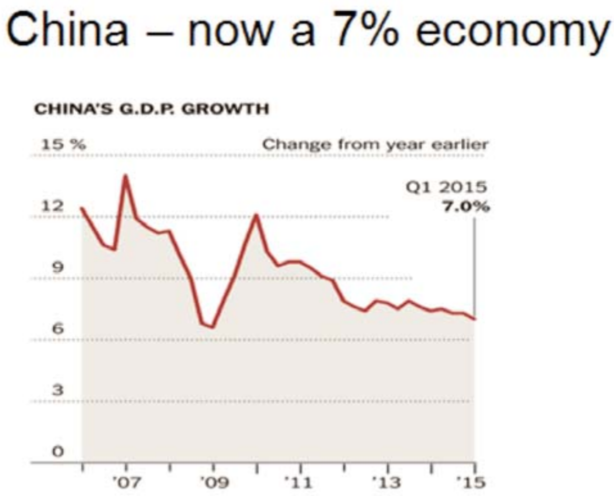
The Chinese authorities emphasise these days the quality as well as the quantity of growth which I think is a sensible thing to do. Obviously there are a lot of environmental and other concerns in China so it is quite possible that slower growth could be better quality growth both in terms of the environment and the nature of growth. You will know that a lot of Chinese growth was delivered by enormous investments, particularly in infrastructure; an investment to GDP ratio which was larger than any Western country could contemplate and would have contemplated even in the industrial revolution. So 50% to 60% of GDP was investment, either infrastructure or business investment. You cannot do that forever. I think this process will continue and, indeed, that Chinese growth will gradually slow further. I would expect that in the 2020s China will become a 5% growth economy and gradually as it converges on the West in terms of capita GDP levels then it will slow towards Western growth rates. Perfectly healthy, perfectly normal, I don't think 7% growth is anything to worry about. There was a view around not so long ago that if Chinese growth fell below 8% you had all sorts of problems in the labour market; unemployment and so on. That does not appear to be happening.

If the issue is about where can China get its growth from, there is still an important source of new growth: rising domestic demand, since consumer spending is still a pretty small proportion of GDP in

comparison with any western economy. Also, there is scope for moving people off low productivity activity, in rural areas, into the cities; more of that can take place. There is pressure on space within the cities and you will know there are many Chinese cities of very large size that most of us have barely heard of. This is a process that can continue there so I think the drivers of growth are still there and overall, 7% growth is good news rather than bad news.

A debt crisis?

What about the threat of a debt crisis? One of the by-products of keeping the economy growing through the global financial crisis was that it relied on very easy credit policies; encouraging the banks to lend. Some of that lending has proved to be somewhat dangerous, particularly lending into the commercial and housing sectors. The Chinese authorities decided that more credit needed to be pumped into the economy



to compensate for global weakness and there has been a pronounced increase in debt since. So how worried should we be about that?

Some people are quite worried; Hank Paulson who was the US treasury secretary at the time of the global financial crisis - he was the one who failed to prevent Lehman Brothers going bust - thinks that there are the ingredients there for something similar in China. I don't agree with that. I think that it's still the case that the financial system is under much more control, not complete control but under much more control in China than it is in the West, and the Chinese authorities have the scope to do things which have proved to be quite effective - either loosening reserve requirements for the banks or increasing interest rates that are still relatively high compared with zero rates in the West. There is scope for monetary policy to rein back credit and also there is more control over the banking system than there is even in our more regulated systems since the crisis in the West. I think it is wrong to draw a parallel between China and the crisis in the West, not least because if you think about what caused the global financial crisis it was the spread of financial instruments based on dodgy loans - those famous subprime loans - and it was

the spread of that through derivatives throughout the global financial system. There isn't that kind of a spread within China. So I think what they may have is the need to rein back credit in a traditional way but this is a much more contained problem I think than what we faced in the West a few years ago.

Internal and external tensions

What about democratic pressures, pressures for greater democracy and so on? We see examples of this all the time.

I don't know what the number of unofficial protests is in China but there almost two hundred thousand officially recognised protests every year. This is a country where people do protest and sometimes those protests turn violent; most of them are over seizures of land for economic development. We have also had recently in Hong Kong what was called the umbrella revolution; people taking to the streets and staying on the streets in protest. We have had corruption scandals. Corruption scandals in China are sometimes used as a mechanism for getting rid of political rivals and we have seen a lot of that. Through it all there is pressure for greater political freedom in China and that pressure will continue.

It is not the only challenge that we have got. We have got the tension between China and America; this has eased a little bit but it is still there in Congress. There are still many Congressmen and women who would like to see some kind of action against China over currency manipulation. They question how open Chinese markets are, they are concerned about the military tension between China and Japan. You will also have seen that America did not want anything to do with this new financial institution, the Asian Infrastructure Investment Bank (AIIB), initiated by China, though Britain was one of roughly 50 countries which have signed up to it.

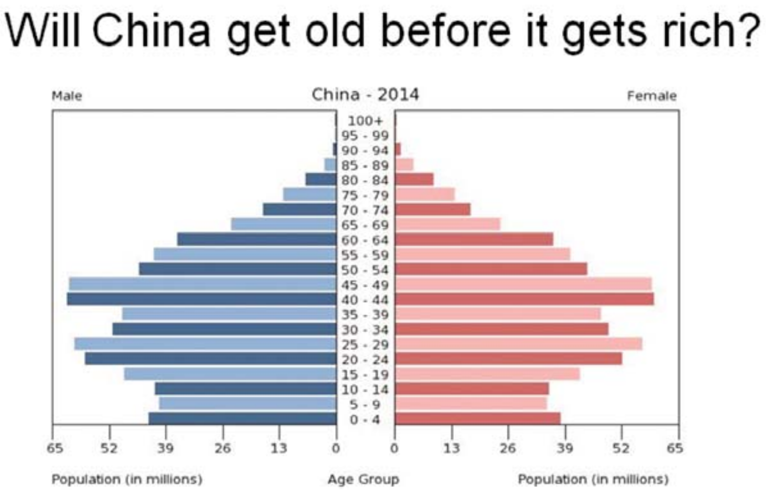
How serious are all these tensions? I think they are significant growing pains. If you become economically important you have to become politically important as well. In terms of domestic tensions, I think the trade-off that the Chinese authorities have always seen is that as long as enough people and this is where the Chinese middle class comes in, have a stake, have an interest in China's continuing economic development then protest can be contained. You have to allow more democratic freedoms and I think that will happen. The Chinese leadership is very intelligent and I think we sometimes think they blunder into these confrontations but that is not the case.

People think they now see an echo of the cold war with Russia in America-China relations, and are worried that China may go the same way. But there is a fundamental difference between the way that China approaches the world and the way that the Soviet Union approached the world. The Soviet Union wanted to destroy capitalism and really didn't embrace the global economic system to

any significant degree. China has a very different attitude; in some ways its modern success is a product of globalisation and of the global capitalist system. So it has no interest in undermining or overthrowing anything; it wants the global economic system to continue to deliver to China. So I think these are significant growing pains but I don't think they are going to produce a sudden surge of instability within China or in China's relations with other countries.

A demographic timebomb?

Chinese demographics present a big challenge and I think this is really quite interesting. This slide shows, as you can see there, a great bulge in the population of middle age.



It is by the way a huge contrast with India. In India half the population are under the age of 25, three quarters under the age of 35, very different from China. In China people who are currently in the workforce will move through in the coming decades and become retired and no longer productive. Interestingly, if you were to overlay the UK demographic pyramid on China's you would see that it is very similar. So unusually for an emerging economy China has a Western style demographic profile and all the challenges of an ageing population that we have in this country and countries in Europe have. Part of the reason is the one-child policy which is fraying around the edges but is still officially recognised and still insisted upon. This leads to the so-called 4-2-1 problem, where you could have one working adult who is responsible for looking after two retired parents and four retired grandparents. Longevity, we should remember, is quite a thing in China. Also, I think the authorities do recognise that this is one of the reasons why consumer spending in China is relatively low. People feel the need to save for retirement. There is no proper pension system although it is beginning to develop and the lack of a welfare safety net means that in some ways China has the demographic profile of a Western country but without all the pensions, the welfare state, to provide a safety-net. This is a big challenge and it is not clear to me that the Chinese authorities have done enough about that. It is being addressed but these things do take time.

Resources

The final issue is about resources and, as noted earlier China has always suffered from resource constraints. It has a lot of coal and until the mid-1990s was a net exporter of oil but things are very different now. We have seen this mad dash by China to buy up minerals and other resources, particularly in Africa usually in return for infrastructure projects (or presidential palaces). China will always have enormous demand for oil, for other forms of energy and also for commodities, food and so on. There are some startling statistics about the proportions of certain basic commodities that China consumes. In the 2000s before the crisis (and even when the crisis and the oil price went up to nearly $150 a barrel), it seemed that Chinese demand could only be satisfied at sky-high prices. That, of course, was when some believed China was going to grow at 10% forever.

There are many reasons why oil prices have fallen since then, along with other commodity prices, but one of them is the growth slowdown in China. Fracking, OPEC's tactics, and other factors have come into play but we have moved away from the period when the pressure from countries like China on resources and therefore on commodity prices could only be upwards. The big difference has been Chinese growth coming down from 10% to 7% in the space of a few years; this eases the pressure and it also eases concern in the rest of the world about China.

Conclusions

Let me sum up. What should we think about China and what is the answer to my question: is the Chinese growth miracle over?

Will we see a return to the double figure growth numbers which were not uncommon in the past? I think that is unlikely. China has certainly moved into a new phase so in that sense if 10% growth was a miracle that particular stage is over. I think we should remember that China growing at 7% now adds more to the global economy than it did when it was growing at 10% a decade ago, because it is a much bigger economy; so this is still a big impact on the global economy and will continue to be so. I have described the challenges for China but I don't particularly see those challenges as more pressing, more difficult than for many countries and of course it is easier to address those challenges from a platform of strong growth and sustained growth which they have had for many years. I still come across certain people, mostly in Washington, who think that this has been some sort of massive bubble, a 30-year bubble, and that China is going to go back to what is was. That is not going to happen; it is wishful thinking. China is not going to go away. It is not going to retreat into its shell as it did before. I think China is going to be a big and increasingly important player in the world economy and I think we should all adapt to that. I think people here in Cardiff - in business, at the university and elsewhere - know that you have to have a China strategy if you want to succeed. We all have to interact in ways that are useful to us, in ways that are profitable to us, and in ways that are productive, with this really important economic giant. The more that we do that, the more it will be good for us in the UK. Thank you very much indeed.

The first Julian Hodge Institute of Applied Macroeconomics Lecture was delivered in 2000. Since this time the lecture series held in Cardiff has included some of the world's leading economists.

2000 - Sir Alan Walters - former Chief Economic Adviser to Mrs (now Lady) Margaret Thatcher.

2001 - Professor Otmar Issing - Board Member and Chief Economist, European Central Bank

2002 - Sir Alan Budd - Member of the Bank of England's Monetary Policy Committee and Chief Economic Adviser to the Treasury from 1991-1997.

2003 - Professor Bennett T. McCallum - H.J. Heinz Professor of Economics at Carnegie Mellon University, Pittsburgh.

2004 - Professor Danny Quah - Professor of Economics at the London School of Economics and Political Science.

2005 - Professor Nicholas Crafts - Professor of Economic History at the London School of Economics and Political Science.

2006 - Ludovit Odor - Member of the Bank Board of the National Bank of Slovakia.

2007 - Professor Paul De Grauwe - Professor of international Economics at the University of Leuven,Belgium.

2008 - Professor Colin Robinson - Emeritus Professor of Economics, University of Surrey.

2009 - Professor Dale Henderson - Visiting Professor of Economics at Georgetown University.

2010 - Professor Michael Beenstock - Professor of Economics, Hebrew University of Jerusalem.

2011 - Akos Valentinyi - Professor of Economics at Cardiff Business School.

2012 - Prof. Nicholas Crafts - Director of ESRC Research Centre on Competitive Advantage in the Global Economy and Professor of Economic History, University of Warwick

2013 - Prof. Hans-Werner Sinn - Professor of Economics and Public Finance at the University of Munich

2014 - Prof. Forrest Capie - Professor Emeritus of Economic History at the CASS Business School, City University, London

Before this a series of lectures associated with Sir Julian Hodge commenced in 1970 entitled the Jane Hodge Memorial Lectures.

1970 - The Rt. Hon. Sir Leslie O'Brien GBE , Governor of the Bank of England.

1971 - M. Pierre - Paul Schweitzer, Managing Director of the International Monetary Fund (IMF).

1973 - David Rockefeller LLD, PhD, Chairman, Chase Manhattan Bank.

1973 - H.R.H. The Prince Philip Duke of Edinburgh.

1976 - His Excellency Sheikh Ahmed Zaki Yamani.

1984 - Robin Leigh Pemberton, Governor of the Bank of England.

1990 - Sir George Blunden, Deputy Governor of the Bank of England

The Julian Hodge Institute of Applied Macroeconomics therefore carries on the very proud tradition of promoting debate and understanding of present day economic issues.

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