

CHINA'S LONG WAY TO ECONOMIC REBALANCING

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I-External rebalancing

1.1. How China has reduced its foreign trade surplus

1.2. The impact on the rest of the world

II- Toward a more balanced and slower economic growth

2.1. A long way to a balanced domestic economy

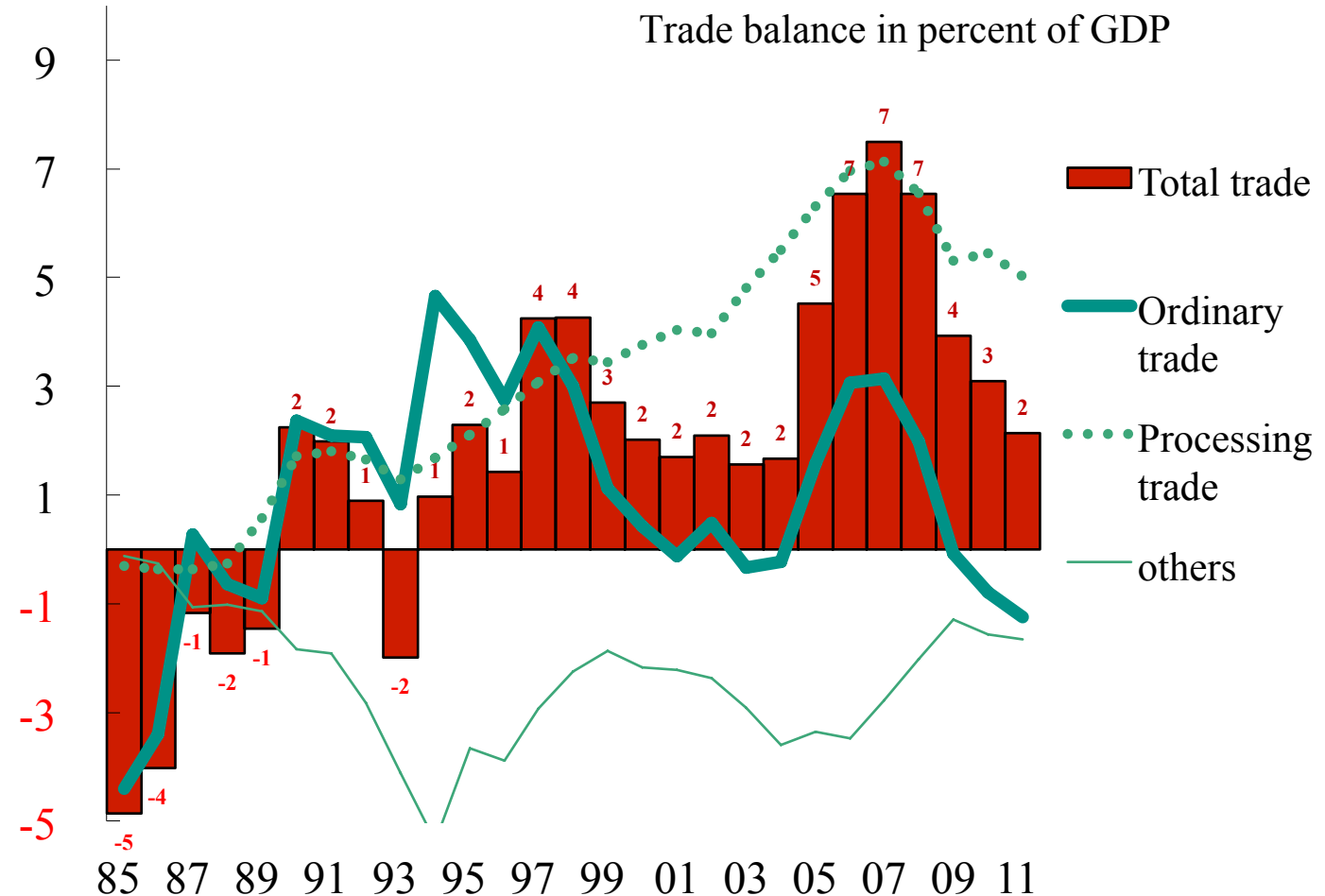
2.2 Toward a slower growth

I-External rebalancing.

1.1. How China has reduced its trade surplus, from 7% of GDP in 2007 to 2% in 2011.

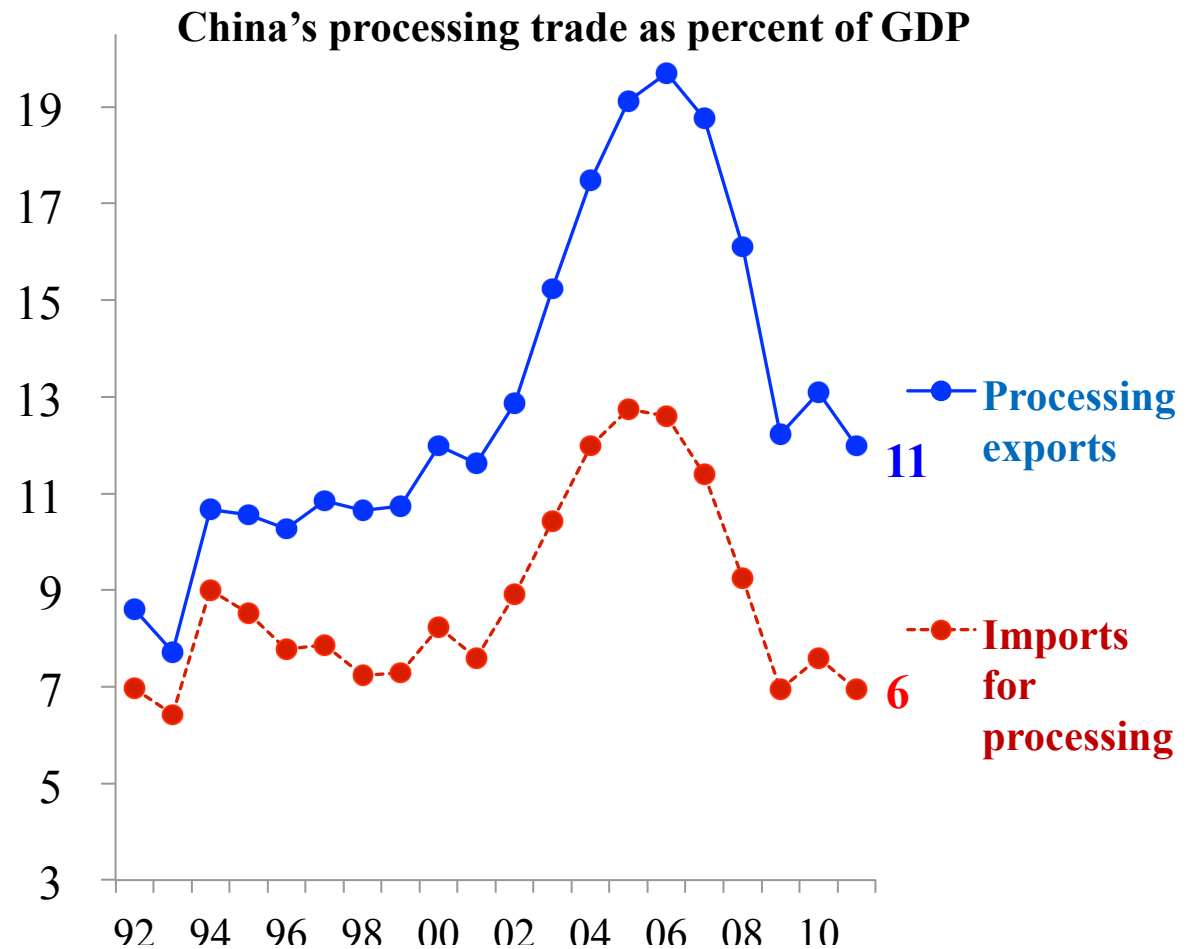
-Surge of trade surplus from 2005 to 2007 (both to processing and ordinary trade)

-Since 2007, processing trade surplus fell, ordinary trade returned to deficit



The shock of the global crisis: processing trade collapsed due to international demand

Processing exports and imports dropped. In 2011 their share in GDP has returned ten years backward.



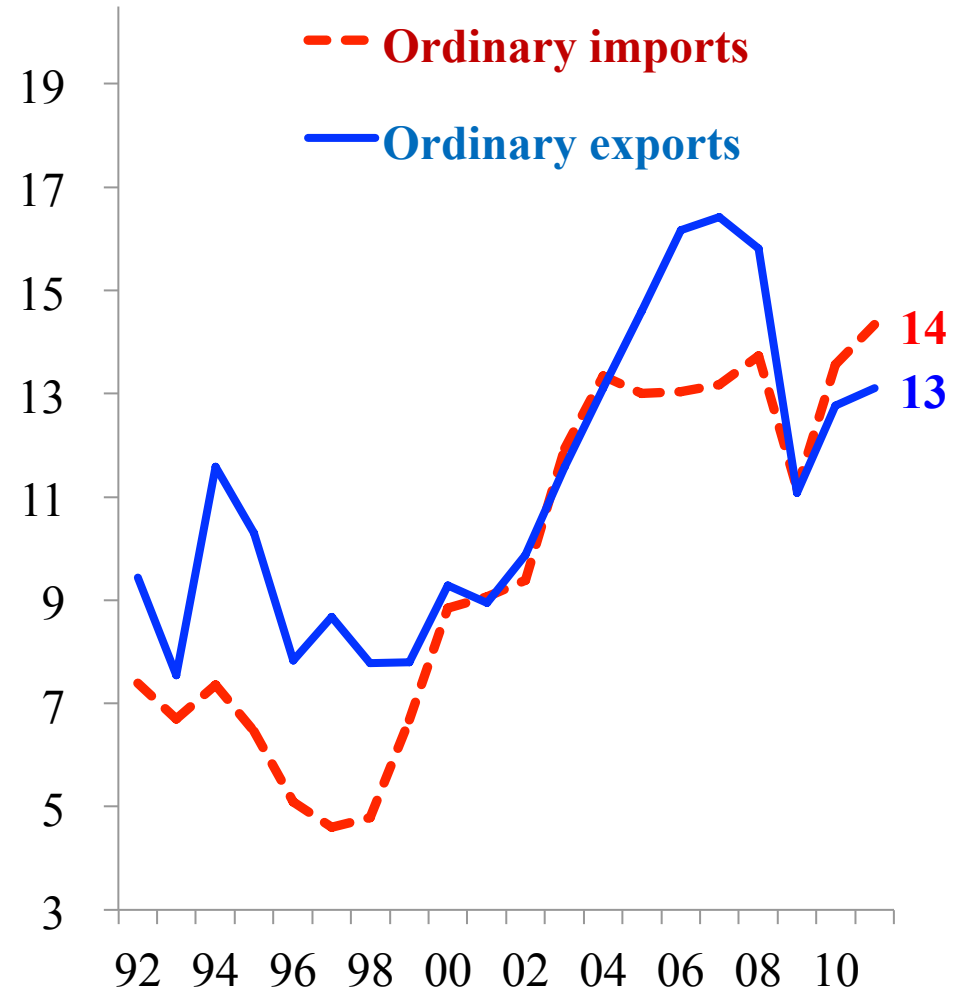
Source: China statistical yearbooks and Customs statistics

Ordinary trade: imports have rebounded since 2010 due to strong domestic demand (stimulus plan)

Ordinary trade in percent of GDP

-Ordinary imports
reached 14% of GDP
in 2011 (over the pre-
crisis level)

-Ordinary trade
switched from surplus
to deficit

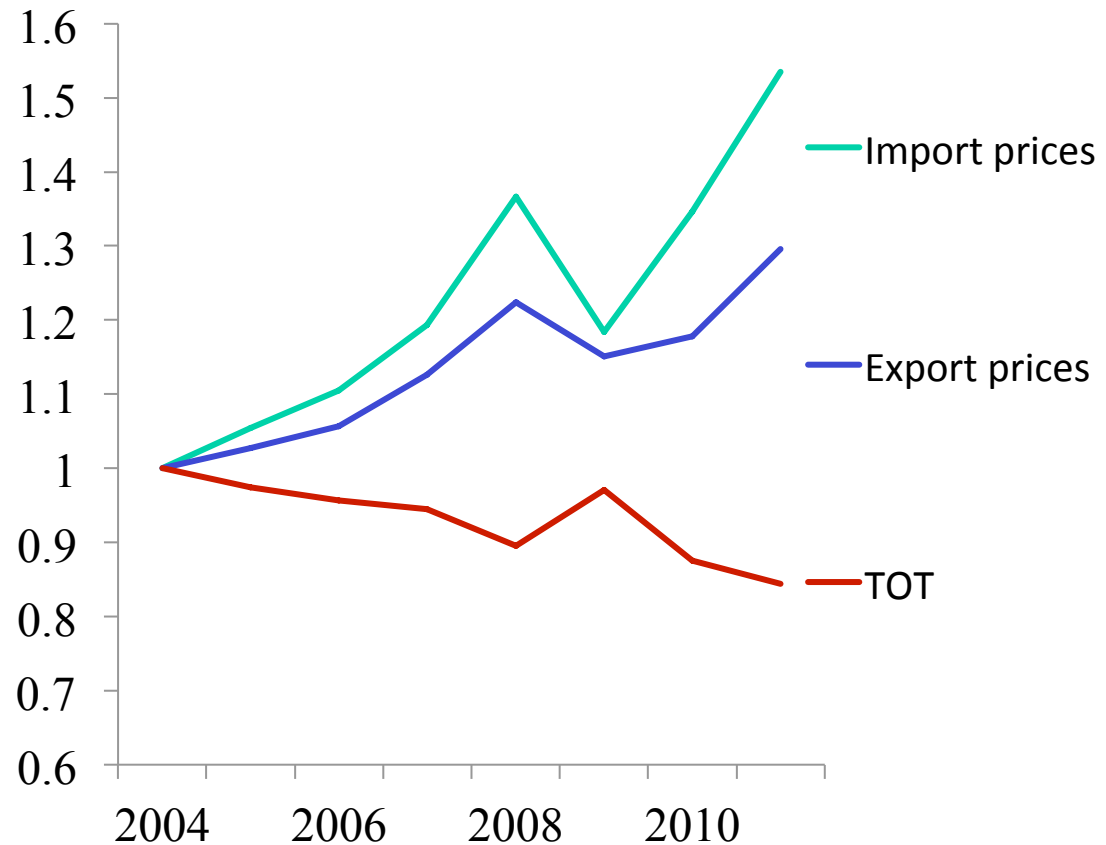


Source: China Statistical yearbooks and Customs statistics

The deterioration of terms of trade (TOT) has helped rebalancing

Evolution of China's export and import prices, terms of trade (index 2004=1)

From 2007 to 2011, export prices increased by 15%, import prices by 30%

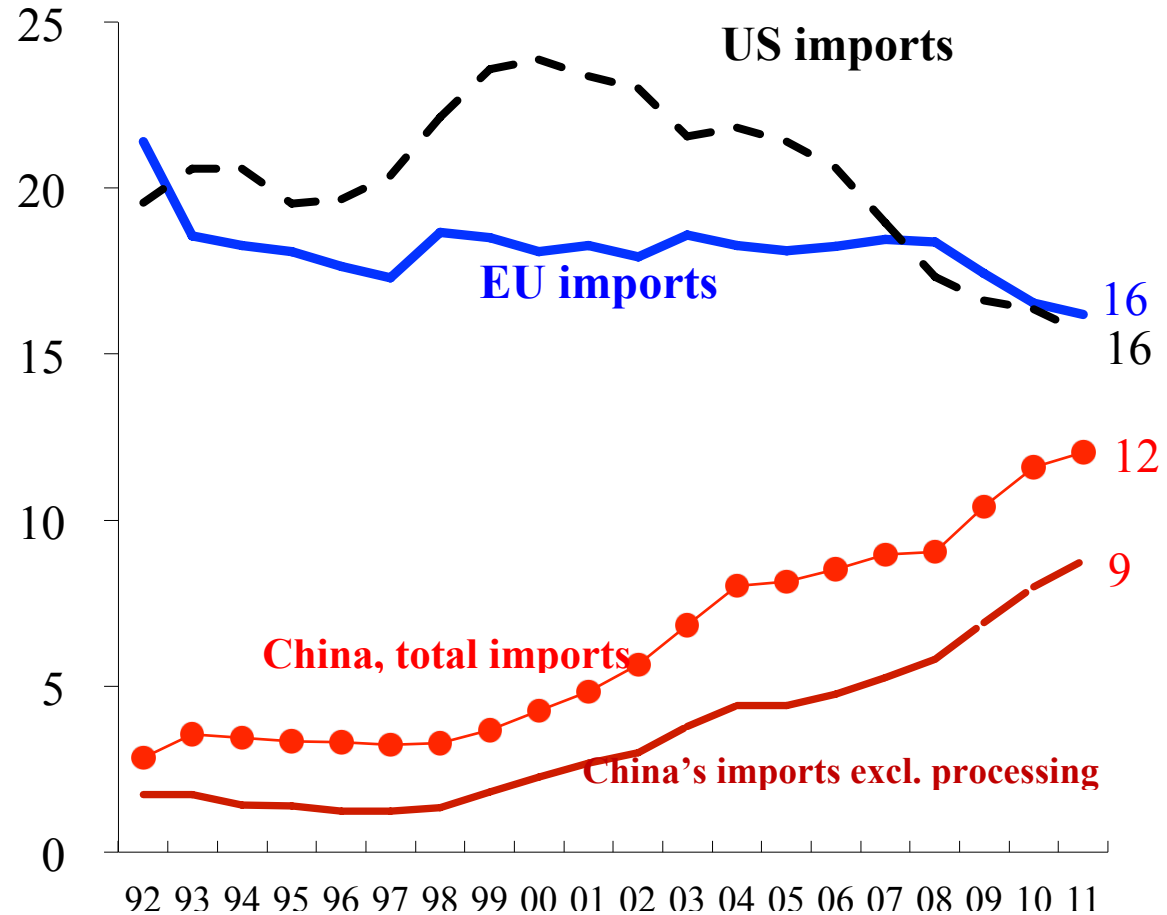


Source: PBOC

1.2. Impact on the rest of the world.

China has become a major source of international demand

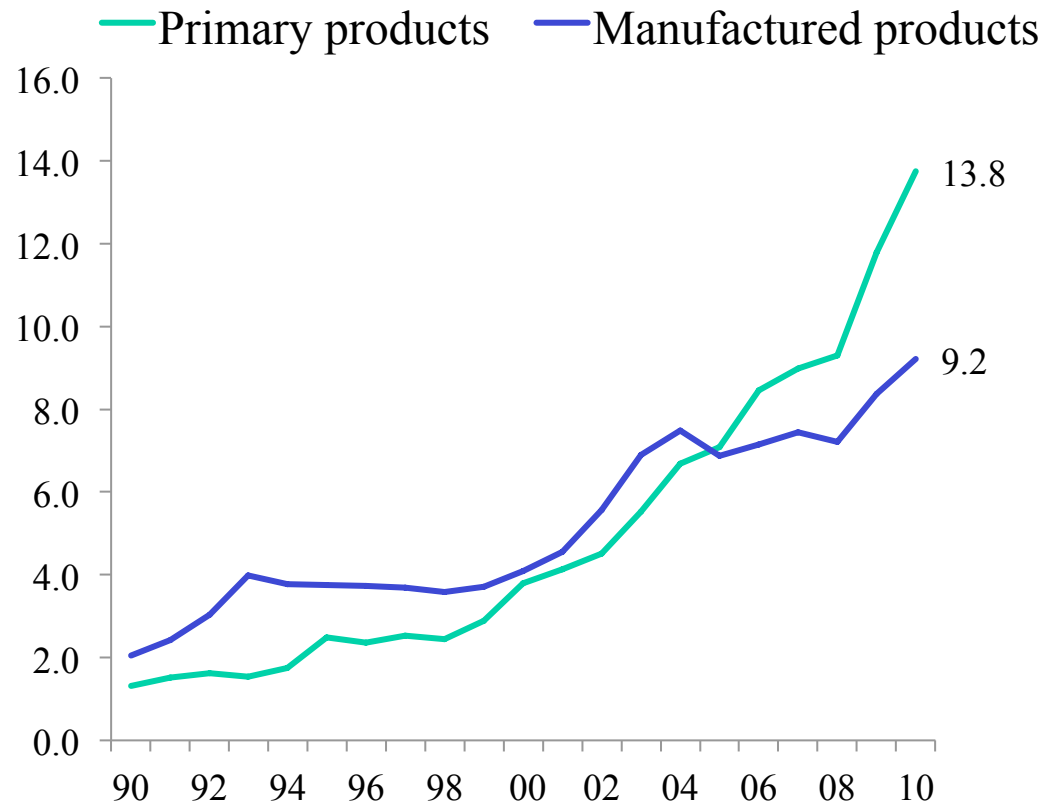
Share in world trade
(percent, excluding intra-EU trade)



Source: China Customs statistics and WTO

China's demand for primary goods as well as manufactured products has picked up.

China's share in world imports
(in percent, excluding intra-EU trade)

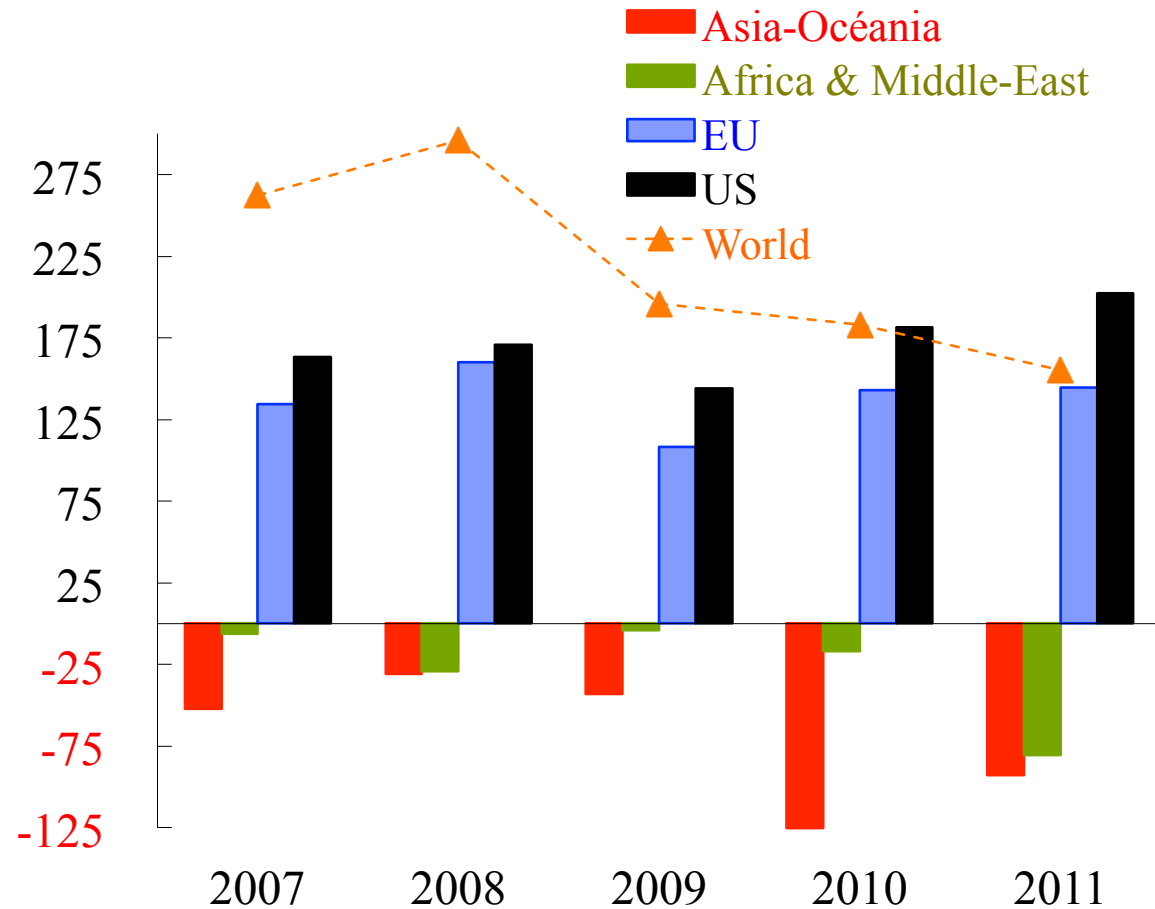


Source: China Customs statistics and WTO

Bilateral imbalances have remained large.

China's trade balance by region, US\$ bn

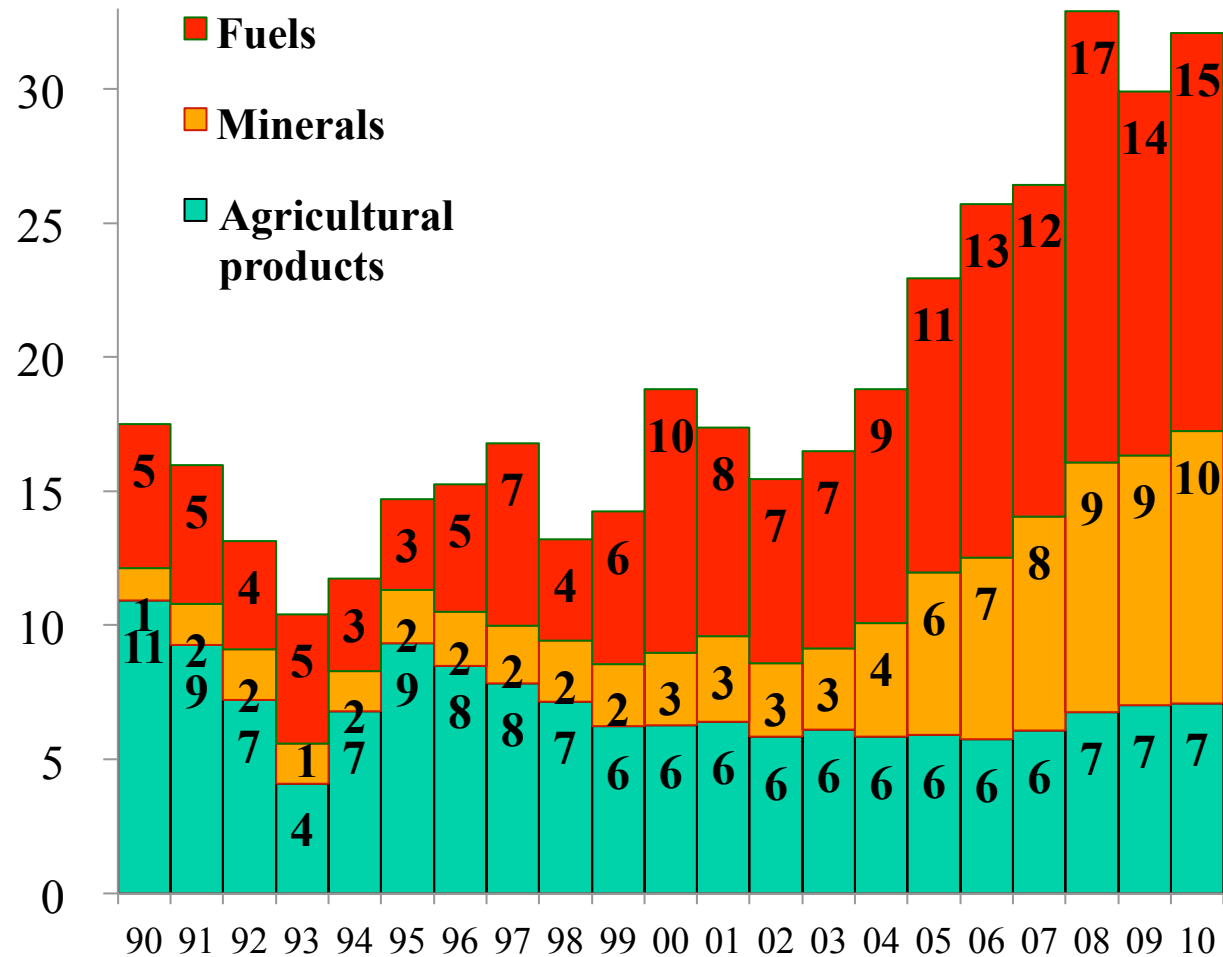
- Deficits with Asia, Africa and Middle-East deepened
- Surpluses with the US and the EU increased



Source: China's customs statistics.

Who has benefited the most from China's demand? 1) Producers of primary products

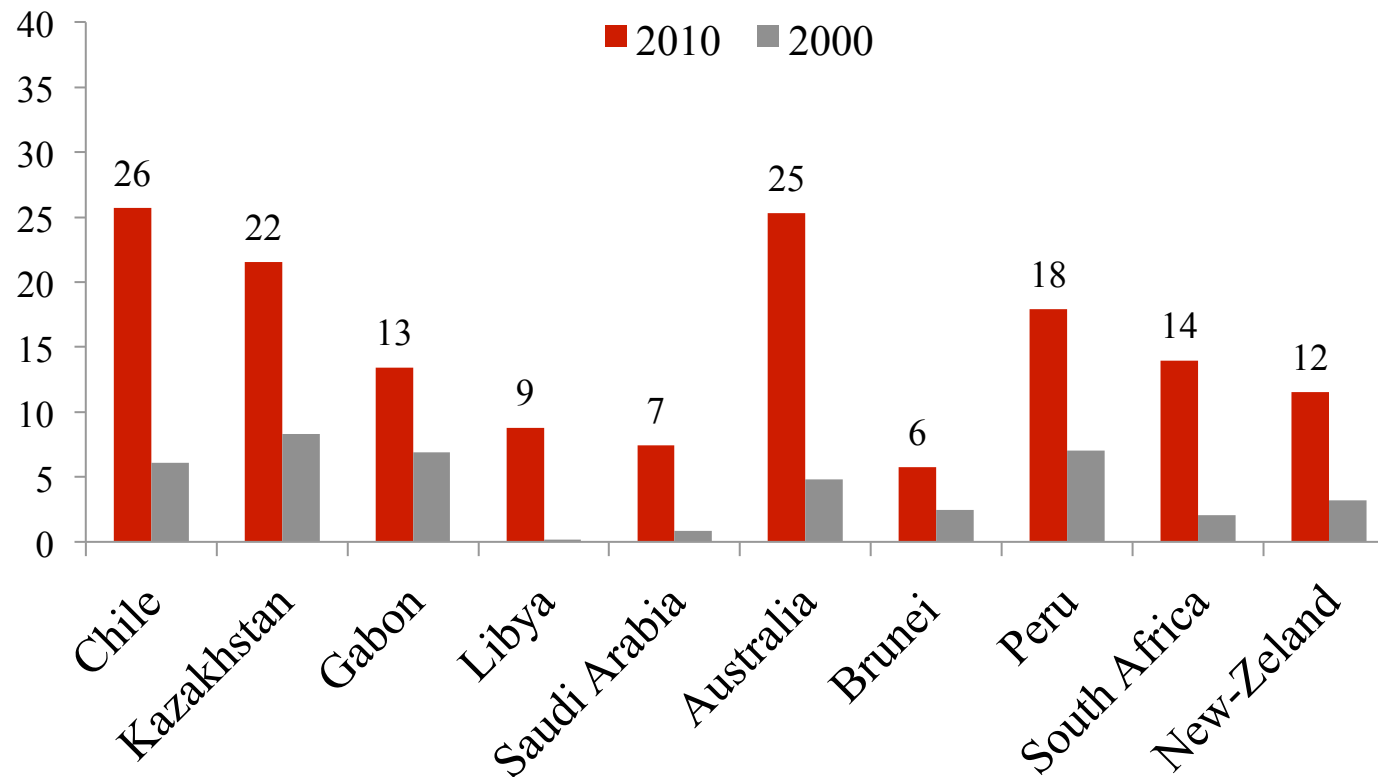
Share of primary products in China's imports (percent)



Source: CEPII, CHELEM database

China's demand of energy and raw materials has driven resource-rich countries growth.

Share of China in country total exports (%)



Source: CEPII, CHELEM-database.

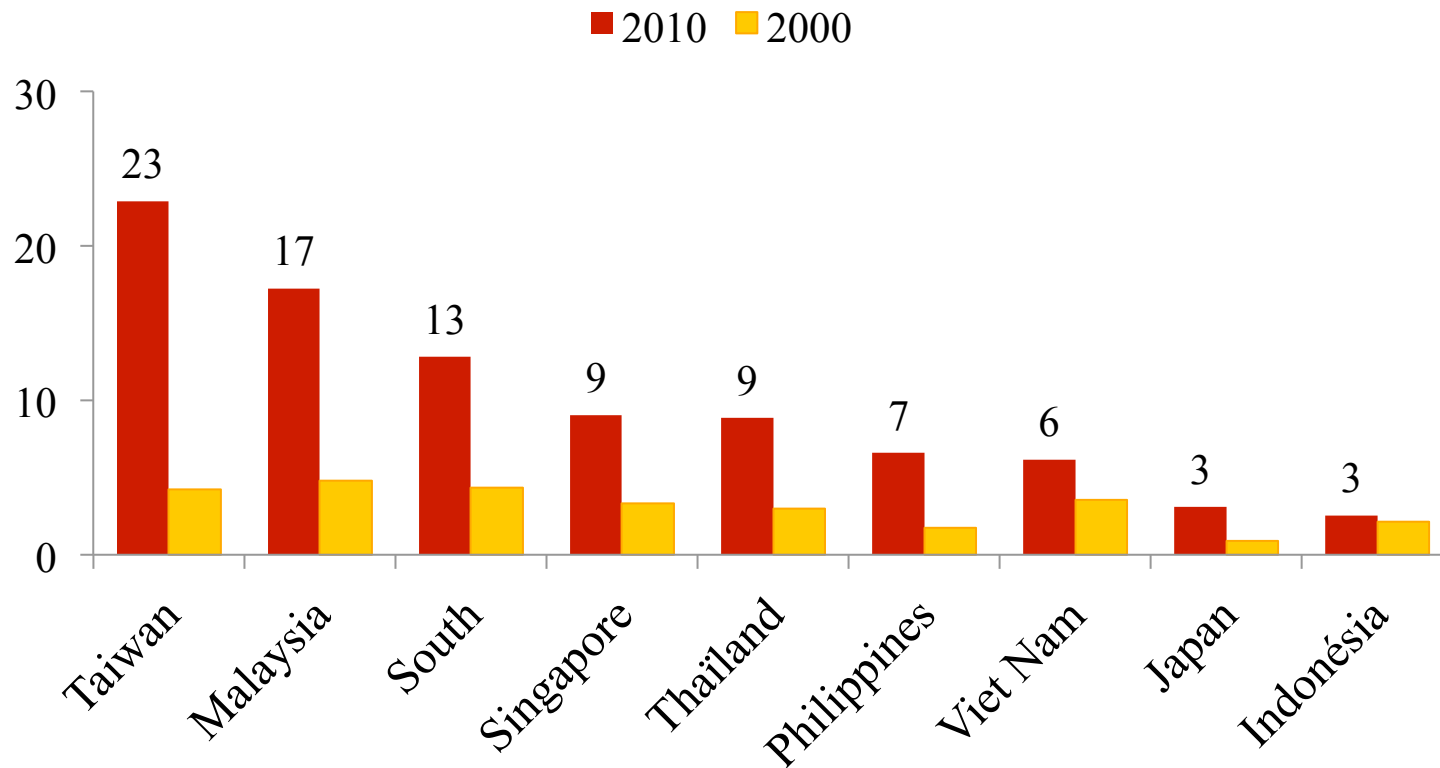
2) Asian economies' reliance on China's market has considerably increased.



Source: CEPII, CHELEM-database.

China's demand of manufactured products has driven Asian growth and strengthened regional economic integration

Exports to China in percent of the country GDP



Source: CEPII, CHELEM-database.

**By contrast, exports to China represent about 0.6% of GDP in the US and most European economies.
Germany is an exception (2%)**

To sum up:

China has successfully overcome the global crisis: maintained a strong growth, reinforced its position in international trade, stimulated growth in Asia and many emerging economies

Slower growth in China in 2012 has an adverse impact on the economies which benefited from its demand in the previous years.

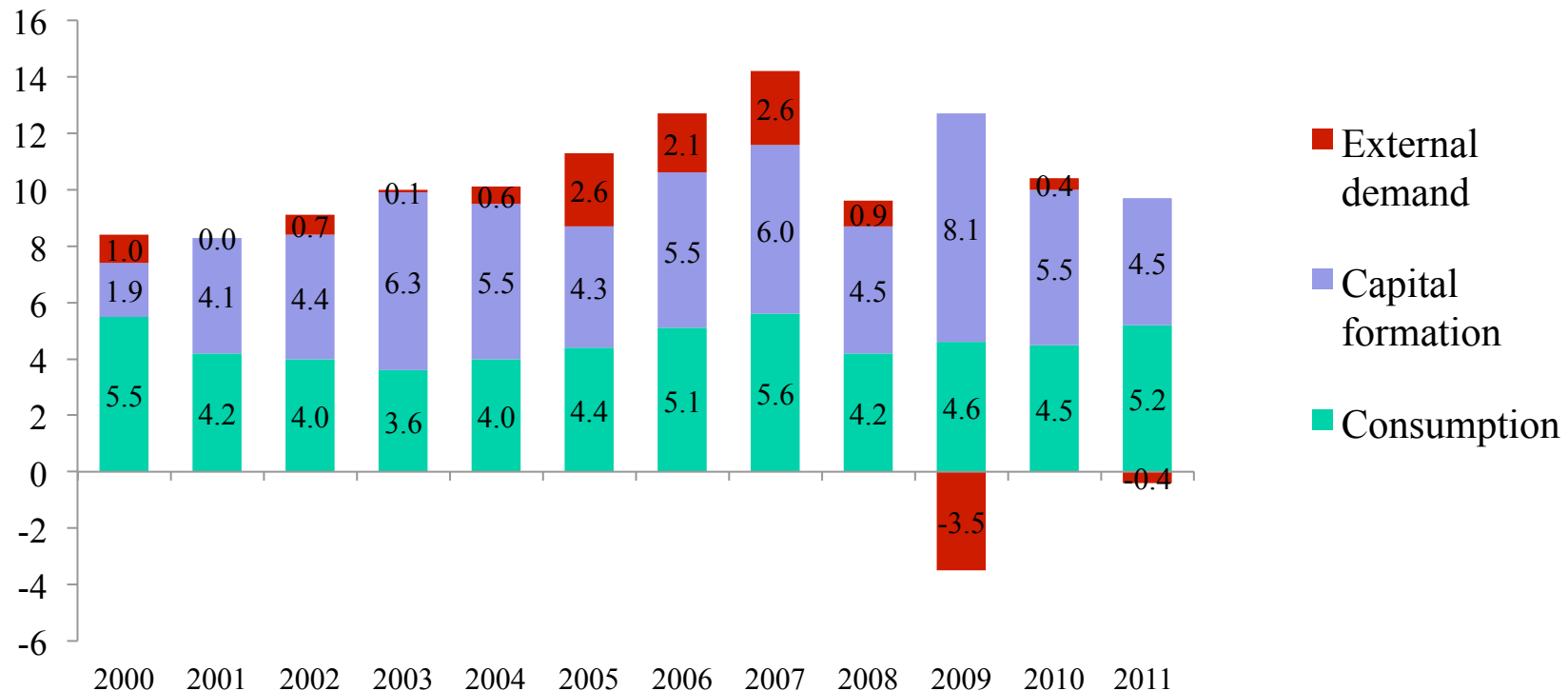
II. Toward a more balanced and slower growth

2.1. A long way to a balanced domestic economy

2.2 Toward a slower growth : cyclical and structural factors

2.1. The long way to a balanced domestic economy: Since 2000, economic growth has been driven mainly by exports and investment

Contribution to GDP growth (in percentage point)



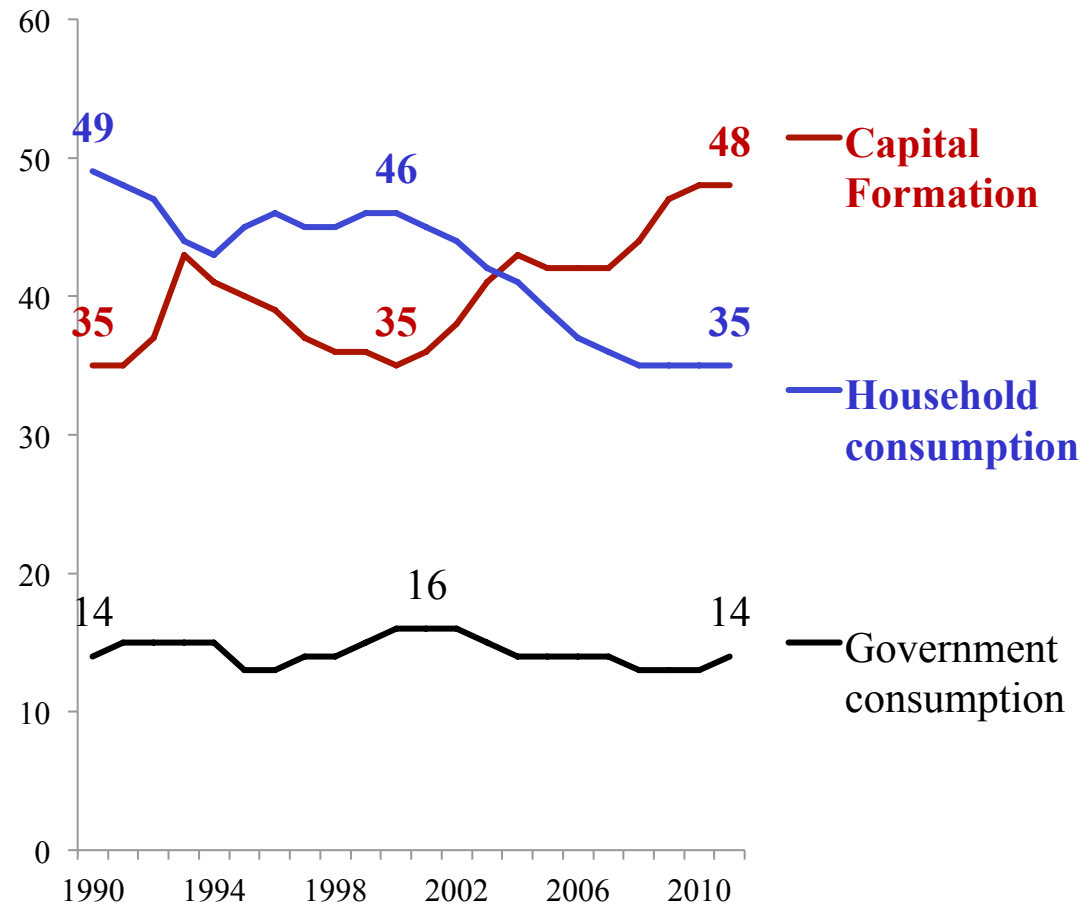
Source: China Statistical yearbook

Household consumption has been the weak link: a record low level in 2010

China's GDP by expenditures (in percent)

-The stimulus plan (2009) has aggravated the domestic imbalances

-Still no strong sign of rebalancing in 2011



Source: China Statistical yearbook

What is holding back household consumption ?

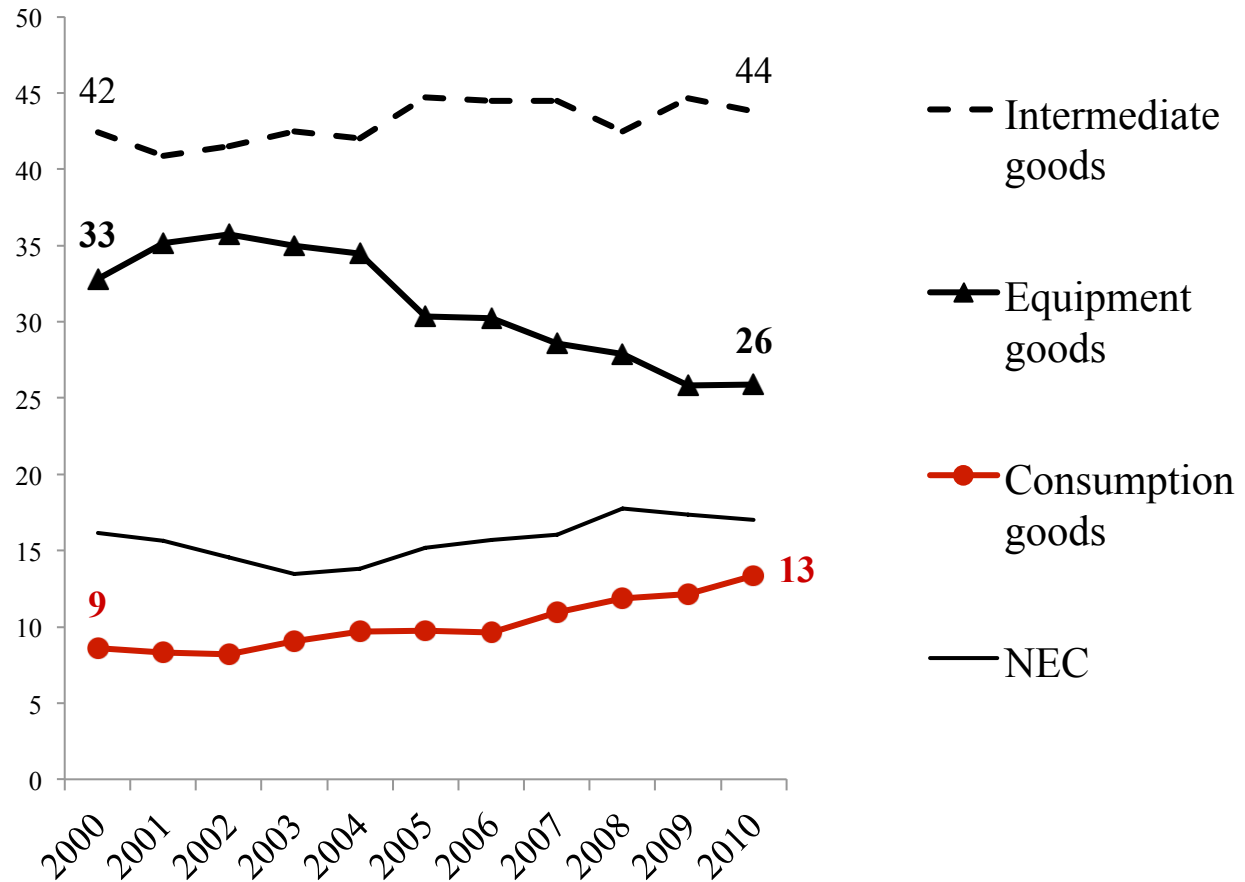
Demographic and institutional factors [Guonan Ma, 2010; N.Lardy, 2012]:

- **The share of household income in GDP shrunk (large supply of labor due to demography and rural migrations)**
- **The saving rate is very high**
 - Demography (low dependency rate)**
 - Precaution savings**
 - Hukou system [Ming Lu]**
 - Income distribution increasingly biased toward high-income categories.**
- **Are national account data reliable? figures underestimate household income and consumption expenditures (by 2 or 3 percentage points), and overestimate investment.**

Imports of consumer goods have been driven by the demand of the most affluent households.

Breakdown of China's manufactured imports by end-use (in percent)

-Consumption goods make up the fastest growing import category



Source: CEPII, CHELEM database

2.2. Toward a slower economic growth: cyclical and structural factors.

GDP growth decelerates in 2012 (7.7% in the first 9 months against 9.2% in 2011) due to cyclical factors:

**-Domestic side: the burst of the property bubble.
(impact on upstream sectors : building materials, metals)**

**-The sluggish international demand affected
industrial production**

China is still dependent on advanced economy markets, where demand is sluggish

The BRIC exports to the BIG 3 in 2010:

More than half of China's exports and 14% of GDP

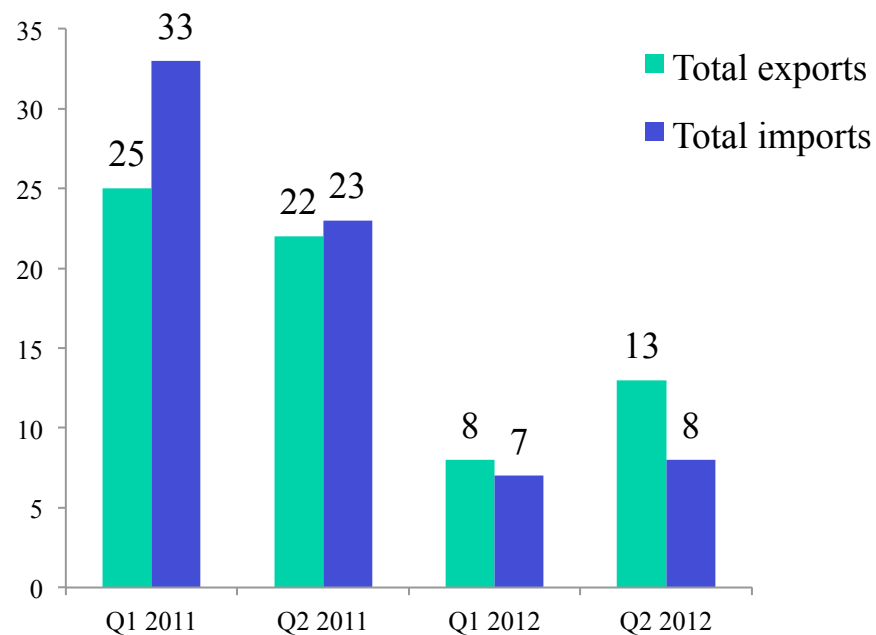
	US	Japan	EU-27	BIG 3
	in percent of each BRIC exports			
Brazil	12	4	20	36
Russia	6	4	49	59
India	12	2	19	34
China	21	9	22	53
	in percent of each BRIC GDP			
Brazil	1	0	2	3
Russia	2	1	13	16
India	2	0	2	4
China	6	2	6	14

Source: CEPII, CHELEM database

China's export growth affected by weak external demand in first half of 2012 . Exports account for about 24% of industrial output.

Export slowdown in the first half 2012.
-Exports to the EU fell by -0.8%.

Changes in China's exports and imports (in percent of the same period preceding year)



Source: China Customs statistics

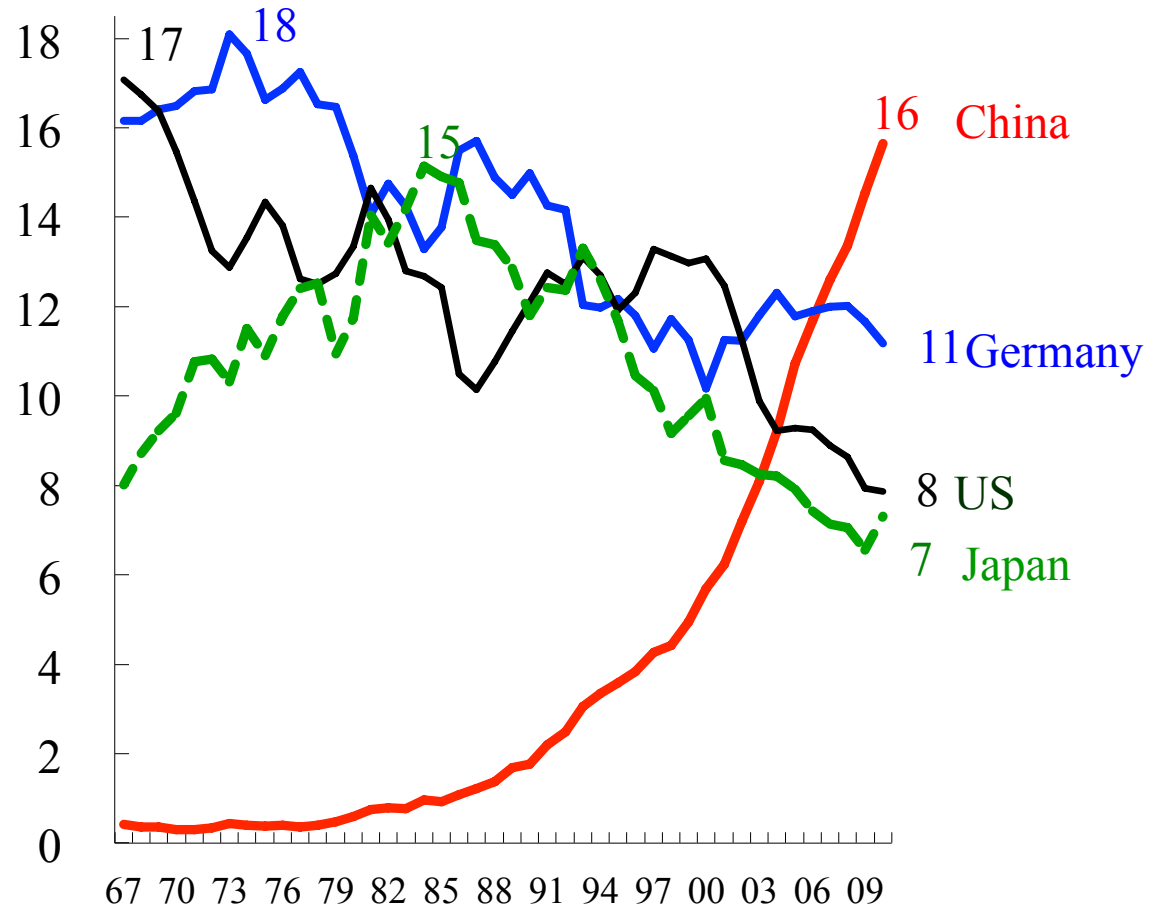
But structural factors will make economic growth slower than in the past

-China's world market share

-The demographic turning point

The contribution of external demand will be smaller than in the past. China's world market share : is there still room for increase?

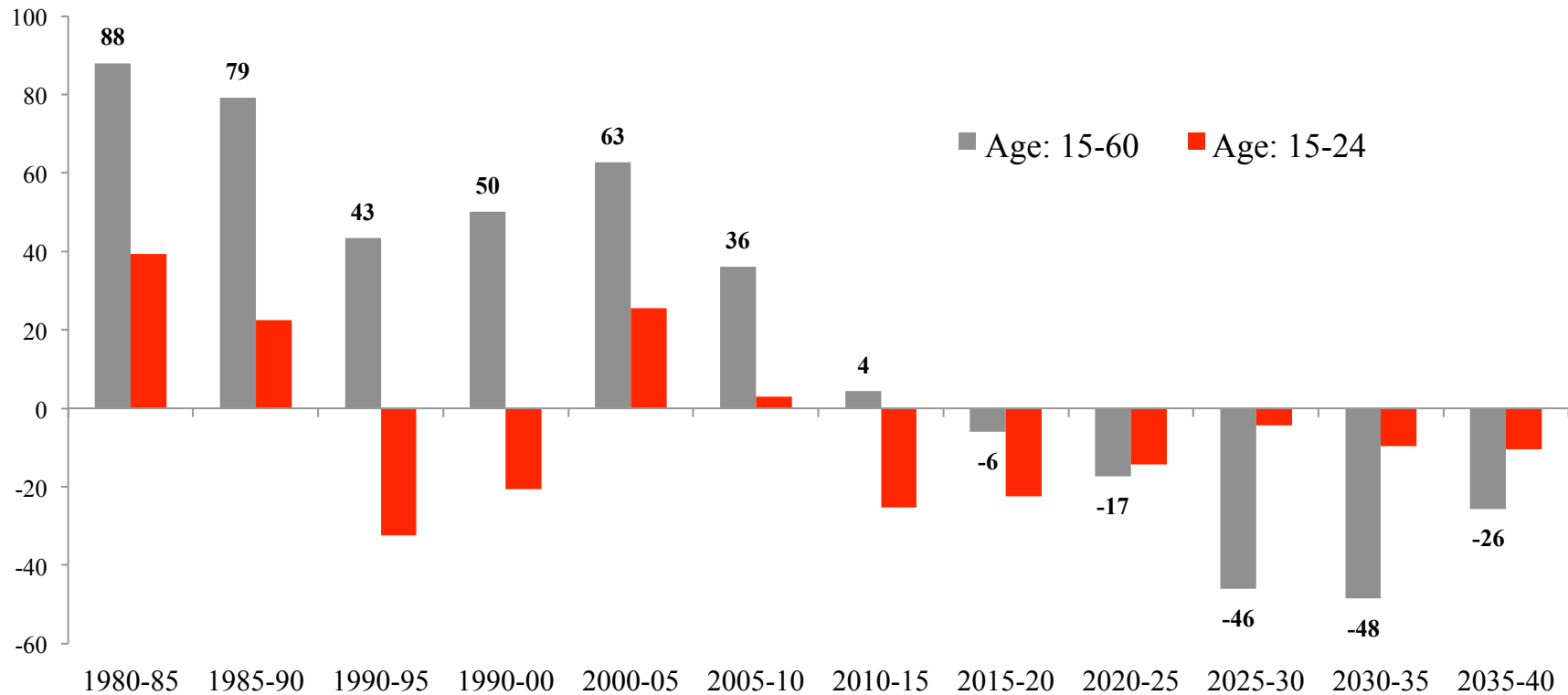
Leading exporters of manufactured goods, 1967-2010 in percent of world trade



Source: CEPII, CHELEM database

A demographic turning point: the working age population has stopped growing since 2010 and is going to diminish.

China: changes in the working age population from 1980 to 2040 (million)



Source: ONU .

Consequences of the demographic shift:

1) Less pressure than in the past to create jobs through strong growth. Long term scenarios for China predict a pace of around 7.5% per year from 2010 to 2030. [CEPII, World Bank, Subramanian, Goldman Sachs]

2) Rising wages. The question is debated: has China reached the Lewis turning point? CAI Fang (the supply of labor is no more unlimited)/ YAO Yang (local shortages caused by institutional factors, restrictions on labor mobility).

3) Implications for the growth strategy: external vs domestic sources of growth; comparative advantages: price competitiveness vs industrial upgrading.

“China 2030”: a joint report by the World Bank and the DRC), endorsed by Li Keqiang (next prime minister), proposes a new growth pattern, with emphasis on services, domestic consumption, cleaner growth.

Projected growth pattern					
	1995-2010	2011-2015	2016-2020	2021-2025	2026-2030
GDP growth (percent per year)	9,9	8,6	7	5,9	5
Structure of GDP (percent)					
Investment	46	42	38	36	34
Consumption	49	56	60	63	66
Industry	47	44	41	38	35
Services	43	48	52	56	61
Source: The World Bank and DRC of the State Council of the PRC: <i>China 2030</i>					

Obstacles to changing the growth pattern: industries, provinces, interest groups which benefited from the past growth regime; a success trap [Godement]?

Strong political will necessary to propel a new growth model:

-Adjust the relative prices in order to change the incentives, as price distortions of production factors have contributed to imbalances [Yiping Huang]

- Increase public spending in social services (education, health, social housing, safety net) in order to enhance consumption.

-Urbanization will raise income and consumption, provided the migrants are integrated into the urban system.

Conclusion

A debate in China about the next stage of development. Different views among Chinese economists [Leonard, 2012: “China 3.0”]:

1) China is backward enough to continue the traditional model

2) China has to escape the “affluent trap” (“middle income trap”), needs to reform its growth pattern. Two views:

- Liberal economics (supply side): privatization, liberalization**
- “New left” thinkers (demand side): reduce inequality, boost wages, social security; strategic planning.**

Both approaches run into vested interests. Stability trap?

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