# China's Economic Growth: Is It Sustainable?


## Ian Sheldon

*Andersons Professor of International Trade*
*Ohio State University*
**sheldon.1@osu.edu**


THE OHIO STATE UNIVERSITY
EXTENSION
OARDC

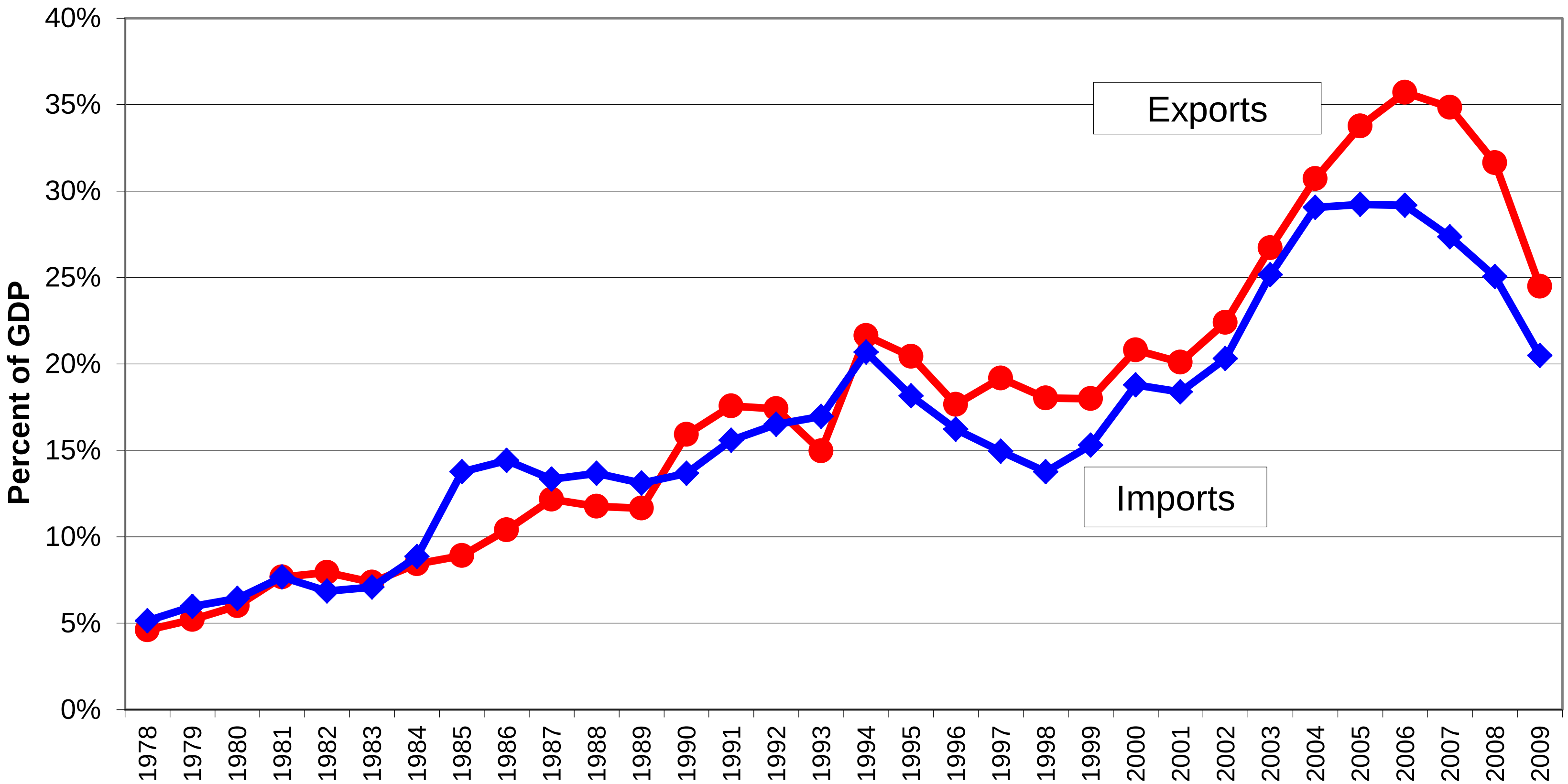
# China's Trade

- By end of 2008, China world's 2nd largest trading nation after US
- Total goods traded (imports + exports) reached 65% of GDP in 2007, compared to 20-25% for US, Japan, India and Brazil
- Before 1978, China very closed economy, trade/GDP never exceeding 10%
- Trade liberalization an integral part of its reform process, China joining WTO in 2001 – "reform and opening" – *gaige kaifang*

THE OHIO STATE UNIVERSITY EXTENSION OARDC

# China's Trade

## Figure 1 Exports and Imports (Share of GDP)




**Source: China Customs Statistics**

THE OHIO STATE UNIVERSITY EXTENSION OARDC

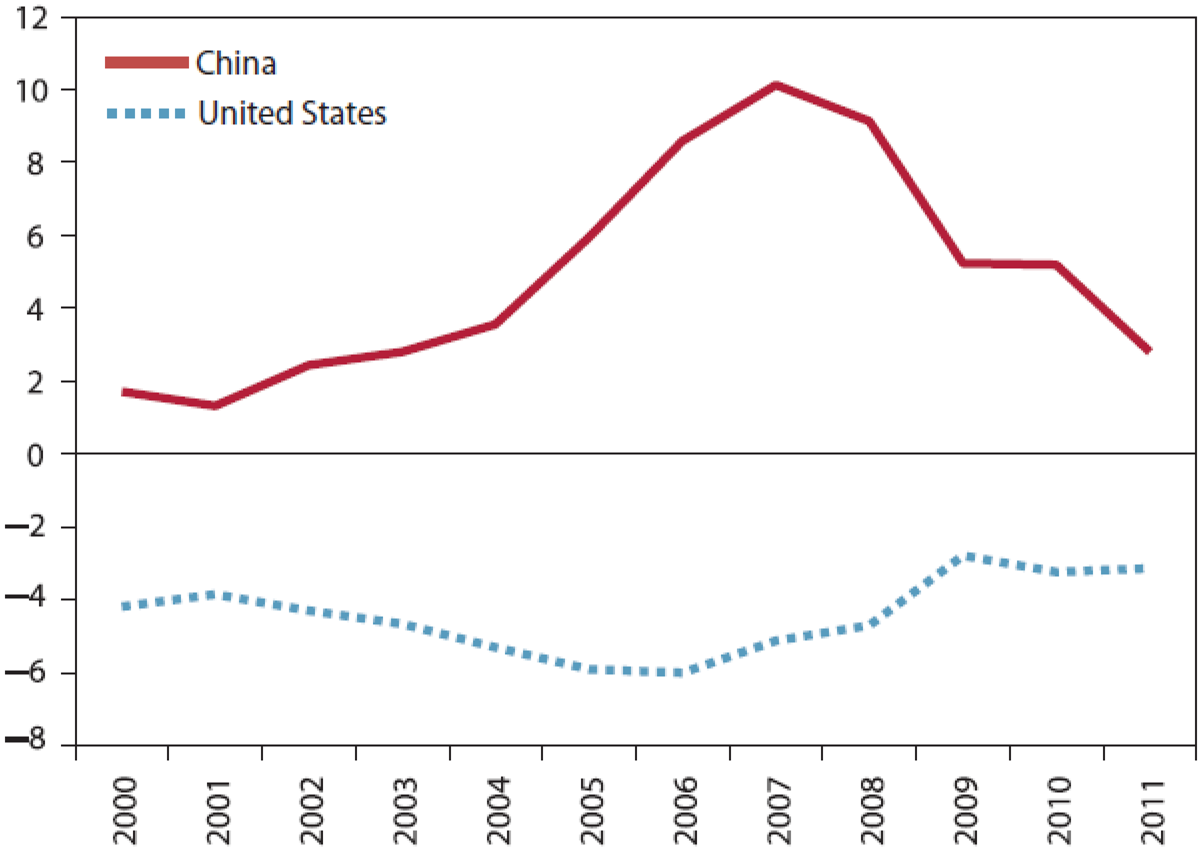
# China's Trade Surplus

- During 2000s, growing Chinese exports resulted in current account surplus – reaching 10% of GDP by 2007
- Subject of much economic debate – Ben Bernanke suggesting China was adding to a "global savings glut"
- Despite recent decline in China's trade surplus, US Congress regards China as "currency manipulator"
- China's real exchange rate has actually appreciated by 27% since 2005

THE OHIO STATE UNIVERSITY
EXTENSION
OARDC

# China's Trade Surplus

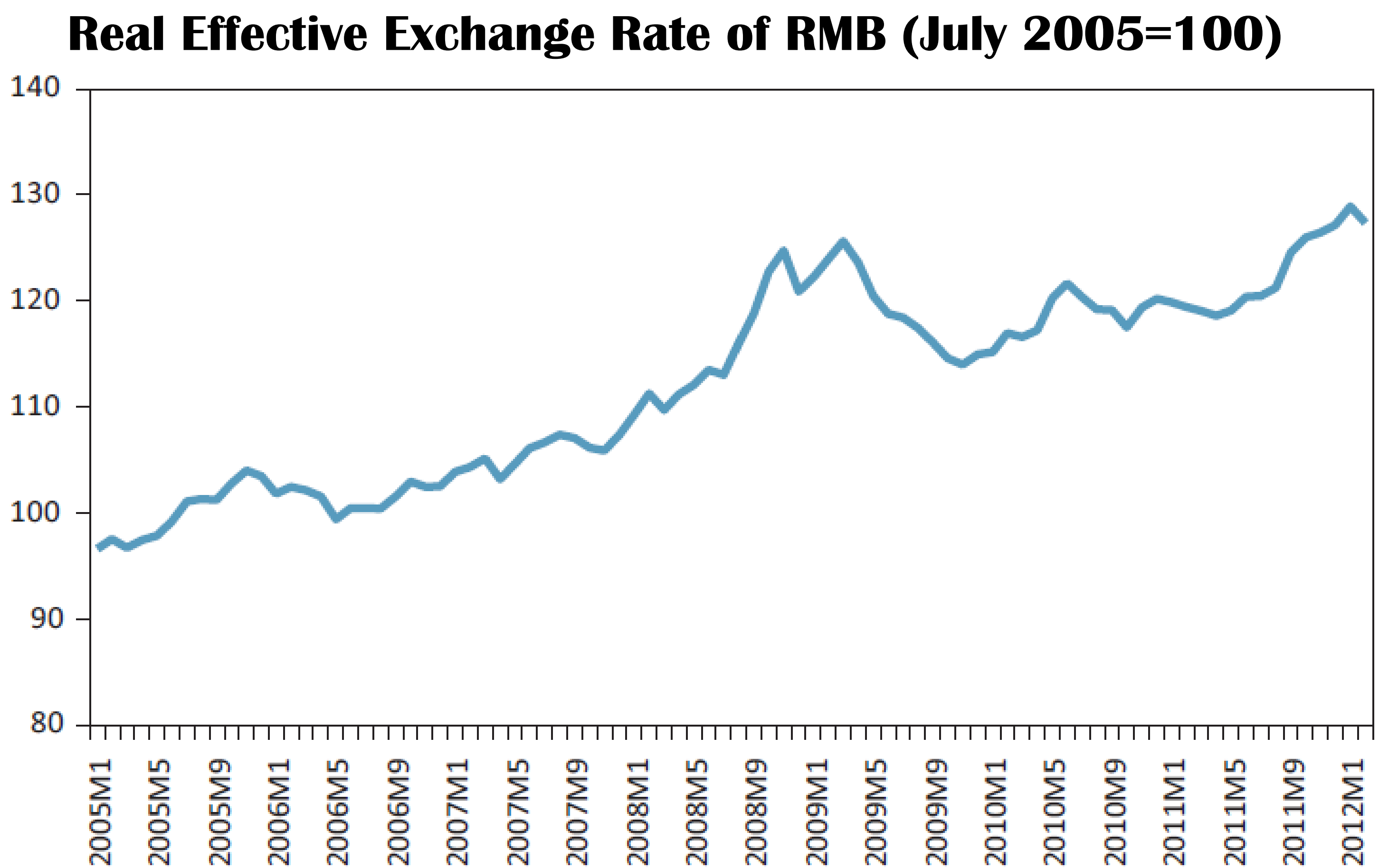
## Current Account Balances as % of GDP: China vs. US




*Source:* BEA (2012), SAFE (2012).

THE OHIO STATE UNIVERSITY EXTENSION OARDC

# China's Exchange Rate




*Source:* IMF (2012a). CPI–deflated.

# China's Economic Growth

- **Investment *not* trade leads Chinese growth – 48% of GDP in 2011**
- **Large share of investment by state-owned enterprises in dirty, capital-intensive industries**
- **Also, growing investment in infrastructure by local authorities, contributing to urbanization**
- **State direction of investment often wasteful, but little alternative given China's inefficient financial sector**

THE OHIO STATE UNIVERSITY EXTENSION OARDC

# China's Economic Growth

# China's Economic Growth

- 1990-2008, China's workforce grew by 145 million – mostly through migration from rural areas to coastal urban areas
- 2011, percentage of population in workforce declined, those left in villages being old and immobile
- China no longer needs to grow so quickly due to change in demographics – and Chinese leadership recognizes this
- Previous targets of GDP growth of 8% a year lowered to an average of 7% over current 5-year plan (2010-15)

THE OHIO STATE UNIVERSITY EXTENSION OARDC

# China's Economic Growth

# China's Economic Growth

- Chinese growth model will eventually change as workforce share of population shrinks, and capital is accumulated
- Its savings rate will fall, and investment opportunities will diminish
- China will then need to:

  - raise productivity of its capital

  - reform its financial system

  - spend more on its social safety net, i.e., health care, pensions, housing etc.
- Consumption (imports) should then increase

THE OHIO STATE UNIVERSITY EXTENSION OARDC