China’s Economic Growth: Is It Sustainable?

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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” – gaijie kaifang
China’s Trade

Figure 1 Exports and Imports (Share of GDP)

Source: China Customs Statistics
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
China’s Trade Surplus

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

China’s Exchange Rate

Real Effective Exchange Rate of RMB (July 2005=100)

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
China’s Economic Growth

The alchemy of China’s growth

% of GDP: China, South Korea, Japan

Private consumption

Investment

Contribution to growth, percentage points:

- Consumption
- Investment
- Net exports

Source: CEIC
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)
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.