China’s Economy: Past, Present, and Future

6th Annual Conference on U.S.-China Economic Relations and China’s Economic Development

The views expressed in this presentation are those of the author and do not necessarily represent those of the IMF or IMF policy.

Steven Barnett
Division Chief
IMF Asia and Pacific Department

November 2013
Main point: Rebalance growth

Past
• Remarkable economic track record

Present
• Strains from current model are rising

Future
• More balanced & sustainable growth
Past: Remarkable track record
Perspective: Big, growing fast, but not yet rich.
China has enjoyed rapid economic growth…

…boosting income per capita which, however, is still much less than in US
China is big…

**PPP Exchange Rate (2012)**

- Rest of world: 47%
- United States: 19%
- Japan: 6%
- Euro Area: 14%
- China: 15%

**Market Exchange Rate (2012)**

- Rest of world: 41%
- United States: 22%
- Japan: 8%
- Euro Area: 17%
- China: 11.5%
Growing fast...

Contribution to Growth
(In percentage points)

Sources: WEO; and IMF staff calculations.
...with big benefits to China...

Poverty rate (% of population) 1/

Number Living in Poverty (millions) 1/

<table>
<thead>
<tr>
<th>Country</th>
<th>1990</th>
<th>2005</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1818</td>
<td>1374</td>
<td>-444</td>
</tr>
<tr>
<td>China</td>
<td>683</td>
<td>208</td>
<td>-475</td>
</tr>
<tr>
<td>India</td>
<td>436</td>
<td>456</td>
<td>20</td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>333</td>
<td>248</td>
<td>-85</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>297</td>
<td>388</td>
<td>91</td>
</tr>
<tr>
<td>Rest of world</td>
<td>69</td>
<td>74</td>
<td>5</td>
</tr>
</tbody>
</table>
...but China is not rich.

GDP Per Capita
(In USD, 2012)

Sources: WEO, CEIC, and IMF staff calculations.
Present: Strains rising

Growth stabilizing and set to surpass 7 ½ percent target
## Present: Meet 2013 target

### WEO Real GDP Growth Projections
*(percent change from a year earlier)*

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Japan</th>
<th>Brazil</th>
<th>Russia</th>
<th>India</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2013 (Oct. 2013)</strong></td>
<td>2.9</td>
<td>1.6</td>
<td>-0.4</td>
<td>2.0</td>
<td>2.5</td>
<td>1.5</td>
<td>3.8</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>2013 (Jul. 2013)</strong></td>
<td>3.1</td>
<td>1.7</td>
<td>-0.6</td>
<td>2.0</td>
<td>2.5</td>
<td>2.5</td>
<td>5.6</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>2014 (Oct. 2013)</strong></td>
<td>3.6</td>
<td>2.6</td>
<td>1.0</td>
<td>1.2</td>
<td>2.5</td>
<td>3.0</td>
<td>5.1</td>
<td>7.3</td>
</tr>
<tr>
<td><strong>2014 (Jul. 2013)</strong></td>
<td>3.8</td>
<td>2.7</td>
<td>0.9</td>
<td>1.2</td>
<td>3.2</td>
<td>3.3</td>
<td>6.3</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Source: IMF, World Economic Outlook.
Activity is stabilizing

Real GDP and VAI
(In percent, year-on-year)
Demand-side remains strong

China: Real FAI and Retail Sales
(In percent, year-on-year growth)
Inflation benign...
...and mainly food.
Investment supports growth...

Real Fixed Asset Investment
(In percent, year-on-year)

- Infrastructure FAI
  (contribution to total, real)

- Total FAI

Year: 2007 to Sep-13
...via off-budget fiscal spending.

Augmented Deficits and Net Borrowings
(In percent of GDP)

Augmented debt estimates

Debt Estimates
(In percent of GDP)

- BoA, 2009
- Citi, 2009
- Shih, 2009
- Audit Report, 2010
- Credit Suisse, 2010
- DRC, 2010
- Green, 2010
- PBoC, 2010
- GK Dragonomics, 2011
- Golman Sachs, 2011
- Roubini, 2011
- IMF staff, 2012

- Local government debt
- Central government debt
- Other contingent liabilities
Real estate supporting GDP...

Real Estate Investment
(In percent of GDP)

Sources: CEIC; and IMF staff calculations.
...and investment is high...

**Peak Residential Construction Investment**
(In percent of GDP)

- Spain (2008): 12.5%
- Thailand (1991): 9.9%
- China* (2012): 9.5%
- Cyprus (2008): 9.2%
- Japan (1979): 8.7%
- Korea (1991): 8.4%
- France (1980): 8.3%
- Germany (1994): 7.8%
- Finland (1990): 7.5%
- Italy (1981): 7.5%
- Mexico (2009): 7.2%
- Iceland (2007): 6.9%
- Denmark (2008): 6.6%
- United States (2005): 6.5%
- Belgium (1980): 6.5%
- Taiwan (1980): 4.2%
- Province of China: 3.9%
- South Africa (1971): 2.5%
- India (2000): 2.5%

*Residential real estate investment for China.
Sources: CEIC, Haver Analytics, and IMF staff calculations.
...credit growth has also risen...

China: Social Financing Stock
(In percent of GDP*)

*In percent of 4Q rolling sum of quarterly GDP. Projected 2013Q3 GDP.
Sources: CEIC, and IMF staff calculations.
...and also relatively high.
Future: More balanced & sustainable growth

Significant progress with external rebalancing, less so with domestic
Much progress with external...

**Current Account and Components**
(In percent of GDP)

- Services balance
- Income balance
- Net Transfers
- Goods balance
- Current account balance


Values range from -6 to 9 percent of GDP.
...less with domestic.
China’s investment ratio: High by most metrics

Investment Share of GDP and per capita GDP
Average, 2006-2012

Investment Share of GDP and Per Capita GDP
(Industrial Countries and Emerging Markets; average, 2006-12)

Investment Share of GDP: Selected Economies
Index Period 1 = First year of take-off

Share of Investment in GDP
(In percent, index beginning period=1)

* Gross Fixed Capital Formation.
And consumption share low...

Private Consumption and Investment
(Industrial Countries and Emerging Markets; average, 2006-12)

Gross fixed capital formation (percent of GDP)

Private consumption (percent of GDP)

China (2012)
China (07-12 average)
China (2007)
...due to household saving & income

Household Saving Rate
(In percent)
- Household saving rate (flow of funds)
- Urban household saving rate
- Rural household saving rate

Household Disposable Income
(In percent of GDP)
- Total (flow of funds)
- Urban

1 Rural household saving rate = (net income - living expenditure)/net income, percent; urban household saving rate = (disposable income - consumption)/disposable income, percent; household survey.

1 Per capita as a share of per capita GDP; household survey.
But consumption has grown fast

Future: Sustainable growth...

Convergence Process of Per Capita GDP: China, Japan, Korea
(PPP, relative to United States)

Source: IMF staff estimates.
...and balanced.
Package of reforms

More balanced and sustainable growth

Financial sector | Fiscal | Social safety net | Resource pricing | Service sector

Consumer-based, inclusive, and environment-friendly
Financial reform

Why?
• Allocate capital more efficiently
• Contain the risks from rapid build-up in credit
• Help move to more consumer-based economy

What?
• Further interest rate liberalization
• Better pricing of risk (moral hazard & deposit insurance)
• Strengthen regulation and supervision
Good for China and World

Real GDP Growth
(In percent)

Sources: IMF WEO, WB WDI and IMF staff estimates.
Further reading

People’s Republic of China: 2013 Article IV Report

China’s Growth: Why Less is More
(Blog: Steven Barnett; 29-Oct-13)
http://blog-imfdirect.imf.org/2013/10/29/chinas-growth-why-less-is-more/

IMF and PBC Joint Conference on Capital Flows Management: Lessons from International Experience
Thank you