

China in the Global Economy

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*All opinions expressed herein are the author's own and do not necessarily reflect the views of any of the organisations with which the author is affiliated.

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- ◆ Global Economic Trends
- ◆ China in the Global Economy—GDP
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- ◆ China in the Global Economy—Energy Consumption and Carbon Emission
- ◆ The Internationalization of the Renminbi
- ◆ China in the Global Economy—Capital Markets
- ◆ Projections of the Future
- ◆ Concluding Remarks

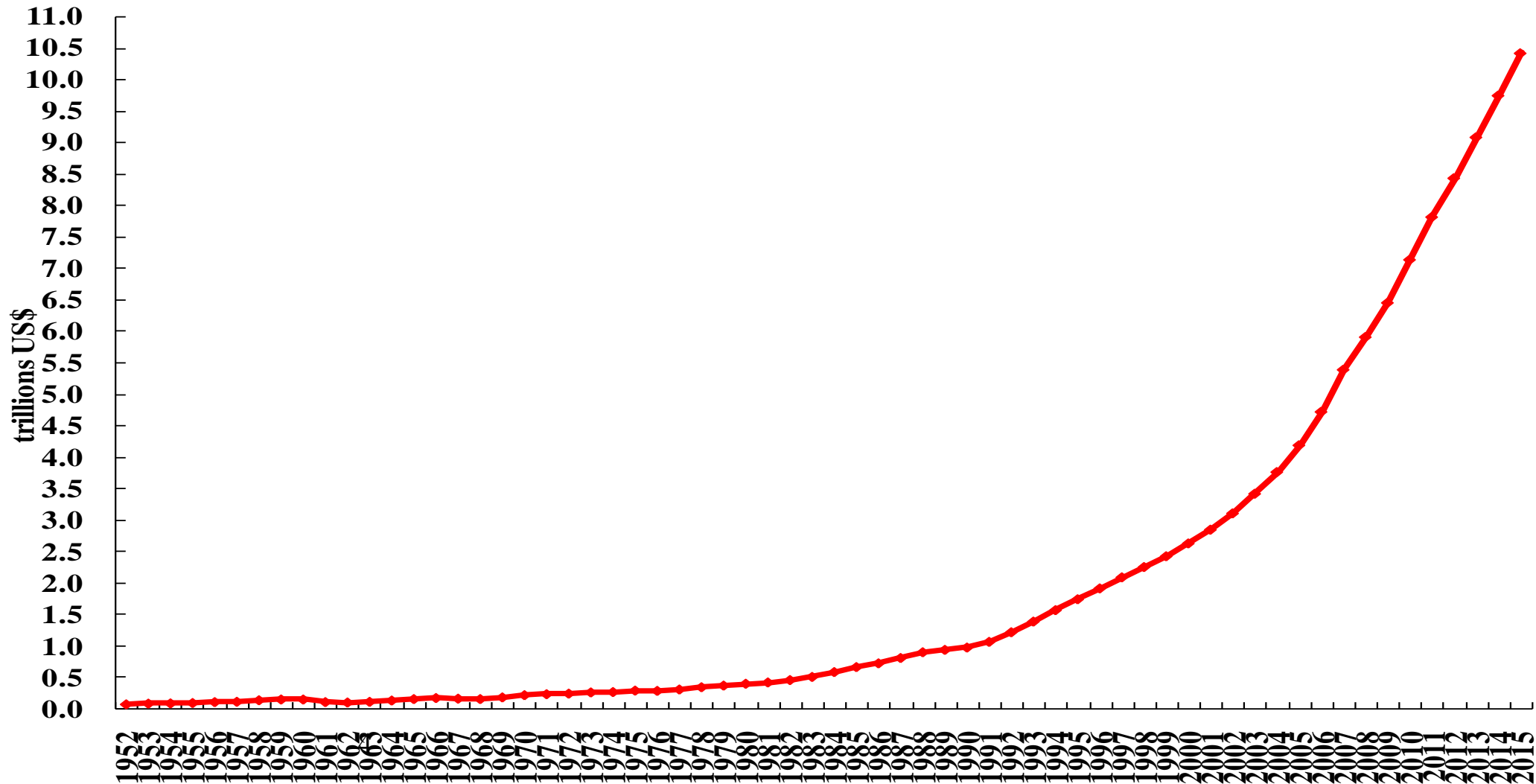
Introduction—the State of the Chinese

Economy

- ◆ China has made tremendous progress in its economic development since it began its economic reform and opened to the world in 1978. It is currently the fastest growing economy in the world—averaging over 9.6% per annum compounded over the past 37 years. It is historically unprecedented for an economy to grow at such a high rate over such a long period of time. However, the Chinese economy has begun to slow down, to an average annual rate of growth of around 6.5%, in a process of transition to a “New Normal”. In 2016, the Chinese economy grew 6.7% in real terms.
- ◆ But even 6.5% per annum is still a very high rate of growth relative to many other economies.

Chinese Real GDP in US\$ Since 1952 (2015 Prices)

Chinese Real GDP since 1952, in 2015 prices



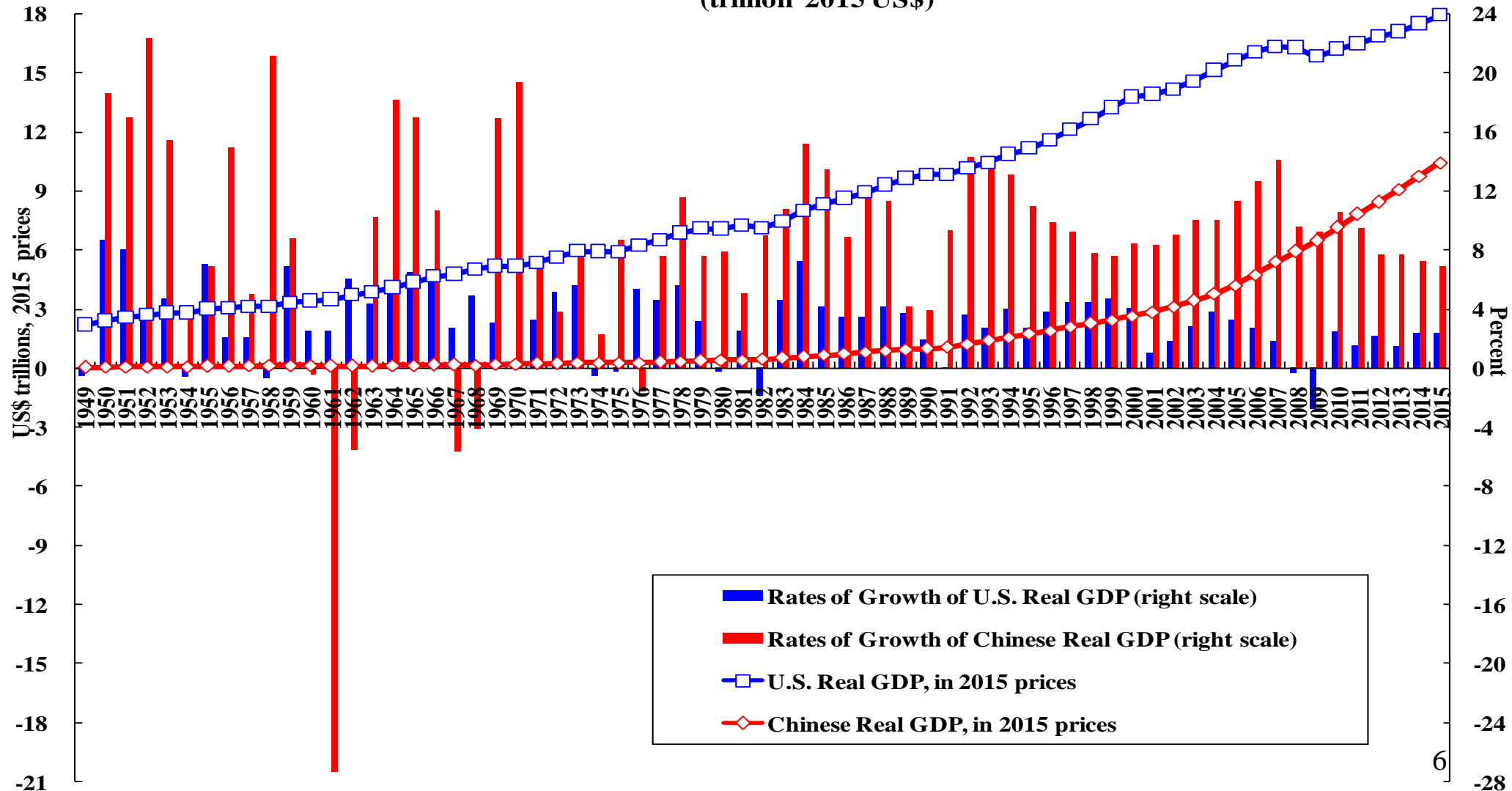
Introduction—the State of the Chinese

Economy

- ◆ It is useful to compare the growth of Chinese and U.S. real GDP in both aggregate and per capita terms (see the following charts). The red and blue lines represent the levels of real GDP and real GDP per capita of China and the U.S. respectively. The red and blue columns represent the annual rates of growth of China and the U.S. respectively.
- ◆ Between 1978 and 2015, Chinese real GDP grew from US\$346 billion to US\$10.4 trillion (in 2015 prices), to become the second largest economy in the world, after the U.S. In 2015, Chinese GDP was less than 60% of the U.S. GDP of US\$17.9 trillion.

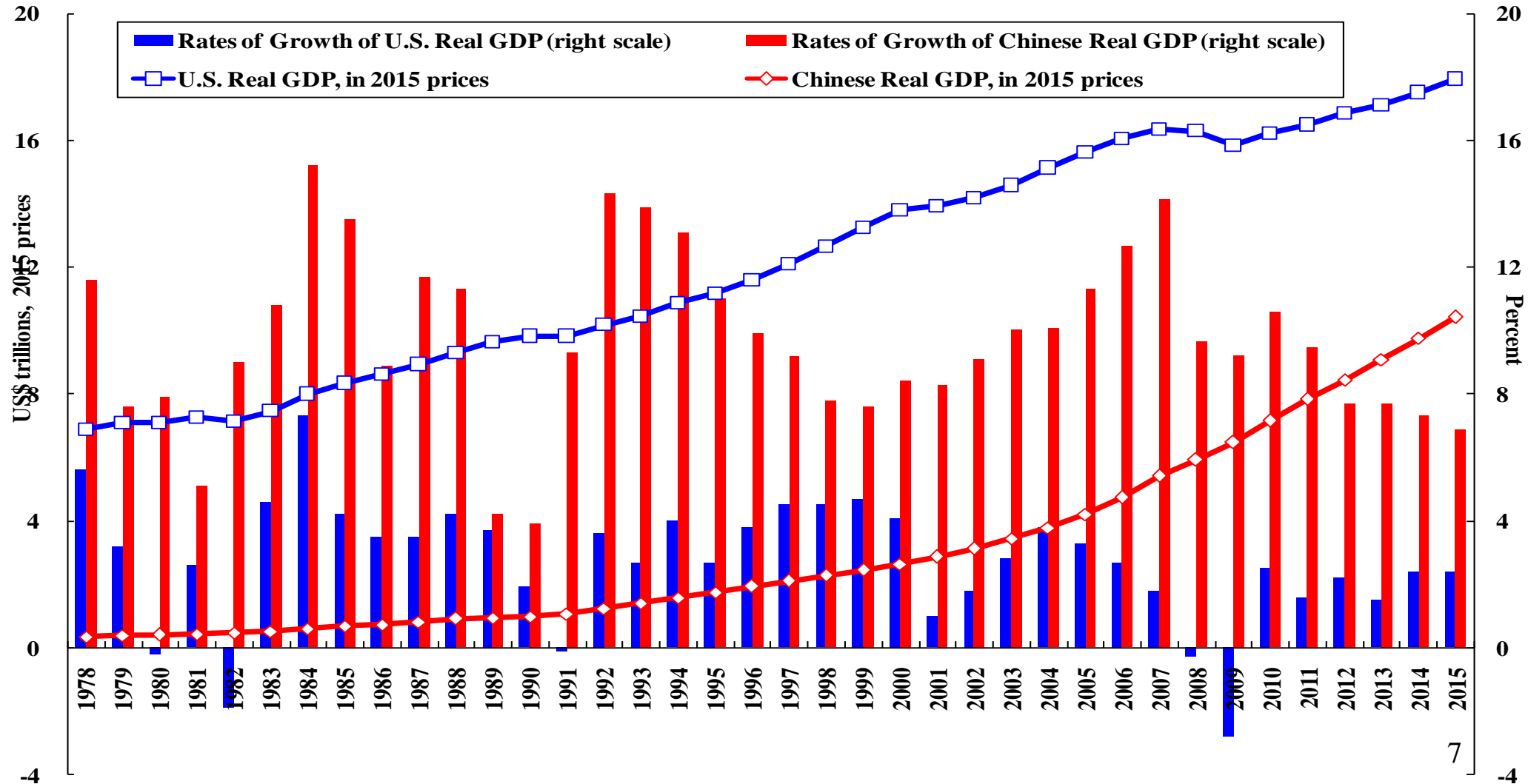
Real GDPs and Their Annual Rates of Growth: China & the U.S. (2015 US\$): 1949-present

Real GDPs and Their Annual Rates of Growth since 1949
(trillion 2015 US\$)



Real GDPs and Their Annual Rates of Growth: China & the U.S. (2015 US\$): 1978-present

Real GDPs and Their Annual Rates of Growth: China and the U.S. since 1978
(trillion 2015 US\$)



Introduction—the State of the Chinese

Economy

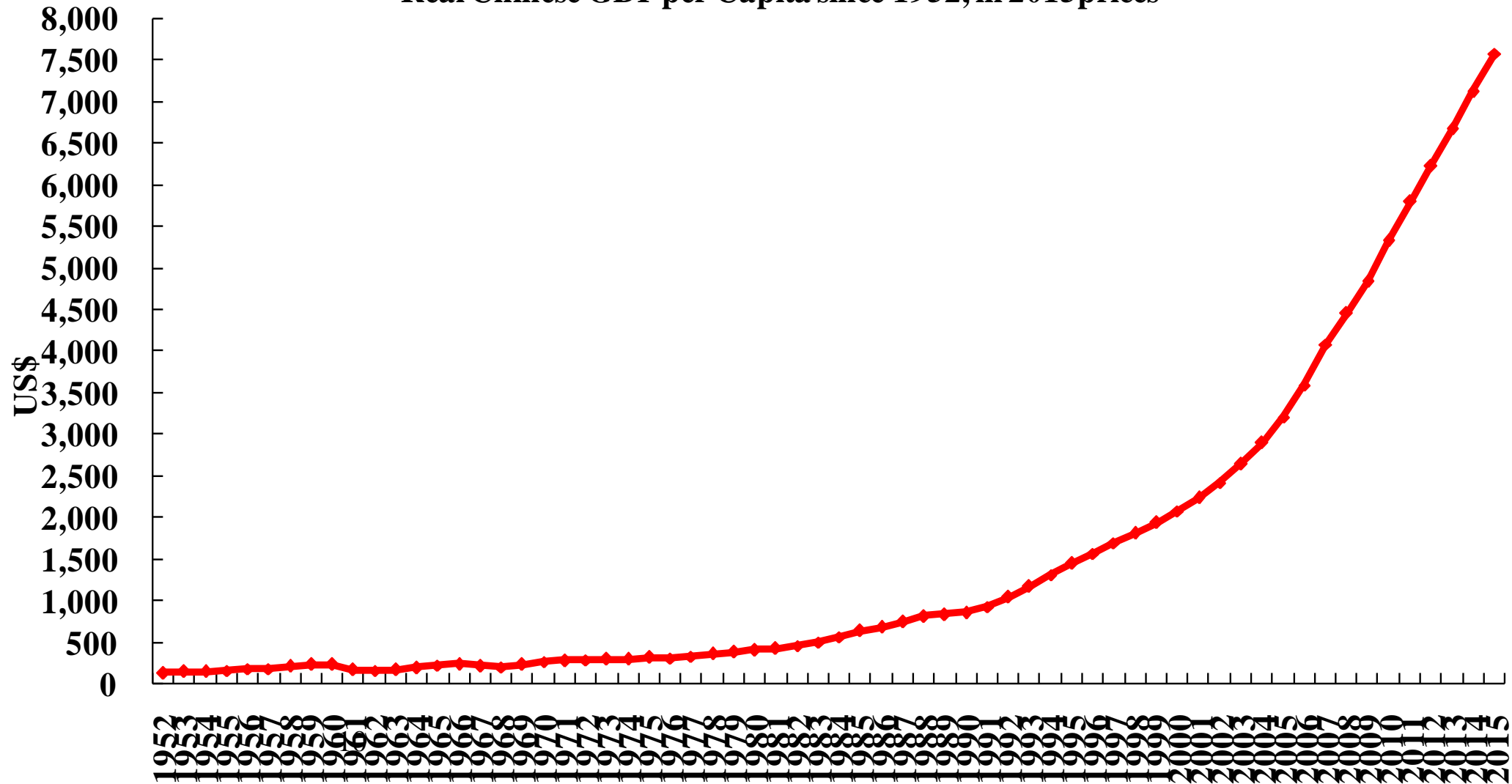
- ◆ Researchers at the International Monetary Fund (IMF), have found, on the basis of “purchasing-power-parity (PPP)” calculations, that the Chinese economy overtook the U.S. economy in 2014. In 2016, the IMF estimated the Chinese PPP GDP to be US\$21.269 trillion compared to US\$18.562 trillion for the U.S. (In 2015, Chinese PPP GDP was estimated by the World Bank to be US\$19.524 trillion compared to US\$17.947 trillion for the U.S.)
- ◆ However, PPP comparisons of GDPs between economies are not reliable because they are highly sensitive to the set of so-called “international prices” chosen to evaluate the goods and services produced in the different economies. The choice of prices can vary the resulting estimates of PPP GDPs greatly, especially because of the valuation of the non-tradable goods and services, the actual prices of which can differ significantly internationally due to differences in natural resource endowments such as land and minerals and in consumer preferences.

Introduction—the State of the Chinese Economy

- ◆ However, despite its rapid economic growth in the aggregate, in terms of its real GDP per capita, China is still very much a developing economy because of its large population. China is the most populous country in the world.
- ◆ In 1978, the Chinese real GDP per capita was US\$360 (in 2015 prices) compared to the then US\$30,886 of the U.S. By 2015, the Chinese real GDP per capita had grown to US\$7,584, still only more than 13.6% of the U.S. GDP per capita of US\$55,759 (or less than one-seventh of U.S. GDP per capita).

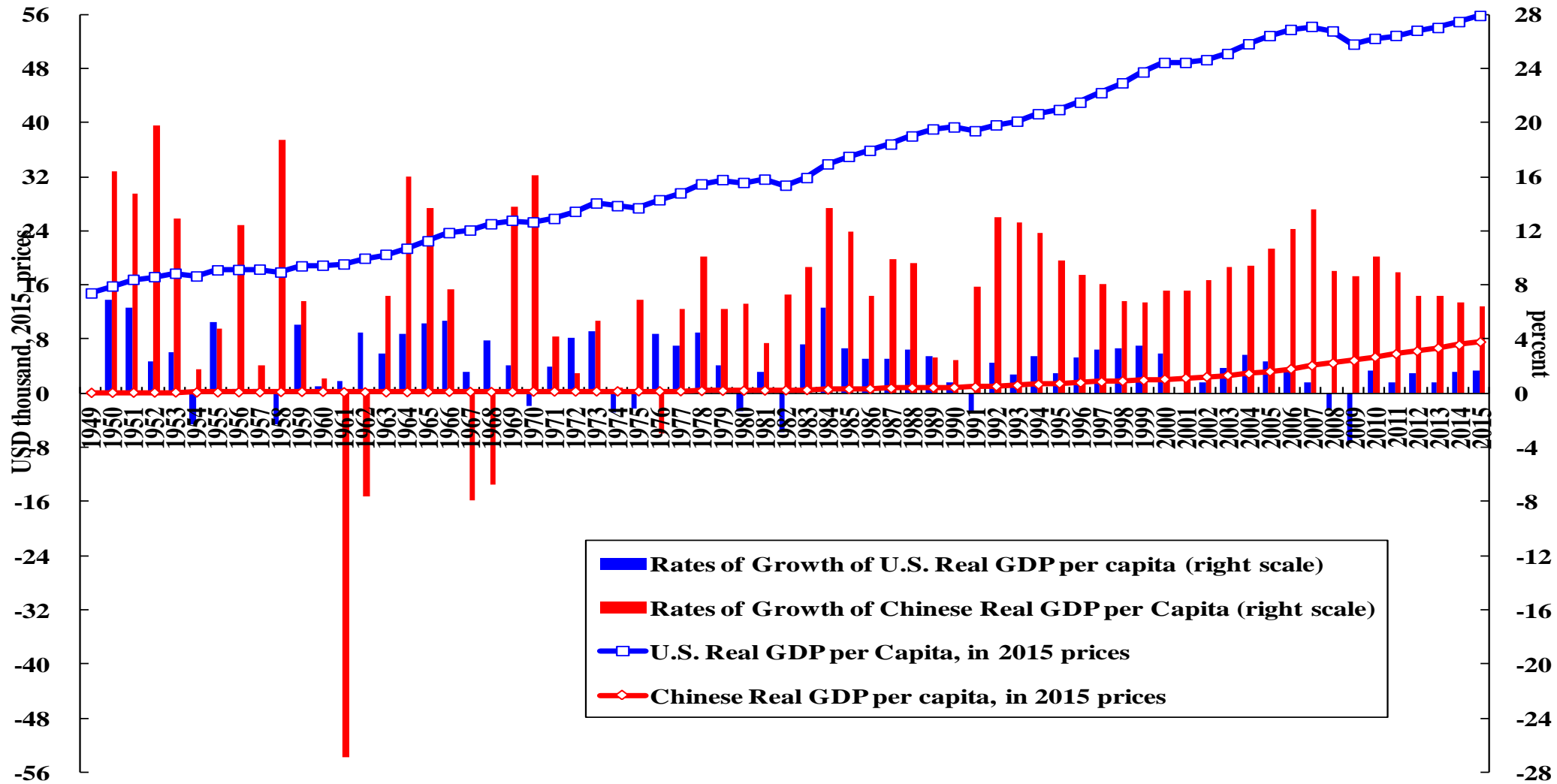
Real Chinese GDP per Capita in US\$ Since 1952 (2015 Prices)

Real Chinese GDP per Capita since 1952, in 2015 prices



Chinese and U.S. Real GDPs per Capita and Their Rates of Growth since 1949 (2015 US\$)

Chinese and U.S. Real GDP per Capita and Their Rates of Growth since 1949
(thousand, 2015 US\$)



Global Economic Trends

- ◆ The Slowdown in Growth of GDP and International Trade
- ◆ The Limits of Monetary Policy
- ◆ The Price of Oil
- ◆ The Normalization of Interest Rates
- ◆ Demographics
- ◆ The Internet

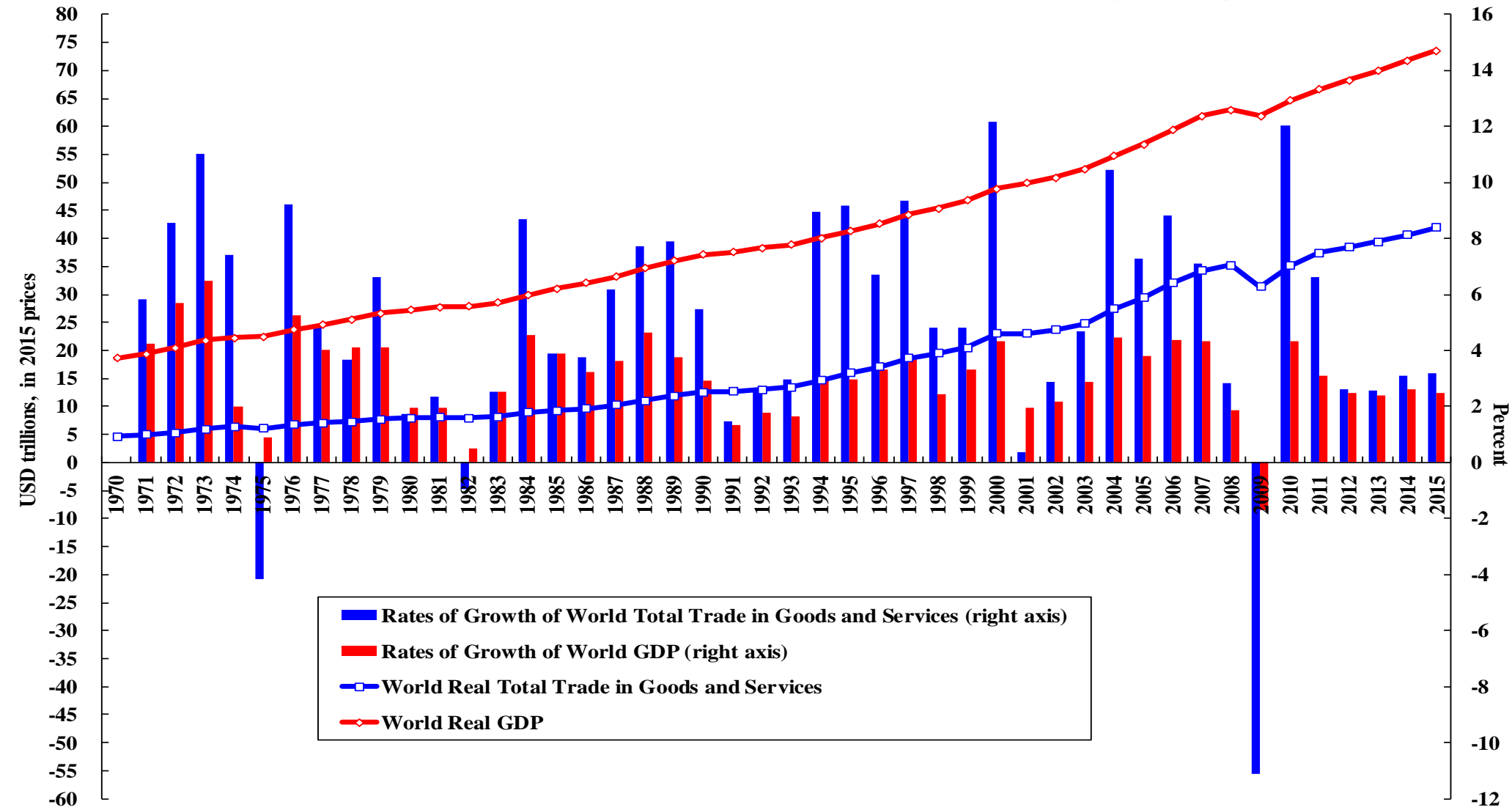
Global Economic Trends:

The Slowdown in GDP and Trade Growth

- ◆ Since the global financial crisis that began with the U.S. sub-prime loan crisis in 2007, the growth of world trade has slowed significantly and has even turned negative more recently. (For the value of world trade in nominal terms, the recent fall in the world price of oil is an important factor.)
- ◆ Similarly, the growth of world GDP has also slowed. Recently the International Monetary Fund has had to lower its projections of world GDP growth. World GDP was projected to grow at 3.1% in 2016 and 3.4% in 2017.
- ◆ The projected growth rate for the U.S. has been raised to around 3% but those for Europe and Japan have remained at between 1% and 2%. There is also a great deal of uncertainty in 2017. The outlook for the developing economies is slightly better, with China projected to grow at 6.5% and India projected to grow at 7% or higher.

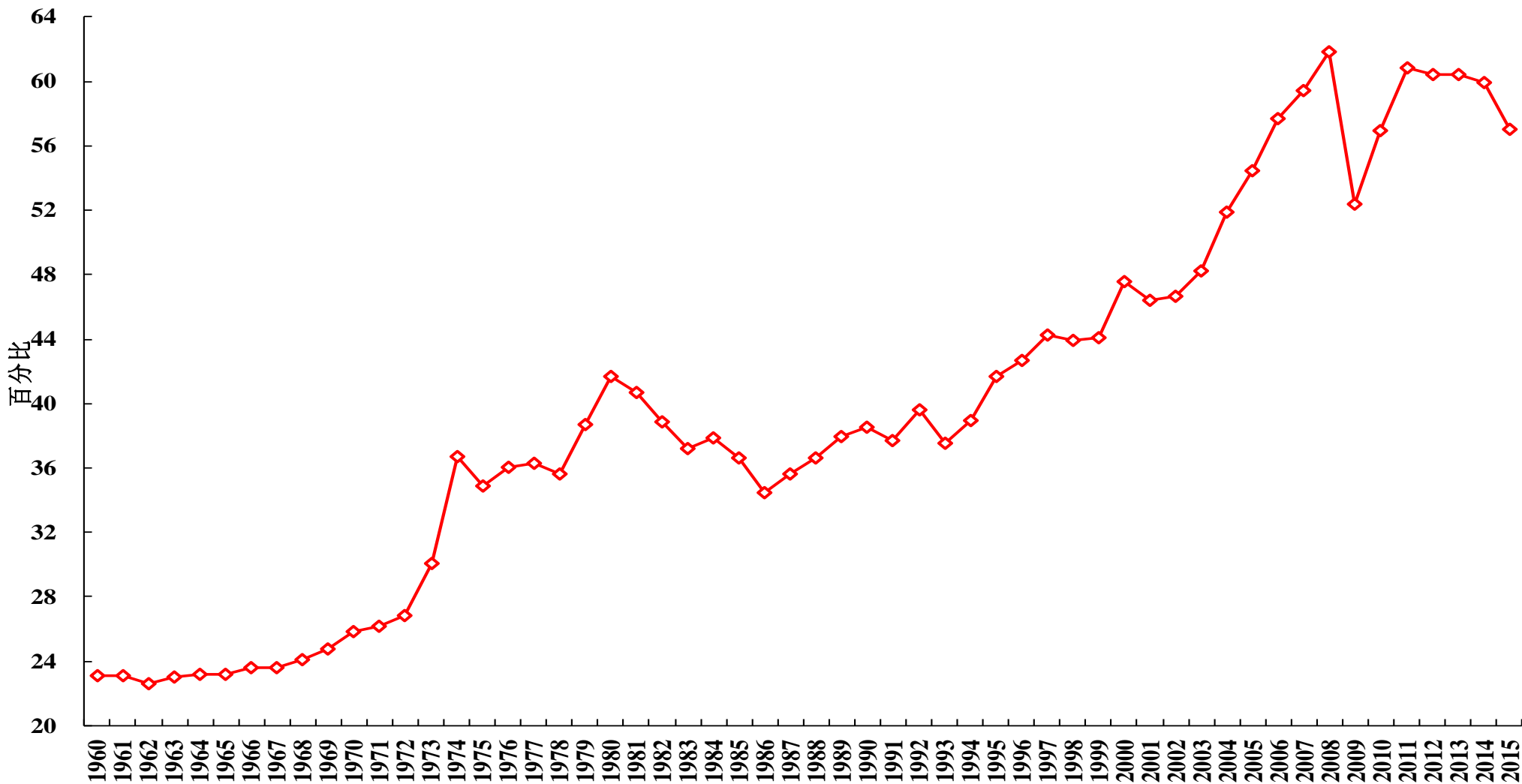
Real World GDP and Trade in Goods and Services and Their Growth Rates (2015 US\$)

Real World GDP and Trade in Goods and Services and Their Growth Rates (2015 US\$)



Total World Trade in Goods and Services as a Percentage of World GDP since 1960

1960年以来全球商品和服务贸易总额占世界GDP的比重



Global Economic Trends:

The Limits of Monetary Policy

- ◆ The experiences of the quantitative easing policies undertaken by the U.S. Federal Reserve Board, the Bank of Japan, the European Central Bank (ECB) and other central banks since late 2008 confirm what should have been well known all along—that monetary policy alone cannot turn a depressed economy around. Low interest rates cannot overcome the effects of negative expectations about the future. If expectations about the future of the economy are poor, firms will not make new investments and households will reduce their consumption no matter how low the interest rate becomes, even if it turns negative. Moreover, such expectations can be self-fulfilling.
- ◆ The U.S., Japan and many of the European countries have been stuck in a classic “liquidity trap”. As the saying goes: “One can pull on a string, but not push on a string”. Monetary policy or quantitative easing is powerless when faced with a low level of confidence about the future of the economy.

Global Economic Trends:

The Limits of Monetary Policy

- ◆ In addition, zero or negative interest rates create asset price bubbles, which will eventually burst, with damaging consequences. They also have serious negative effects on the income and wealth distribution and impose hardships on the net savers of the economy--the middle- and lower- income households, and especially the retired elderly.
- ◆ The truth is that easy monetary policy has not worked to revive the economies, and should have never been expected to work by itself alone.
- ◆ What is needed in every economy is some real economic stimulus in the form of real aggregate demand expansion that is sufficient to change expectations about the future.
- ◆ However, ideological considerations may prevent some of these economies from undertaking more aggressive actions.

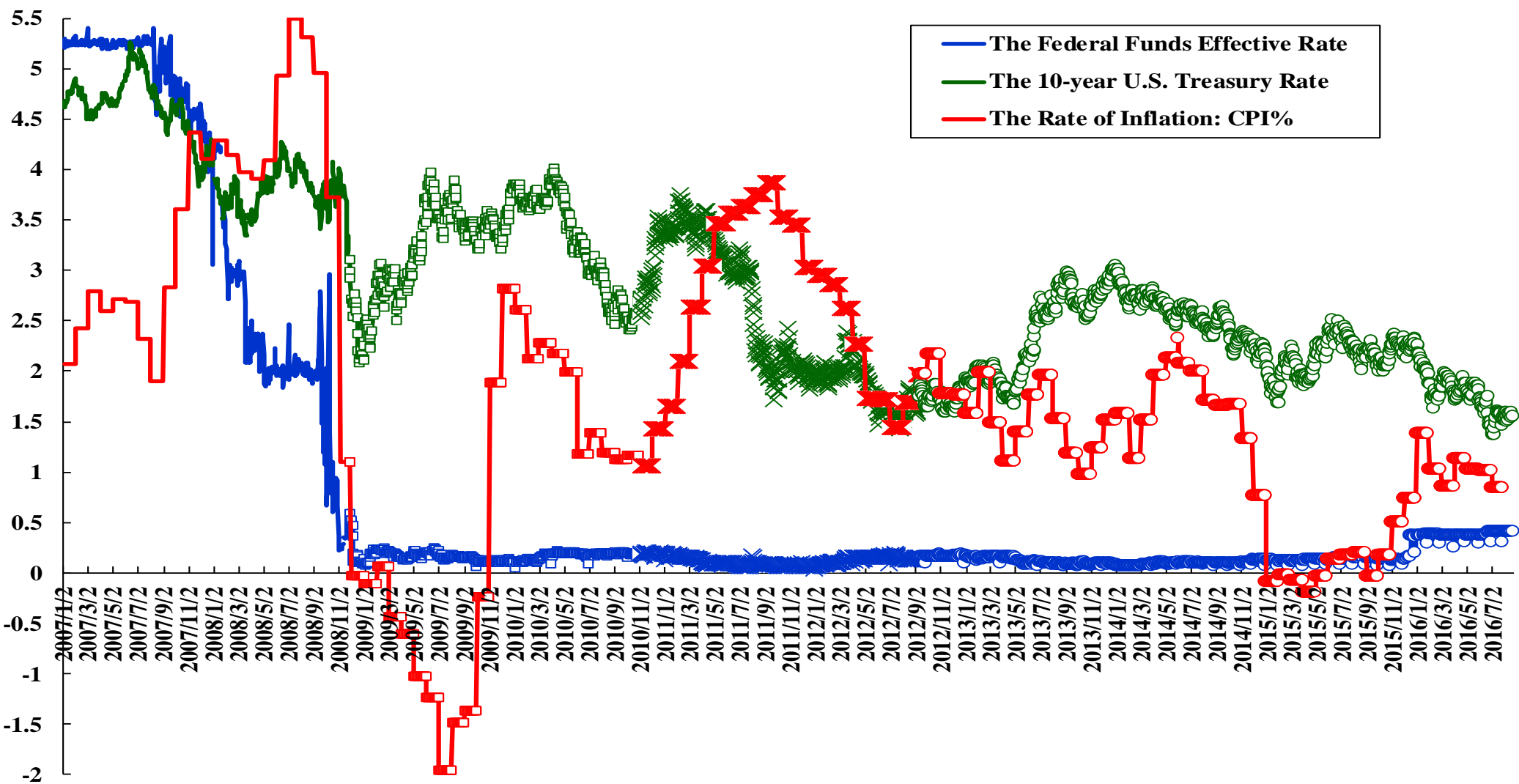
Global Economic Trends:

The Limits of Monetary Policy

- ◆ As there is excess capacity almost everywhere, the social cost of an economic stimulus is small, especially compared to the lost output and employment.
- ◆ The world can really use a “simultaneous coordinated real economic stimulus” by all the major economies such as the U.S., China, Japan and the Euro Zone.

U.S. Federal Funds Rate, the 10-year U.S. Treasury Rate, and the Rate of Inflation

The U.S. Federal Funds Rate, the 10-year U.S. Treasury Rate, and the Rate of Inflation

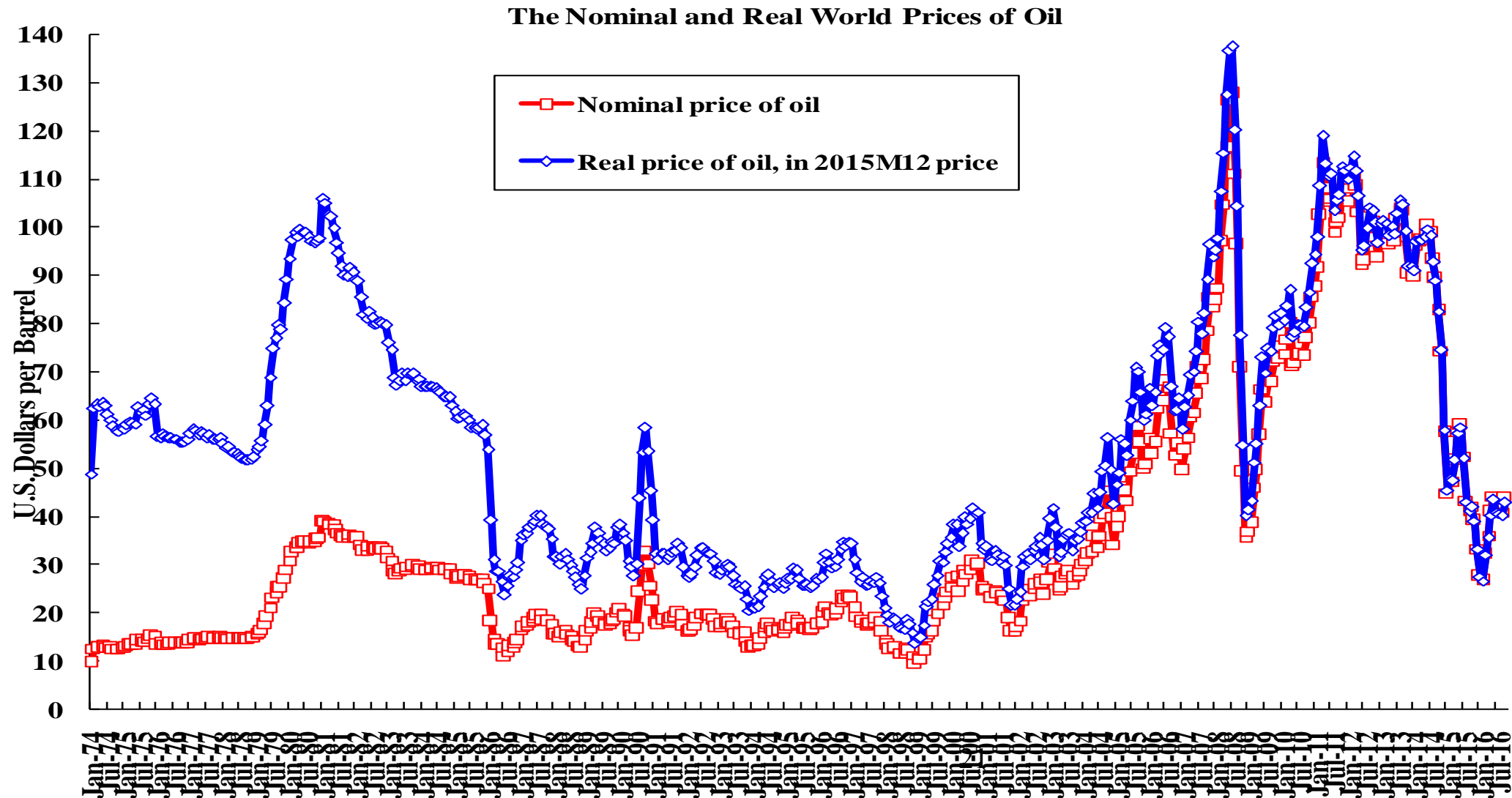


Global Economic Trends:

The World Price of Oil

- ◆ The world price of oil has been falling since 2014. In real terms it is now back where it was before its spectacular rise in 2004.
- ◆ Overall, the fall in the world price of oil has to be regarded as a net positive factor for the world economy.
- ◆ The world price of oil is not really determined by supply and demand. It has never been determined by supply and demand. It is an oligopolistic market. The largest producer, Saudi Arabia, used to produce at the rate of 8.5 million barrels a day. Currently, it produces at more than 10 million barrels a day. It has the capacity of producing 12.5 barrels a day.
- ◆ However, given the advances in shale oil technology (“fracking”) and the abundant potential supply in the U.S., which can be tapped in a matter of months, it is unlikely that the world price of oil will rise above US\$60 a barrel for a long time.

The Nominal and Real World Prices of Oil (2015 prices)



China in the Global Economy

- ◆ The most important development in the global economy during the past four decades is the reform and opening of the Chinese economy and its participation in the world.
- ◆ As a result, the center of gravity of the global economy, in terms of both GDP and international trade, has been gradually shifting from North America and Western Europe to East Asia, and within East Asia from Japan to China.

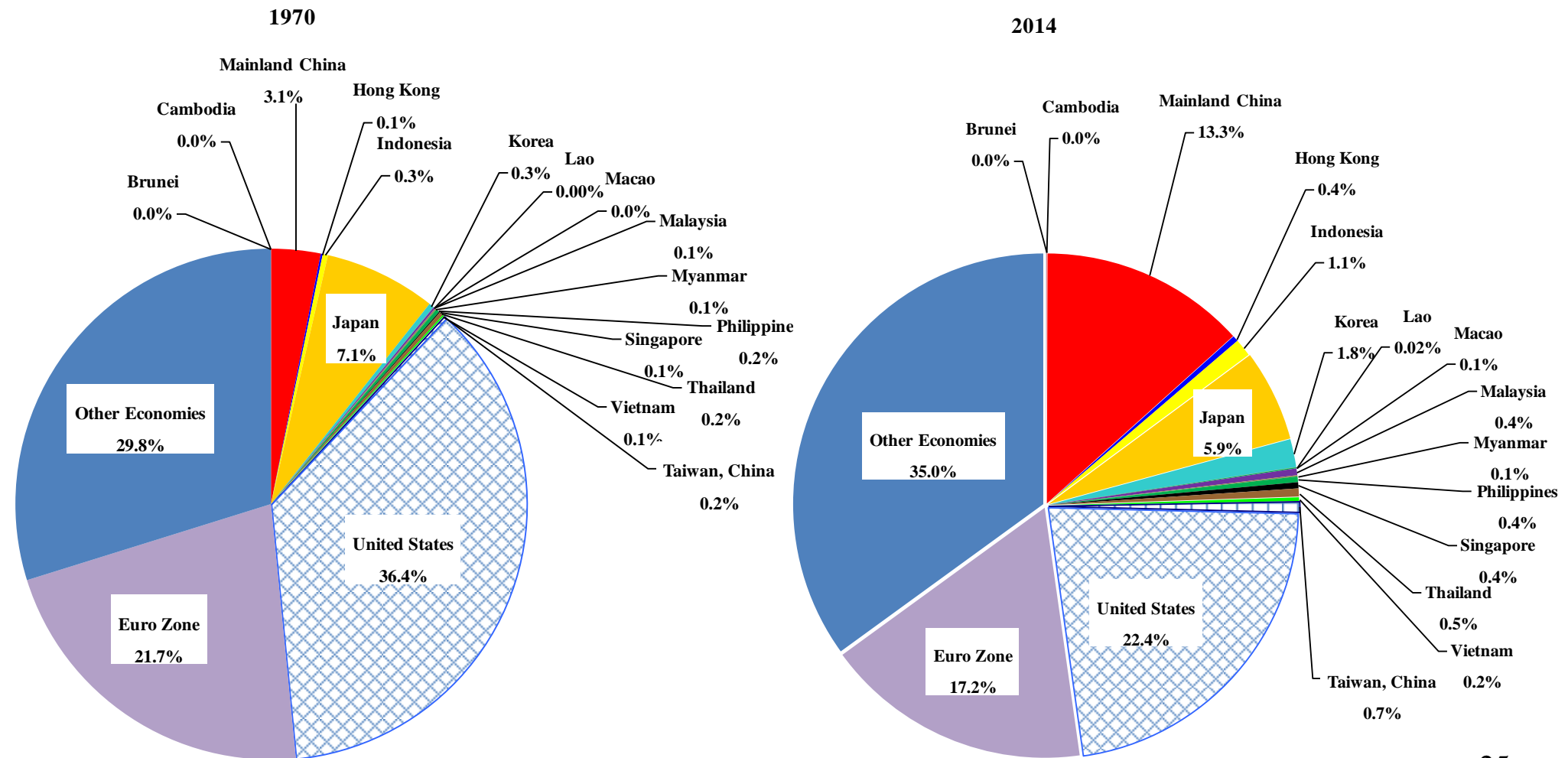
China in the Global Economy—GDP

- ◆ In 1970, the United States and Western Europe together accounted for almost 60% of world GDP. By comparison, East Asia (defined as the 10 Association of Southeast Asian Nations (ASEAN) countries--Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam, plus 3 (China including Hong Kong, Macau and Taiwan, Japan and the Republic of Korea)) accounted for approximately 10% of world GDP.
- ◆ Hong Kong, Republic of Korea, Singapore and Taiwan are also known collectively as the East Asian “Newly Industrialized Economies (NIEs)”.

China in the Global Economy—GDP

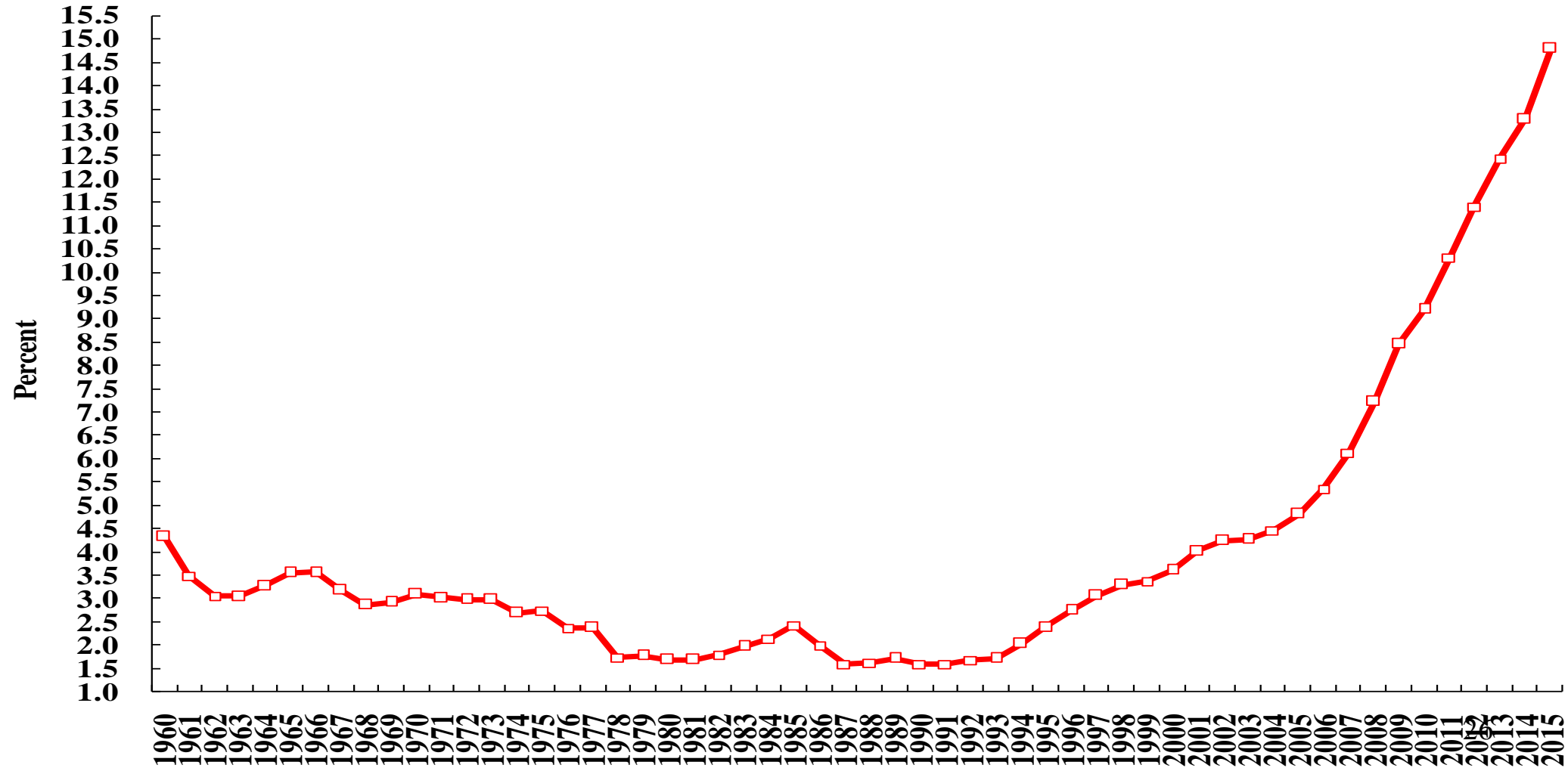
- ◆ By 2014, the share of United States and Western Europe in world GDP has declined to approximately 39.6% whereas the share of East Asia has risen to around 25.4%.
- ◆ The Japanese share of world GDP declined from a peak of almost 18% in the mid-1990s to 5.9% in 2014 while the Mainland Chinese share of world GDP rose from 3.1% in 1970 and less than 4% in 2000 to over 13.3% in 2014.

The Distribution of World GDP, 1970 and 2014, US\$



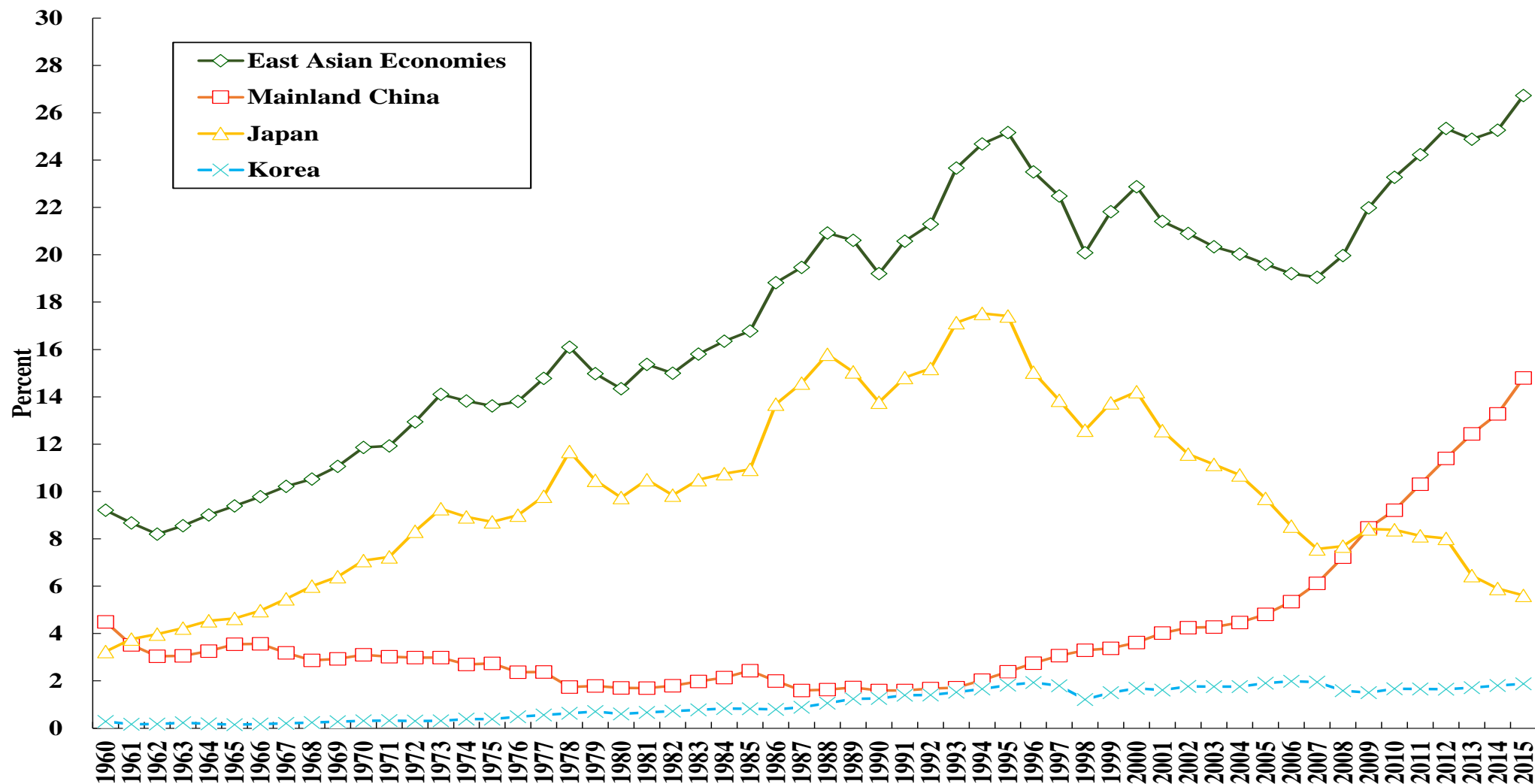
China's Share of World GDP (Current Prices), 1960-present

China's Share of World GDP, 1960-present

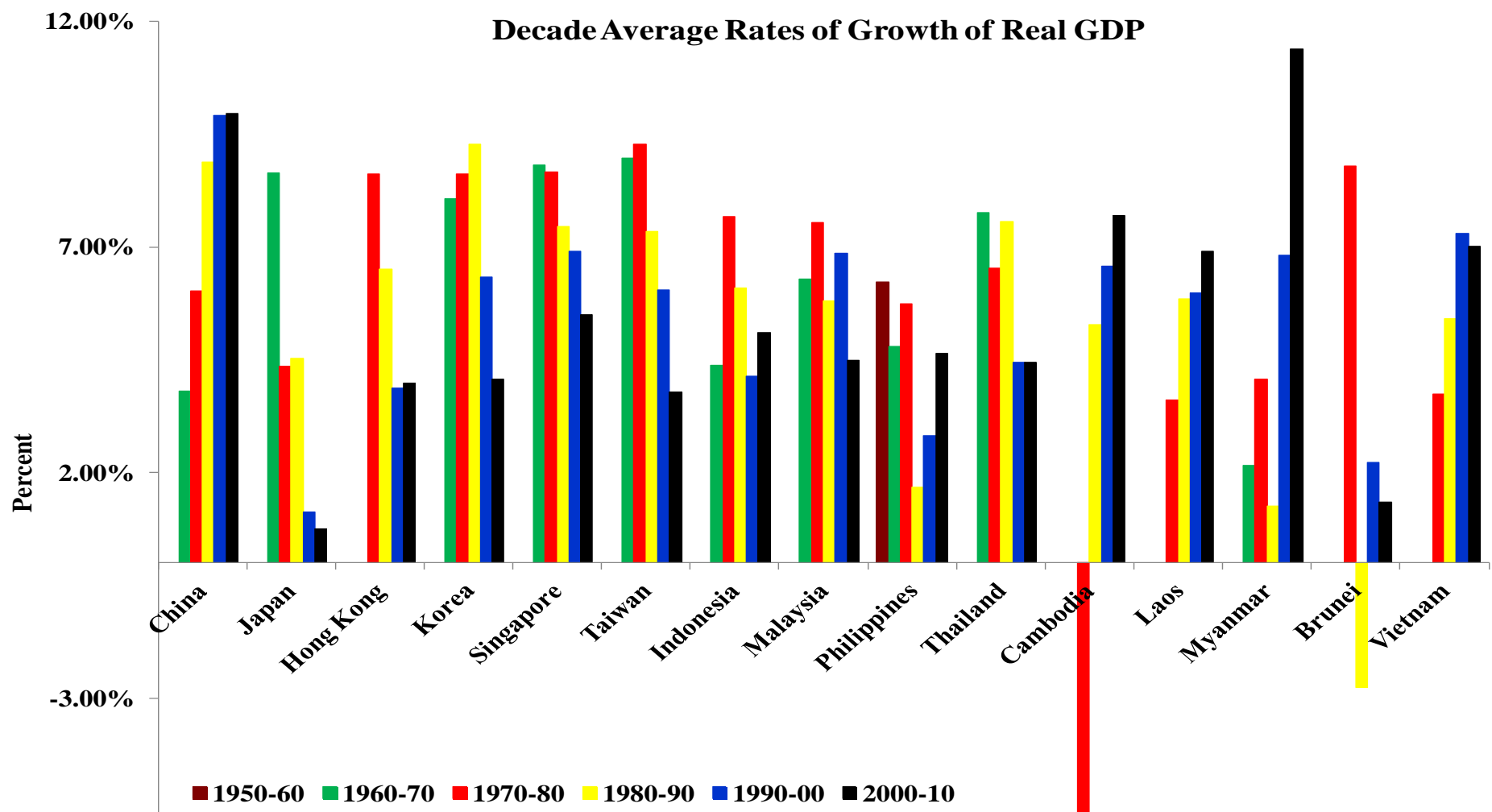


The Shares of East Asia, China, Japan and South Korea in World GDP, 1960-present

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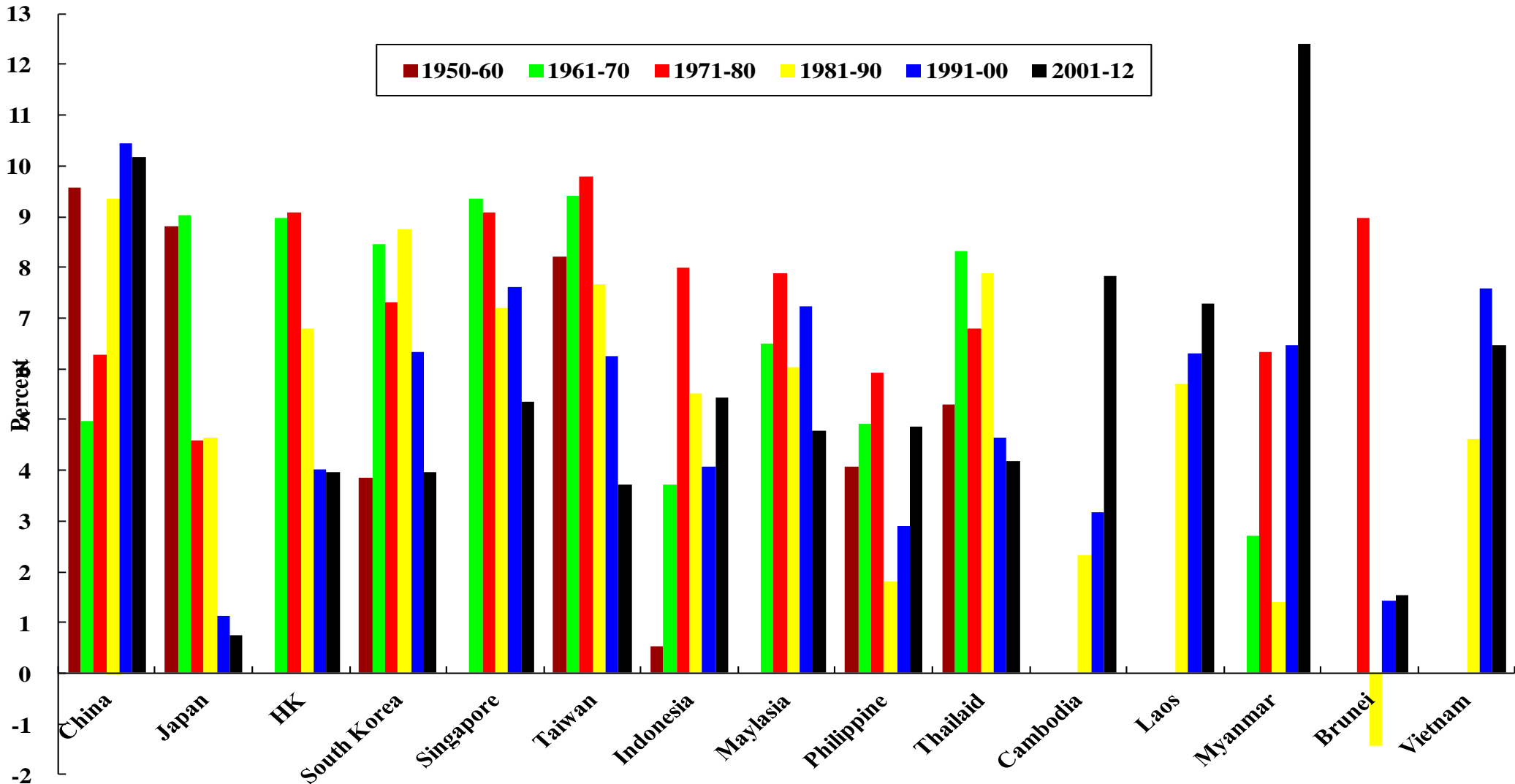


Decade Average Annual Rates of Growth of Real GDP of East Asian Economies



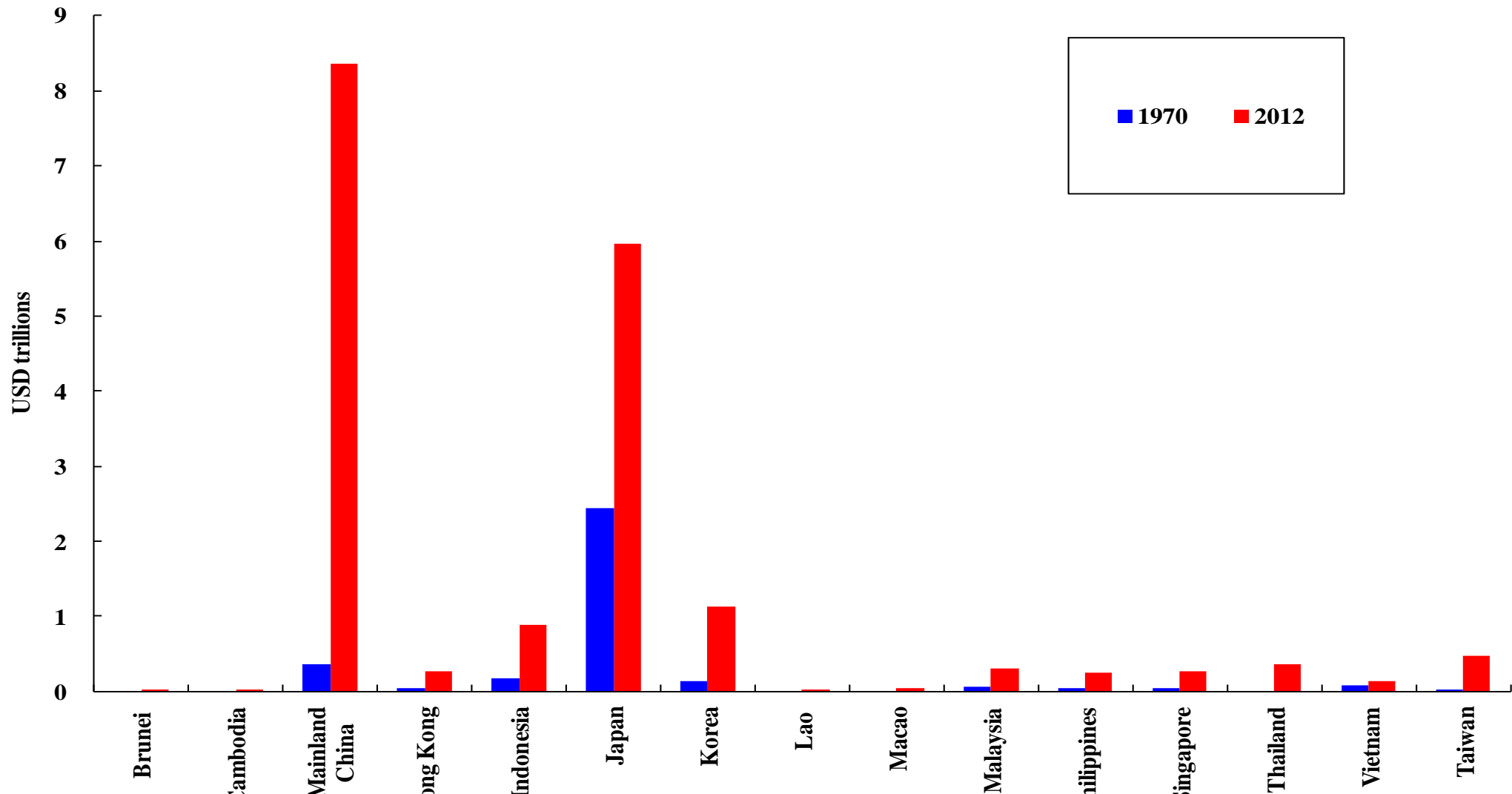
Decade Average Annual Rates of Growth of Real GDP of East Asian Economies

Decade Average Annual Rates of Growth of Real GDP



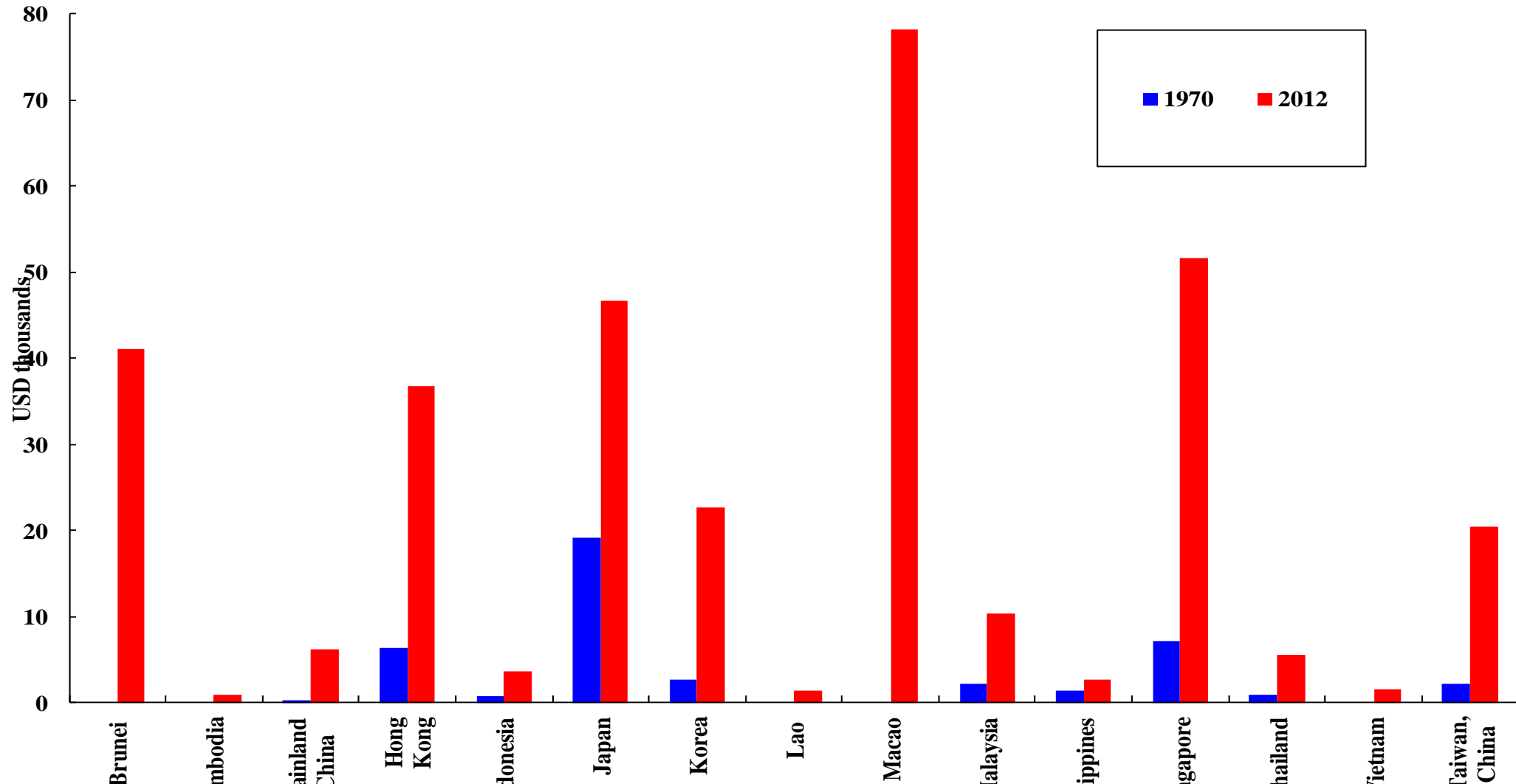
The Growth of Real GDP in East Asian Economies, 1970-2012

Real GDP of East Asian Economies in 1970 and 2012, in 2012 USD trillions



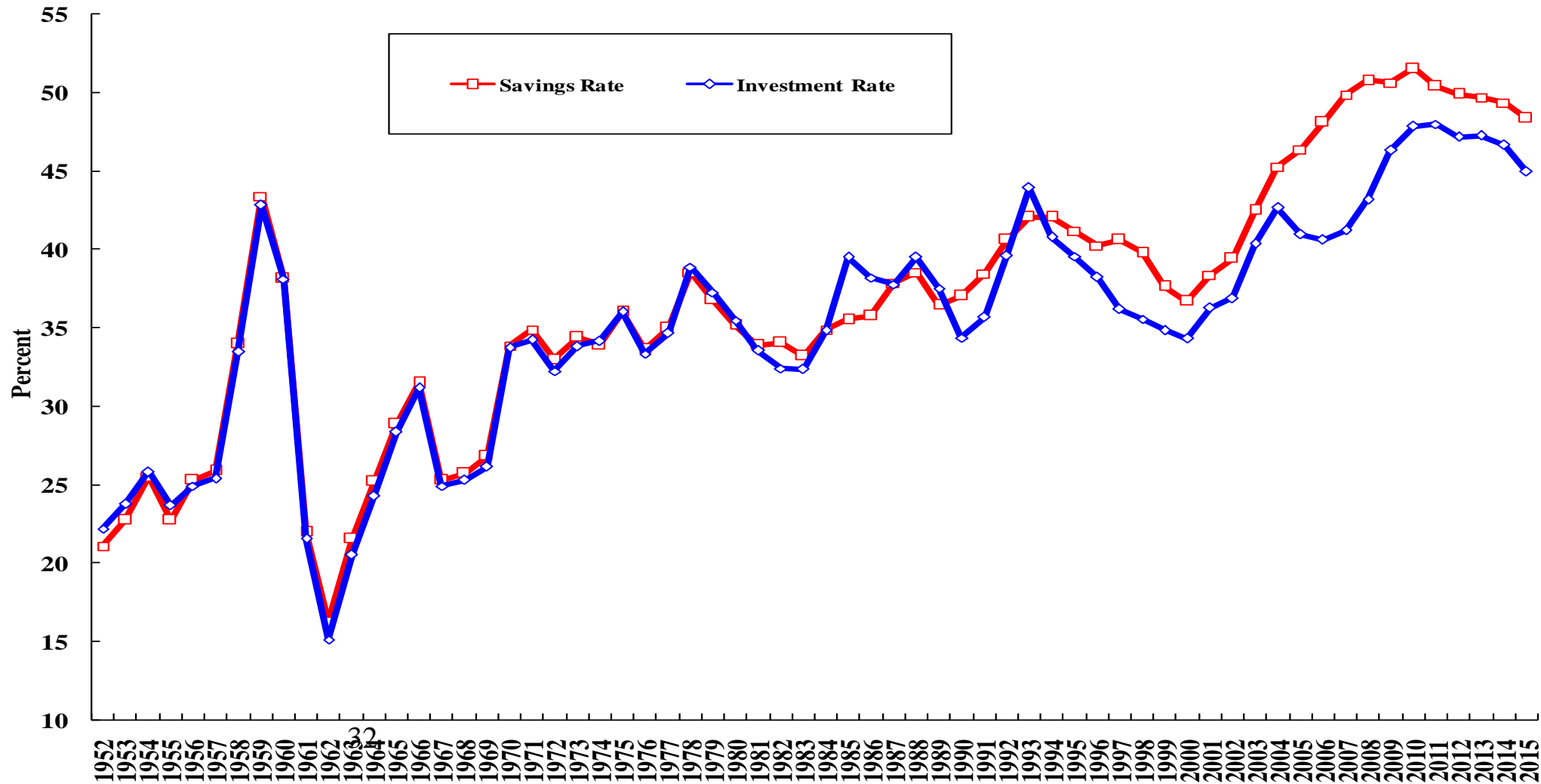
The Growth of Real GDP per Capita in East Asian Economies, 1970-2012

Real GDP per Capita of East Asian Economies in 1970 and 2012, in 2012 USD thousands



Chinese National Saving and Gross Domestic Investment as Percents of GDP

Chinese National Savings and Gross Domestic Investment as a Percent of GDP since 1952



China in the Global Economy—International Trade

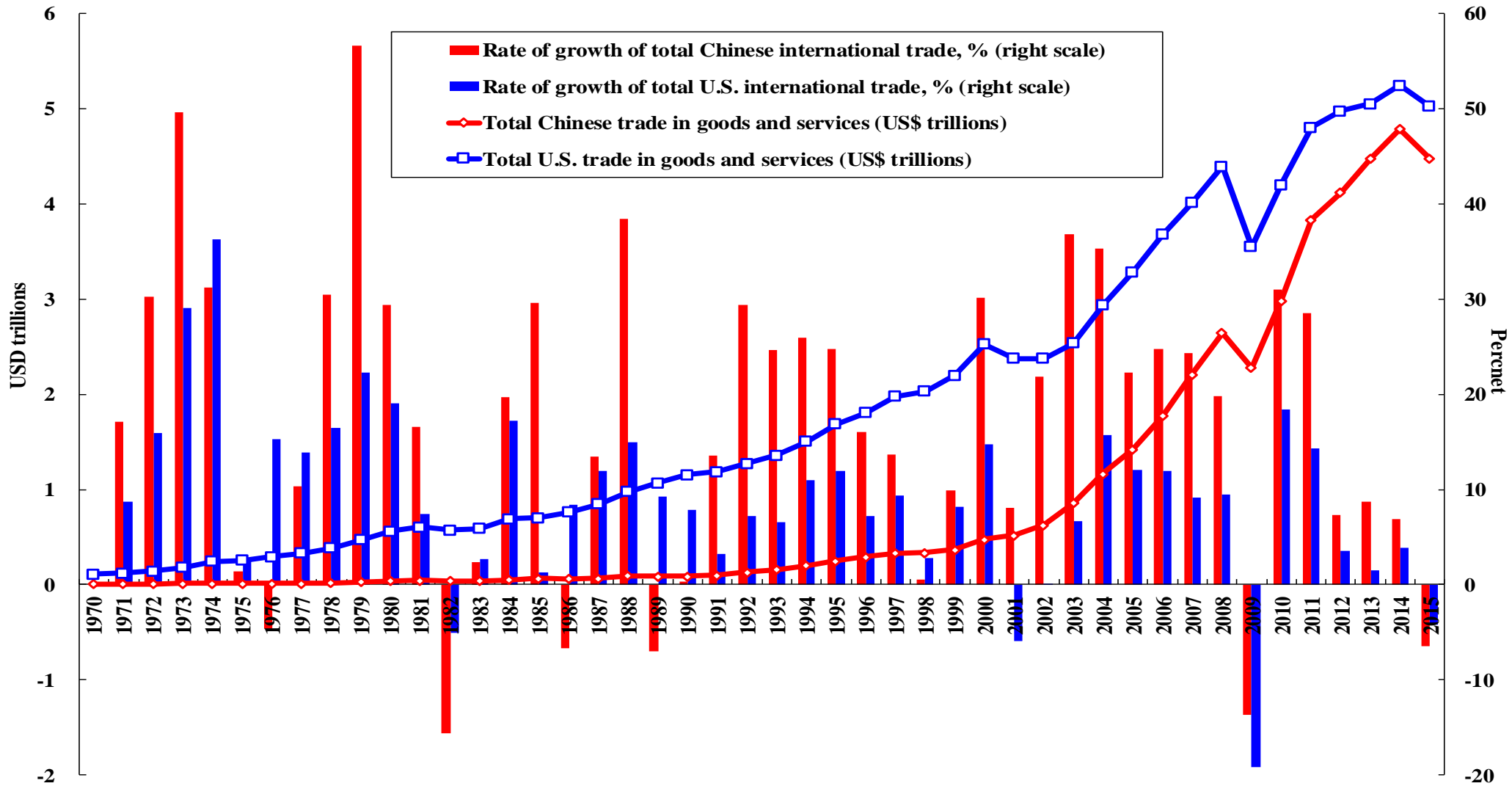
- ◆ Chinese international trade in goods and services has also been growing very rapidly since the beginning of its economic reform in 1978, and the rate of growth accelerated after Chinese accession to the World Trade Organisation (WTO) in 2001 even though it has begun to slow down recently.
- ◆ Chinese total international trade grew from US\$20.3 billion in 1978 to US\$4.67 trillion in 2015, making China the second largest trading nation in the world, just after the U.S. with its total international trade of US\$4.99 trillion.
- ◆ Even though Chinese total international trade fell in 2015, as did the U.S., in terms of value-added, the decline was much more modest, probably on the order of 1%.

China in the Global Economy—International Trade

- ◆ While China is the largest exporting nation in terms of goods and services (US\$2.56 trillion in 2015), followed by the U.S. (US\$2.22 trillion), the U.S. is the largest importing nation in terms of goods and services (US\$2.76 trillion), followed by China (US\$2.11 trillion). China is also the largest exporting nation in terms of goods alone (US\$2.27 trillion), followed by the U.S. (US\$ 1.50 trillion). The U.S. is the largest exporting as well as importing nation in terms of services, followed by respectively the United Kingdom and Germany.
- ◆ China has also become the second largest trading nation in services alone, with US\$713 billion in 2015, just after the U.S.

Chinese and U.S. International Trade and Their Respective Rates of Growth since 1970

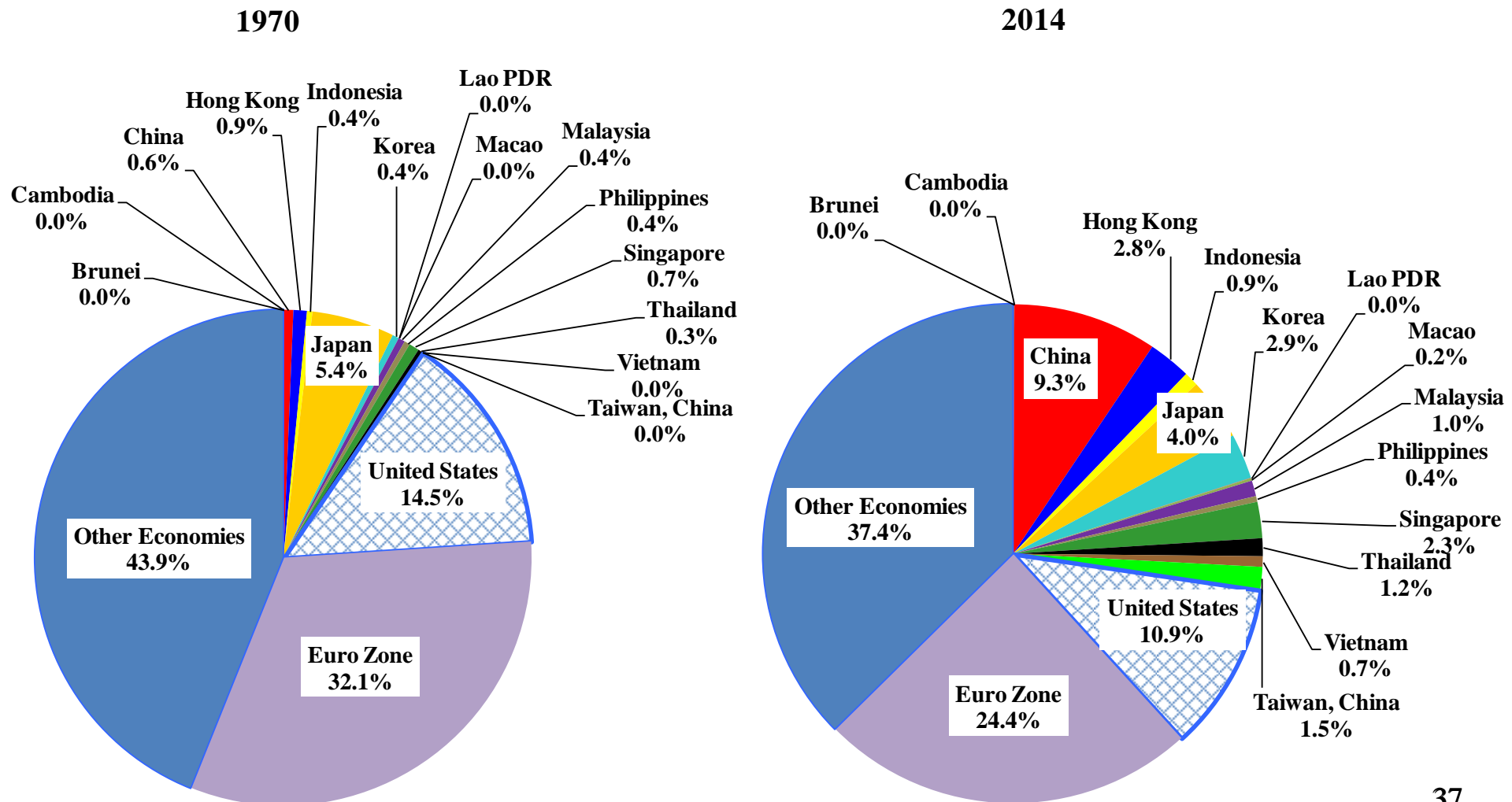
International Trade & Its Rate of Growth: A Comparison of China and US since 1970



China in the Global Economy—International Trade

- ◆ In 1970, the United States and Western Europe together accounted for almost 46.6% of world trade in goods and services. By comparison, East Asia accounted for 9.5% of world trade.
- ◆ By 2014, the share of United States and Western Europe in world trade has declined to 35.1% whereas the share of East Asia has risen to almost 27.3%.
- ◆ The Chinese share of world trade rose from 0.6% in 1970 to 9.3% in 2014 and to over 10% in 2015. The growth in Chinese international trade may be attributed in part to the reform of the Chinese exchange rate system in the early 1990s, which was accompanied by a significant devaluation of the Renminbi, and to Chinese accession to the World Trade Organisation in the 2001.
- ◆ In 2015, China has also become the largest trading partner country of the U.S., surpassing Canada.

The Distribution of Total International Trade in Goods and Services, 1970 and 2014

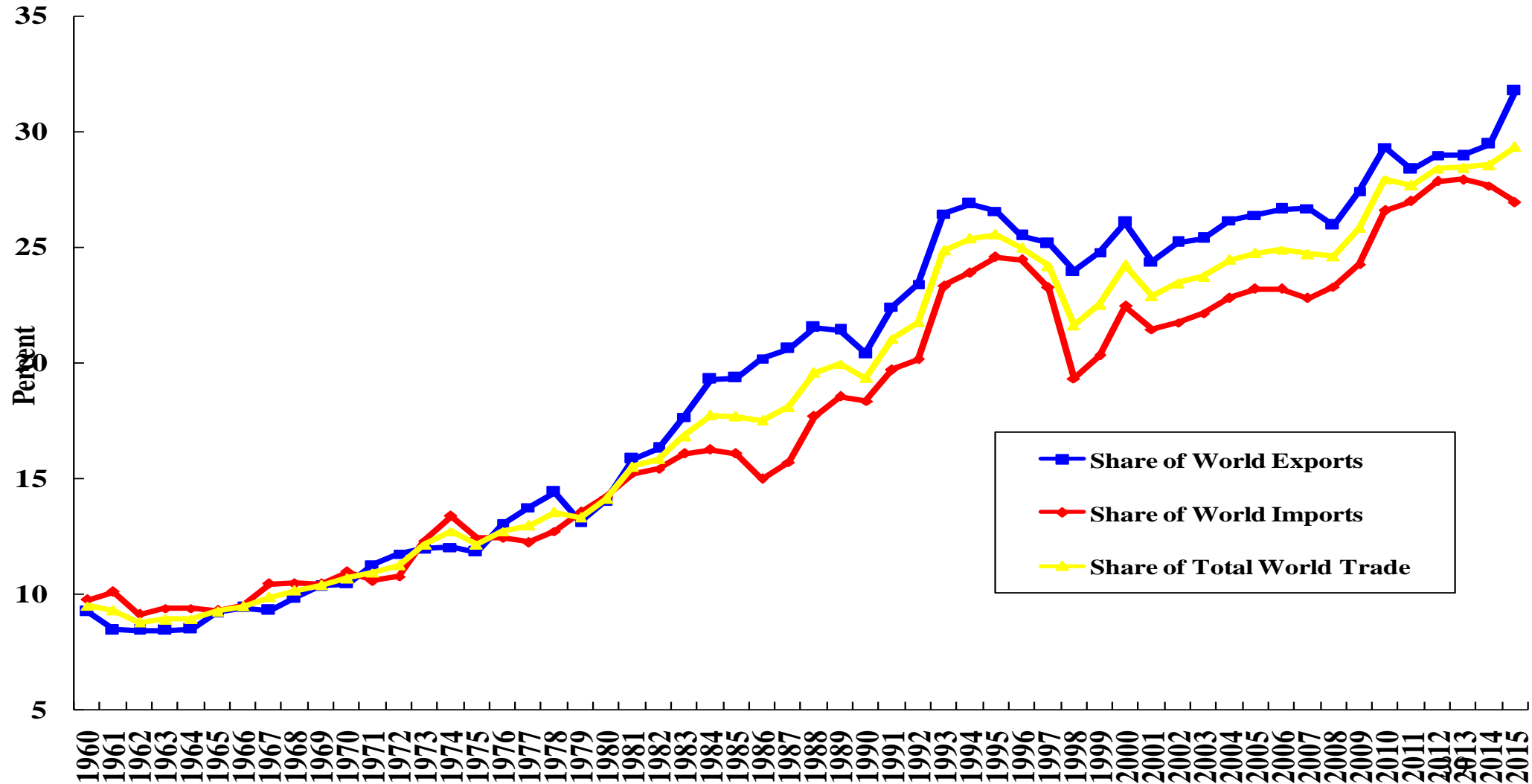


China in the Global Economy—International Trade

- ◆ The East Asian share of world trade (goods only) rose from 10% in 1970 to just below 30% in 2015.
- ◆ The Chinese share of world trade (goods only) rose from 1% in 1970 to 12% in 2015.
- ◆ Chinese international trade (goods only) also accounted for 41.5% of East Asian international trade in 2015. China runs a trade deficit with almost every other East Asian economy.
- ◆ China ranked as either the largest or the second largest trading partner of almost every economy in the Asia-Pacific region.

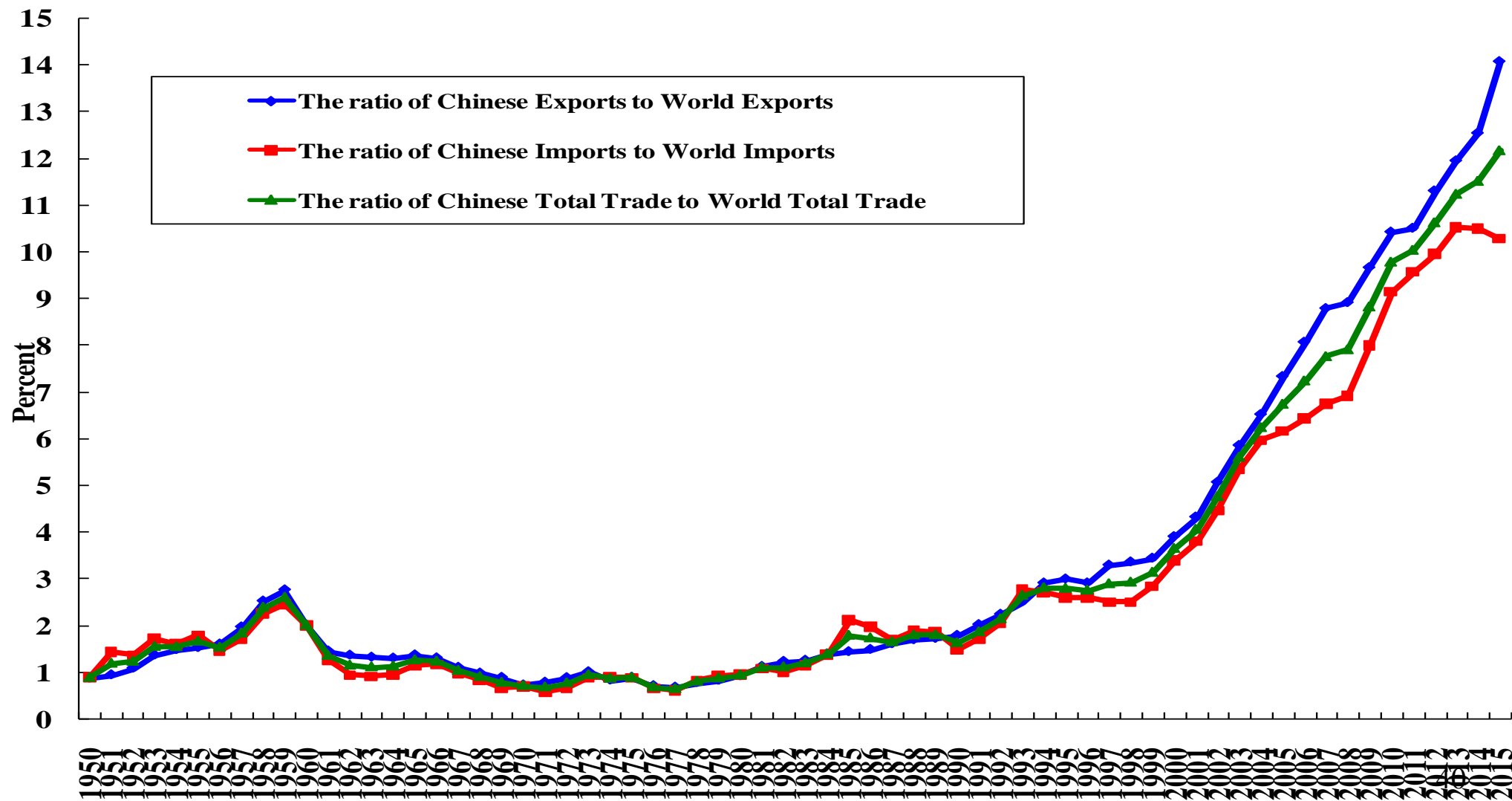
The Rising Share of East Asian Trade in Total World Trade, 1960-present

The Rising Share of East Asian Trade in Total World Trade, 1960-present



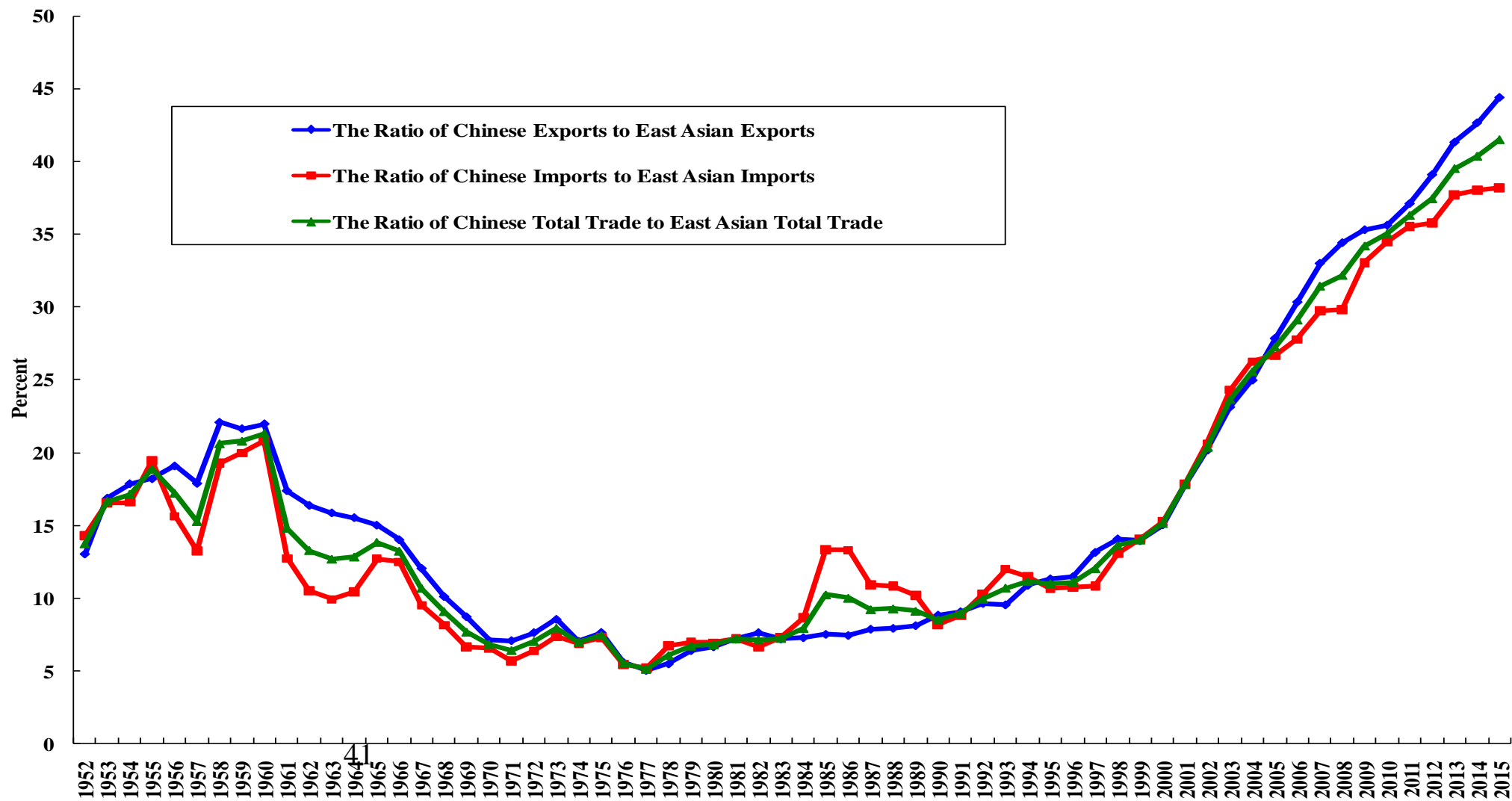
The Chinese Share of Total World Trade, 1950-present (in Goods Only)

The Share of Chinese Trade in Total World Trade, 1950-present



The Chinese Share of Total East Asian Trade in Goods, 1952-present

The Share of Chinese Trade in Total East Asian Trade, 1952-present



The Ranks of China as Trading Partner of Asia-Pacific Countries/Regions and Vice Versa, 2014

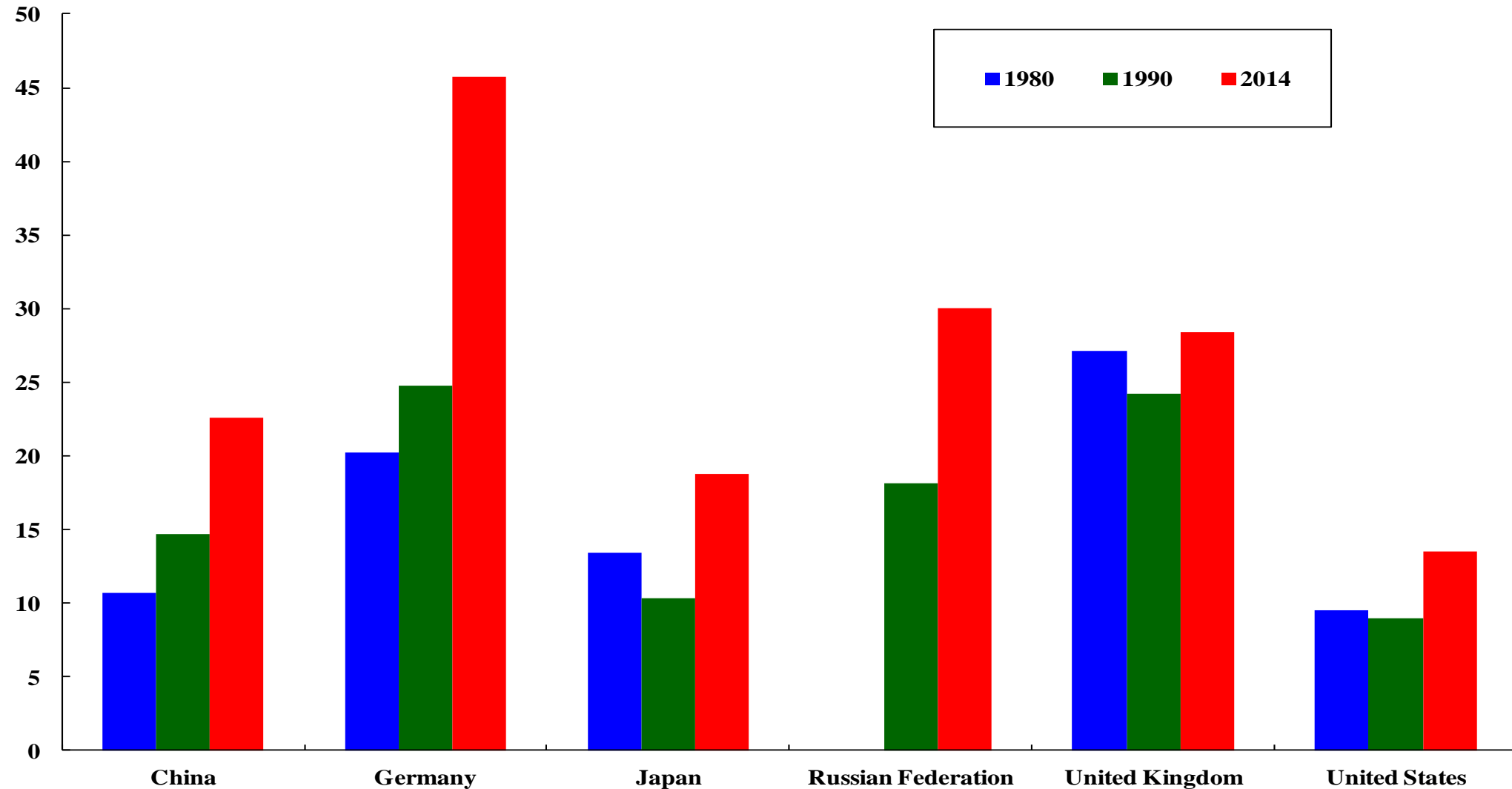
Country/Region	Chinese Rank as Trading Partner of Country/Region	Rank of Country/Region as Trading Partner of China
Australia	1	7
Brunei	3	105
Cambodia	2	85
Hong Kong	1	2
Indonesia	1	18
Japan	1	3
Korea	1	4
Laos	2	88
Macau	1	82
Malaysia	1	8
Myanmar	1	34
New Zealand	1	43
Philippines	2	25
Singapore	1	13
Taiwan	1	5
Thailand	1	15
United States	2	1
Vietnam	1	11

China in the Global Economy—International Trade

- ◆ Contrary to the public impression, the ratio of exports to GDP is actually relatively low for China compared to other East Asian economies (see the next charts). This is really a reflection of the fact that China is a large economy. A low exports to GDP ratio is typical for large economies such as the U.S. and Japan.
- ◆ The low and declining ratio of exports to GDP is likely to be a continuing feature of the “New Normal”.

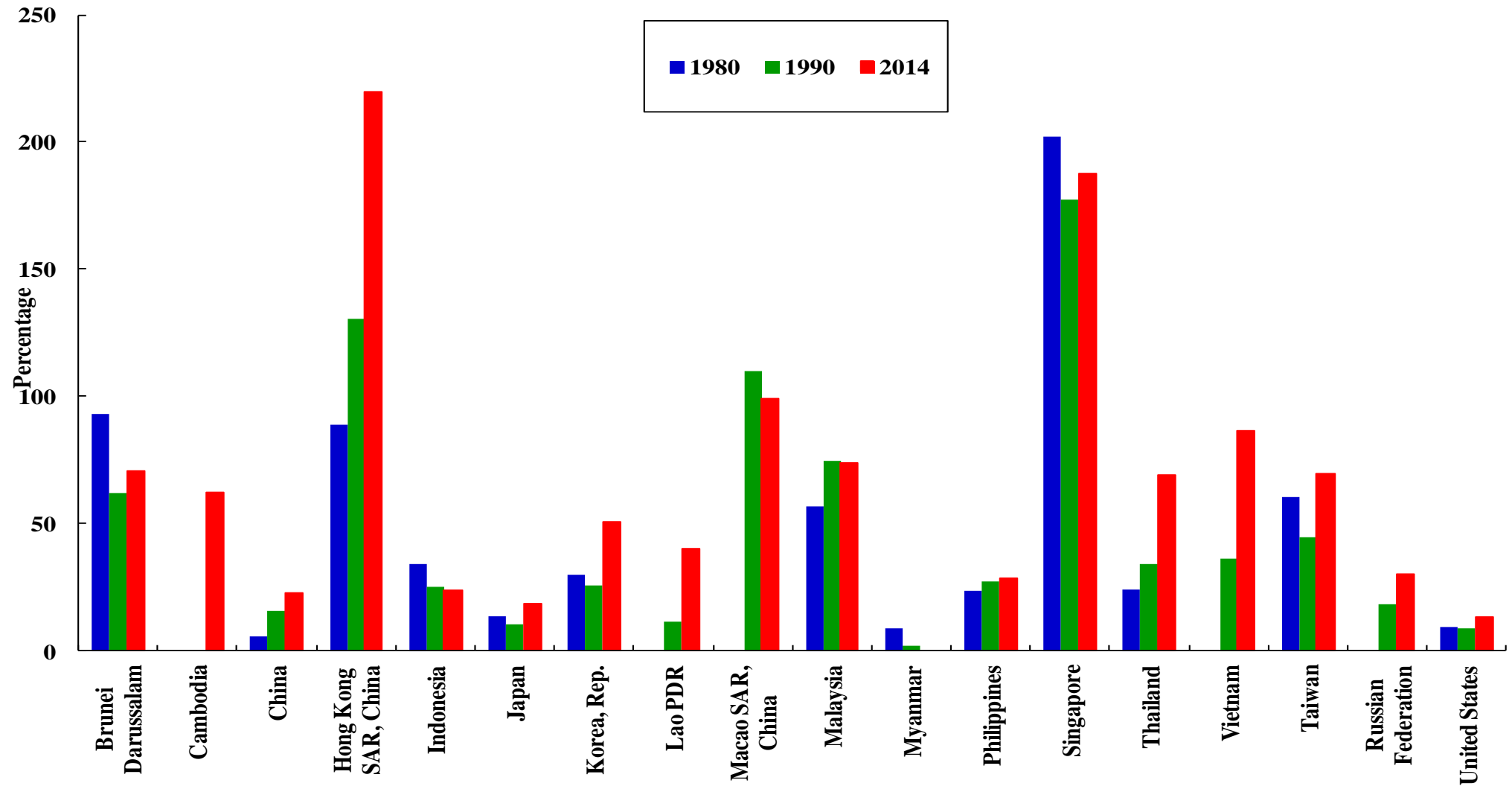
Exports of Goods and Services as a Share of GDP in Selected Economies

Exports of Goods and Services as a Share of GDP in Selected Economies



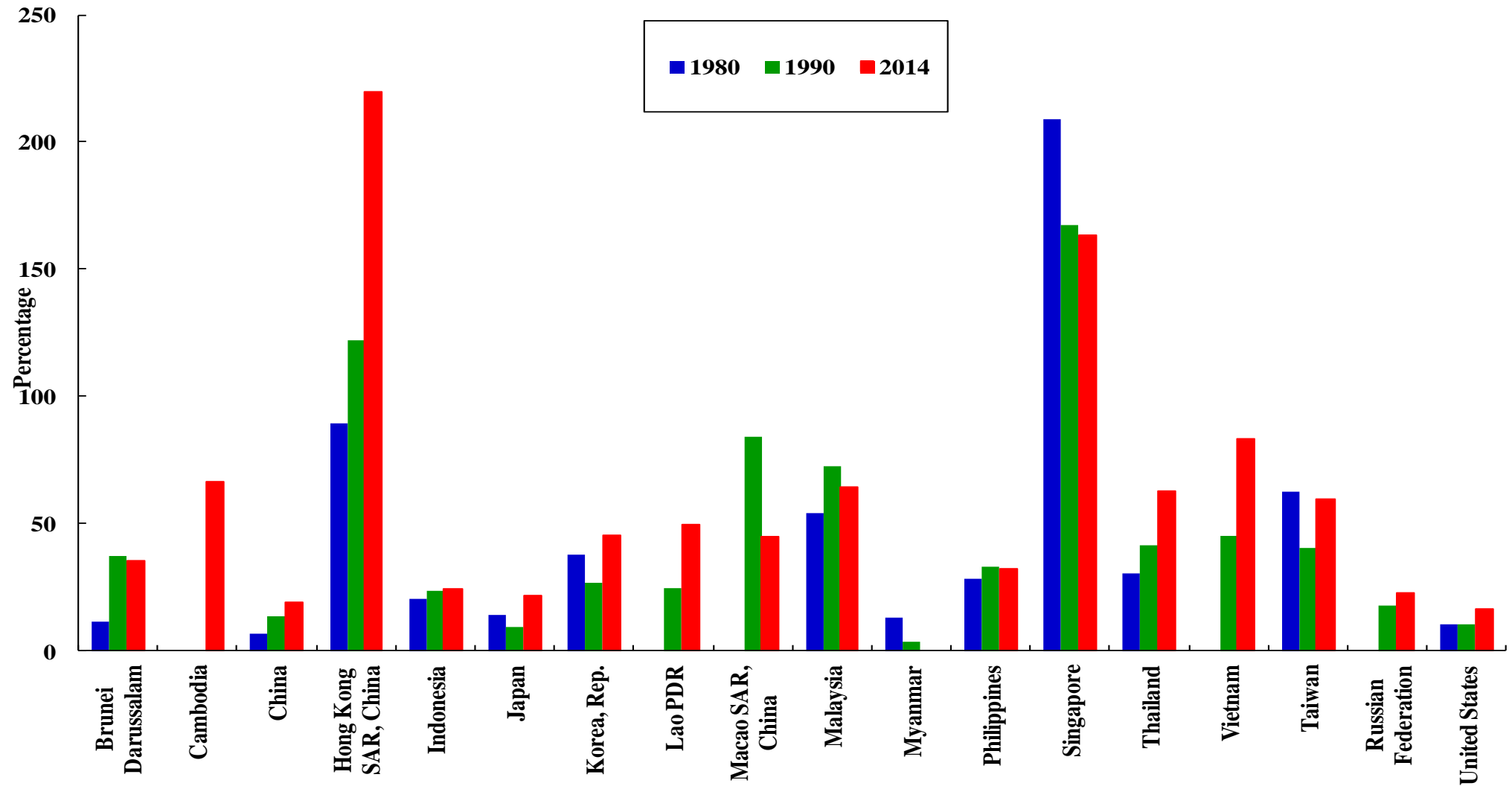
Exports of Goods and Services as a Percent of GDP: Selected Economies

Exports as a share of GDP of East Asian Economies



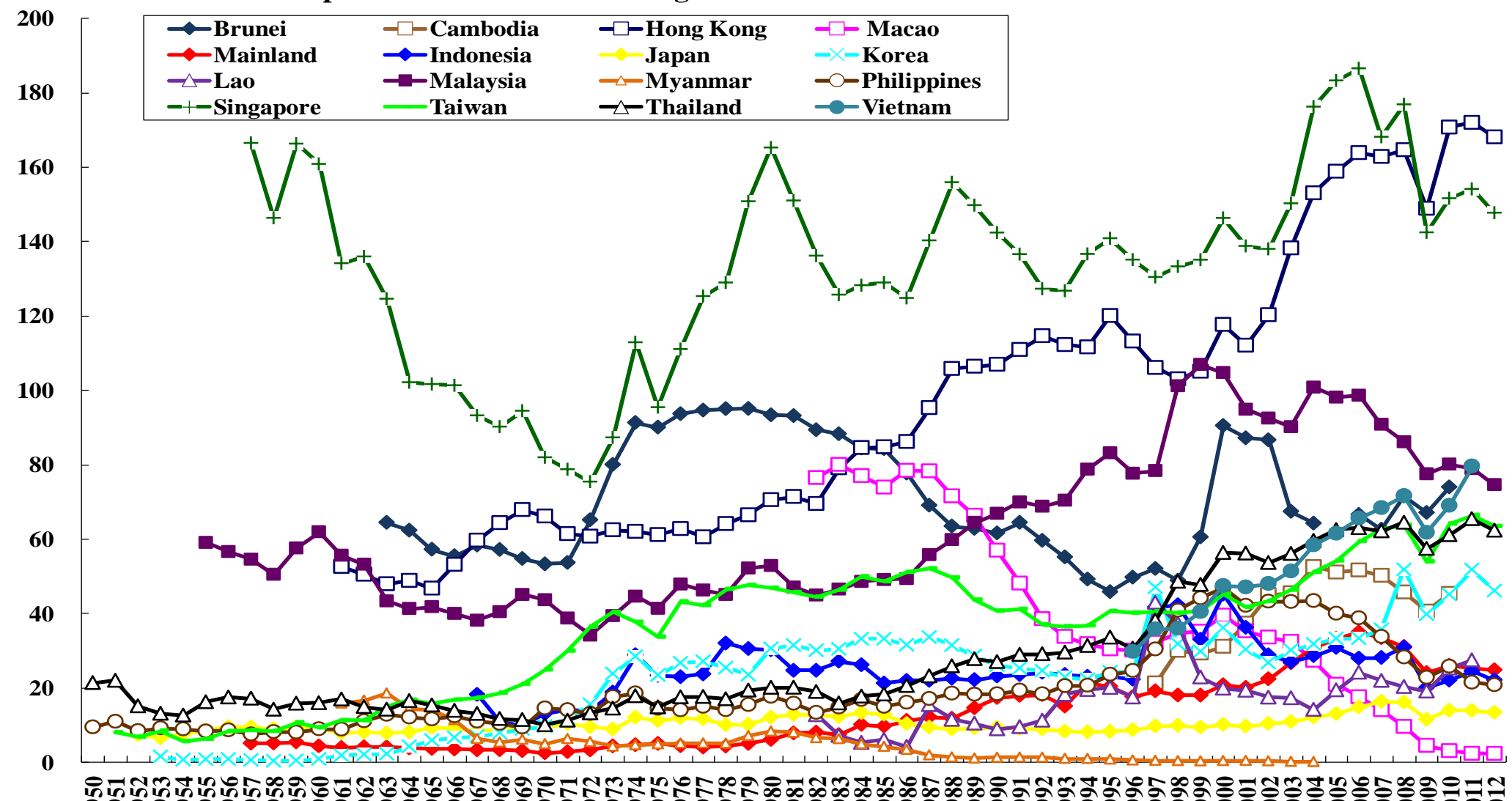
Imports of Goods and Services as a Percent of GDP: Selected Economies

Imports as a share of GDP of East Asian Economies

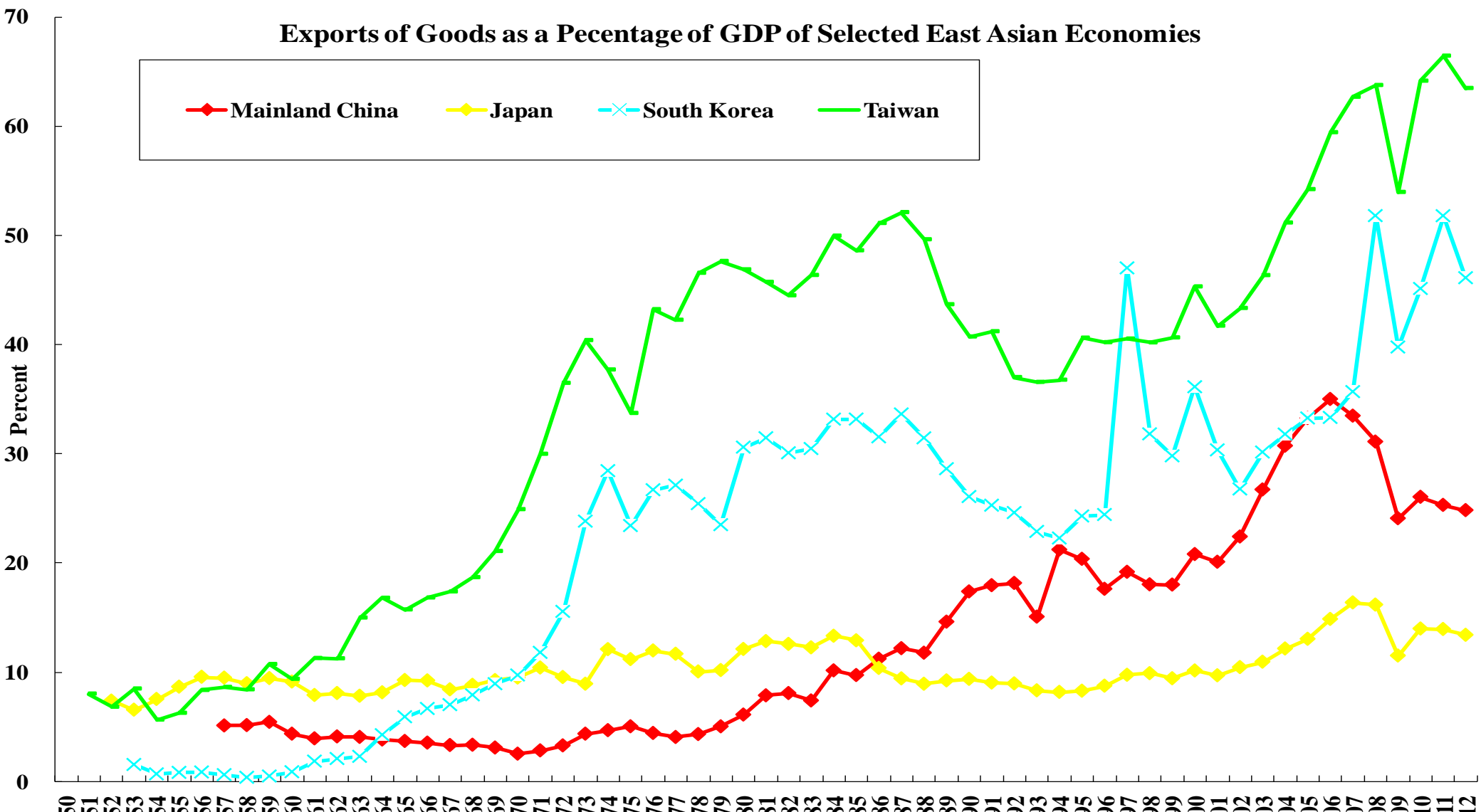


Exports of Goods as a Percent of GDP: East Asian Economies

Exports of Goods as a Percentage of GDP of Selected East Asian Economies

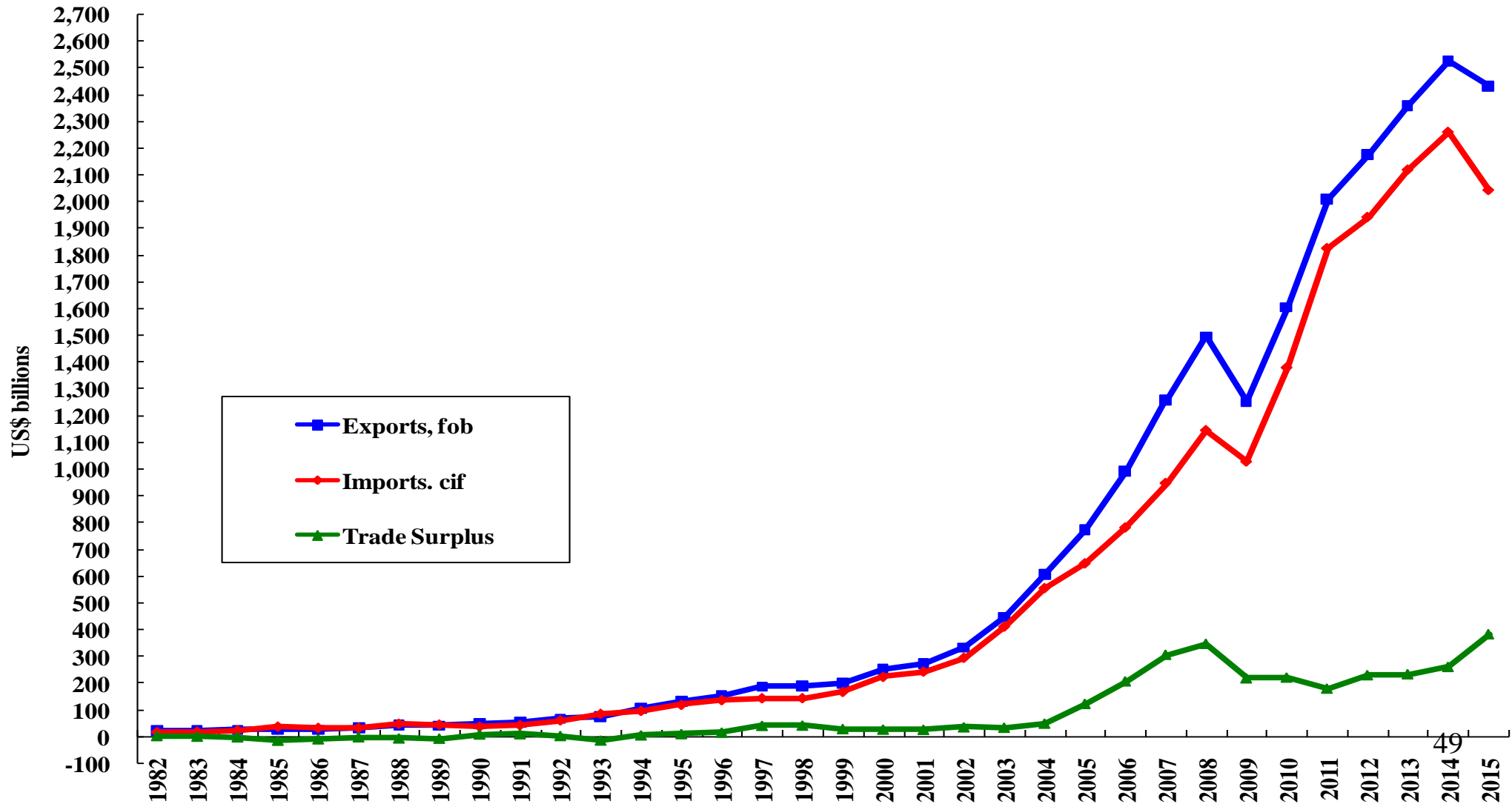


Exports of Goods as a Percent of GDP: Mainland China, Japan, Korea & Taiwan



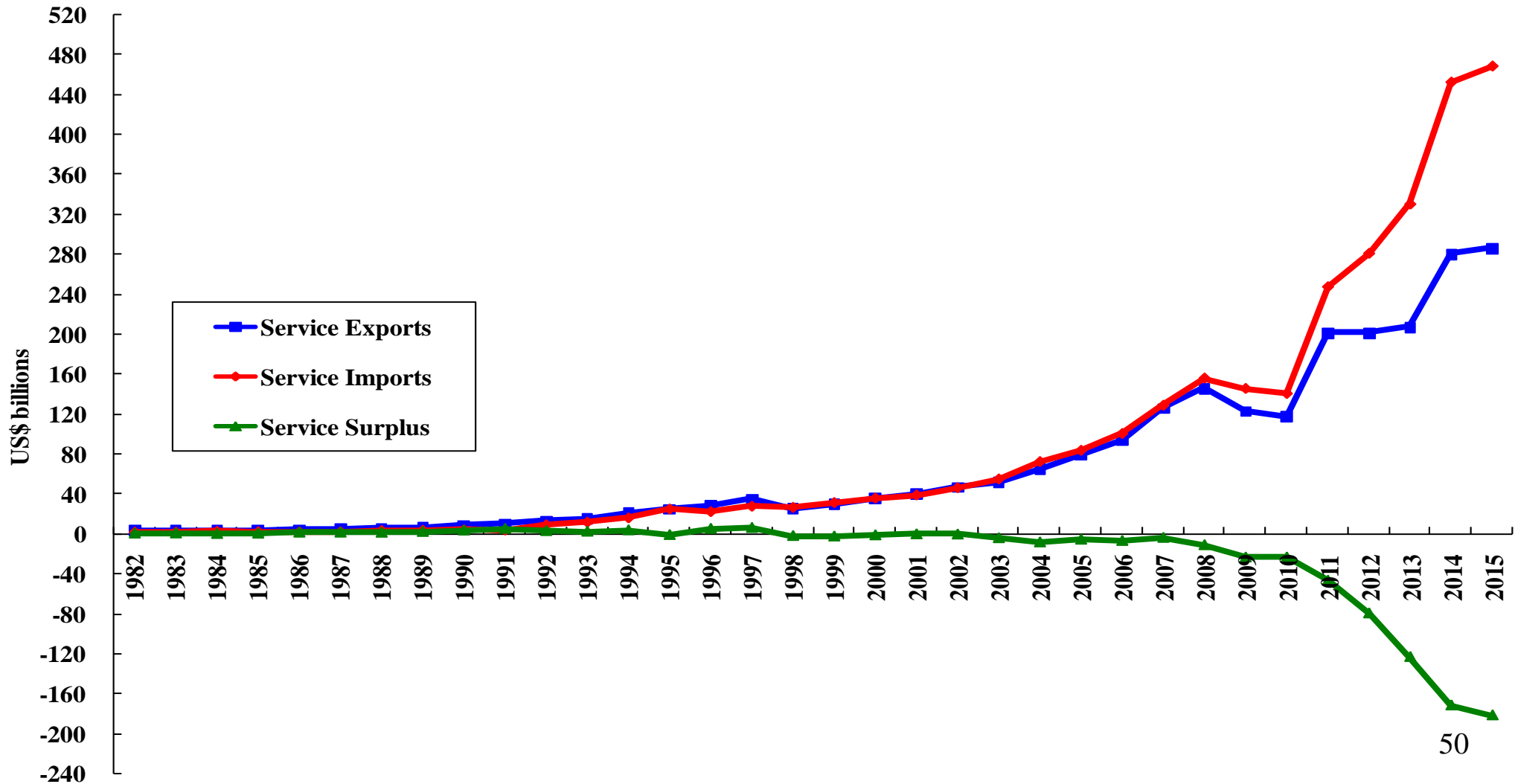
Annual Chinese Exports, Imports and Trade Balance of Goods and Services

Annual Chinese Exports, Imports and Trade Balance of Goods and Services, in US\$ Billion



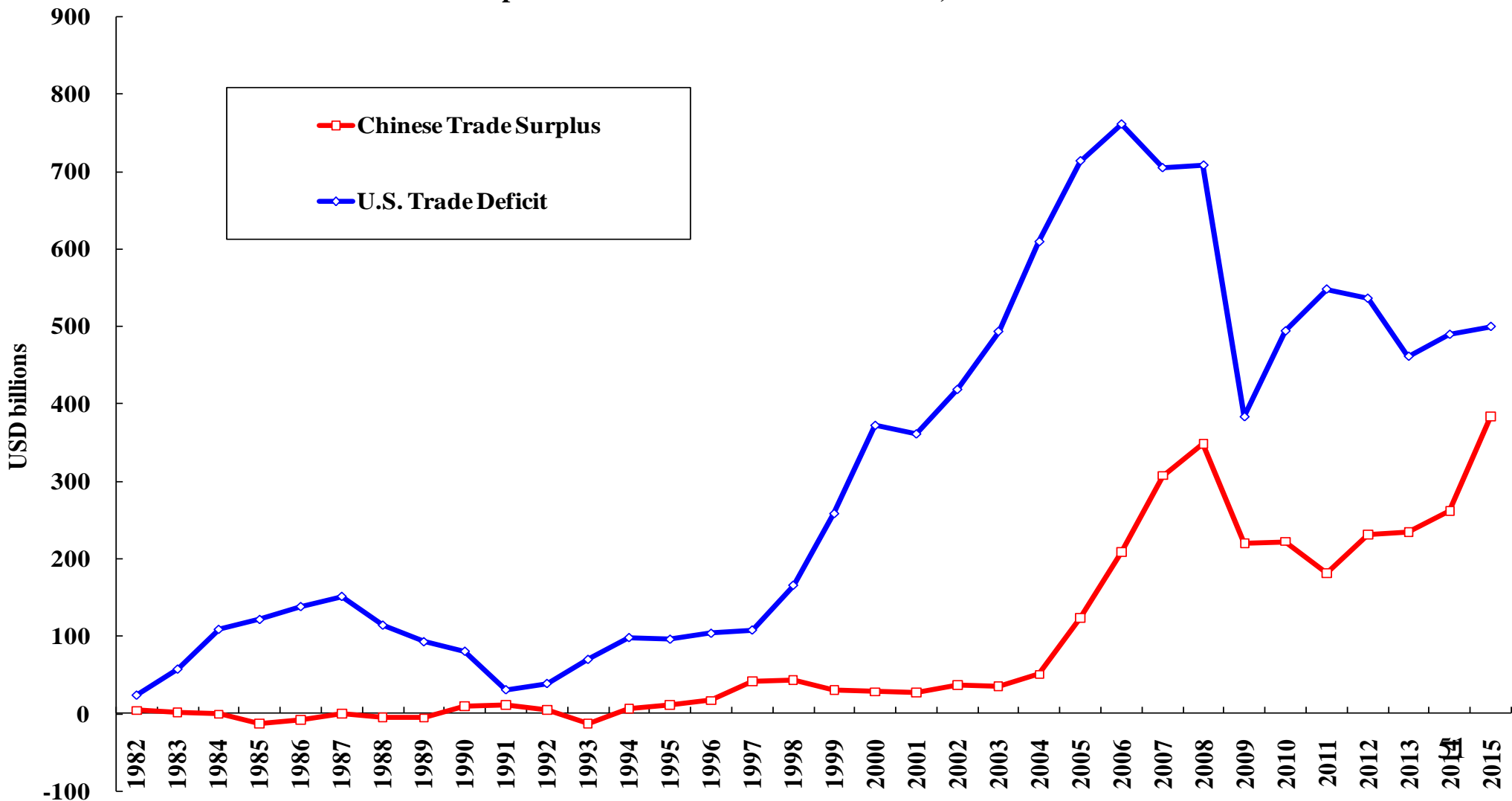
Annual Chinese Exports, Imports and Trade Balance of Services, US\$

Chinese Annual Exports, Imports and Trade Balance of Services, in USD



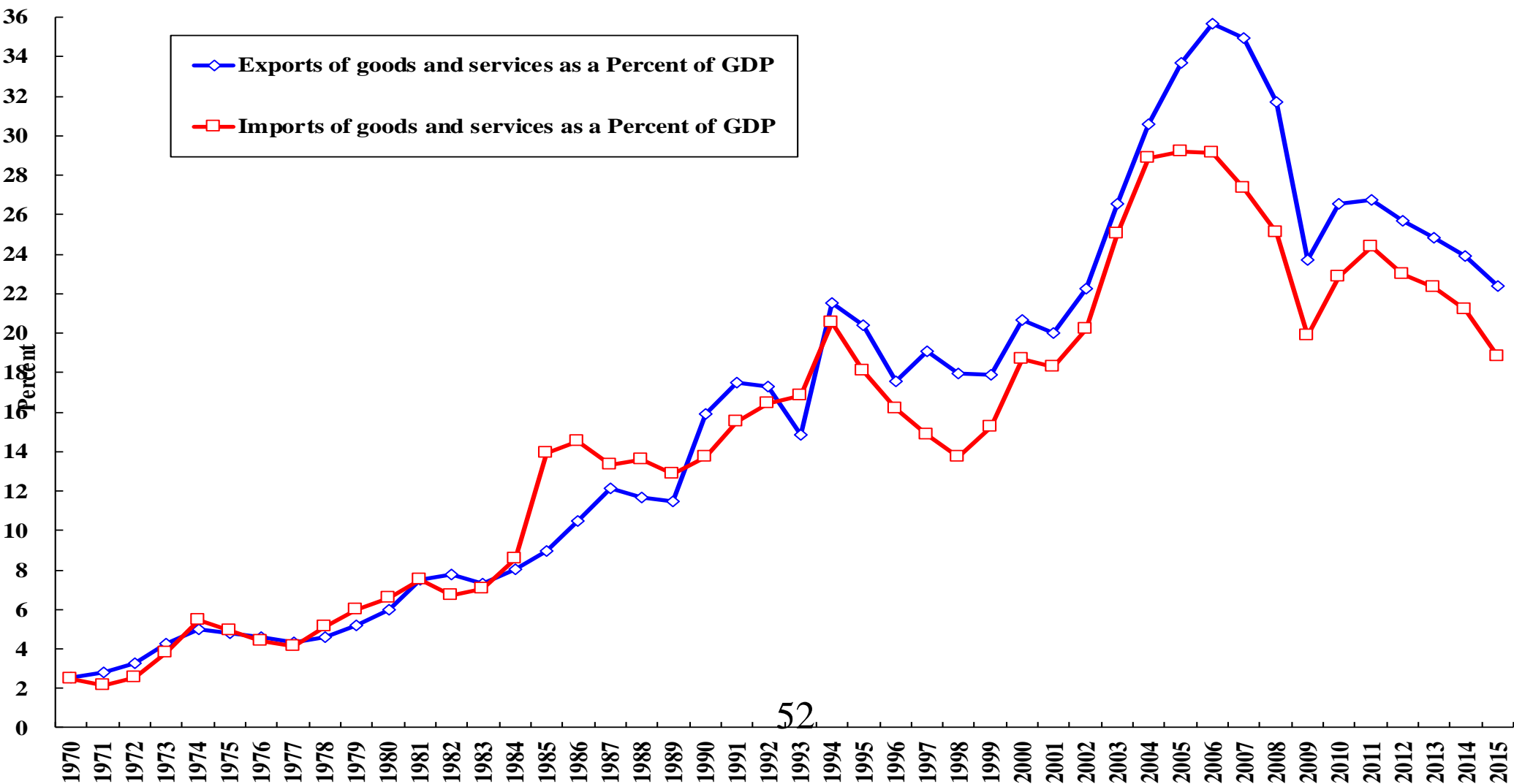
Chinese Surplus and U.S. Deficit with the World, Trade in Goods and Services

Chinese Surplus and U.S. Deficit with the World, Trade in Goods and Services



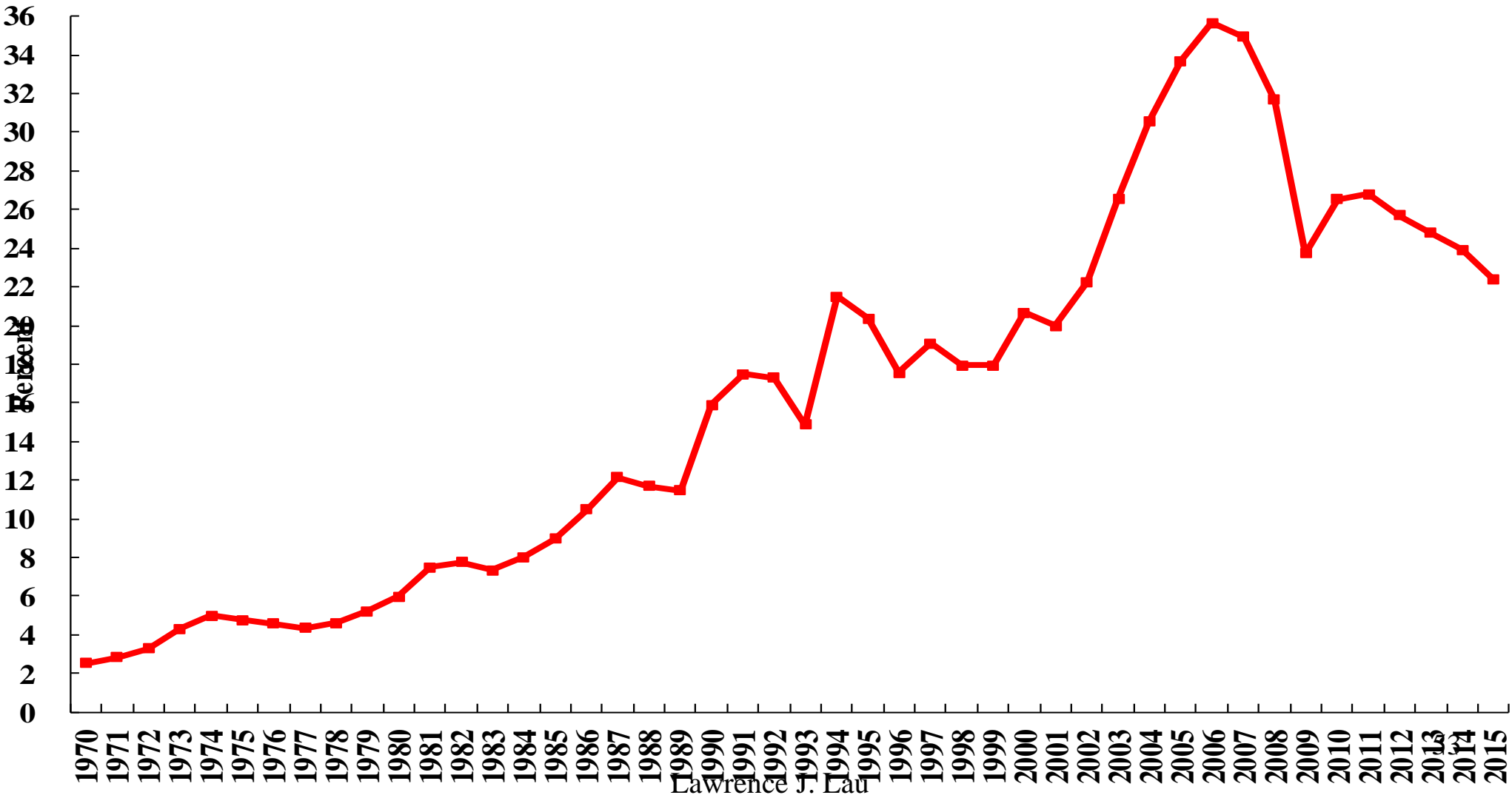
Exports and Imports of Goods and Services as a Percent of Chinese GDP, 1970-present

Exports and Imports of Goods and Services as a Percent of Chinese GDP, 1970-present



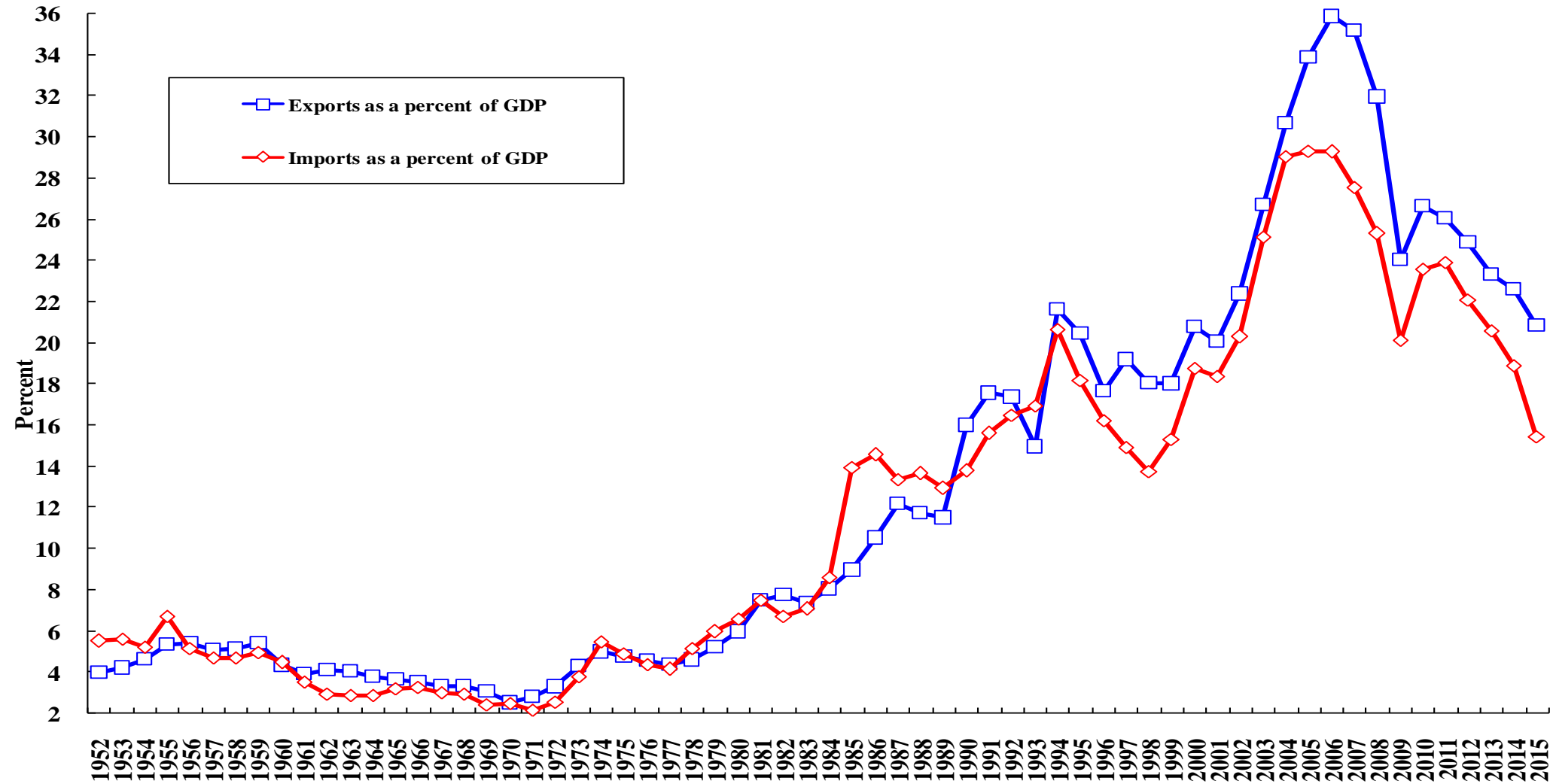
Chinese Exports of Goods and Services as a Percent of GDP, 1970-present

Chinese Exports of Goods and Services as a Percent of GDP, 1970-present



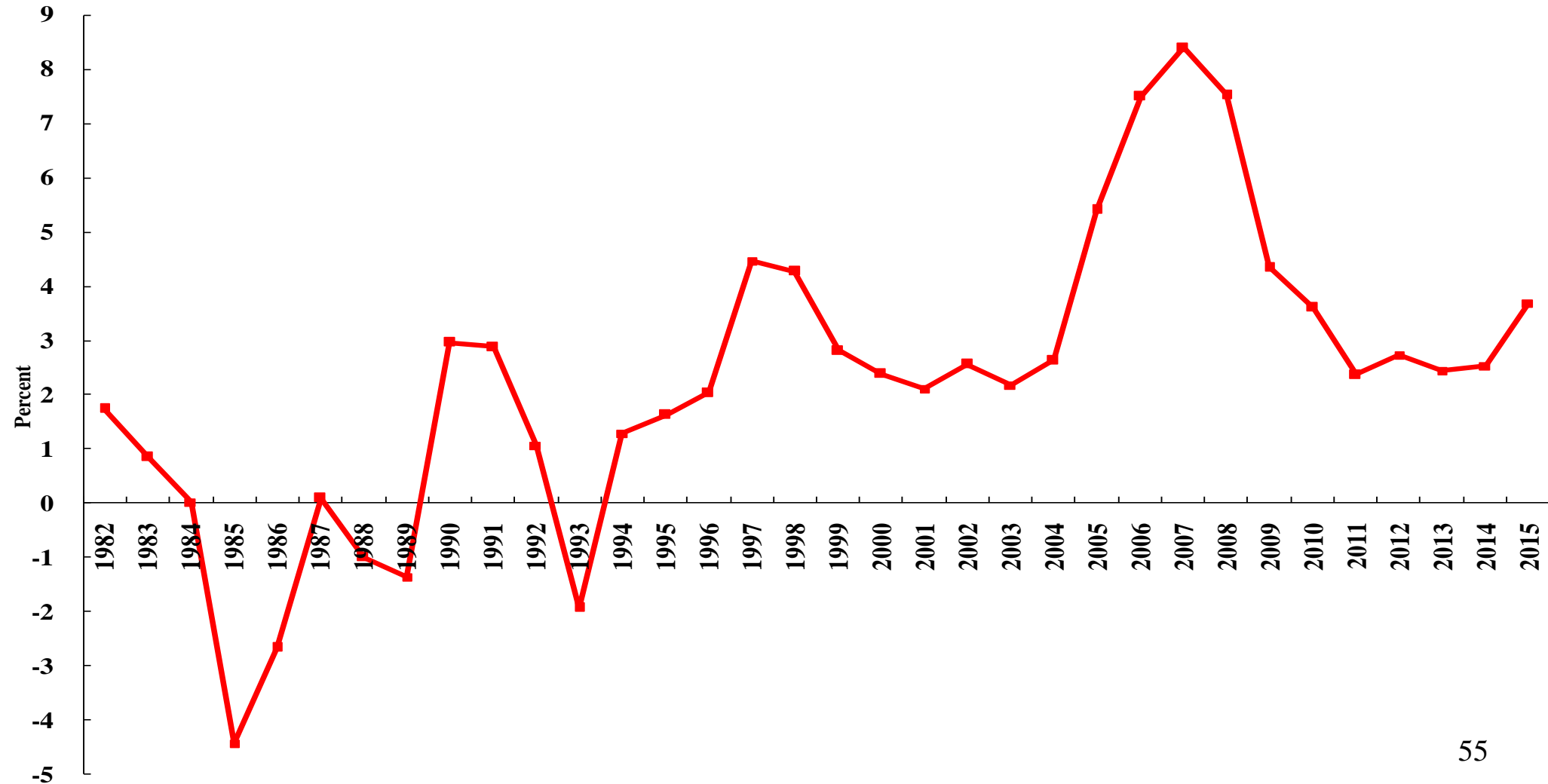
Exports and Imports of Goods as a Percent of Chinese GDP, 1952-present

Exports and Imports as a Percent of Chinese GDP, 1952-present



Chinese Trade Balance of Goods & Services as a Percent of GDP since 1982

Chinese Trade Balance of Goods and Services as a Percent of GDP since 1982



The Partial De-Coupling Hypothesis

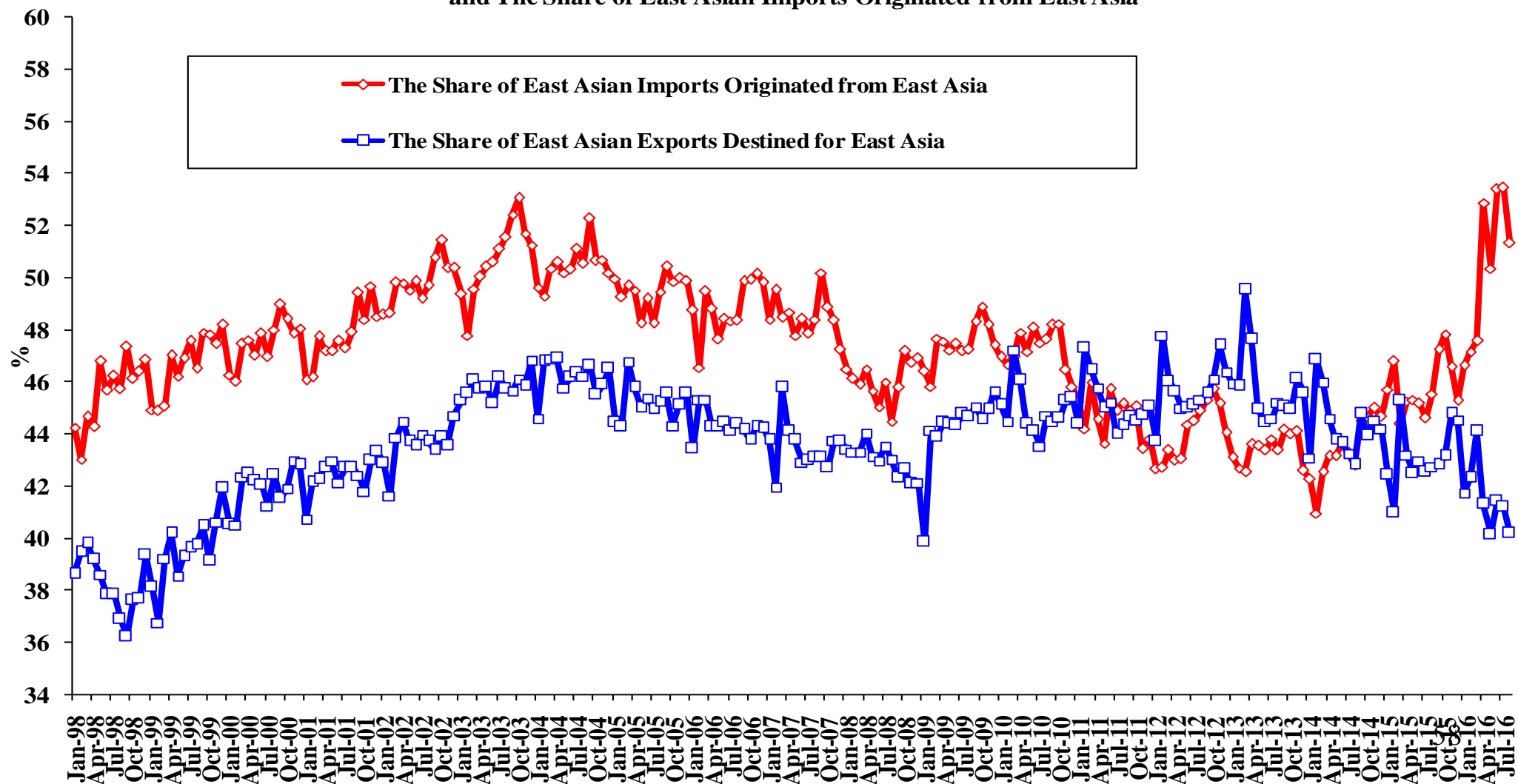
- ◆ Throughout the 2007-2009 global financial crisis, as well as the subsequent European sovereign debt crisis, the East Asian economies continued to do reasonably well. China, in particular, has been able to maintain its real rate of growth above 6.5% since 2007, lending credence to the “Partial De-Coupling Hypothesis”, that is, the Chinese and East Asian economies can continue to grow, albeit at lower rates, even as the U.S. and European economies go into economic recession.
- ◆ This partial de-coupling can occur because of the gradual shift of the economic center of gravity of the world from the United States and Western Europe to Asia (including both East Asia and South Asia) over the past four decades.

The Partial De-Coupling Hypothesis

- ◆ A particularly interesting development is the rise in intra-East Asian international trade. The share of East Asian trade destined for East Asia has risen to almost 50%. This is a sea-change compared to 30 years ago when most of the East Asian exports was destined for either the United States or Western Europe.
- ◆ Similarly, the share of East Asian imports originated from East Asia has remained above 50%.

The Shares of East Asian Exports Destined for East Asia and Imports Originated from East Asia

The Share of East Asian Exports Destined for East Asia
and The Share of East Asian Imports Originated from East Asia

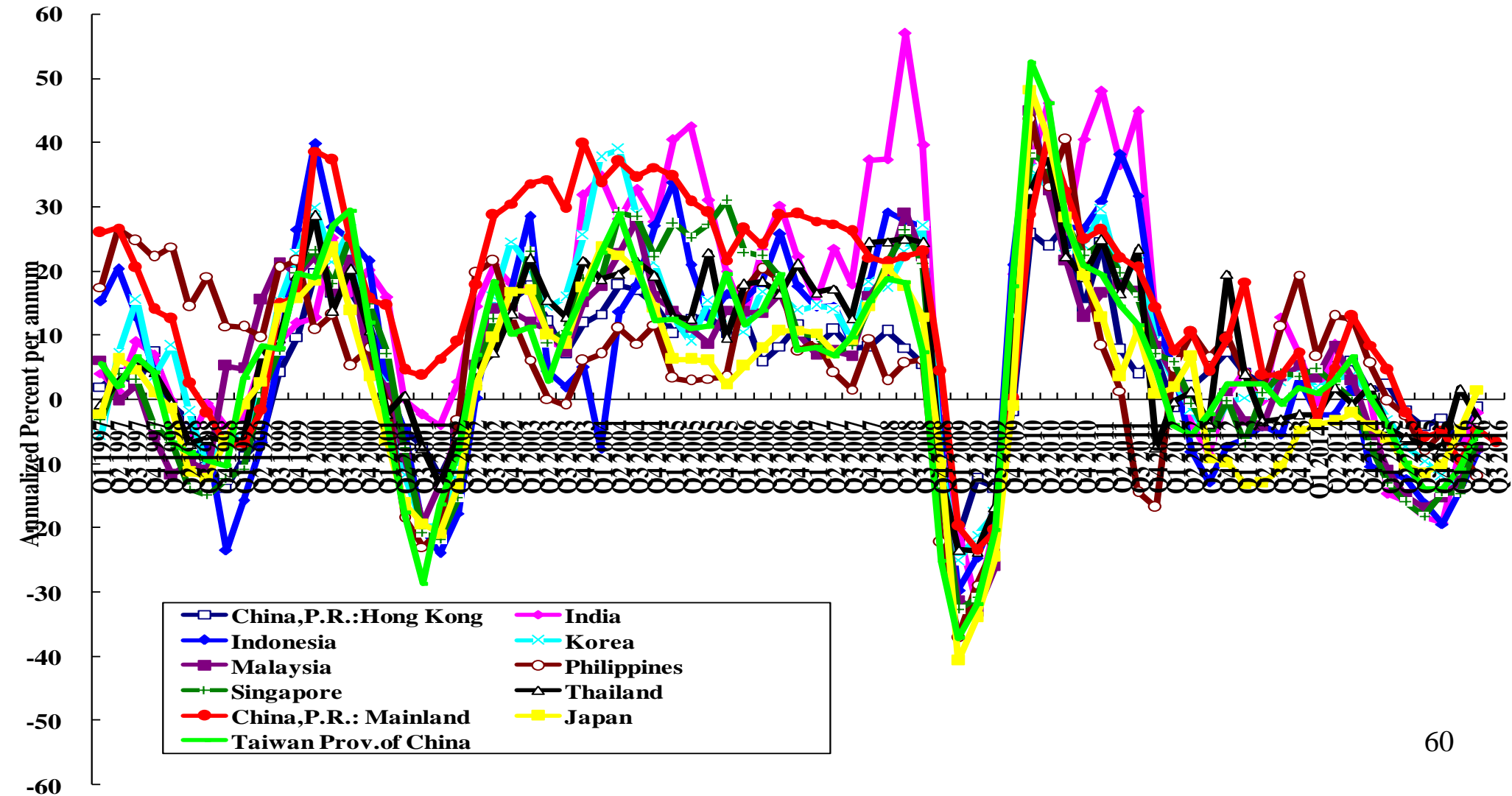


The Partial De-Coupling Hypothesis

- ◆ Any doubt that the Chinese economy can be partially de-coupled from the world economy should be resolved by an examination of the following three charts on the quarterly rates of growth of exports, imports and real GDP of East Asian economies. Even though Chinese exports and imports fluctuate like those of all the other East Asian economies, the rate of growth of real GDP of the Chinese economy has been relatively stable compared to those of the other East Asian economies.

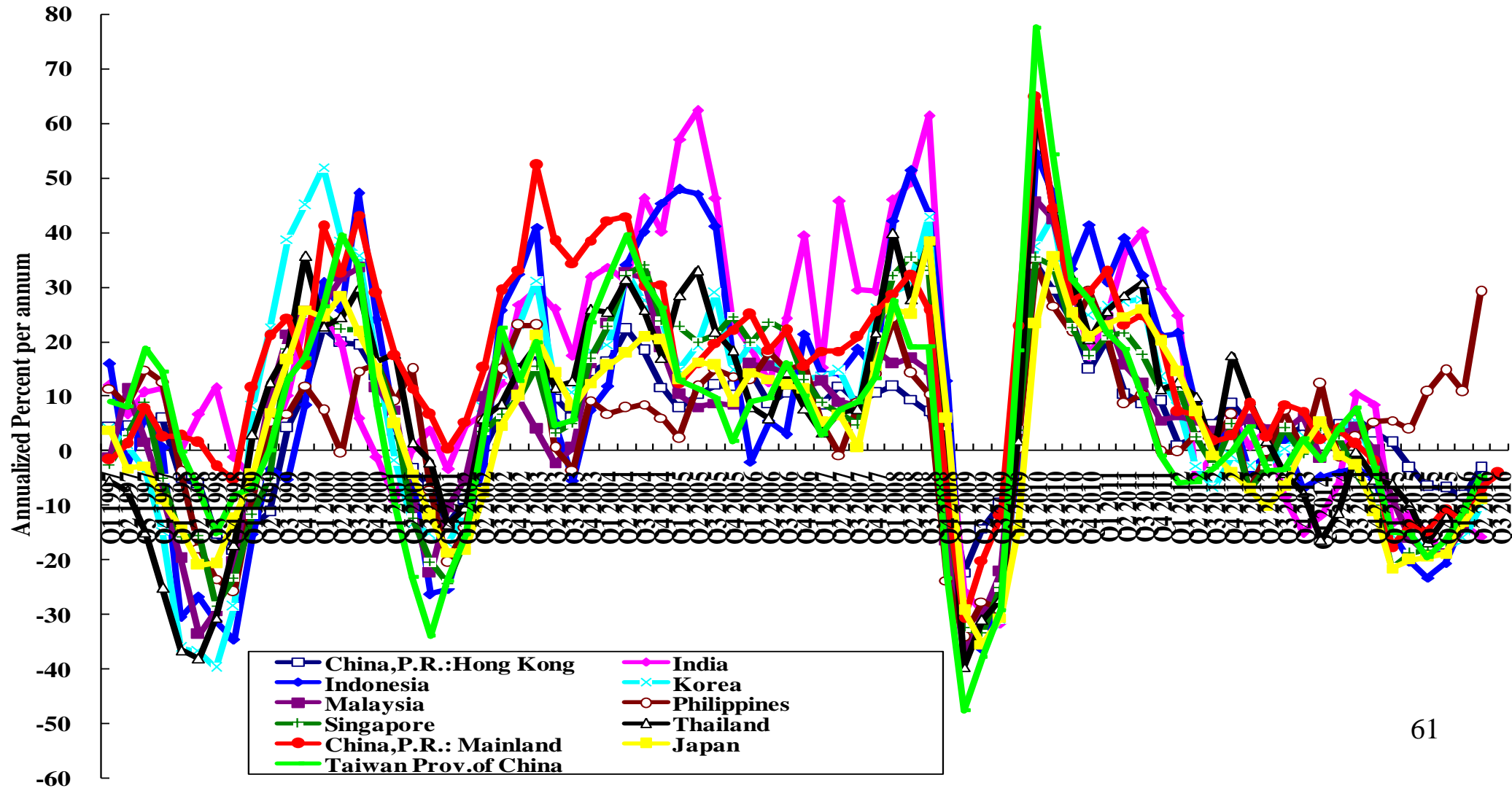
Quarterly Rates of Growth of Exports of Goods: Selected East Asian Economies

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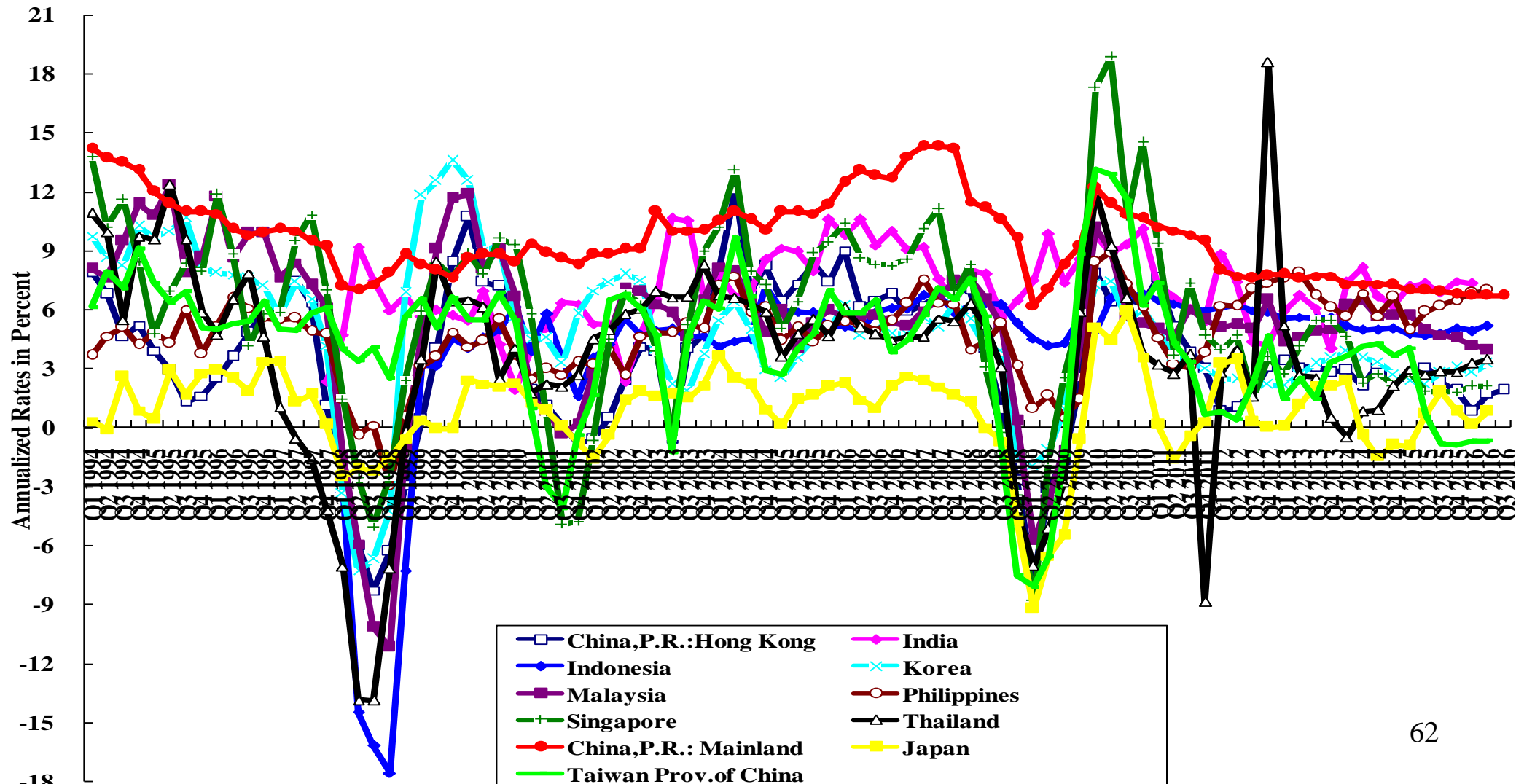
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Quarterly Rates of Growth of Real GDP, Y-o-Y: Selected East Asian Economies

Quarterly Rates of Growth of Real GDP, Year-over-Year: Selected East Asian Economies



China in the Global Economy—Population

- ◆ China is the most populous country in the world, but it will be overtaken by India around 2035.
- ◆ The Chinese population is also aging, in part due to its one-child policy in the past; but it is not aging as fast as Japan or the Western European countries.

China in the Global Economy—Energy Consumption and Carbon Emission

- ◆ China is the largest carbon dioxide emission country in the world.
- ◆ China also has relatively high energy/GDP ratio, and hence more room to improve in its energy efficiency.
- ◆ China is committed to reduce its carbon emission and has subscribed to the Paris agreement on climate change.