



# **CHINA'S ECONOMIC REBALANCING**

## **Some Facts and Figures, and Questions**

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# CHINA'S ECONOMIC REBALANCING

China has been a major actor in global imbalances. The rebalancing of China's economy is generally presented as a condition for global rebalancing.

The question addressed:

Where does China stand presently in terms of external rebalancing (trade and current account surplus) and domestic rebalancing (in favour domestic consumption)?

# 1-External Rebalancing

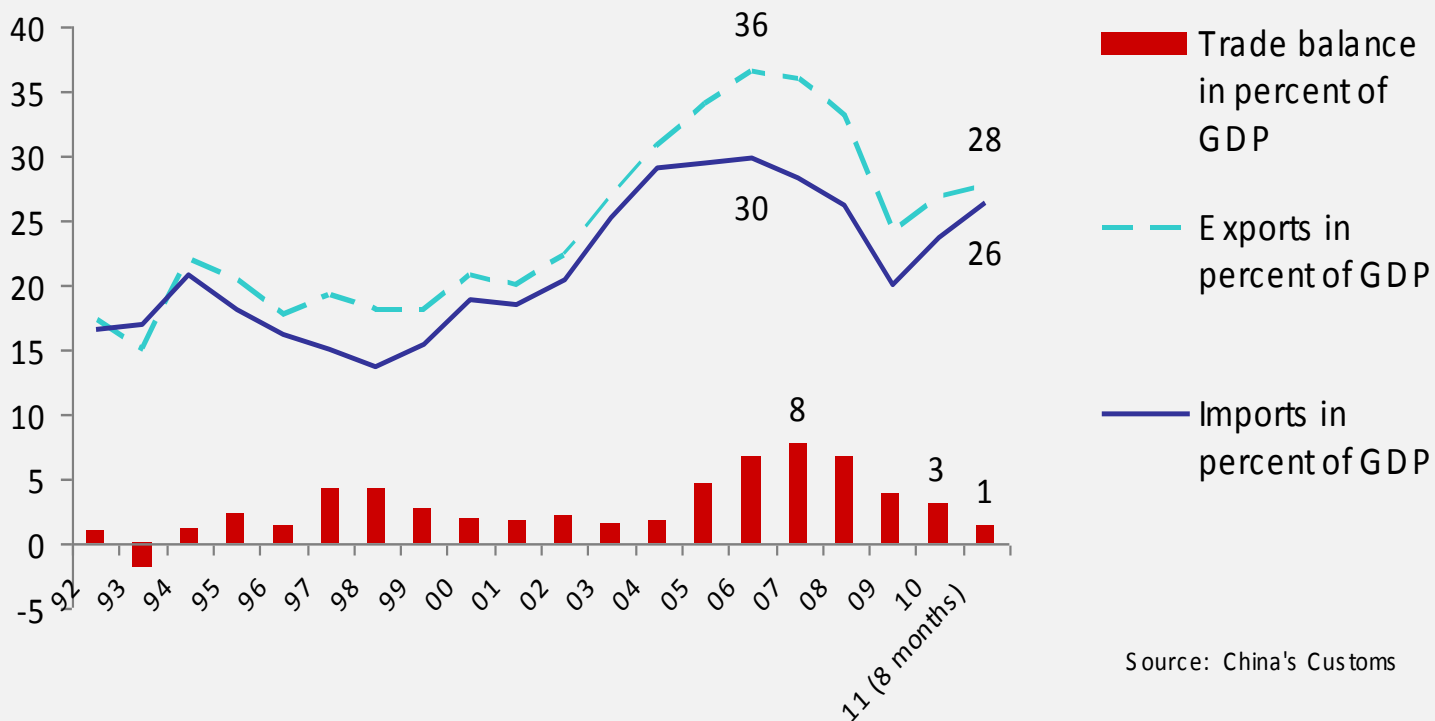
China has reduced its current account surplus : from 10% of GDP in 2007 to 5% in 2009. In current dollars, the surplus dropped in 2009 and has risen since. In 2011, it is still below its 2008 level.



Source IMF

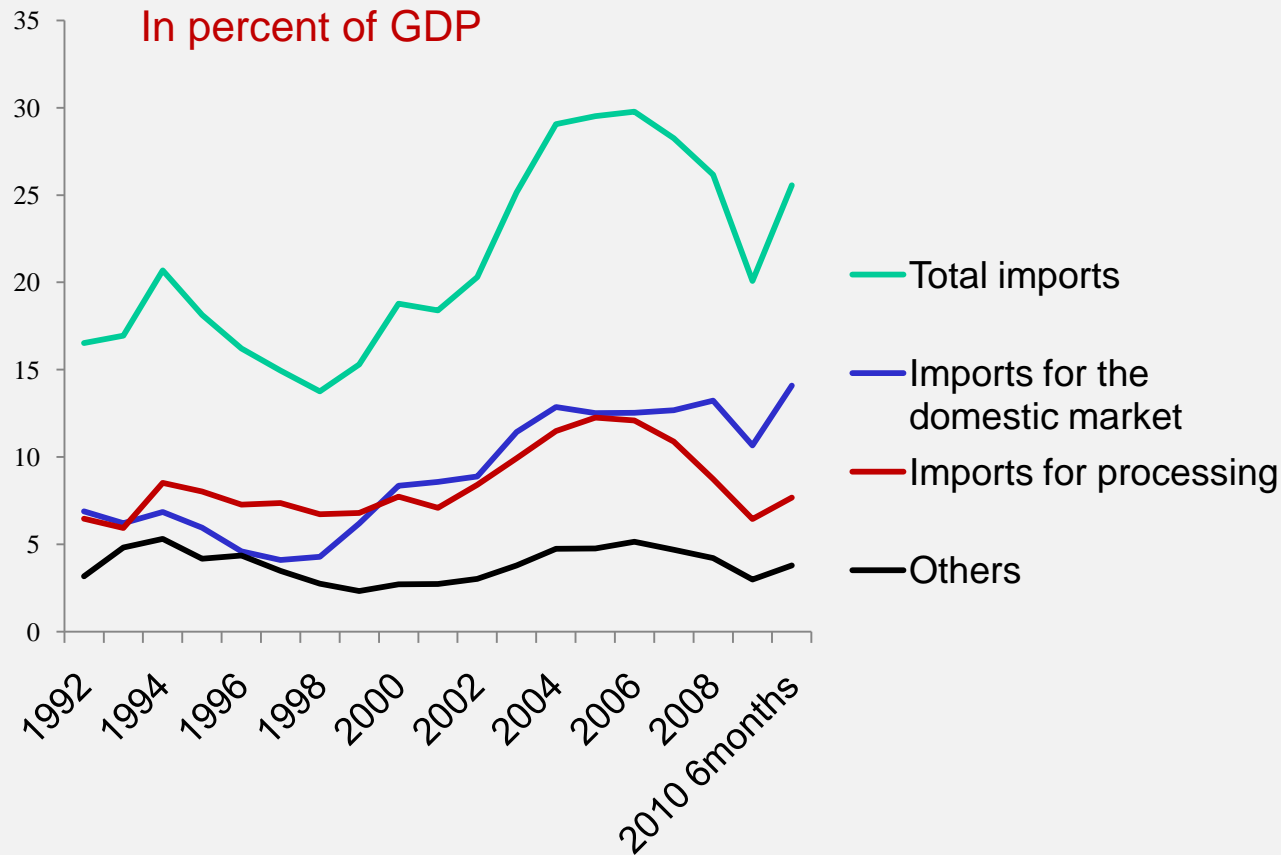
Most of the adjustment took place in foreign trade . Trade surplus declined from 8% of GDP in 2007 to 3% in 2010 and about 1% in 2011. Since 2008, exports increased less than imports, and both increased much less than GDP.

### China's Foreign Trade Surplus

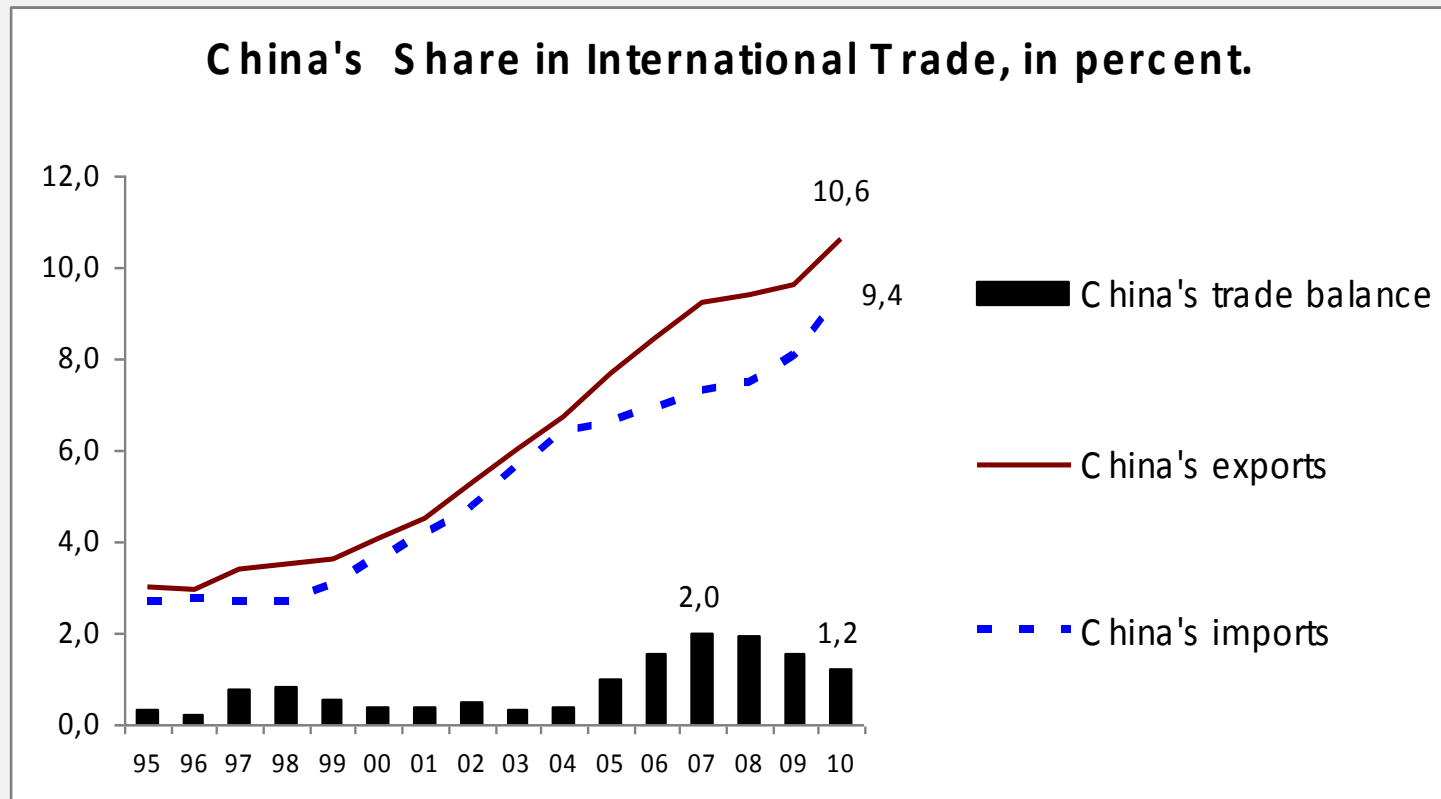


Source: China's Customs

Since 2008, imports for the domestic market have overtaken imports for processing,



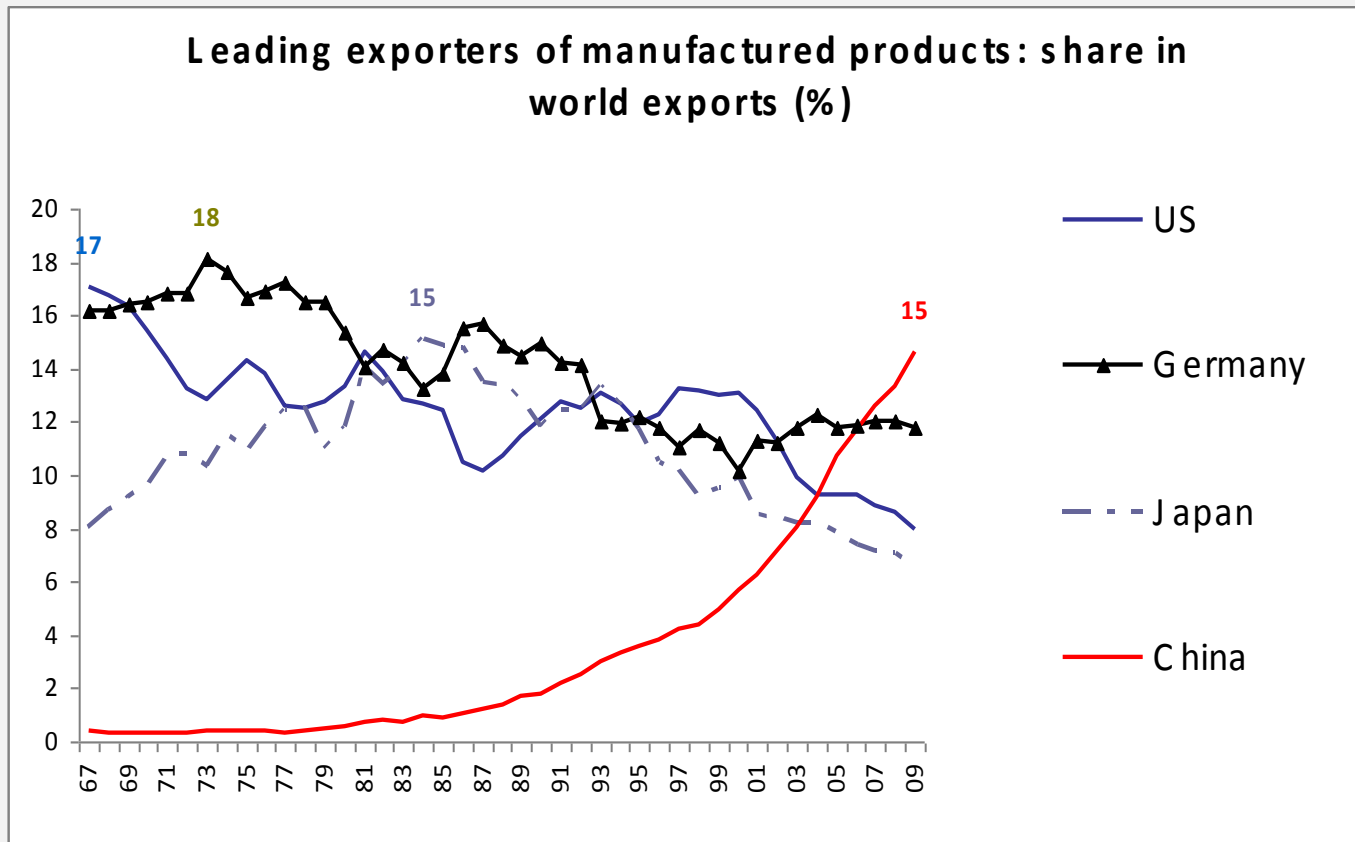
On the export side, China has continued to enlarge its world market share. Its surplus, as percent of world trade is close to its 2005 level.



Sources: China Customs and WTO

In a long term perspective:

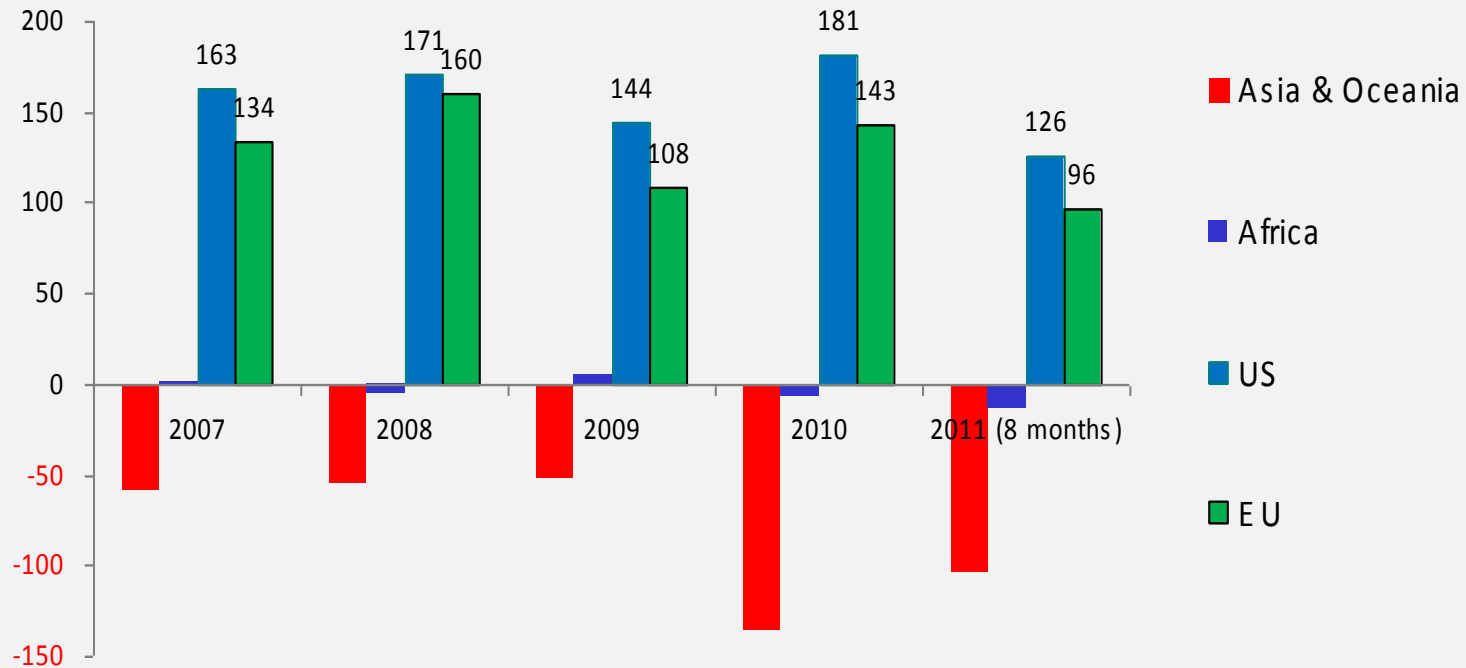
China's present share in global manufactured exports (15% in 2009) is close to that of leading exporters when they peaked (US in 1967, Germany in 1973, Japan in 1985). Still room for increase ?



Source CEPII, CHELEM Database

China's bilateral trade surpluses with the US and EU have declined but are still large. The geography of China's trade surpluses and deficits is linked to the division of labour in Asia (supply chains).

**The Geography of China's Trade Surpluses and Deficits  
(bnUS \$)**



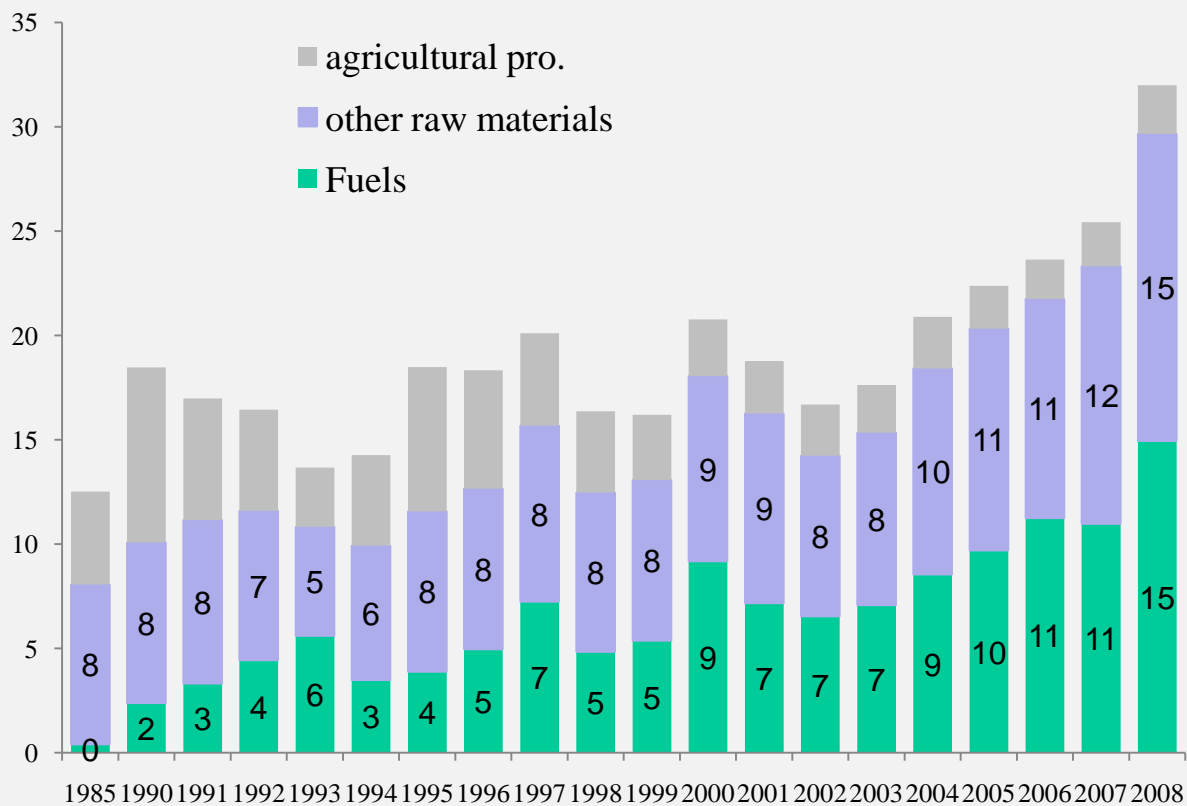
Sources: China's Customs

## The geography of China's trade has changed in favor of developing economies .

<b>Exports</b>	<b>2007</b>	<b>2010</b>	<b>2011 (8 months)</b>
Developed Asia (Japan, SK, T)	15	14	14
EU27	20	20	19
US	19	18	17
Africa	3	4	4
Latin America	4	6	6
Developing Asia	32	32	33
Oceania	2	2	2
ROW	5	4	4
<b>Developed Economies</b>	<b>54</b>	<b>52</b>	<b>50</b>
<b>ROW</b>	<b>46</b>	<b>48</b>	<b>50</b>
<b>Imports</b>	<b>2007</b>	<b>2010</b>	<b>2011 (8 months)</b>
Developed Asia (Japan, SK, T)	35	31	28
EU27	12	12	12
US	7	7	7
Africa	4	5	5
Latin America	5	7	7
Developing Asia	29	29	30
Oceania	3	5	5
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<b>ROW</b>	<b>46</b>	<b>50</b>	<b>53</b>

Sources: China's Customs

The share of primary products and food in imports increased. Between 2006 and 2008, fuels and other raw materials increased from 23% to 30% of imports.



## 2-Domestic Rebalancing.

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The global crisis since 2007 has highlighted China's economic imbalances:

Its strong dependence on external markets: in 2008 a stimulus plan had to be launched in order to boost domestic demand as international demand collapsed. Indeed growth has rebounded.

But the relative weakness of household consumption persists.

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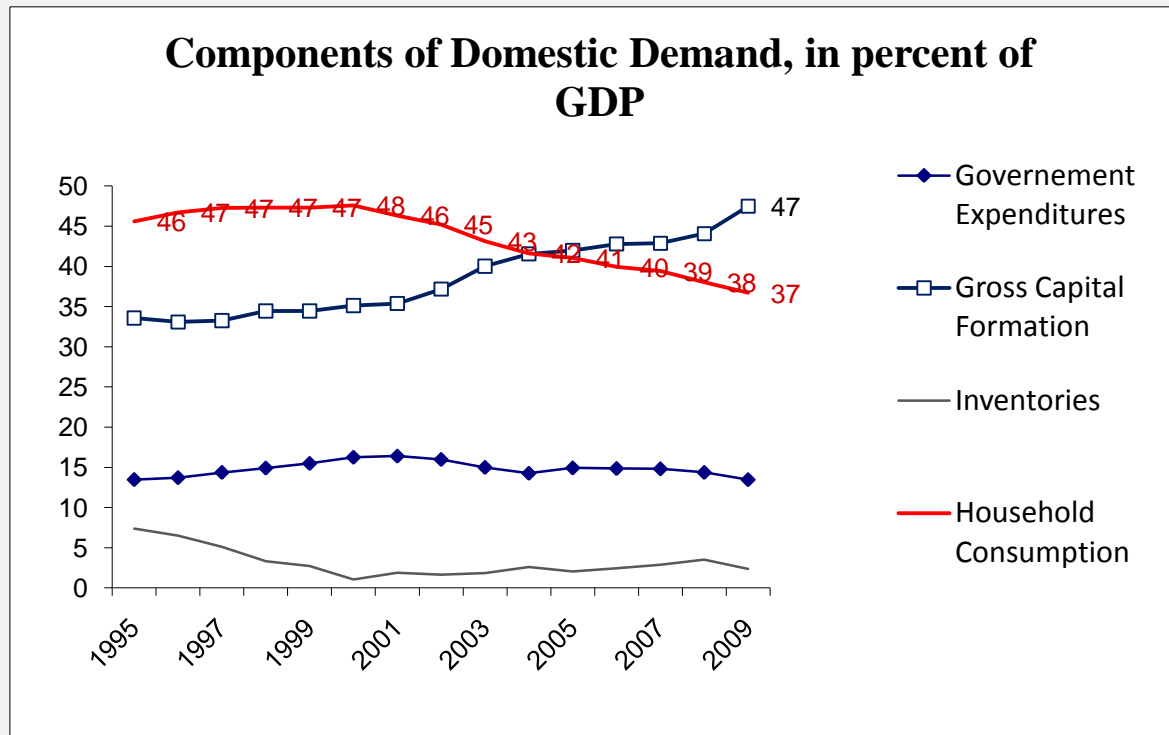
## 2-Domestic Rebalancing

Domestic demand has become the growth driver,  
But household consumption has remained the weak link

Contribution to GDP growth (in pp)



Consumption still lagging behind investment. Its share in GDP dropped from 47% to 37% from 1997 to 2009. A record by international standards.



Why China's household consumption has fallen so low is a debated topic. The arguments can be summarised as follows.

-First, the share of household income in GDP declined, because:

-There was a downward pressure on wages: the increase in working age population and the surplus labour in agriculture provided an almost unlimited supply of labour.

-Other institutional factors, such as the cap on deposit interest rates and the decline of the net transfers, also inhibited increase in household income.

-Second, the saving rate of the Chinese households increased (from 28% to 38% 2002 and 2007). This can be explained by the demographic situation with the decline in the dependency rate; the SOE restructuring which reduced the safety net and stimulated the precautionary savings of households; the growing inequality in income distribution which has favoured higher-income households.

## Another hypothesis:

Is household consumption so low ? Are not domestic imbalances overstated in the National Account Statistics?

-Household income is understated: grey income (gifts, land transactions, corruption, monopoly profits distributed) may represent more than 60%, official income (Xiaolu Wang and Wing Thye Woo, 2011).

-Household consumption may be understated: actual expenditures especially on services (health, education) are underestimated (Zhang Jun)

-Investment is overestimated (prices of land transaction included)

This would mean there is no so much need for rebalancing.

However, China will have to change in its growth pattern in the coming years for several reasons:

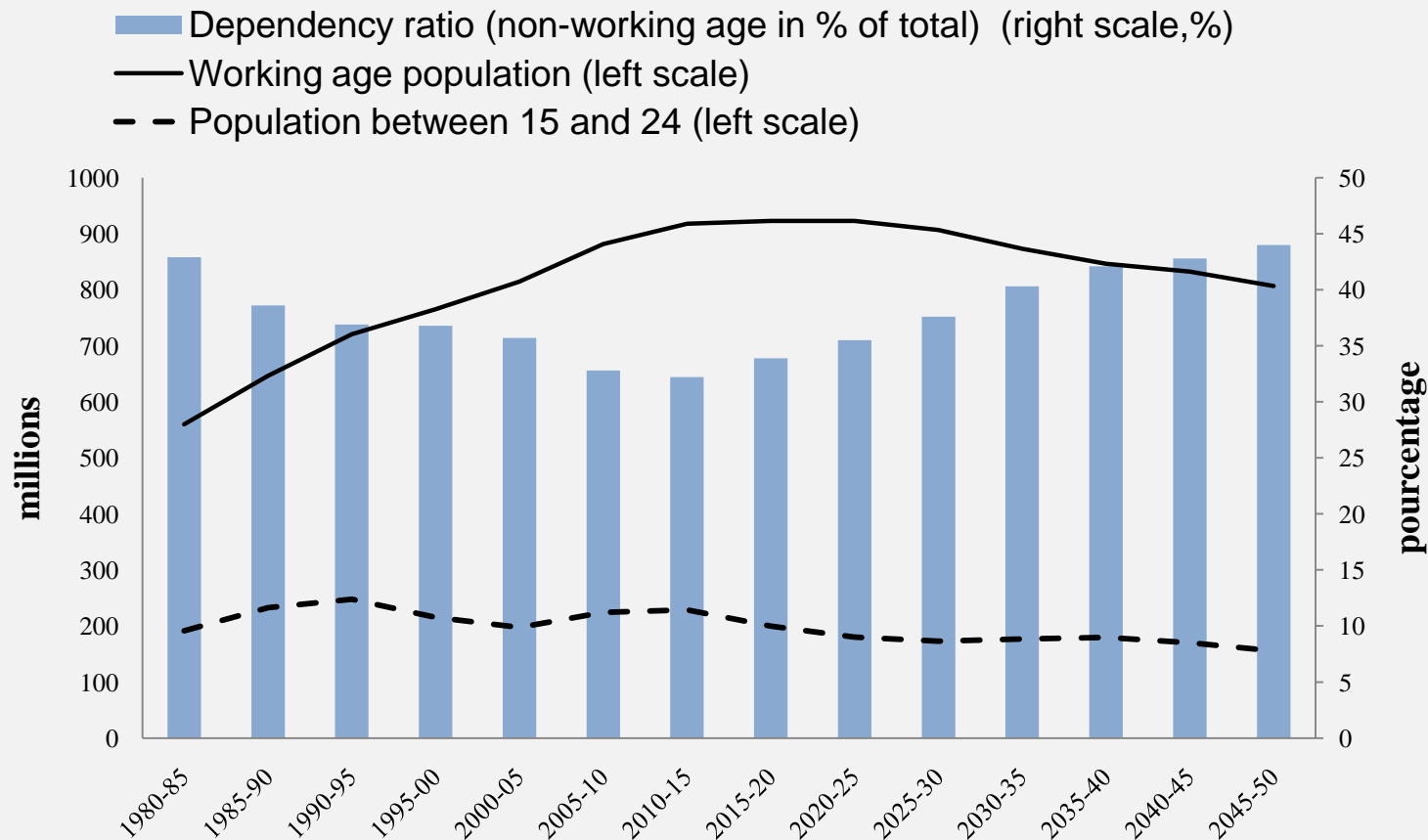
Demographic turning point

Urbanisation

Appreciation of the Rmb

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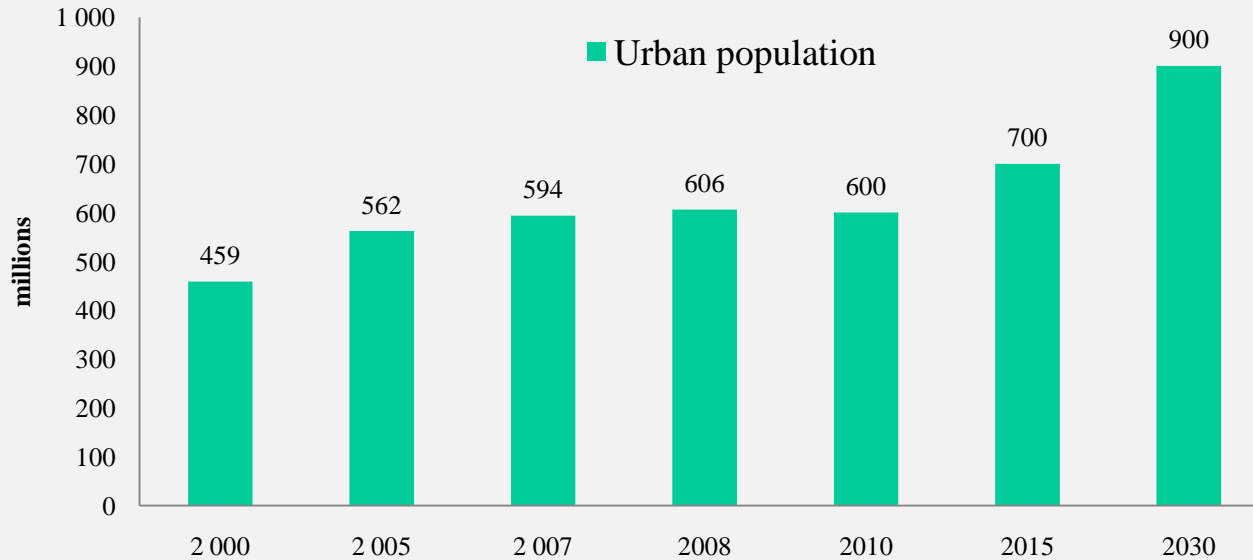
Demographic turning point: the working age population is now stagnating, the number of young workers will decrease starting in 2015. This will bring lower economic growth and upward pressure on wages.



Urbanisation will mean higher income, a social safety net, a higher propensity to consume (presently migrant workers have a high saving rate)

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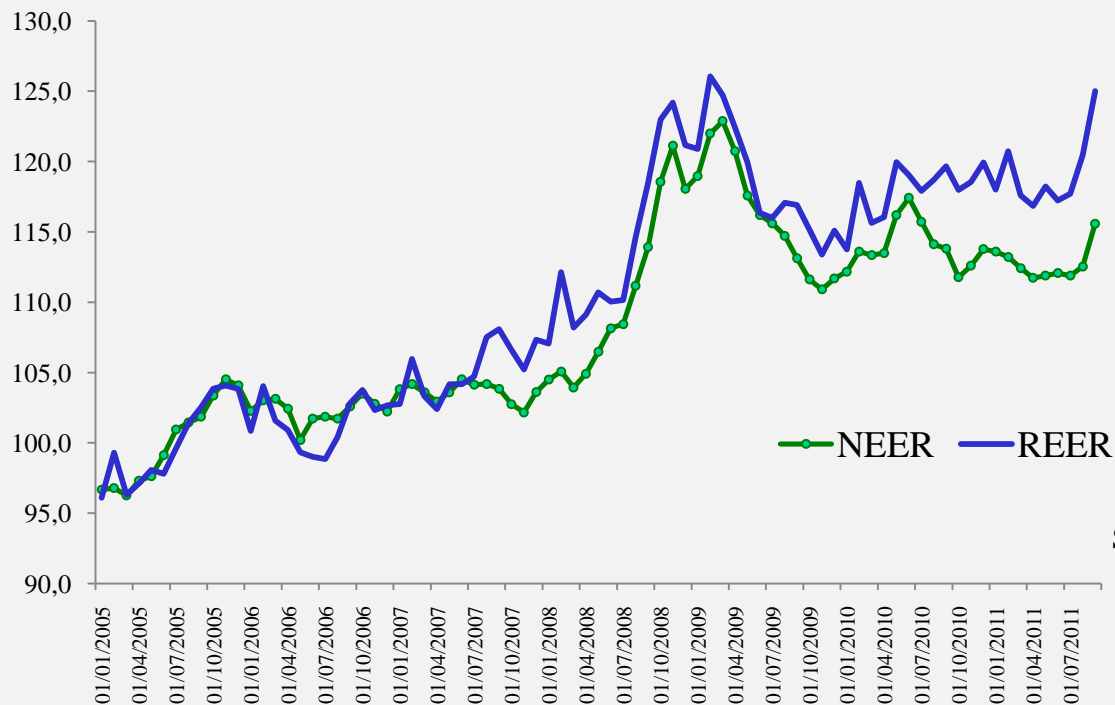
**China: Urbanisation Trends, 2000-2030**



## - Appreciation of the RMB

Real appreciation has accelerated recently. Will affect the export-oriented sectors and induce a shift from price competitiveness to price/quality upgrading

### The RMB Exchange Rate since 2005



Source: BIS

## Conclusions

- China's external surpluses have been reduced, domestic demand has increased fast, but this rebalancing has benefited mainly to Asian economies and developing economies.
  - In China, the switch to a growth strategy driven by domestic consumption and services has been long delayed, but is likely to be fostered by both the international context and domestic factors.
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