

HAVE WE PASSED 'PEAK CHINA'?

PRESENTATION TO INDEPENDENT ECONOMICS

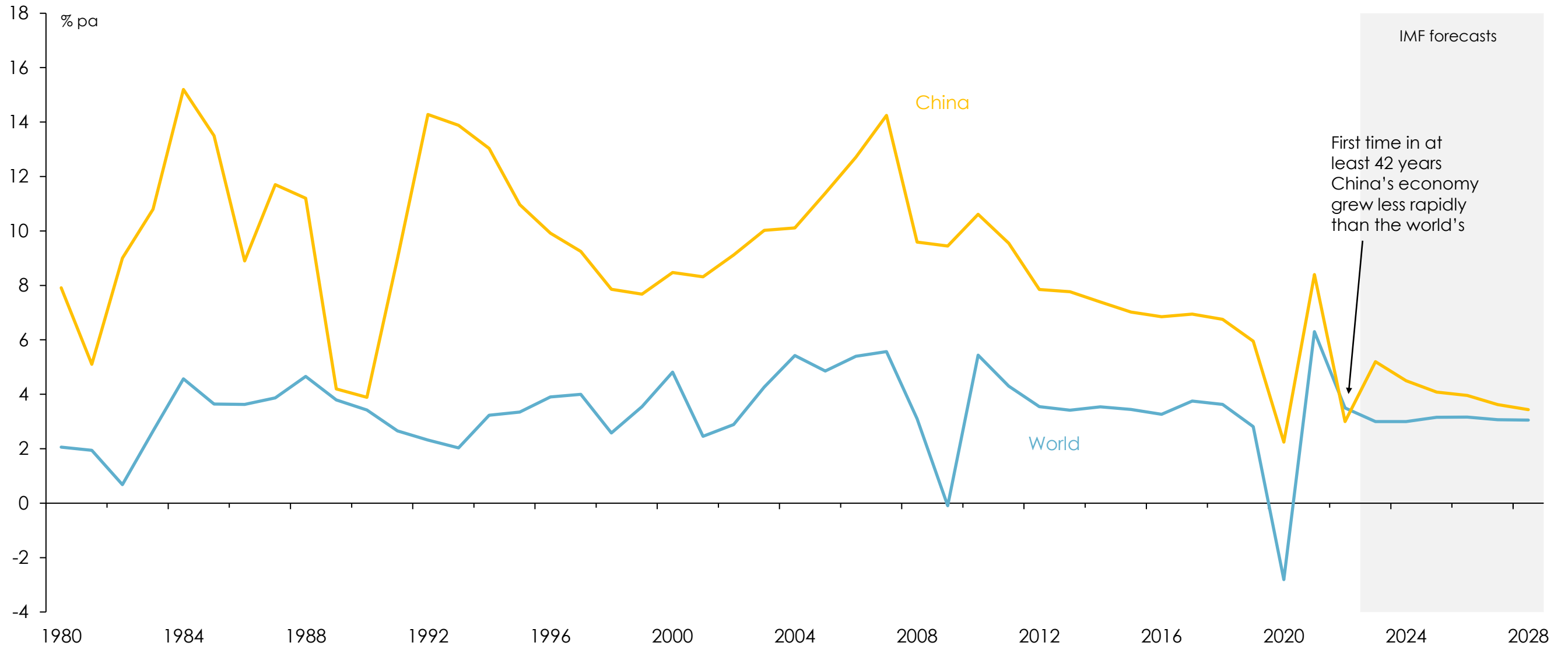
23RD JANUARY 2024

SAUL ESLAKE

CORINNA ECONOMIC ADVISORY
INDEPENDENT ECONOMICS

China's economy is no longer growing significantly faster than the global average

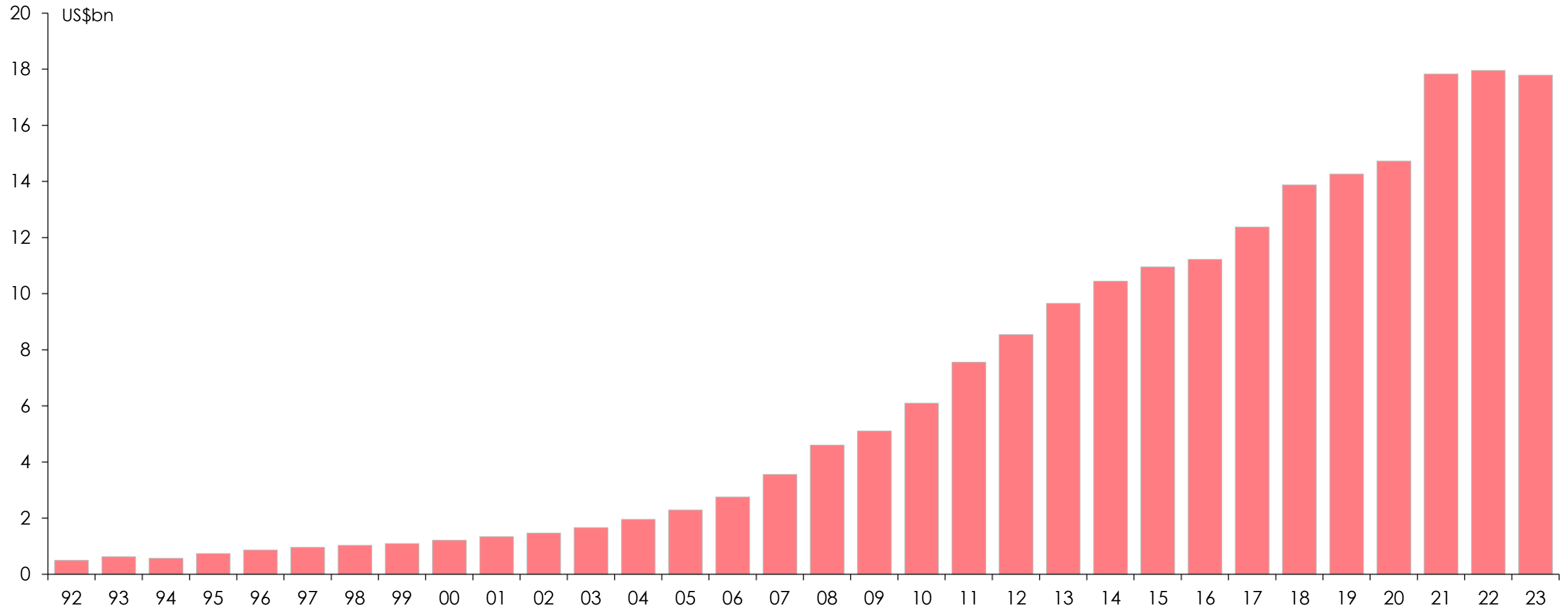
China and world real GDP growth



Sources: International Monetary Fund, [World Economic Outlook database](#), October 2023.

China's economy shrank, in dollar terms last year, for the first time since 1994, with the GDP deflator falling 1% and the yuan losing 4.3% vs the US\$

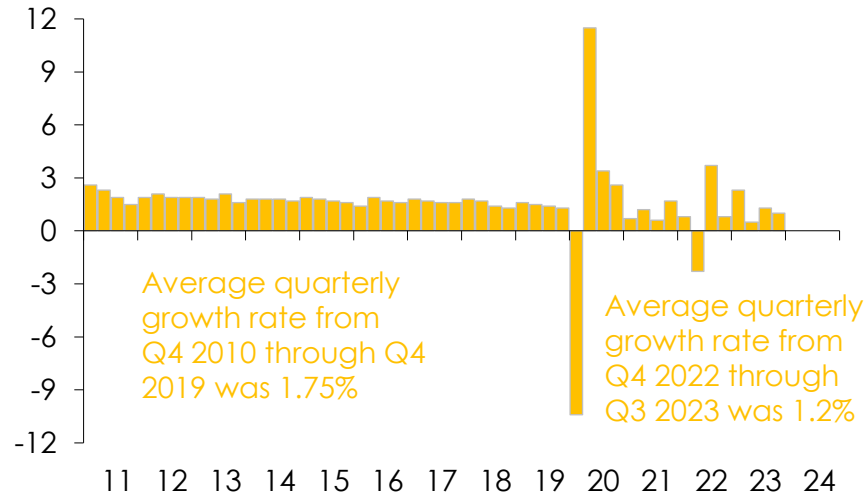
China's nominal GDP in US\$



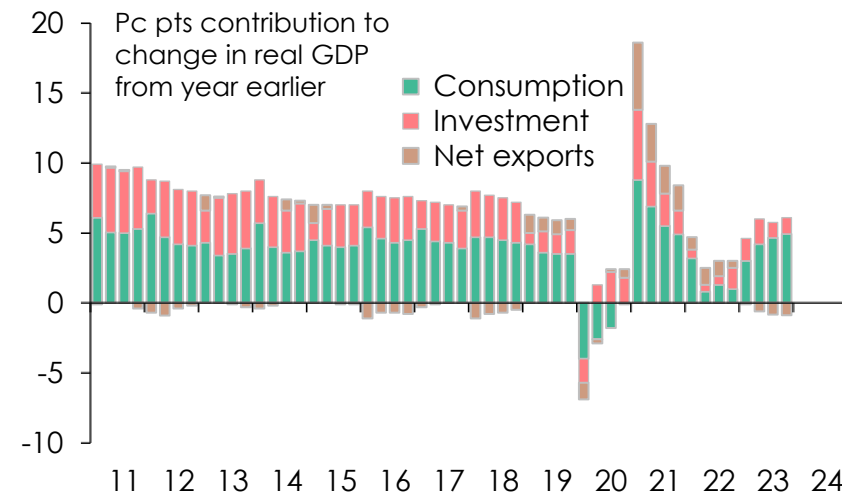
Sources: [National Bureau of Statistics of China](#); Refintiv Datastream; Corinna.

China's post-Covid recovery has been very modest

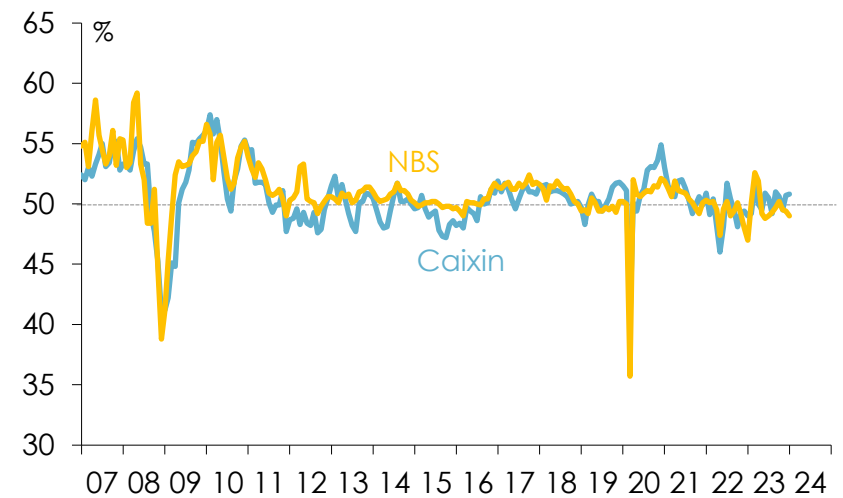
Quarterly real GDP growth



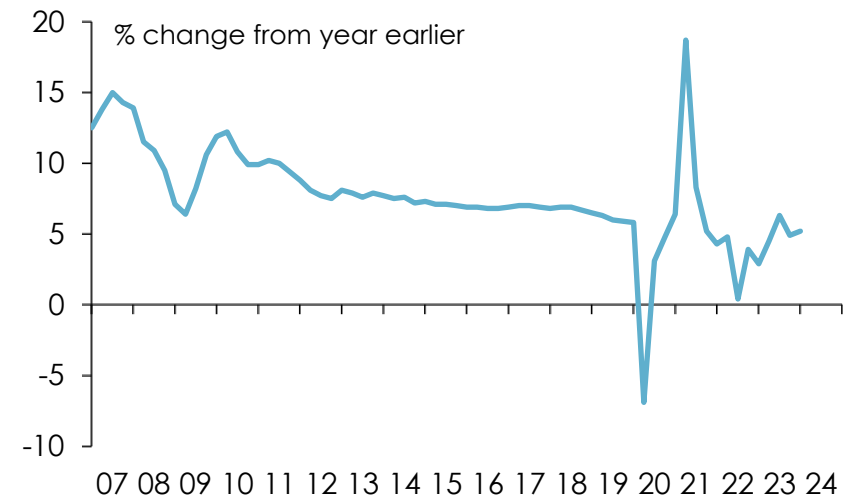
Contributions to GDP growth



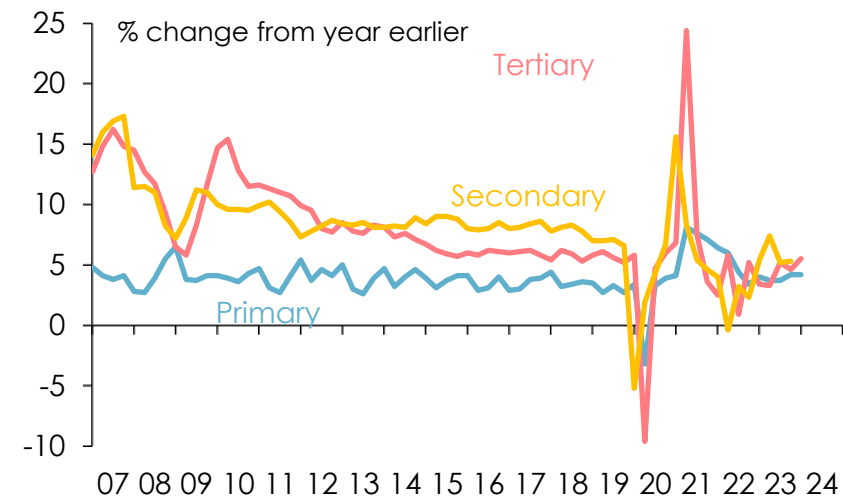
Manufacturing PMIs



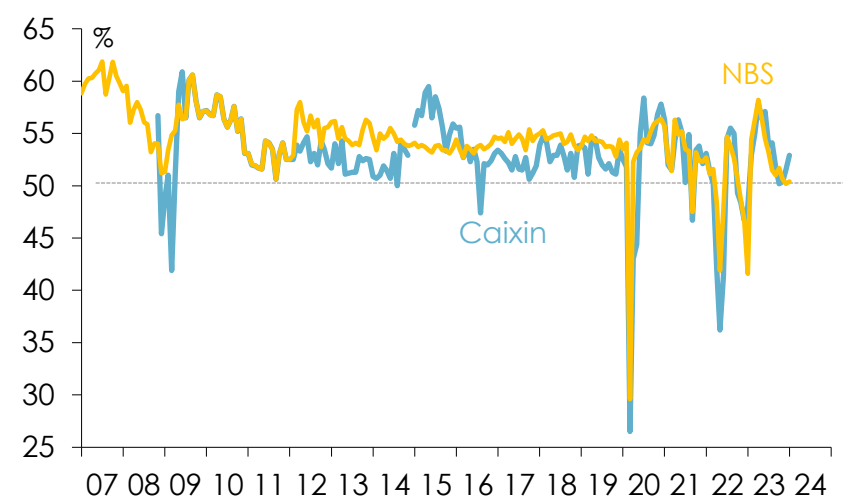
Annual real GDP growth



Annual real GDP growth, by sector

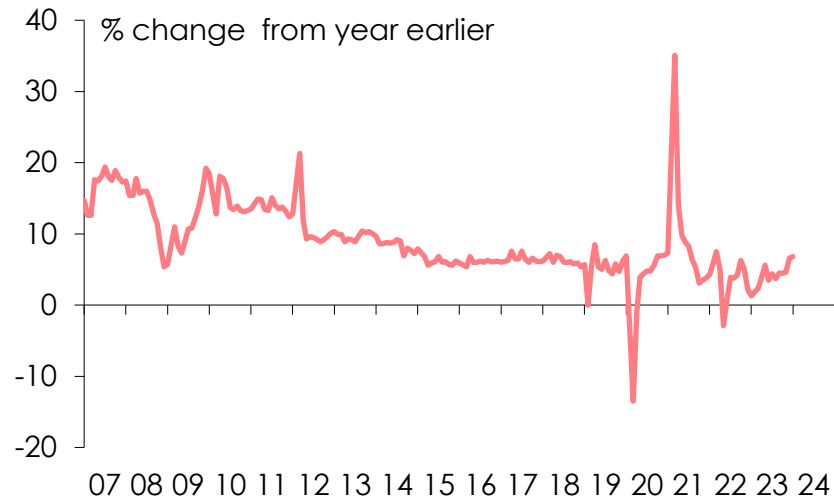


Services PMIs

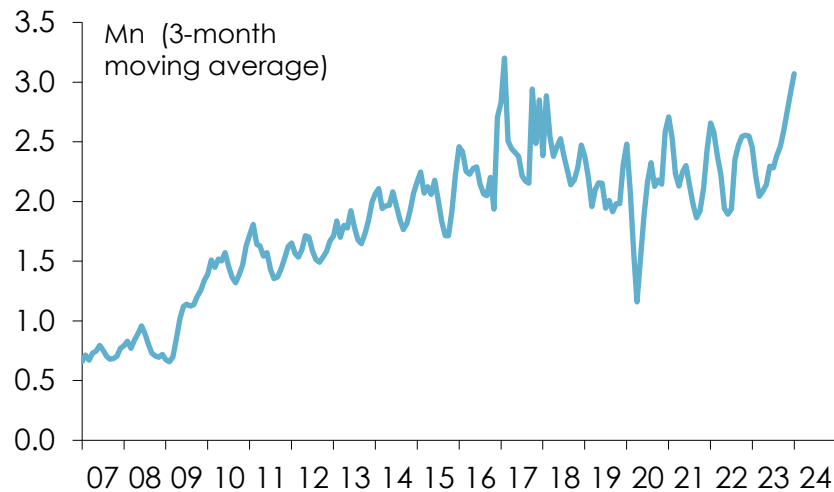


Both the 'supply' and 'demand' sides remain soft – except for motor vehicle production and sales

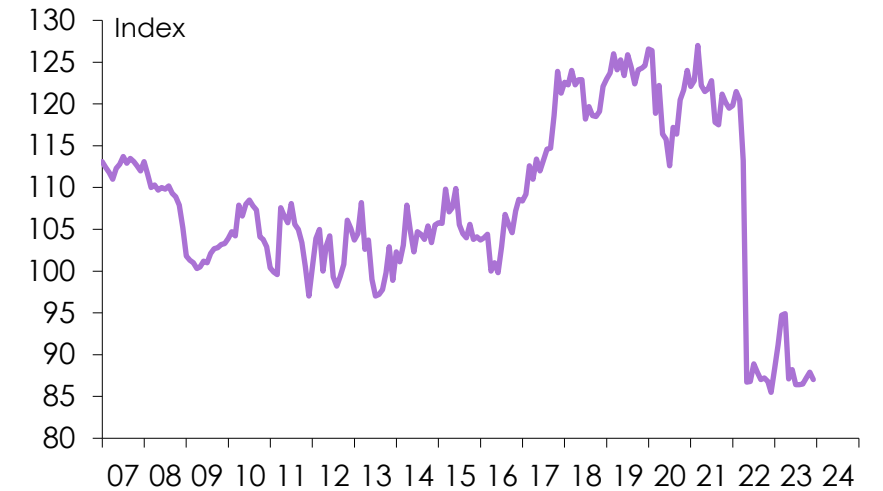
Industrial production



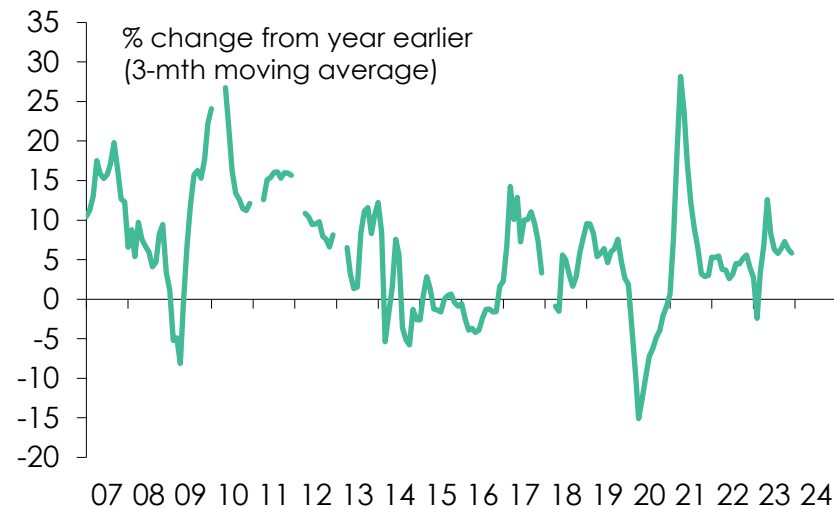
Motor vehicle production



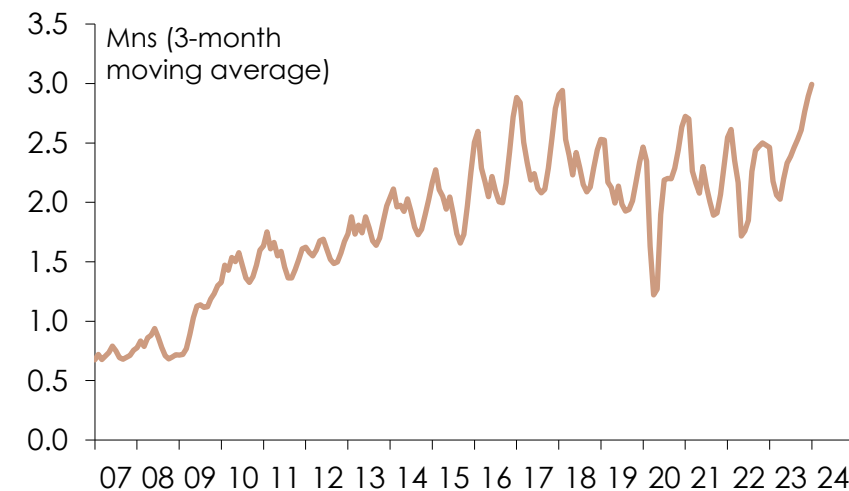
Consumer sentiment



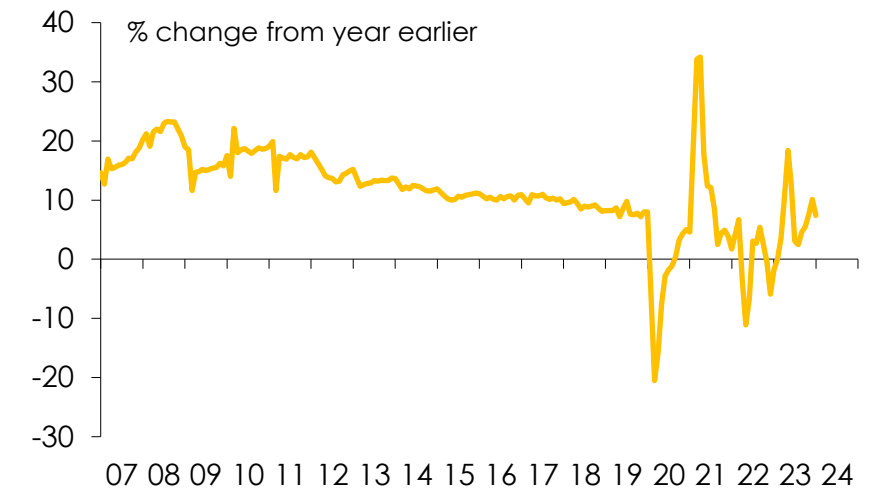
Freight traffic carried



Motor vehicle sales

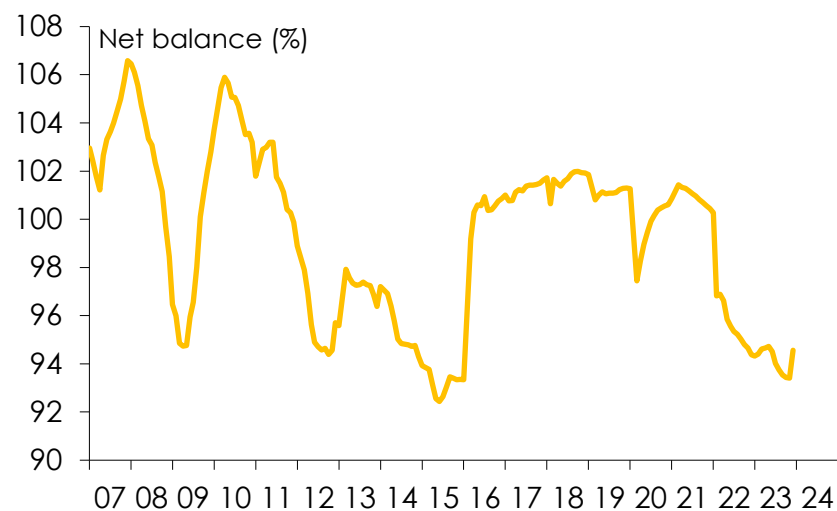


Retail sales

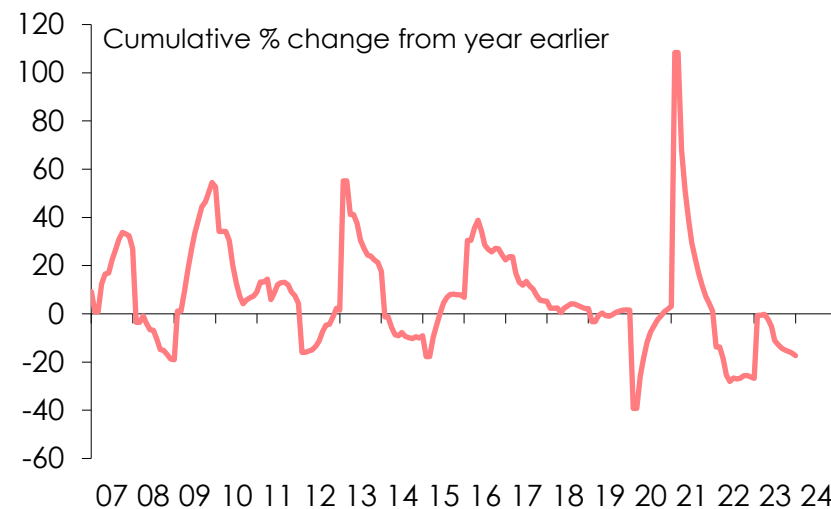


Property development – a major driver of growth up until 2018-19 – remains moribund

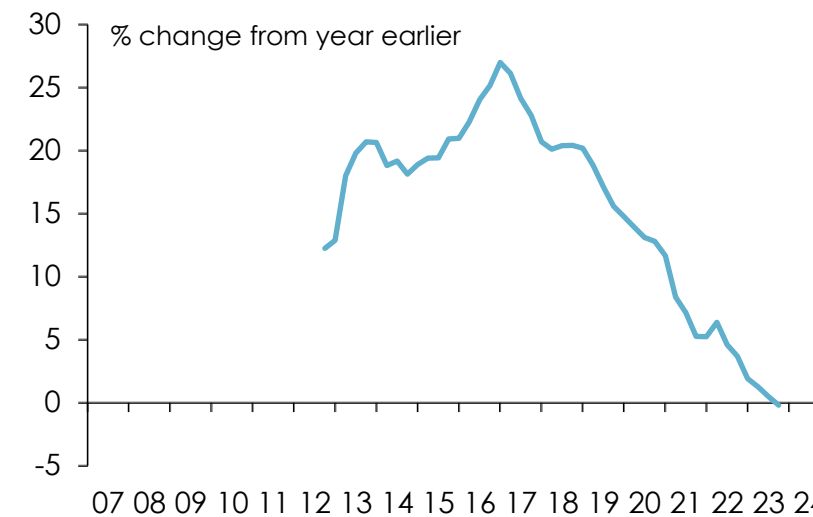
Real estate climate index



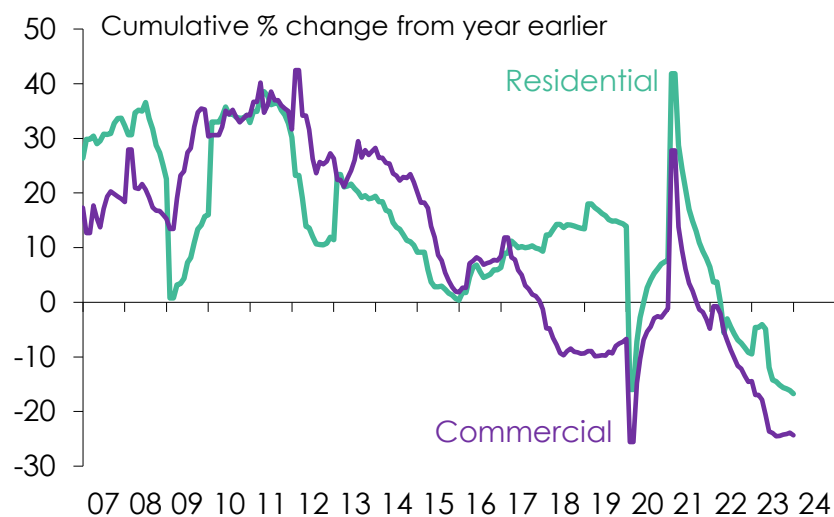
Residential floor space sold



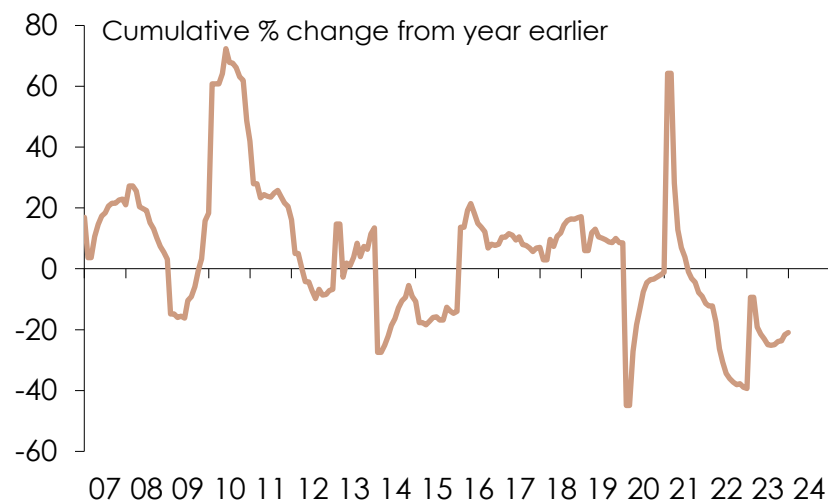
Real estate lending



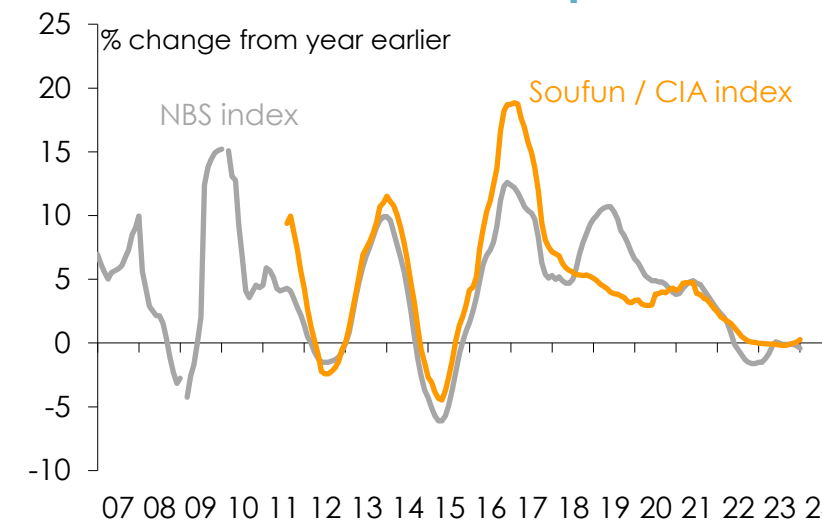
Real estate investment



Residential floor space started

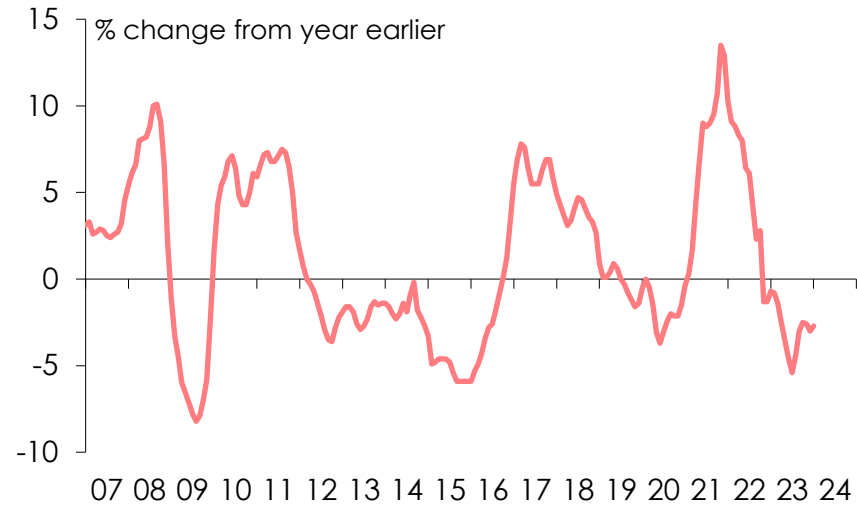


Residential real estate prices

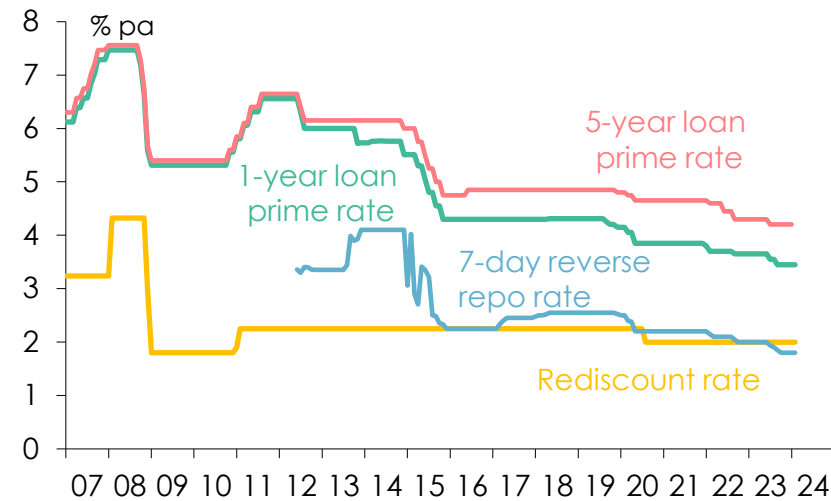


One problem China doesn't have is inflation – but the authorities remain very cautious about providing additional policy stimulus

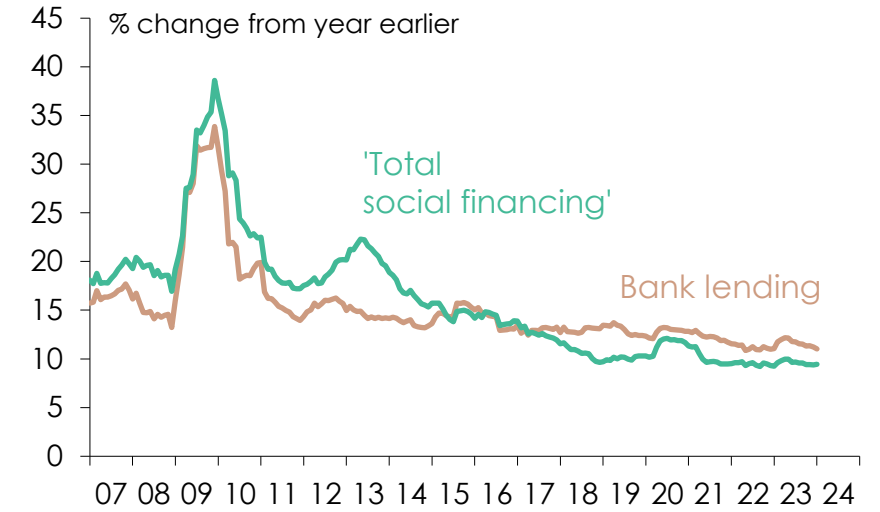
Producer prices



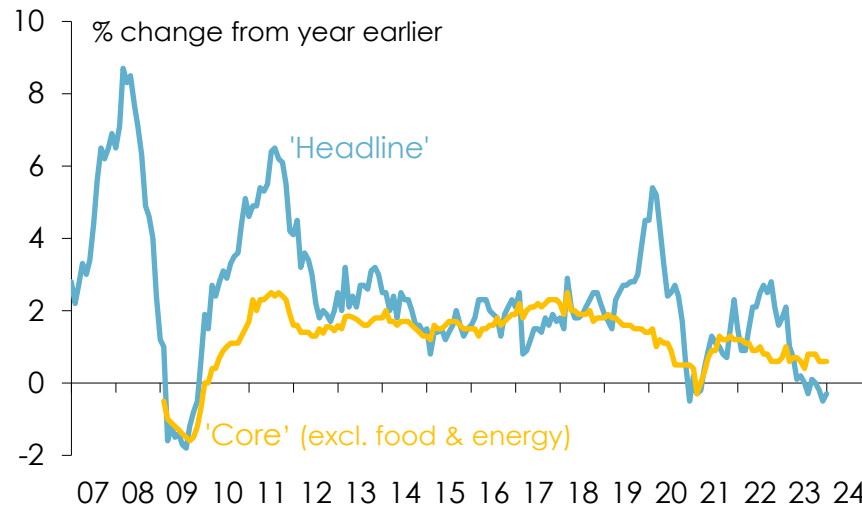
PBoC policy interest rates



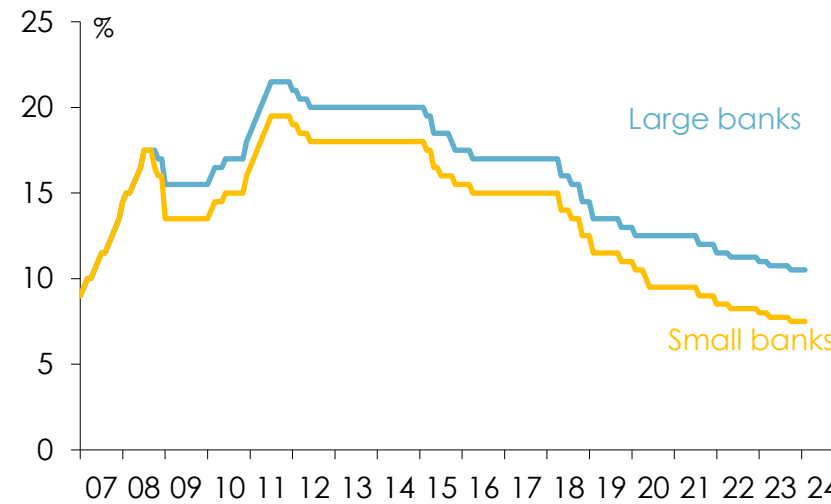
Credit growth



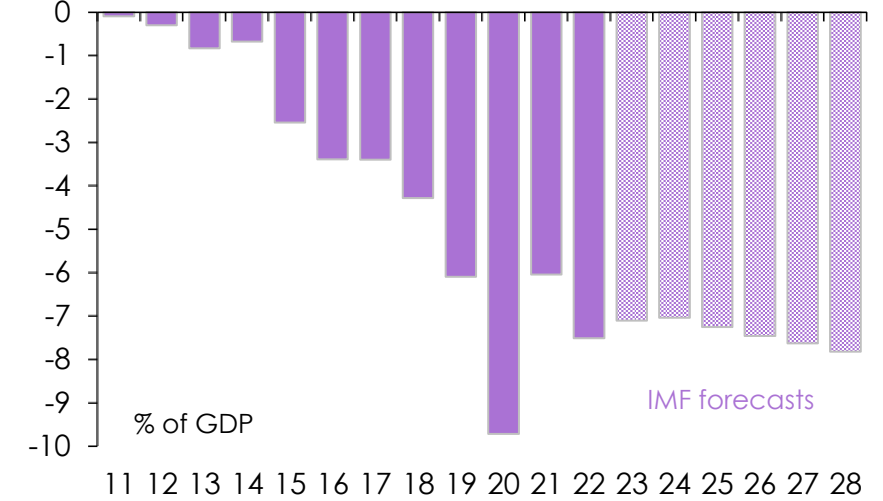
Consumer prices



Bank reserve requirement ratios

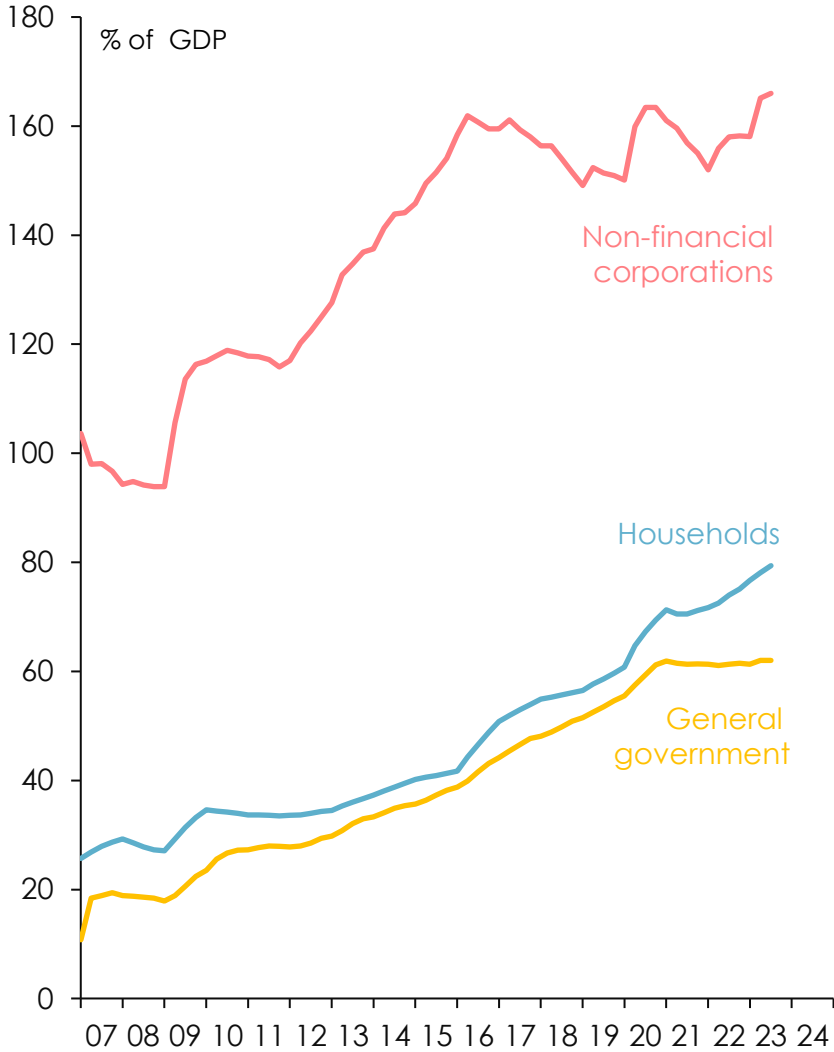


Government budget balance



That in large part reflects the authorities' on-going concern about China's high level of debt, especially in the corporate sector ...

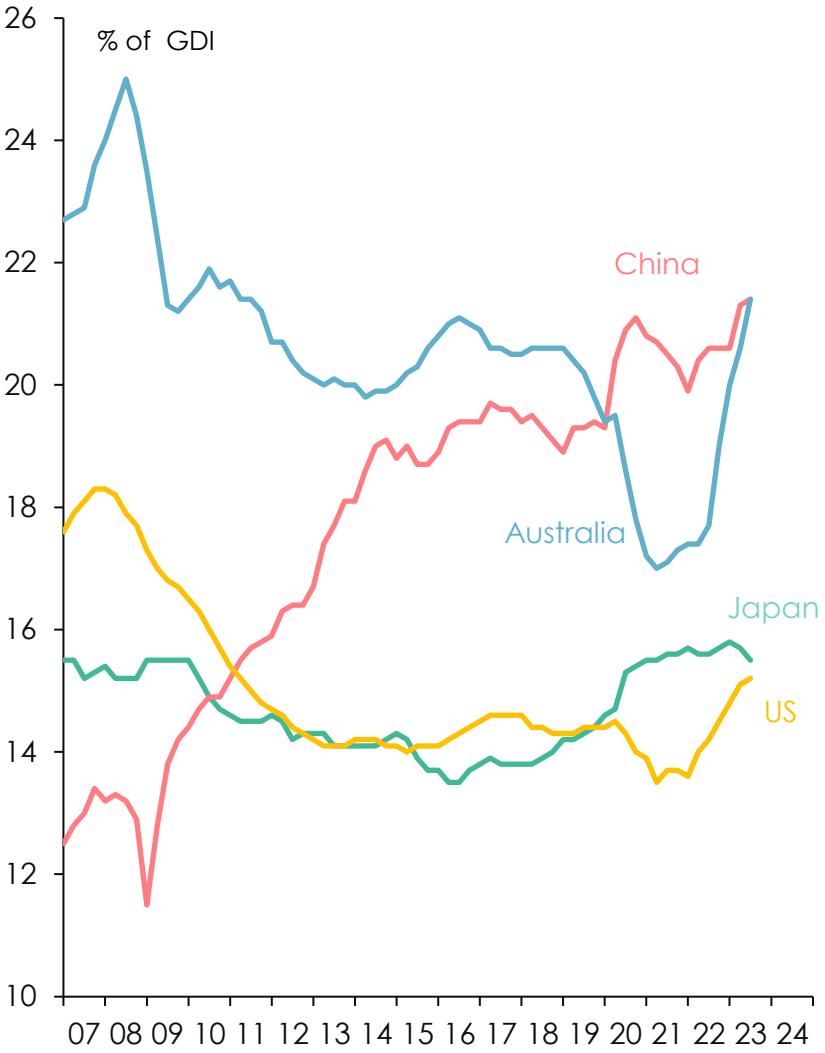
Debt as a percentage of GDP, by sector



China's debt compared with other emerging & advanced economies



Debt servicing ratios

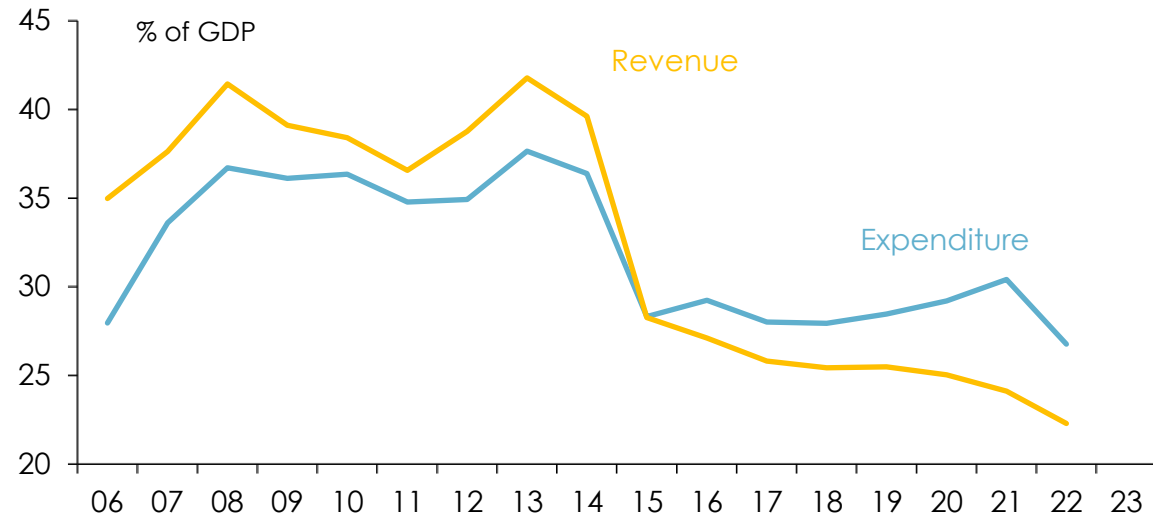


Note: 'general government' excludes state-owned enterprises, which are included in non-financial corporations.

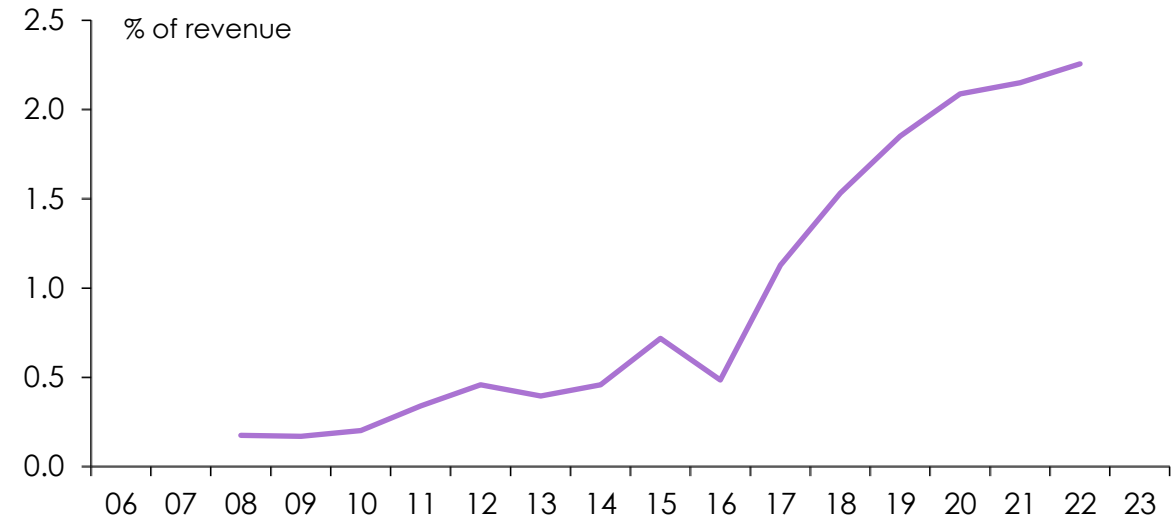
Source: Bank for International Settlements, [Credit to the non-financial sector](#), September 2023.

... and among local governments

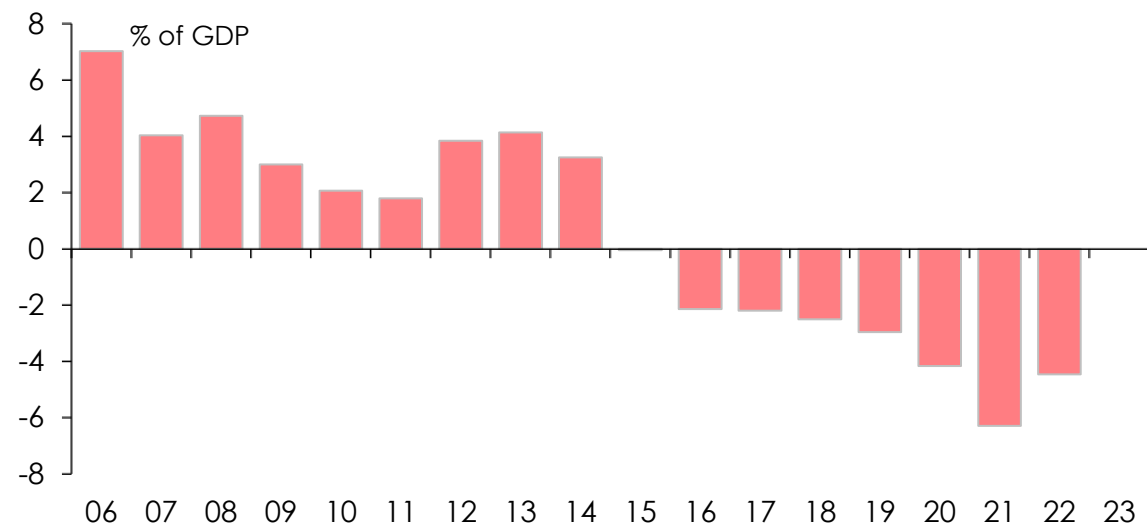
Local government spending and revenue



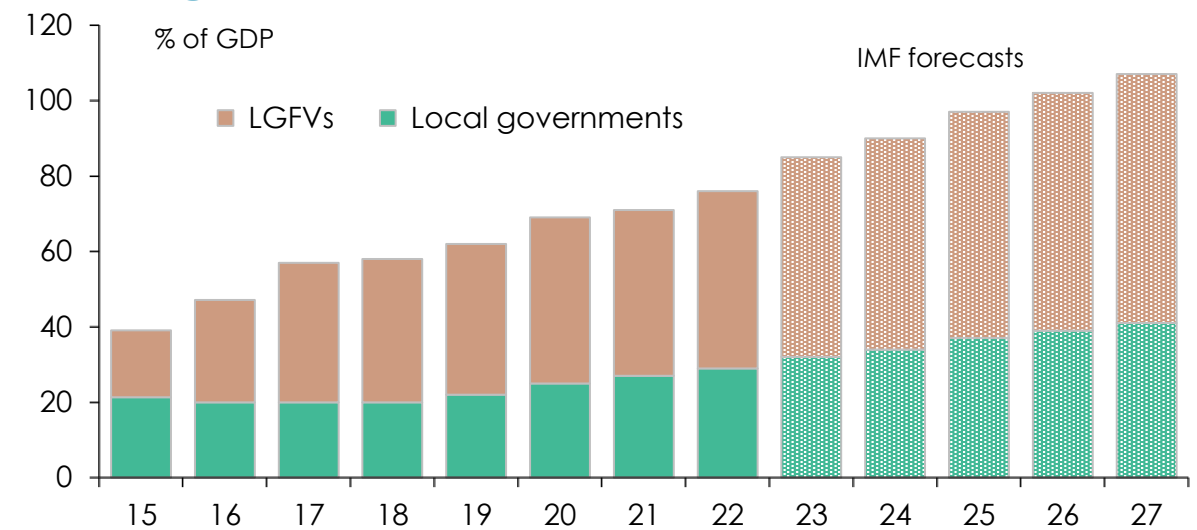
Local government interest expense



Local government surplus/deficit

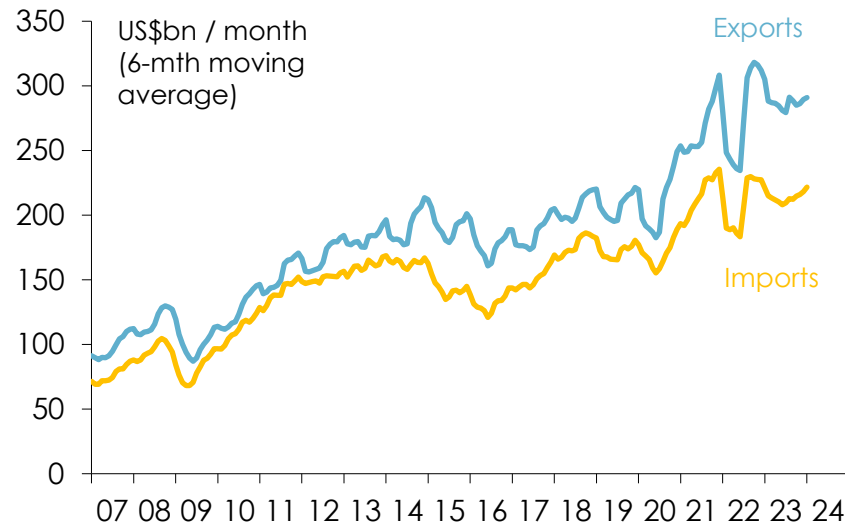


Local government debt

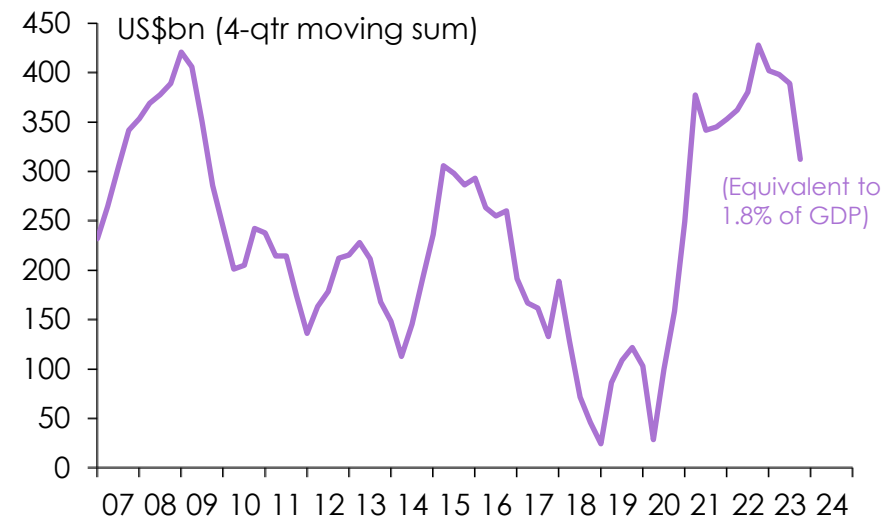


China's trade and current account surpluses may have peaked, while foreign investment inflows have almost completely halted

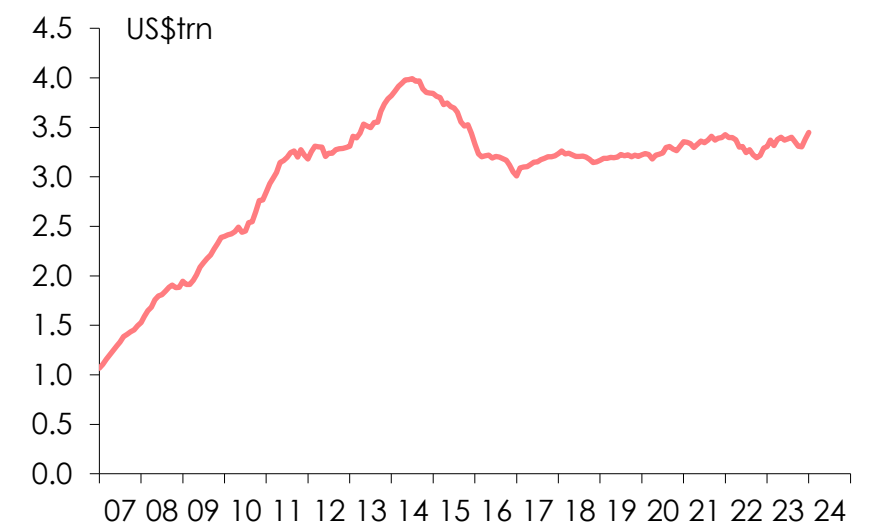
Merchandise trade



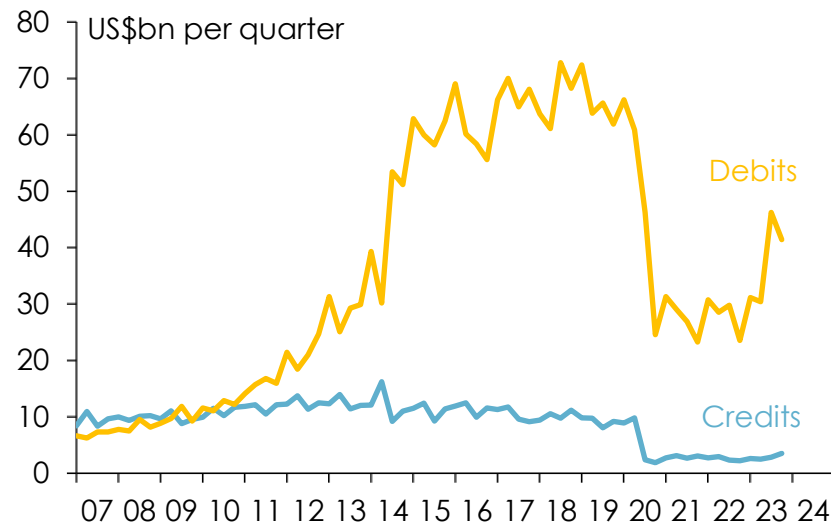
Current account balance



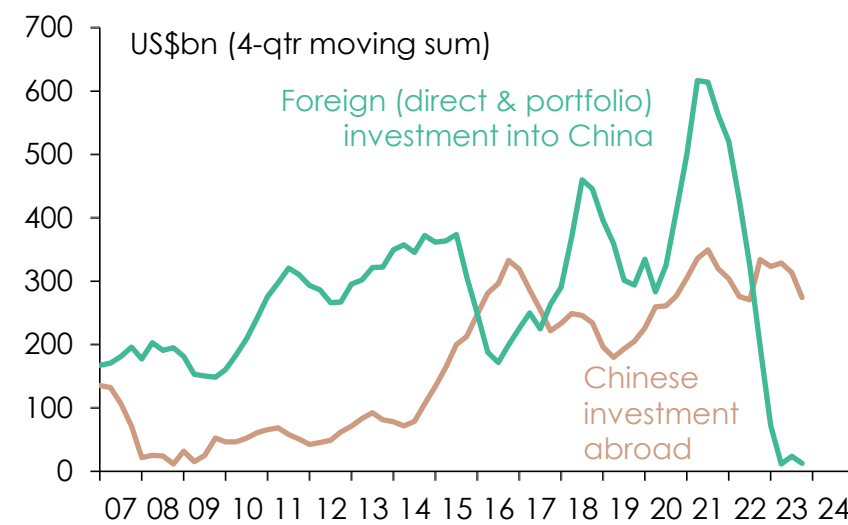
FX reserves



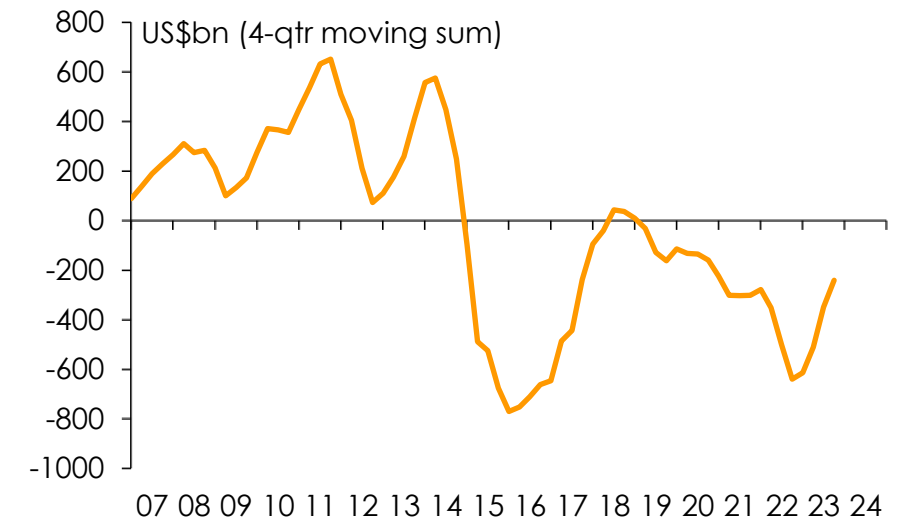
Travel credits and debits



Foreign investment flows



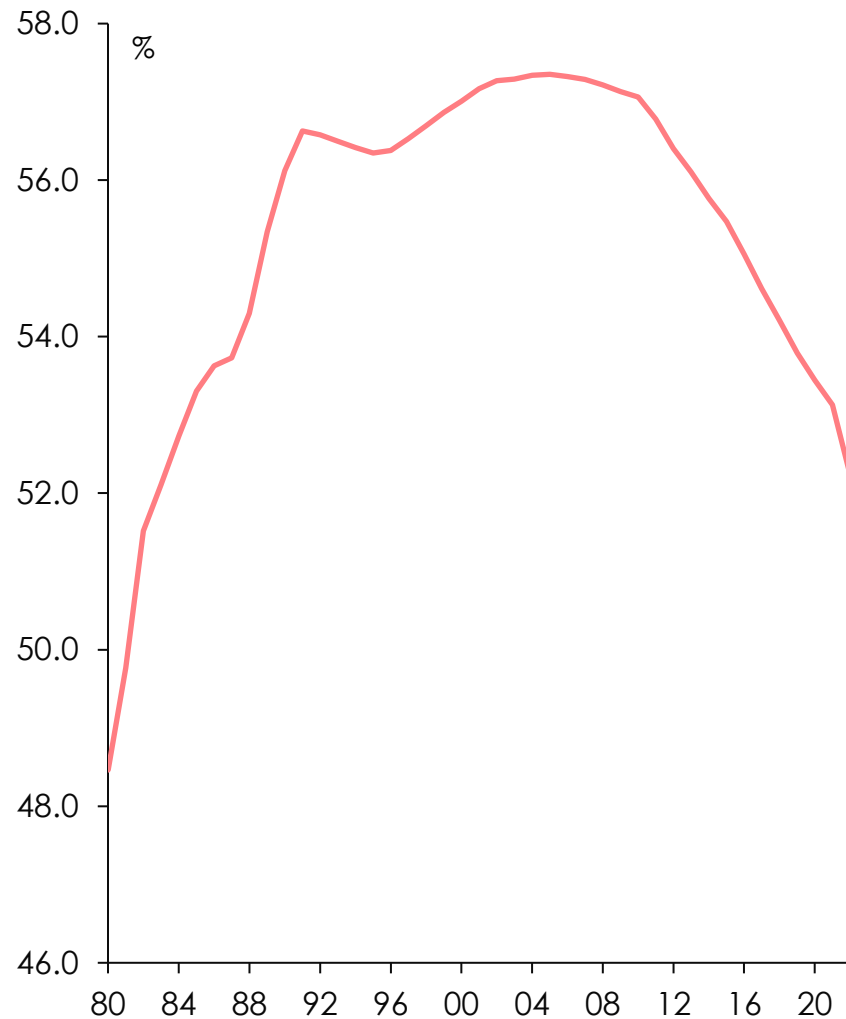
Net apparent 'capital flight'



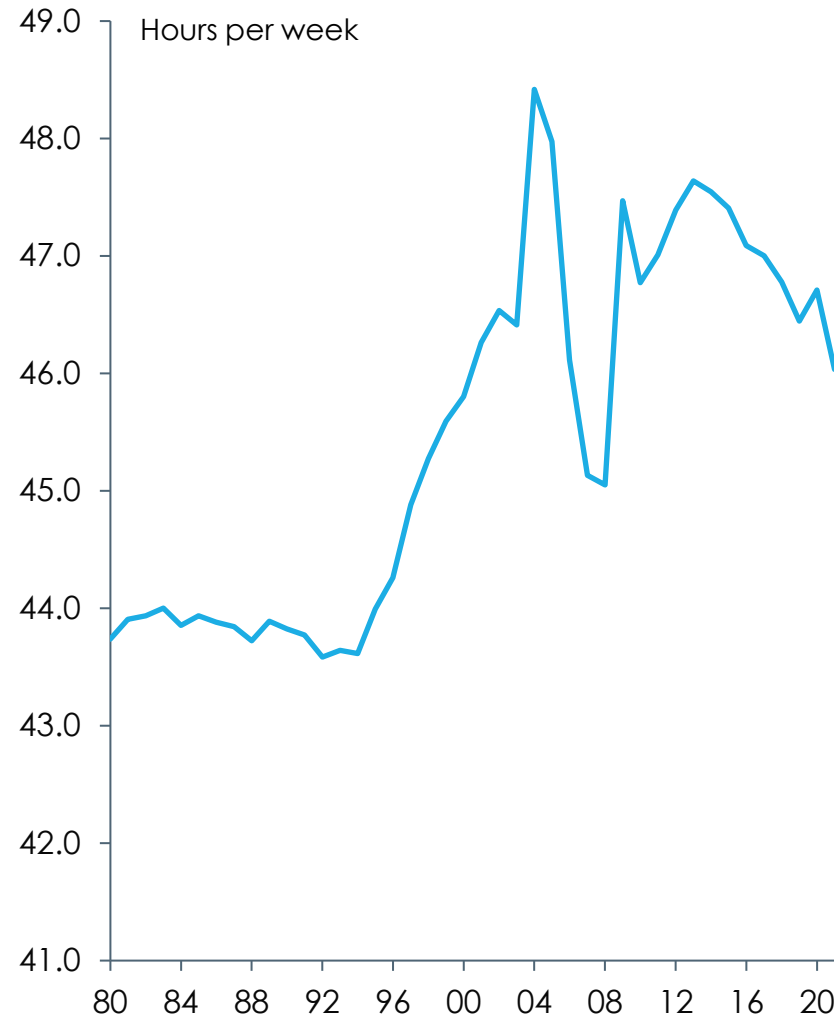
Source: [General Administration of Customs](#); [People's Bank of China](#).

China's economic slowdown is structural, not cyclical ...

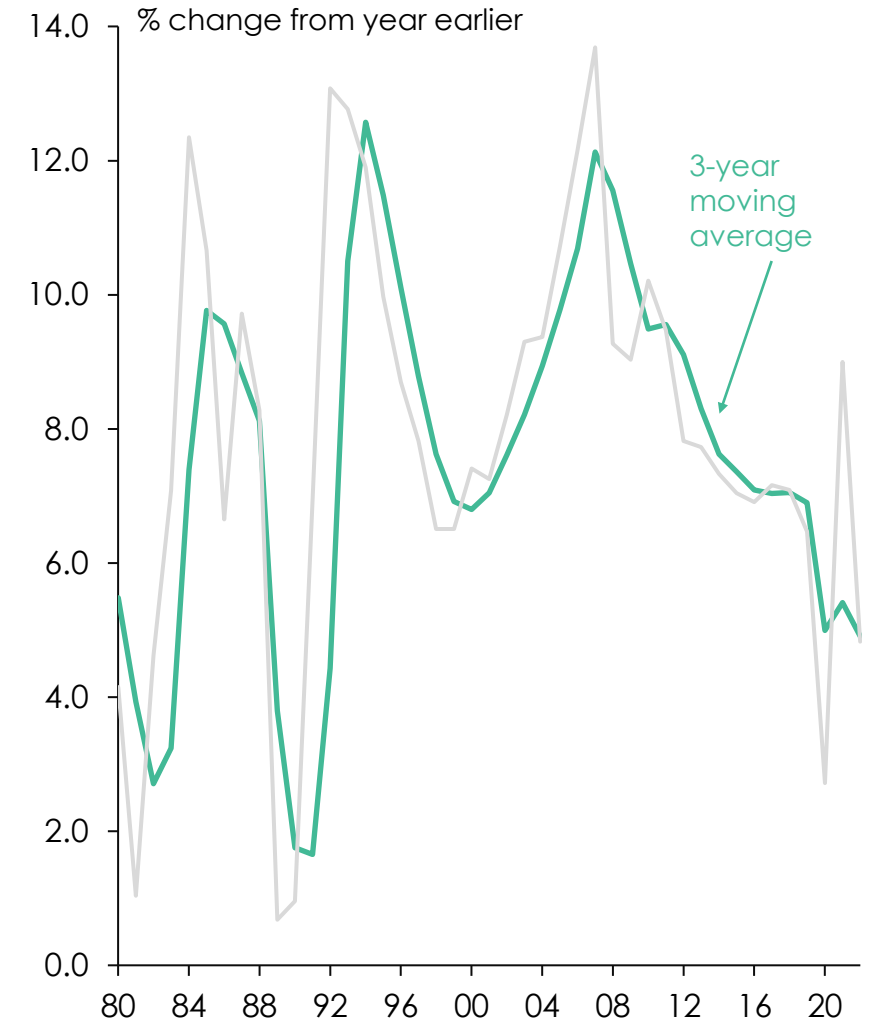
Employment as a pc of population



Average hours worked



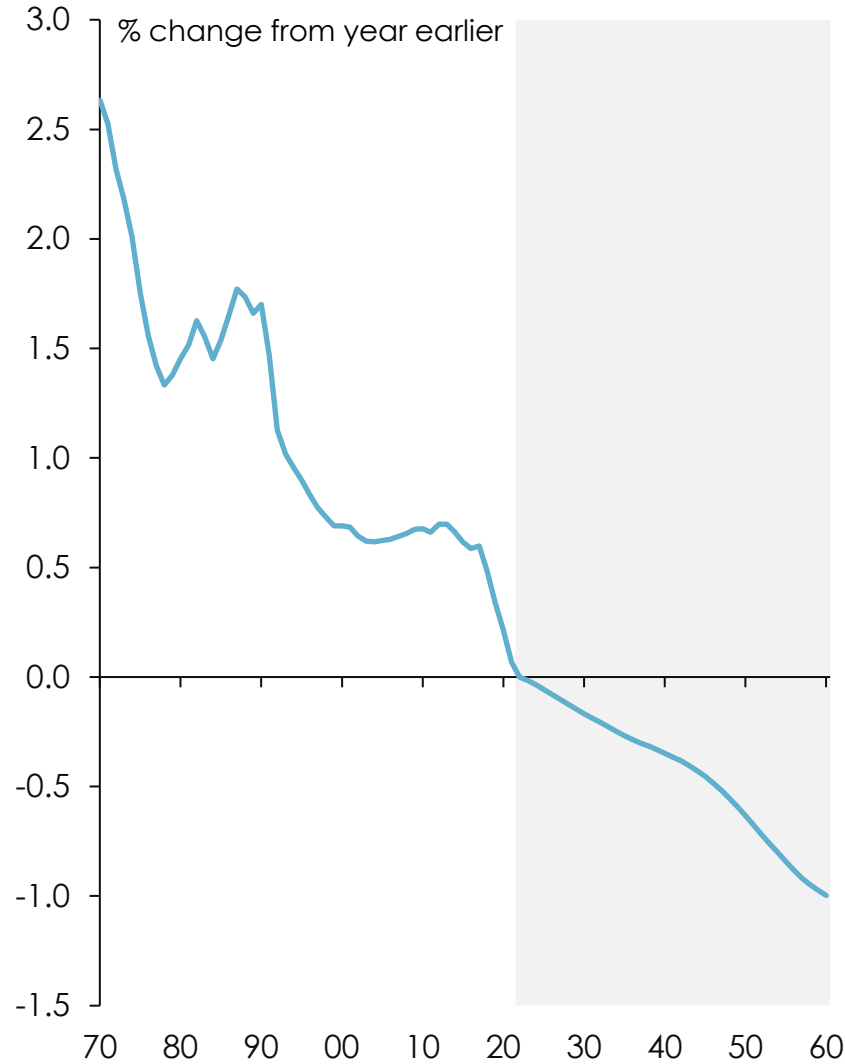
Output per hour worked (aka labour productivity)



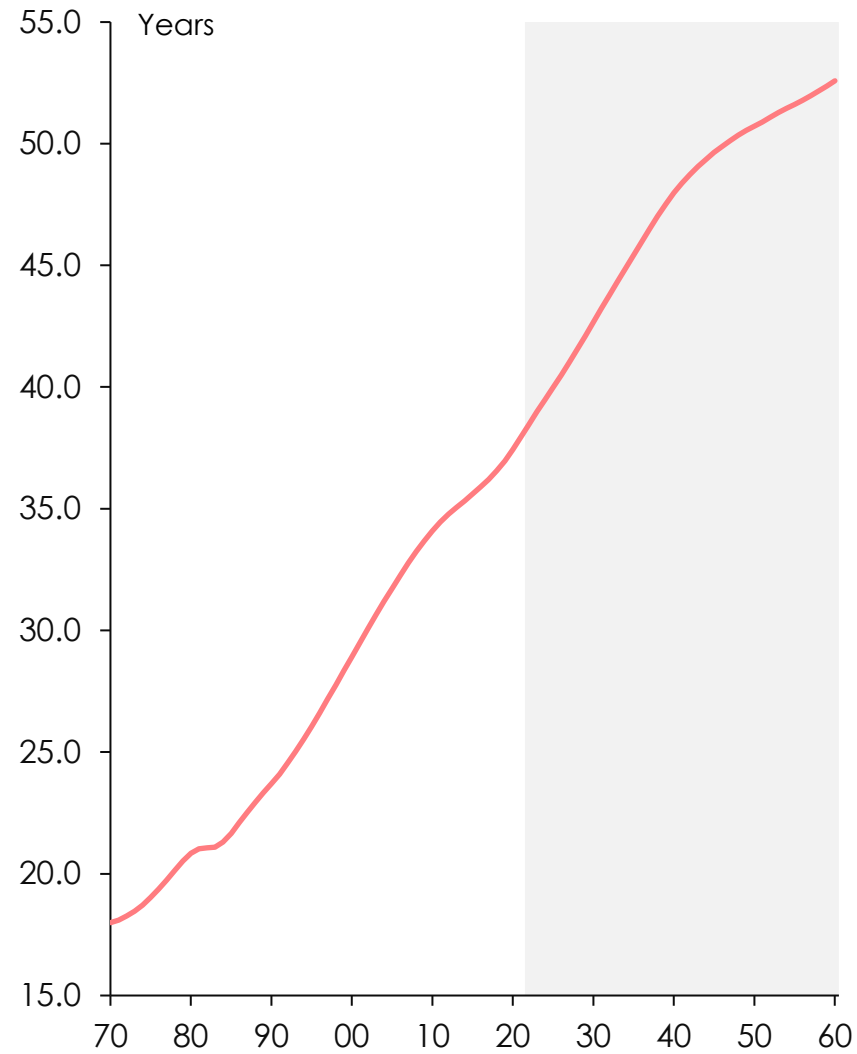
Source: The Conference Board, [Total Economy Database](#), 2023.

... and inexorable demographic factors mean that this structural slowdown will continue for the next 40 years (and beyond)

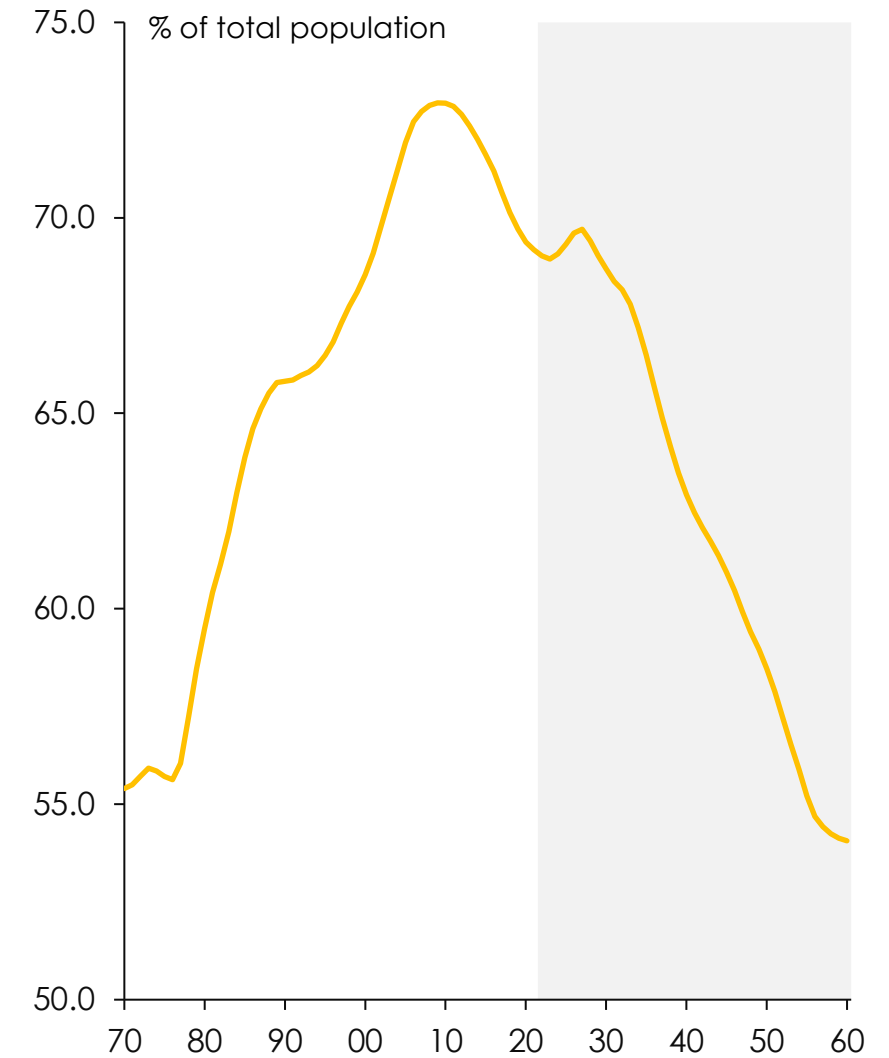
Population growth



Median age

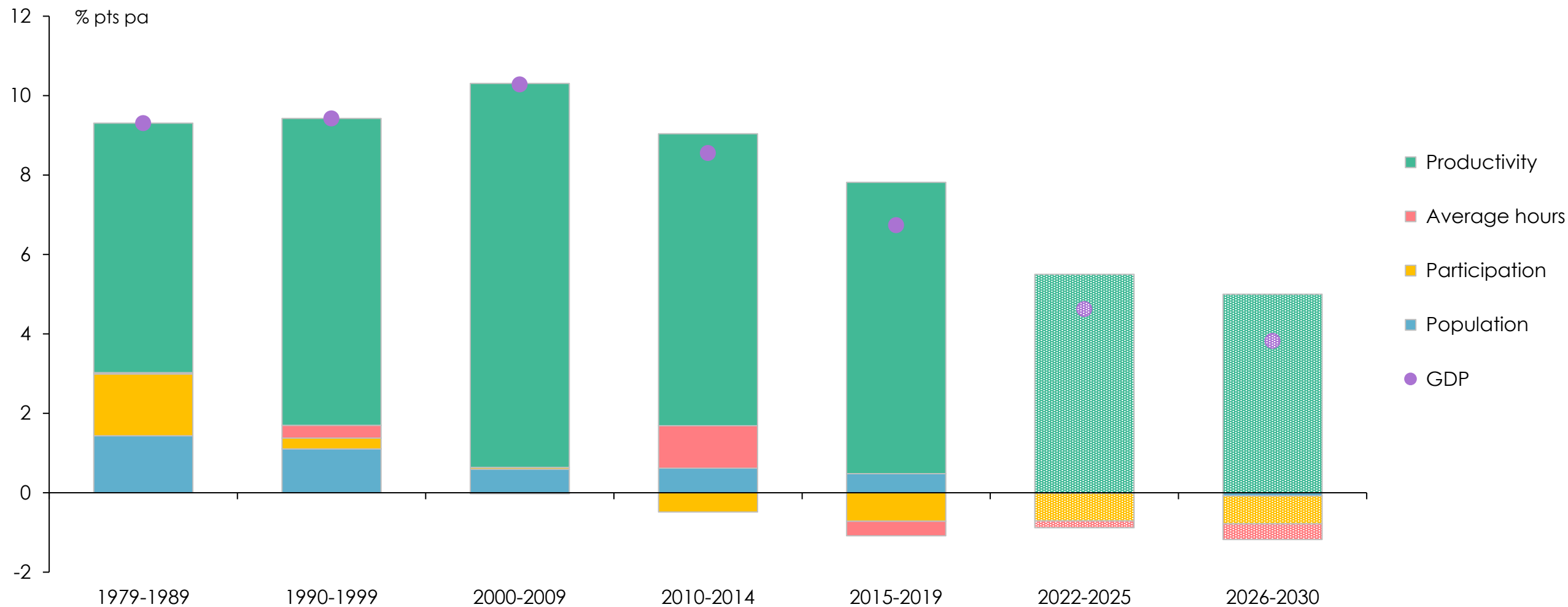


Working-age population as a pc of total



Source: United Nations Department of Economic and Social Affairs, [World Population Prospects](#), 2022.

China's average annual real GDP growth rate seems bound to slow to less than 4% during the second half of this decade

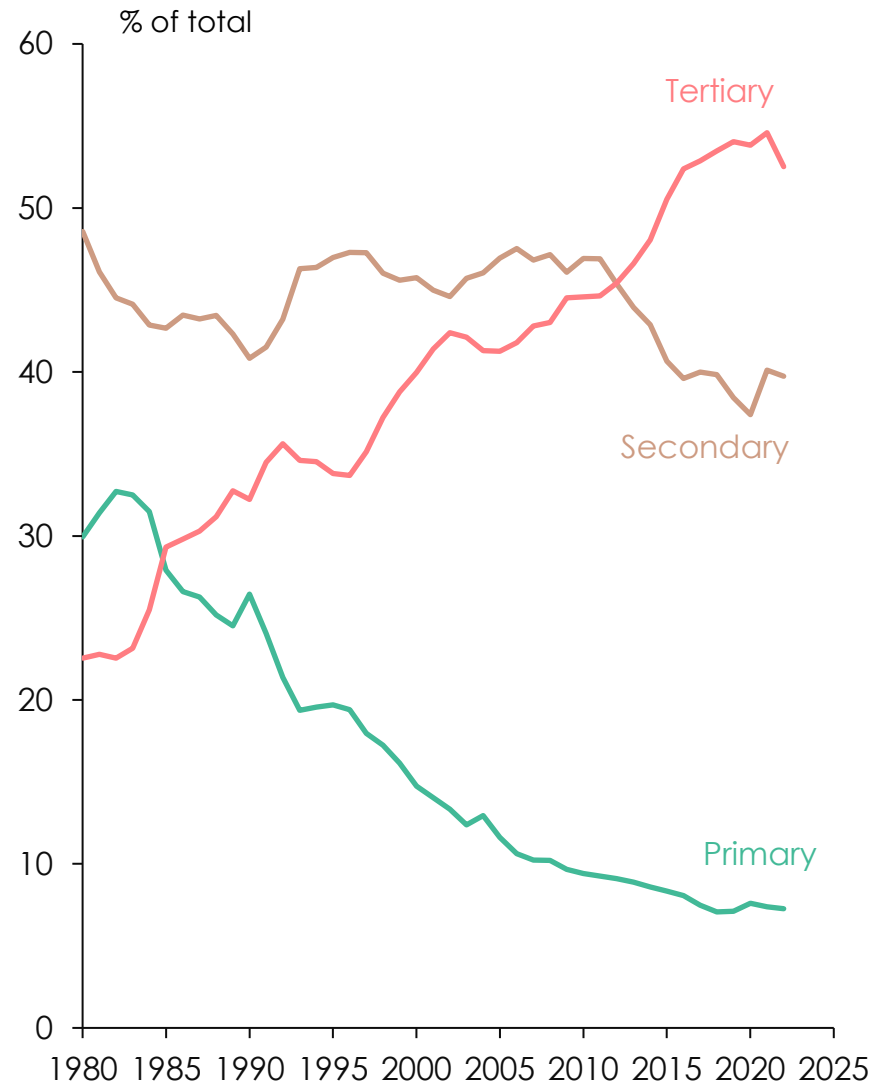


- ❑ Total and working-age population projections from UN World Population Prospects (medium variant)
- ❑ Employment-to-working-age population ratio (optimistically) assumed unchanged from 2022 value
- ❑ Average hours worked assumed to decline by 0.4% pa (2015-2019 average)
- ❑ Labour productivity growth (arbitrarily) assumed to average 5½% pa over 2022-25 and 5% pa over 2026-2030

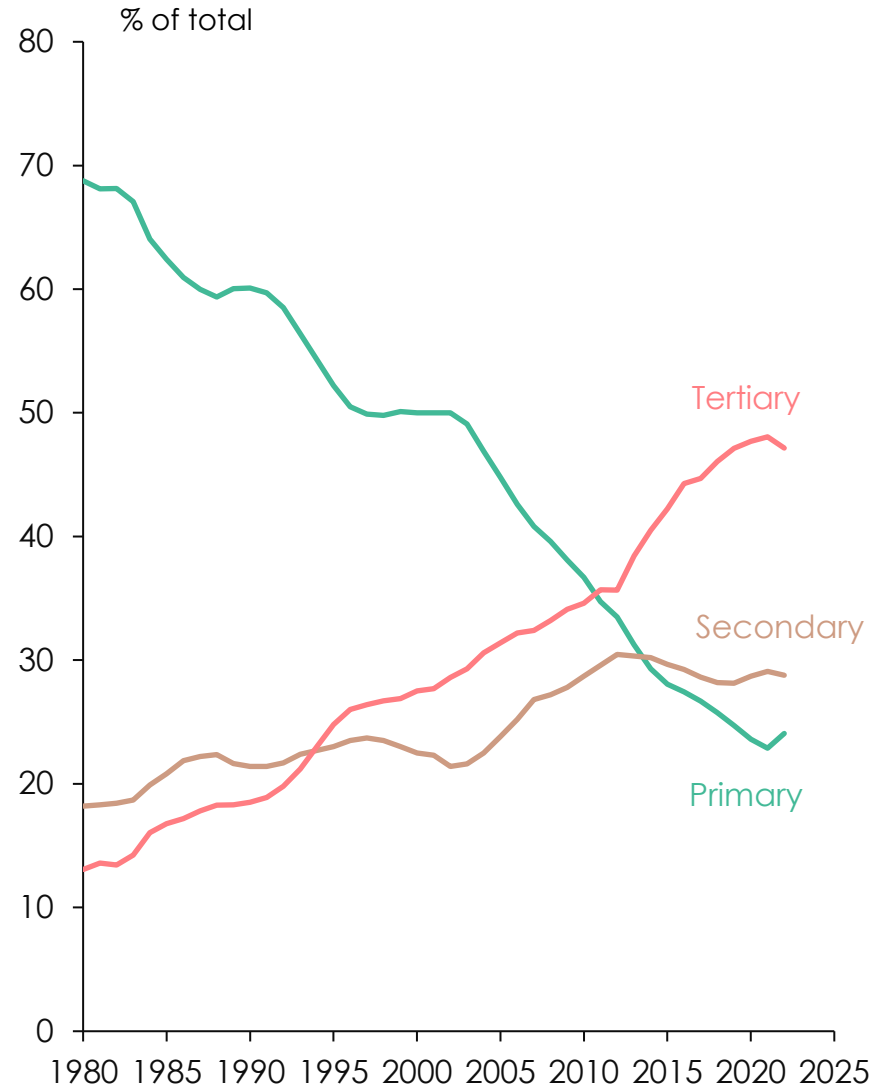
Sources: [National Bureau of Statistics of China](#); United Nations Department of Economic and Social Affairs, [World Population Prospects](#), 2022.

Rapid labour productivity growth will be much harder to achieve given long-term changes in the structure of output and employment

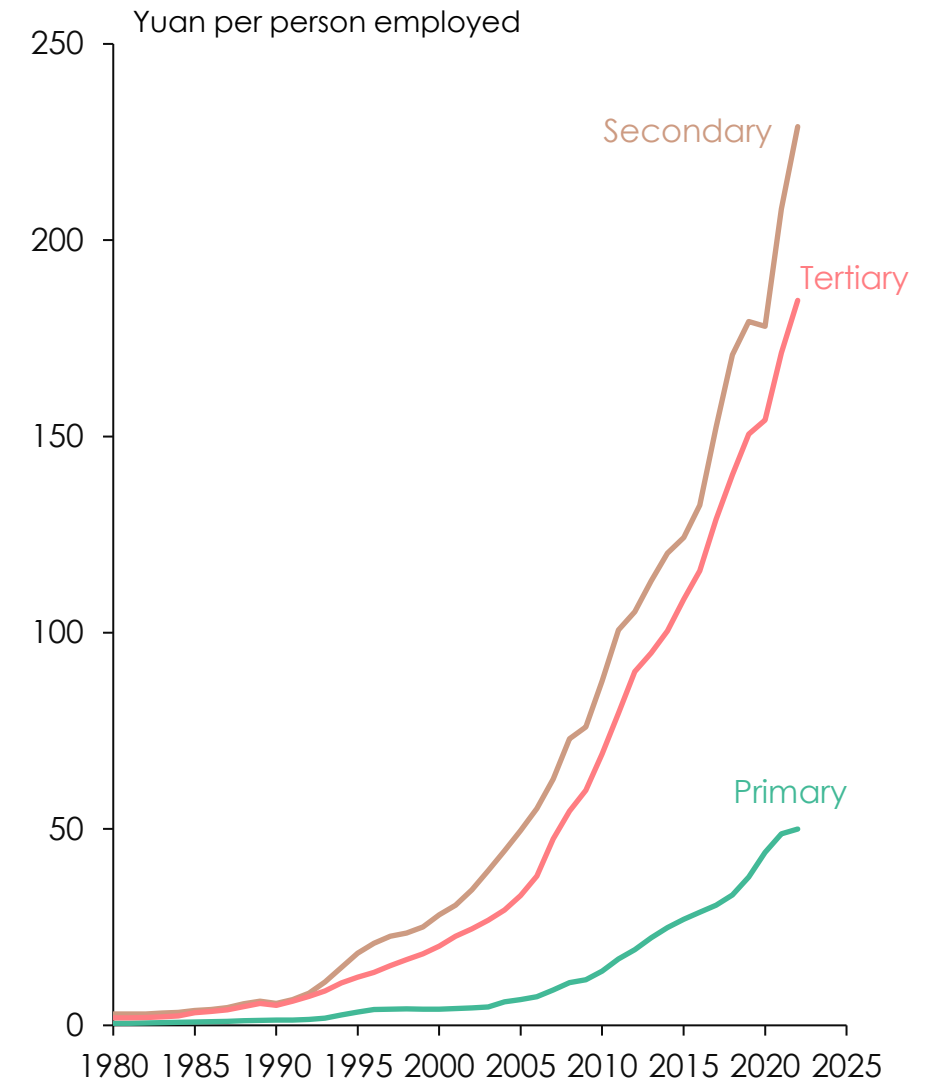
Sector shares of GDP



Sector shares of employment

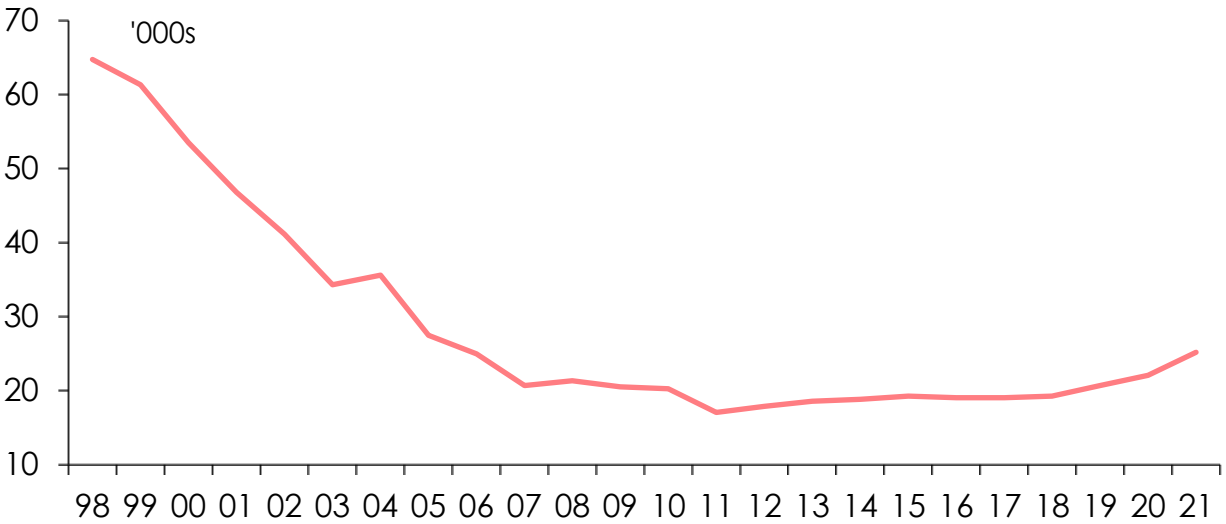


Sector labour productivity

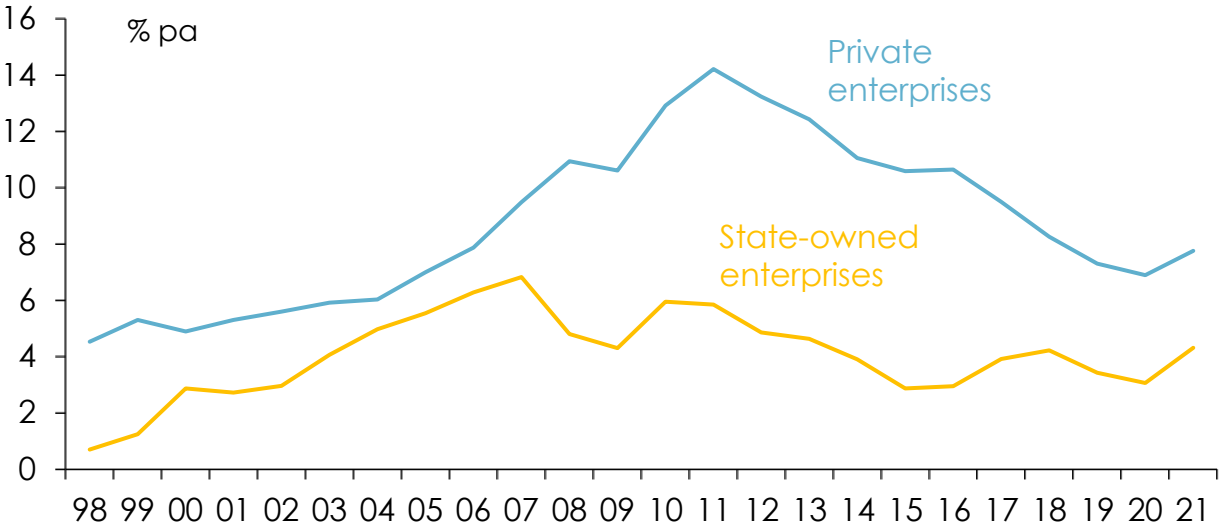


State-owned enterprise reform appears to have stalled – but at least in the industrial sector the performance of private enterprises has also faltered

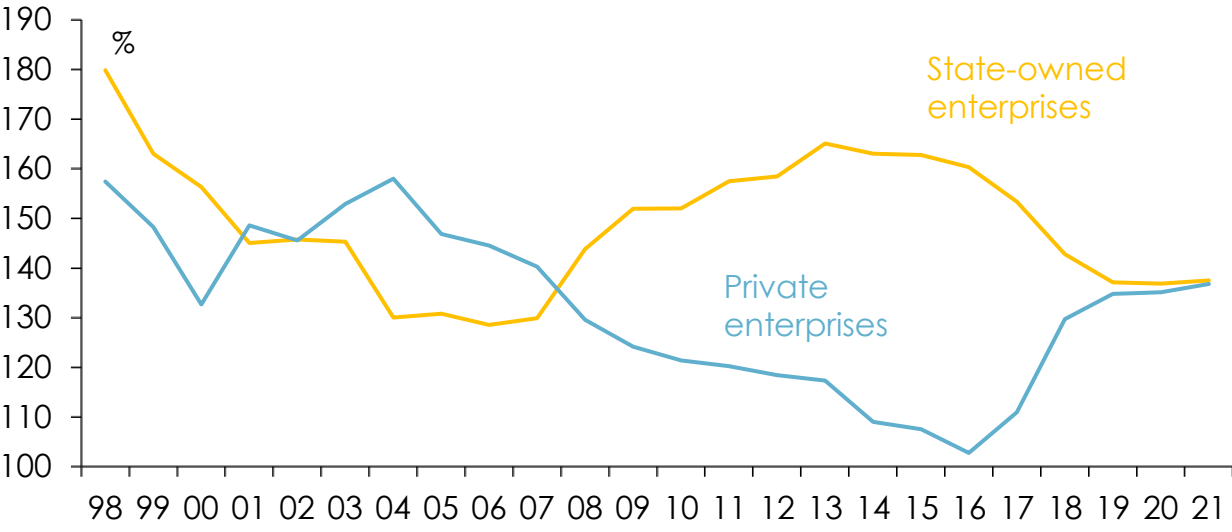
Number of state-owned industrial enterprises



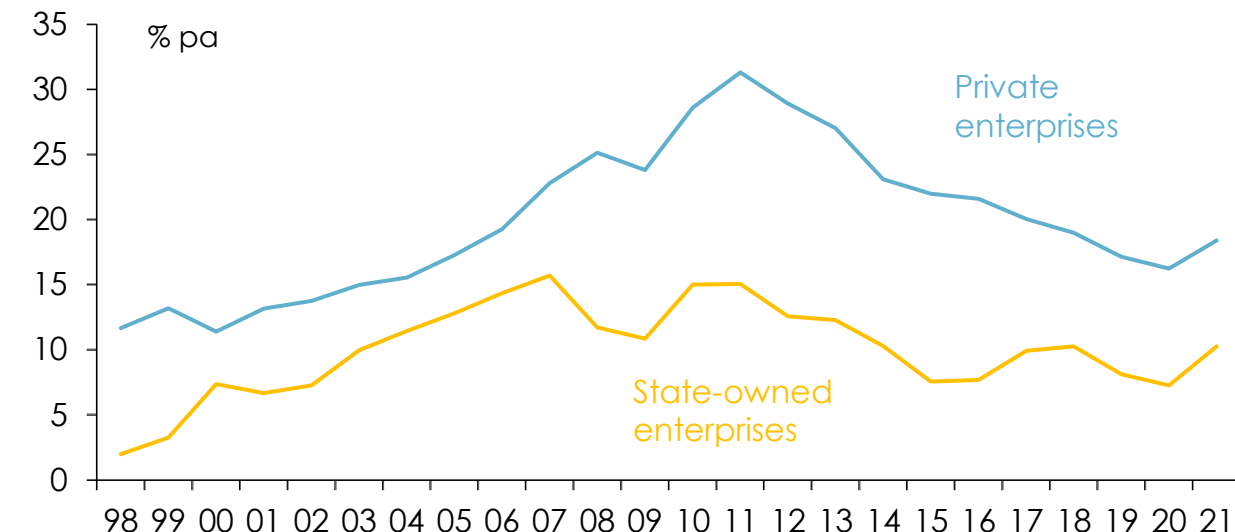
Return on assets of industrial enterprises



Debt-equity ratios of industrial enterprises



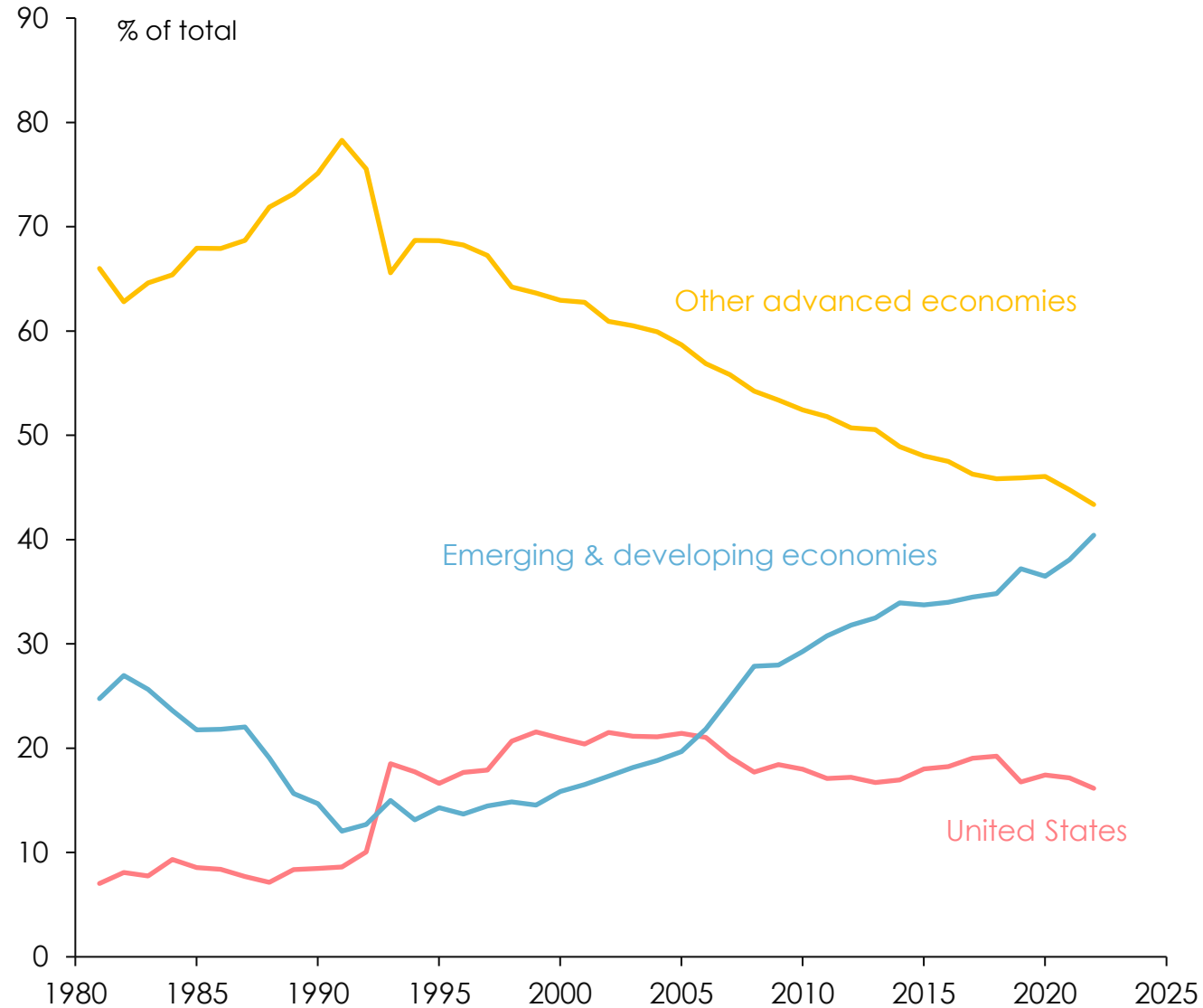
Return on equity of industrial enterprises



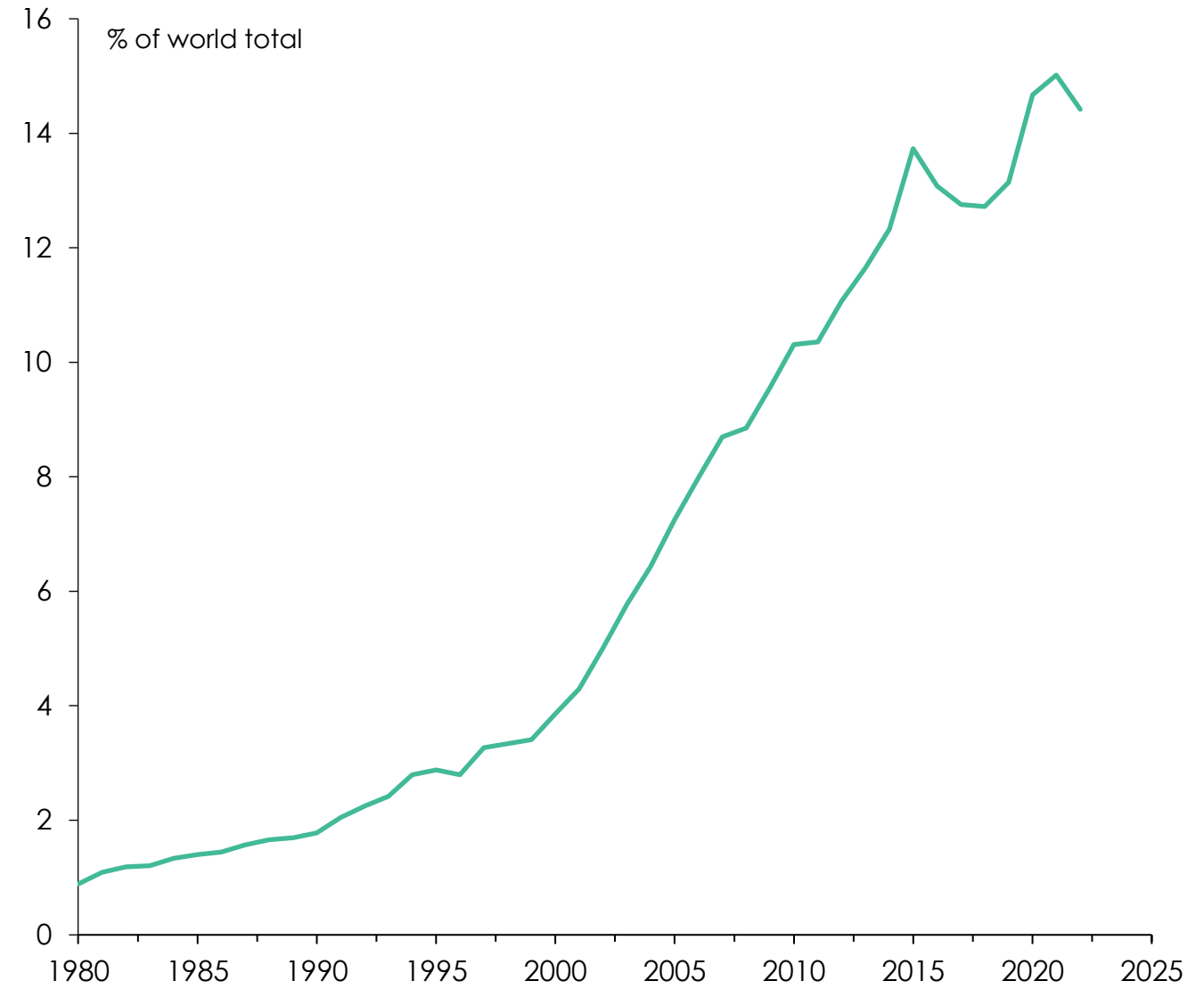
Source: China National Bureau of Statistics, [China Statistical Yearbook 2022](#) and previous issues.

China is successfully diversifying its export markets – but will find it more difficult to lift its share of total world exports than in previous decades

China's merchandise exports, by destination



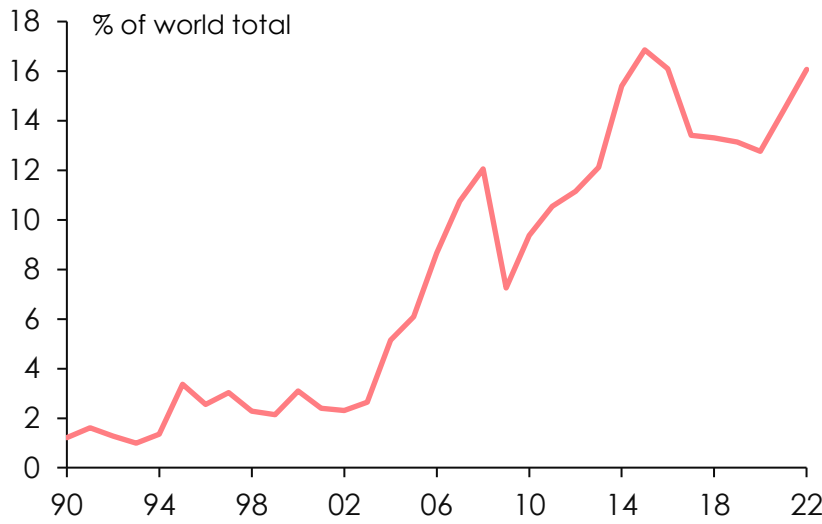
China's share of total world merchandise trade



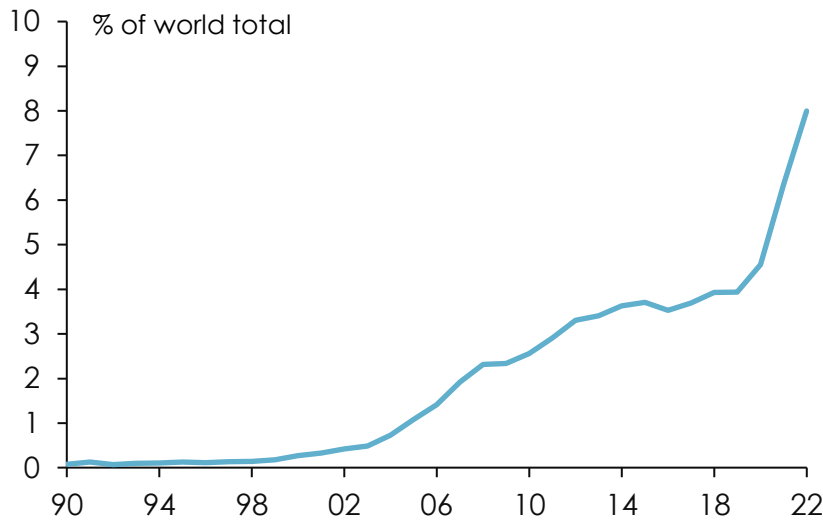
Sources: International Monetary Fund, [Direction of Trade Statistics](#); World Trade Organization, [WTO Stats](#).

Except in automotive products, it is likely to be difficult for China to increase its global market share of major export product groups

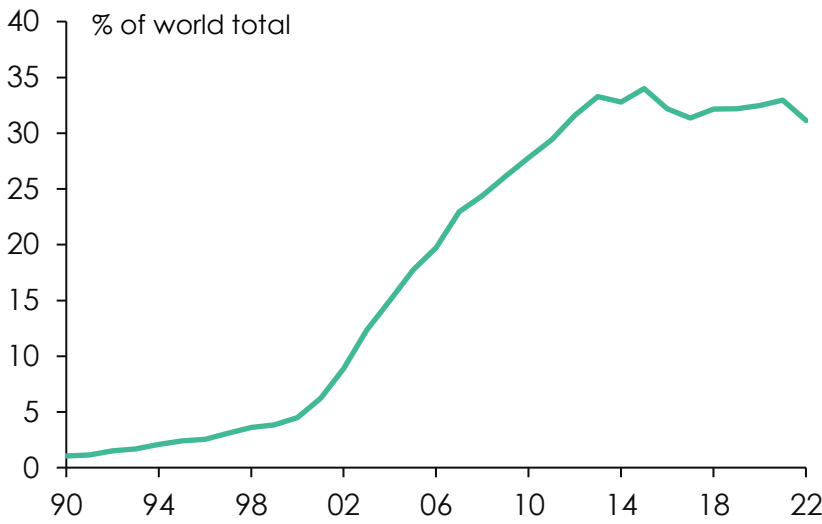
Iron & steel



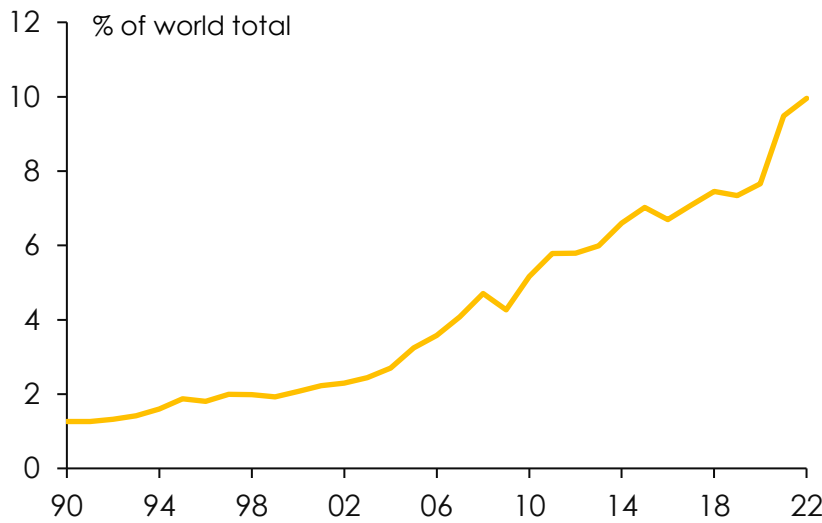
Automotive products



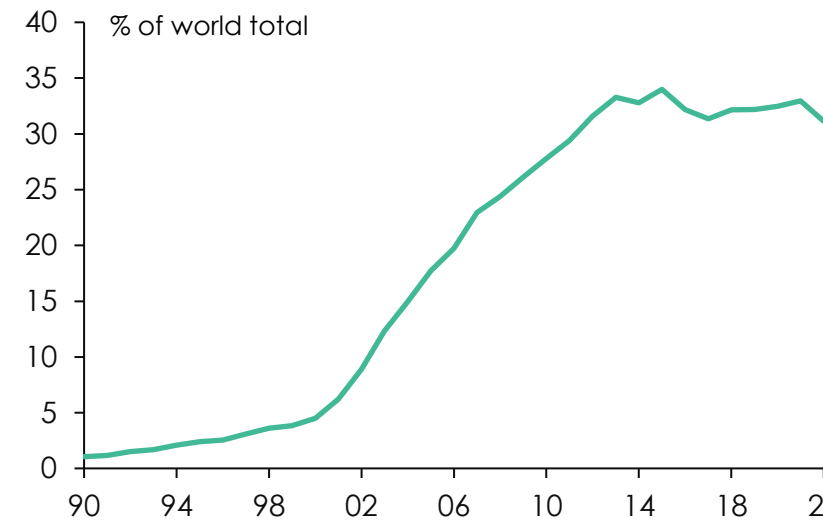
Other machinery & equipment



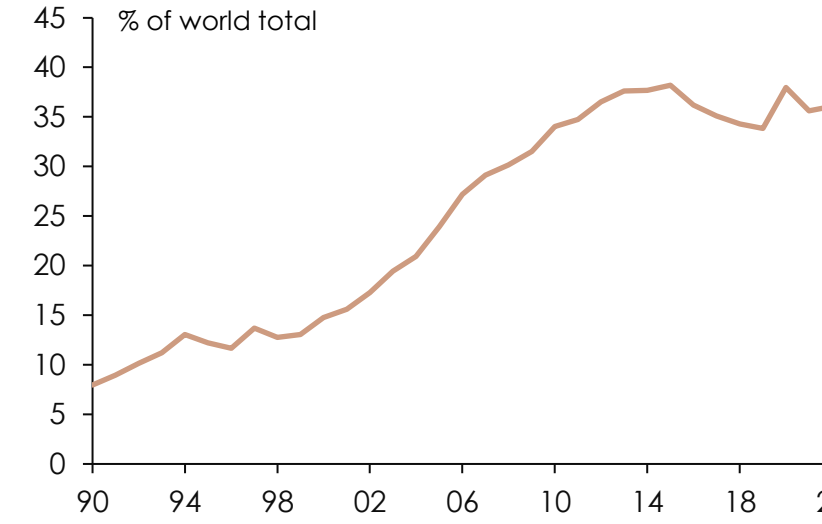
Chemicals



Office & telecoms equipment



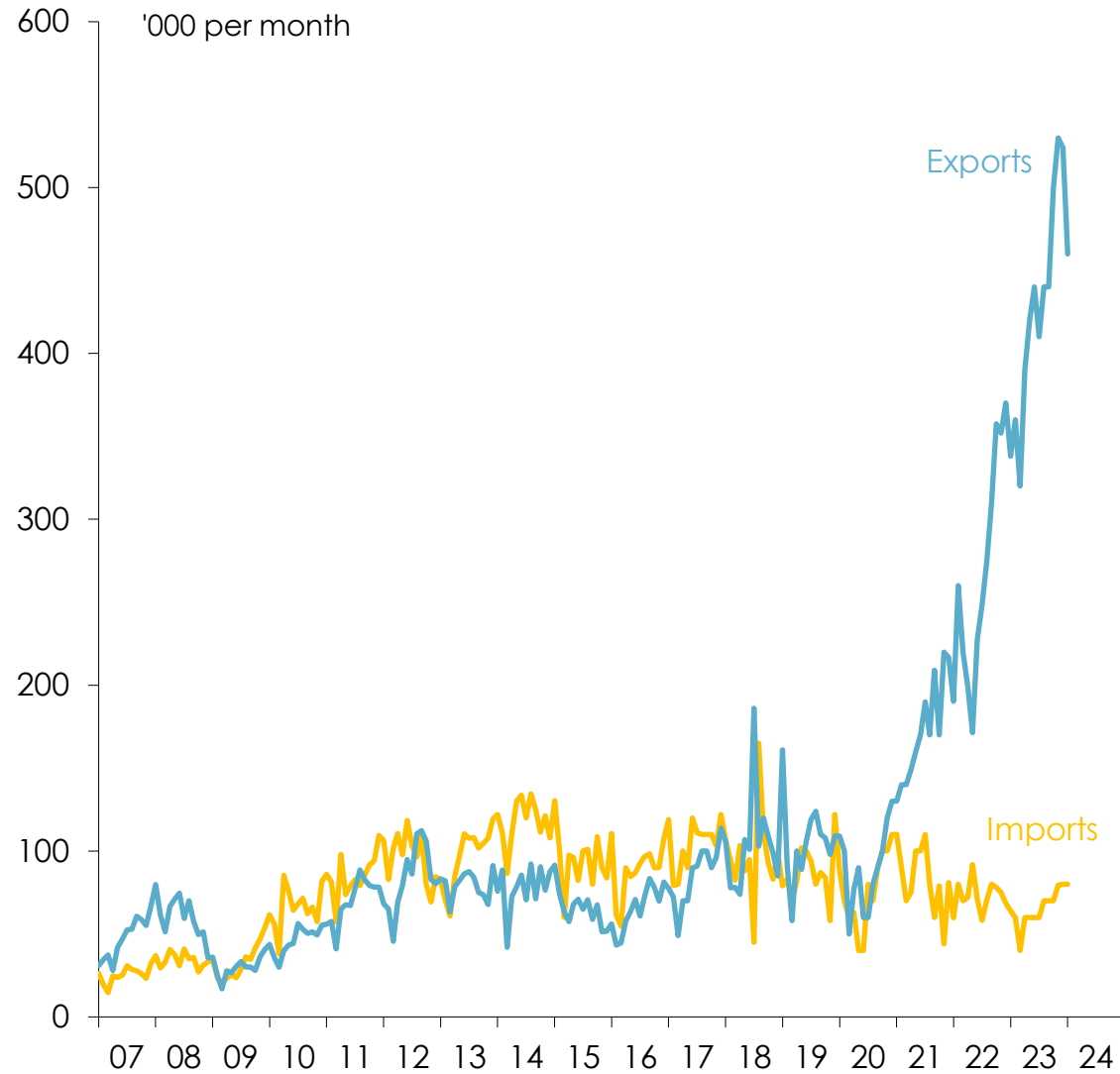
Textiles & clothing



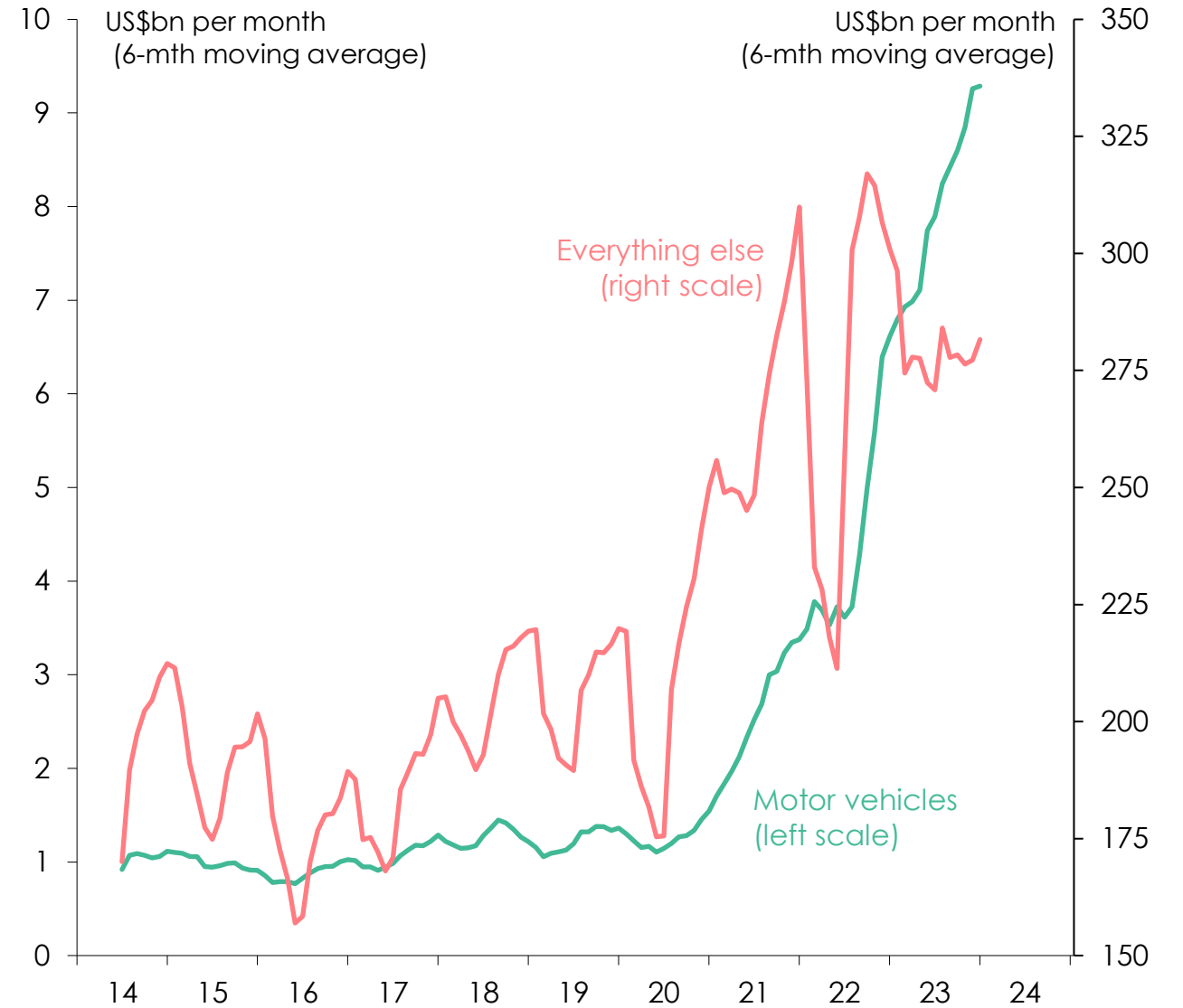
Source: World Trade Organization, [WTO Stats](#).

China's motor vehicle exports are booming – but that also highlights the weakness in China's other exports

China's motor vehicle exports and imports



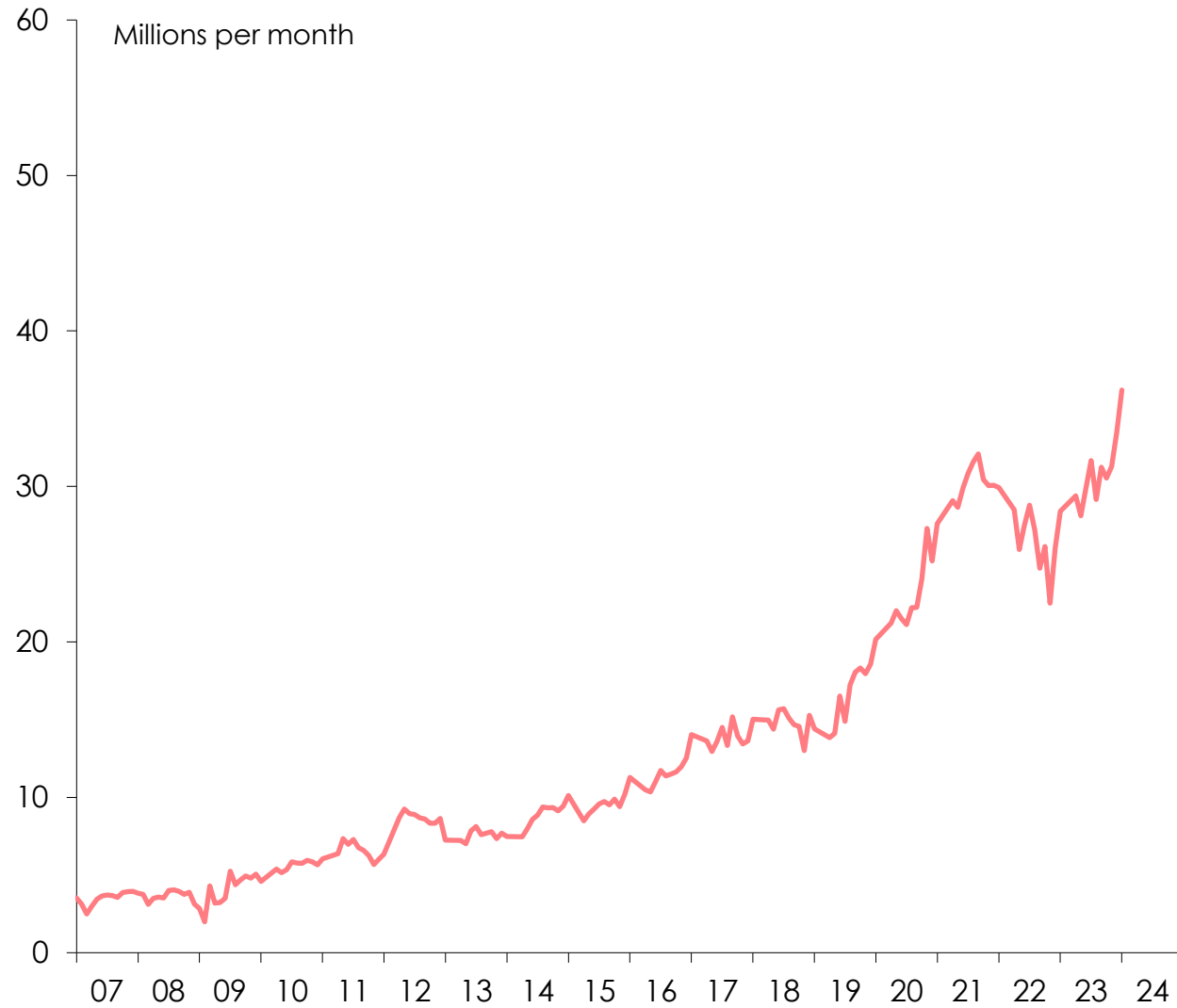
Motor vehicle and other merchandise exports



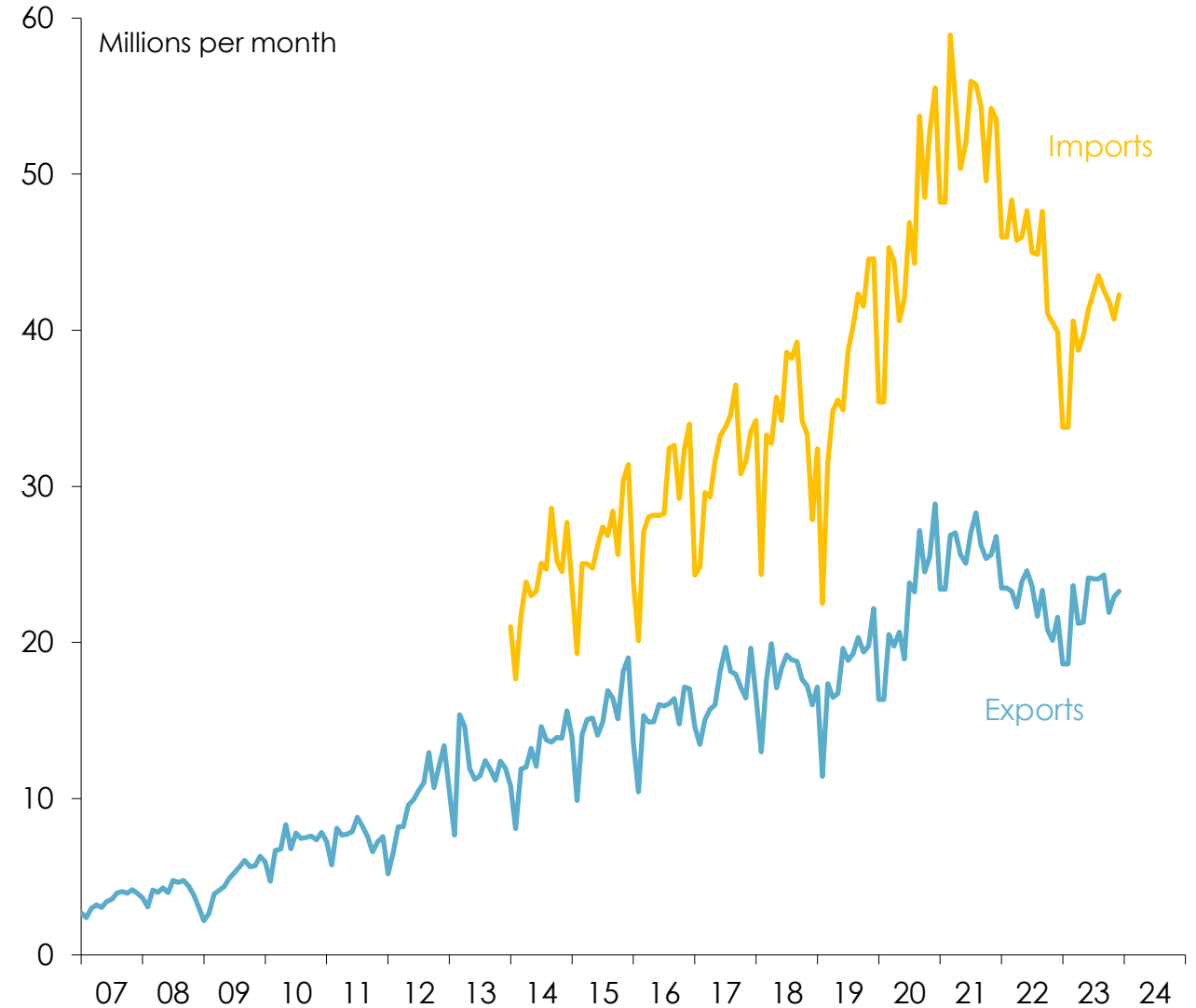
Sources: China [National Bureau of Statistics](#); [General Administration of Customs](#);

China's semi-conductor production has risen, but it's still very reliant on imports (especially of advanced chips) and its chip exports have declined

Semi-conductor & integrated circuit production



Semi-conductor exports & imports



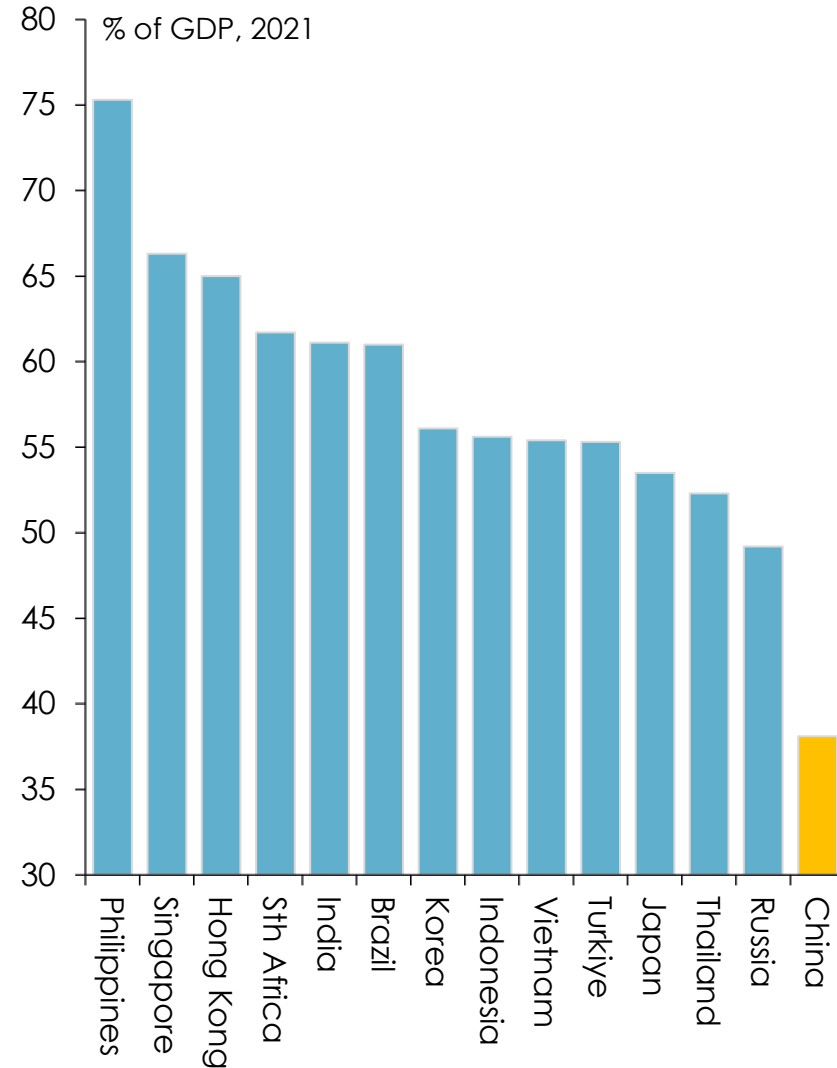
Sources: China [National Bureau of Statistics](#); [General Administration of Customs](#);

In principle, China could sustain stronger growth by lifting household spending, but that won't happen while households feel obliged to save

China household consumption as a pc of GDP



Household consumption as a pc of GDP, China & other countries



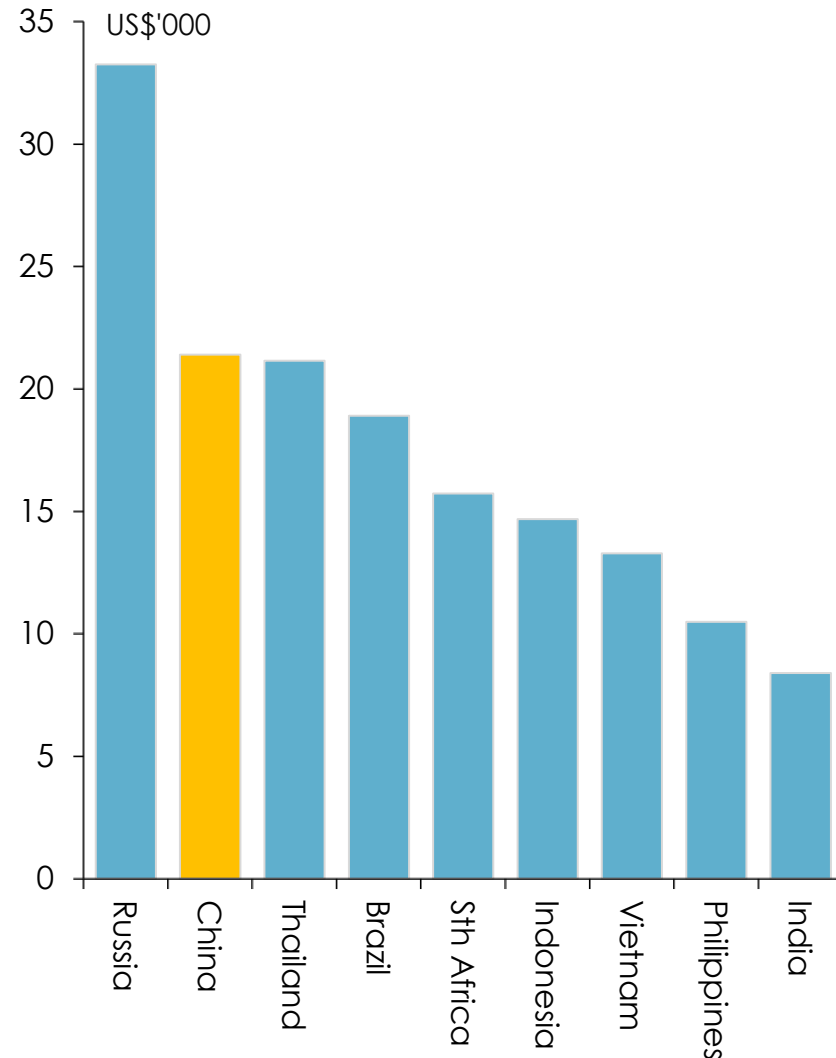
China household savings rate



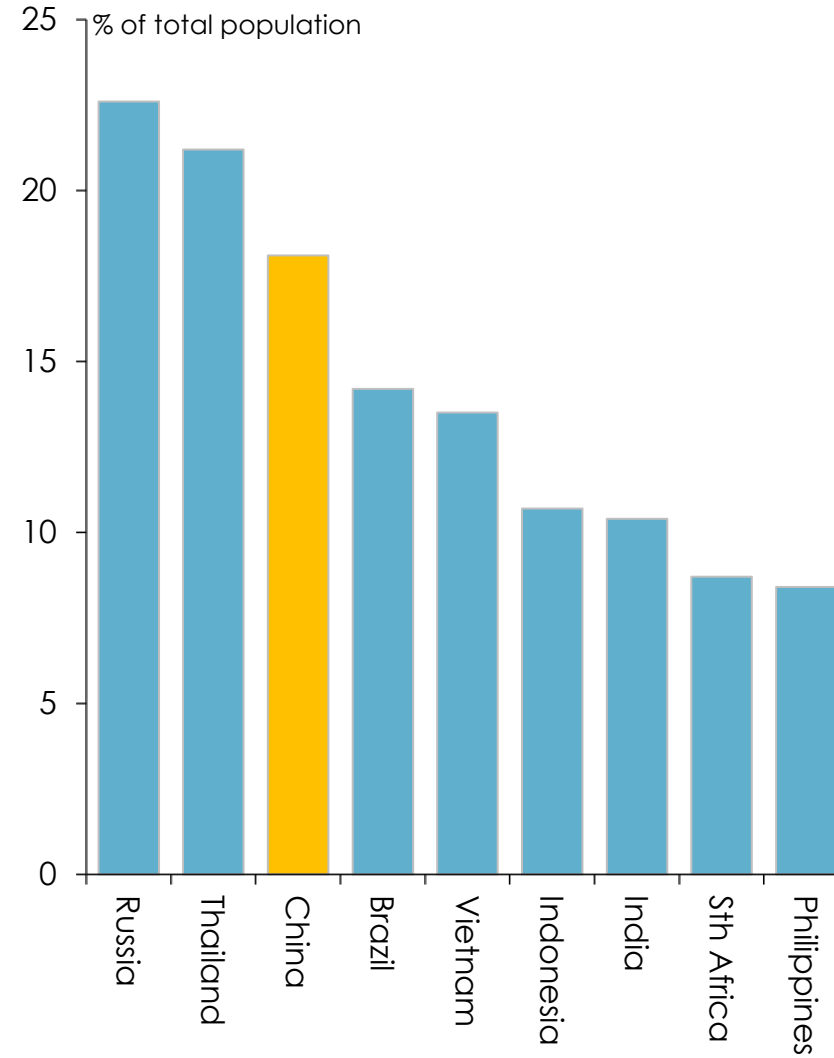
Sources: The World Bank [Data](#); Oxford Economics, [China](#).

For a country with its average income and demographic profile, China doesn't spend much on social security – one reason for high saving

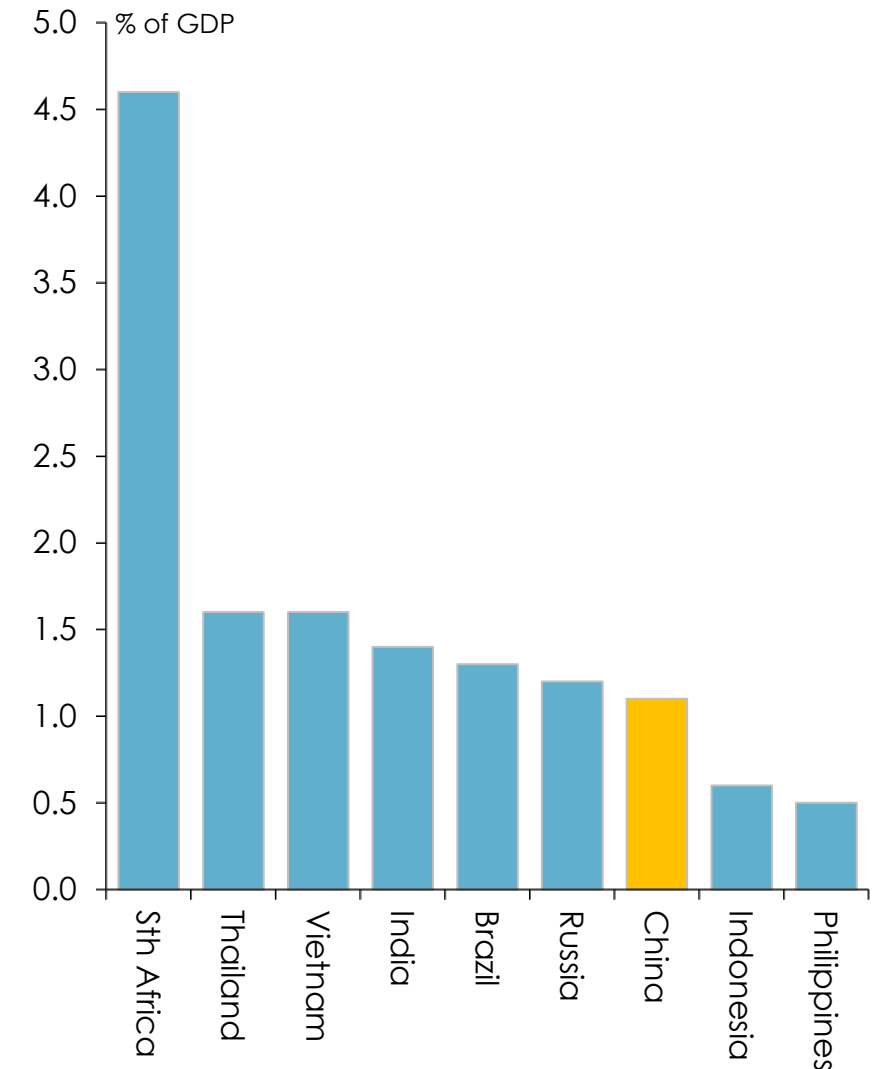
Per capita GDP (at purchasing power parities, 2021)



Population aged 60 or over, as a pc of total, 2021



Social assistance spending as a pc of GDP, 2015-16



Sources: International Monetary Fund, [World Economic Outlook database](#), October 2023; United Nations Department of Economic and Social Affairs, [World Population Prospects](#), 2022; The World Bank [ASPIRE Social Protection Expenditure indicators](#).

The World Bank (among others) has for years been recommending lifting SOE dividends to pay for a social safety net – but China doesn't want to

Effective Discipline with Adequate Autonomy: the Direction
for Further Reform of China's SOE Dividend Policy

The World Bank¹ (7th July 2010)



WP/18/277

IMF Working Paper

China's High Savings: Drivers, Prospects, and Policies

by Longmei Zhang, Ray Brooks, Ding Ding, Haiyan Ding,
Hui He, Jing Lu, and Rui Mano

((December 2018))



CHINA ECONOMIC WATCH

SOE Dividends and Economic Rebalancing

Nicholas Borst (Federal Reserve Bank of San Francisco)
May 11, 2012 8:30 AM

CHINA 2030

BUILDING A MODERN,
HARMONIOUS, AND CREATIVE
SOCIETY

The World Bank
Development Research Center of the State Council,
the People's Republic of China

(2013)

Instead, the Government is focusing on things like ‘patriotic education’

China's new *Patriotic Education Law* (爱国主义教育法) came into force on January 1.

It mandates that patriotic education must "uphold the leadership of the Communist Party," follow its ideologies, and cultivate love for the nation, the Party and socialism.

The law outlines nine key areas for patriotic education:

1. Ideologies ranging from Marxism-Leninism to Xi Jinping Thought.
2. The histories of the Communist Party, the evolution of China, and socialist development.
3. The characteristics and achievements of socialism with Chinese characteristics.
4. Traditional, revolutionary, and socialist cultures.
5. National symbols, such as the flag and anthem.
6. Landscapes and cultural heritage.
7. The constitution and laws.
8. The deeds of heroes and martyrs.
9. Other patriotic content.

Expanding beyond governmental boundaries, the law extends the responsibility for patriotic education to entities such as trade unions, women's federations, schools, parents, and others. It notably targets specific groups for focused patriotic education, including religious groups, overseas Chinese, and residents of Hong Kong, Macao, and Taiwan.

Furthermore, the law explicitly prohibits actions contrary to patriotic values, encompassing:

- (1) *Insulting the national flag, national anthem, national emblem, or having other conduct that harms the dignity of the national flag, national anthem, or national emblem;*
- (2) *Distorting, smearing, desecrating, or negating the deeds and spirit of heroes and martyrs;*
- (3) *Advocating, glorifying, or denying wars of aggression, acts of invasion, and massacres;*
- (4) *Occupying, destroying, or defiling patriotic education facilities;*
- (5) *Other conduct prohibited by laws and administrative regulations.*

Important information

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