

UNIVERSITA DI TORINO

**Potrà la Cina evitare un
rallentamento alla giapponese ?**

**Torino
10 dicembre 2018**

**Andrea Boltho
Magdalen College
Università di Oxford**

WILL CHINA AVOID A JAPANESE-STYLE SLOWDOWN ?

OUTLINE

Introduction: Some stylized facts

**Why did Japan slow down ?
Any parallels with China ?**

Short-term: some

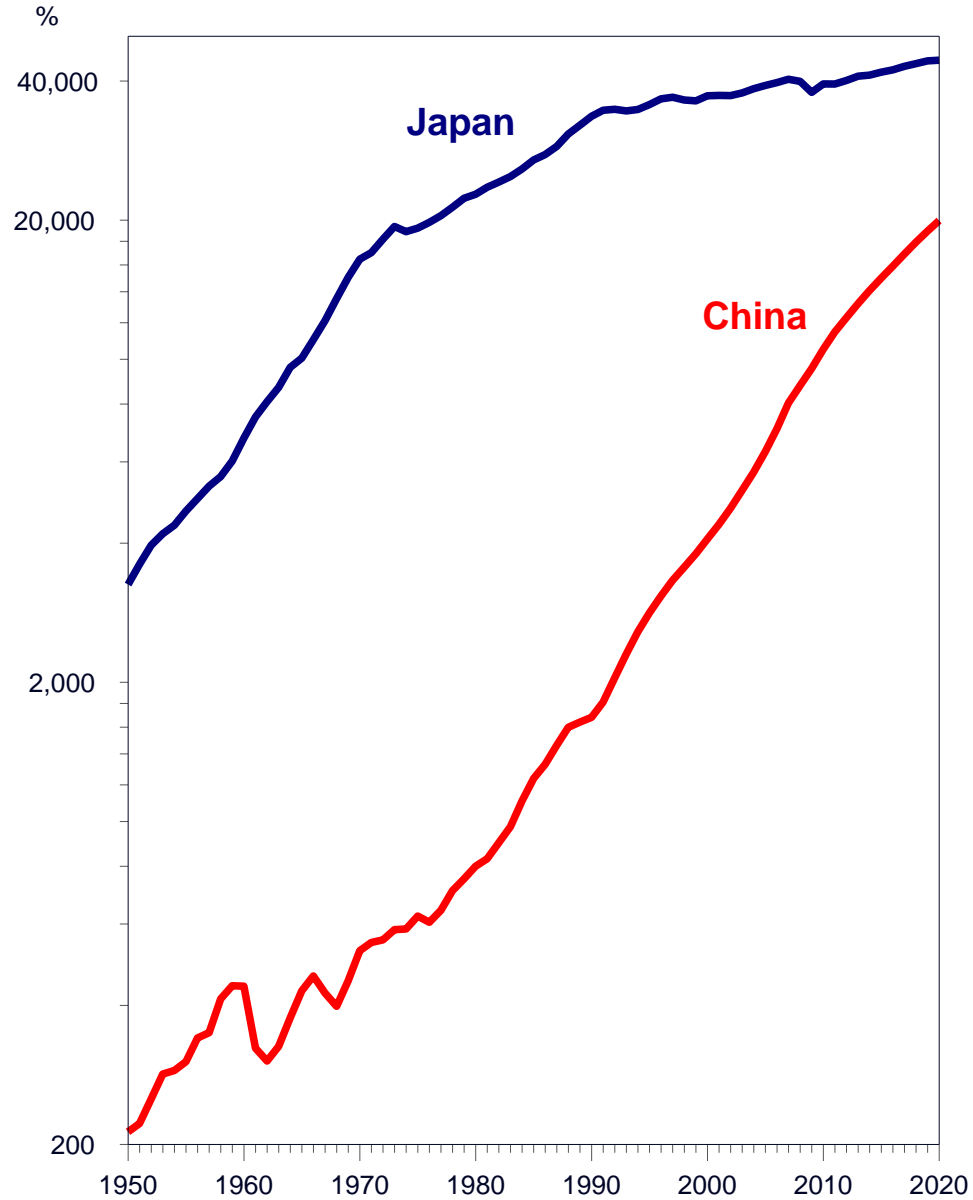
Medium term: none

Long-run: one

Conclusion: It will happen, but only eventually

JAPAN AND CHINA

GDP per Capita (in 2016 \$ in ppps)



Sources: Conference Board, Total Economy Database, March 2018; Oxford Economics Database, October 2018.

GROWTH OF OUTPUT, 1950-2020

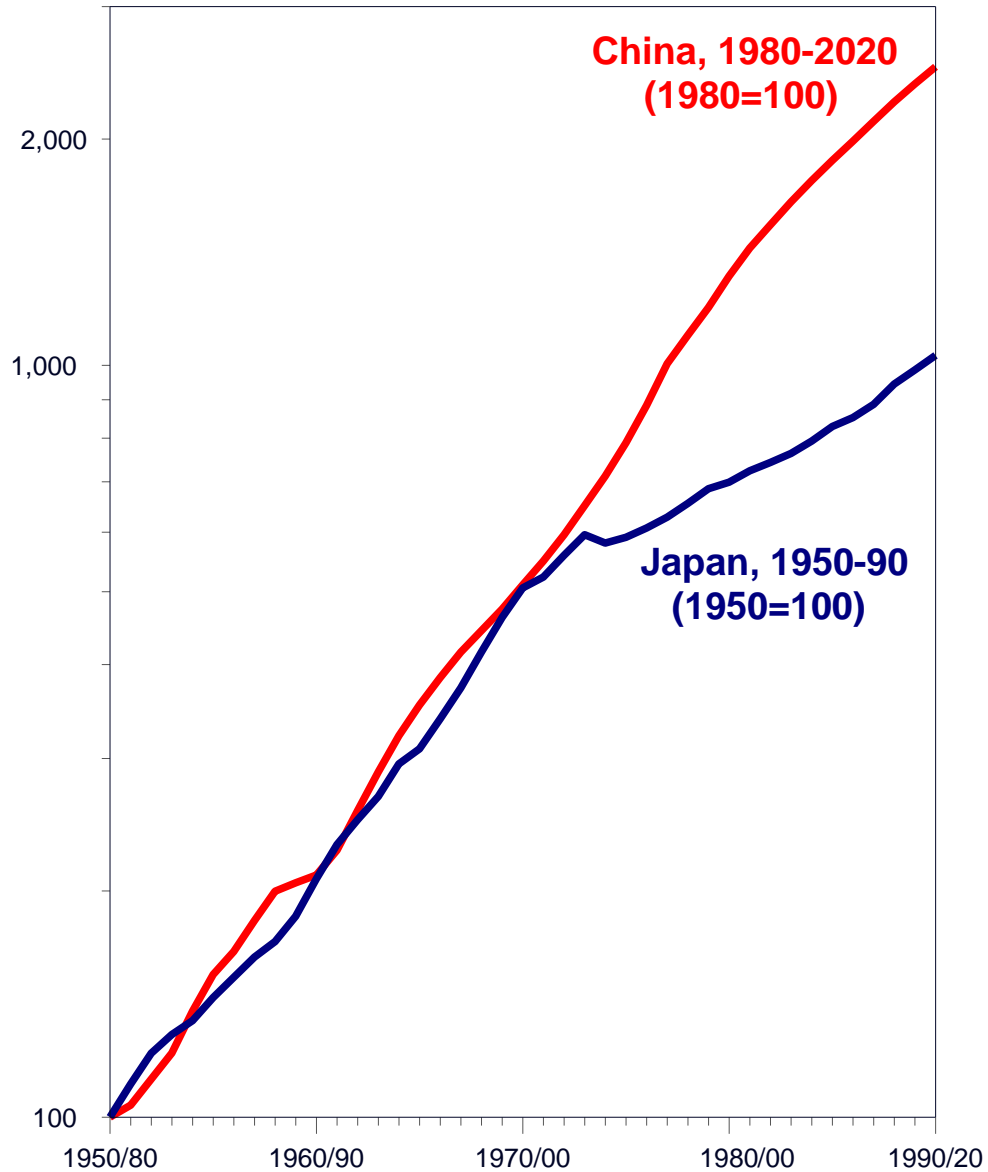
(average annual percentage changes)

	Japan	China
1950-73	9.3	
1973-90	4.1	
1990-2020	1.0	
1980-2010		10.1
2010-2020		7.1

Sources: Conference Board, Total Economy Database, March 2018;
Oxford Economics Database, October 2018.

JAPAN AND CHINA

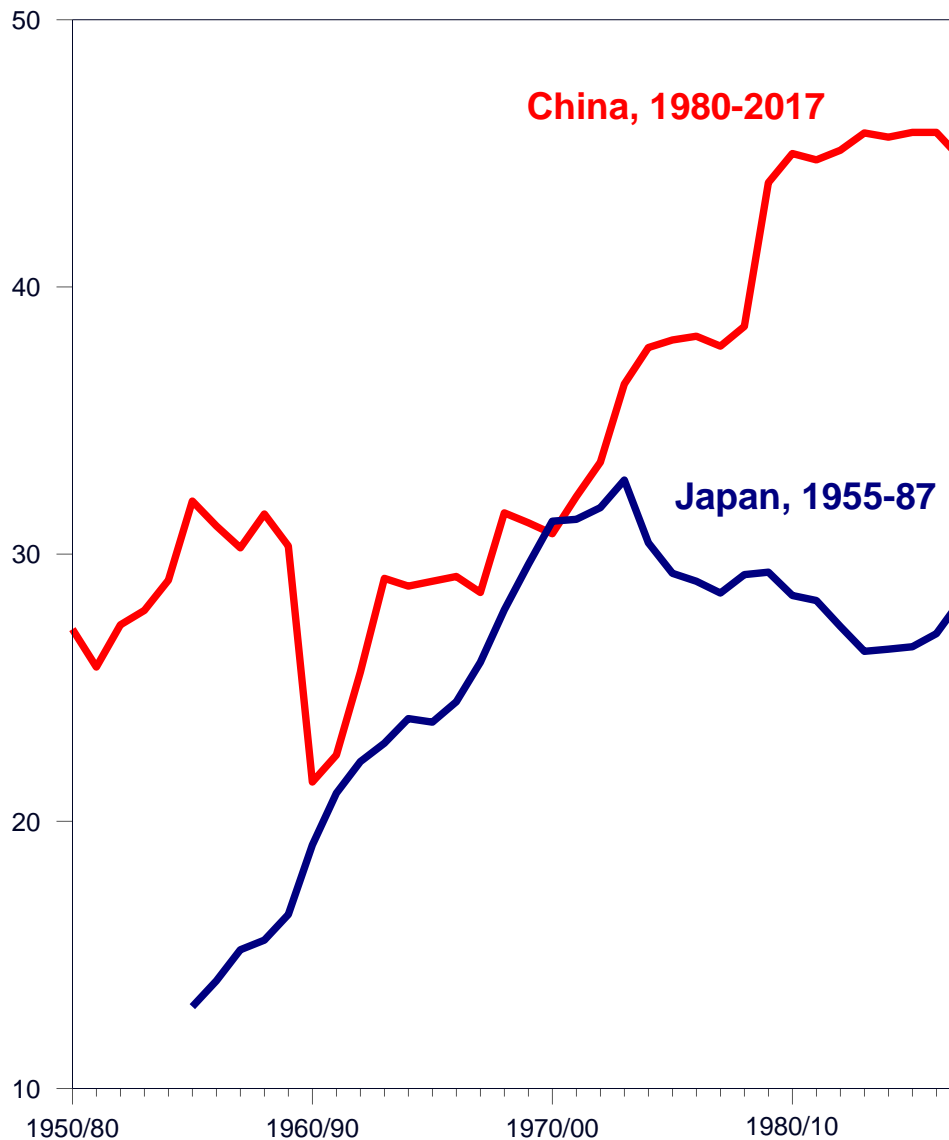
GDP per Capita in ppp's (indices)



Sources: Conference Board, Total Economy Database, March 2018; Oxford Economics Database, October 2018.

JAPAN AND CHINA

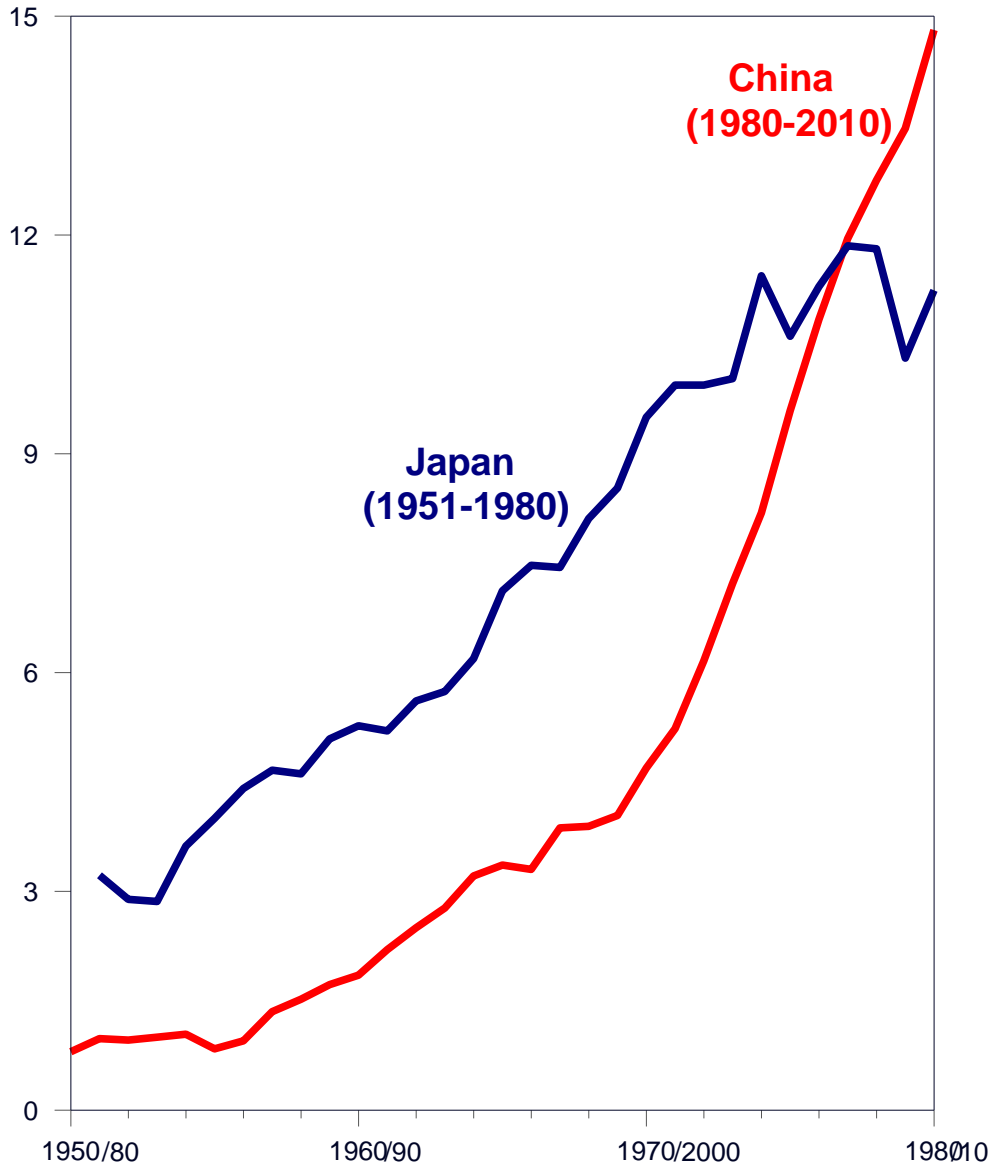
Ratio of Gross Fixed Investment to GDP*



Sources: Historical Statistics of Japan; Oxford Economics Database, November 2018.
* Constant prices.

JAPAN AND CHINA

Export Performance in Manufacturing (share of world market)



Sources: GATT and WTO.

JAPAN'S SUCCESS STORY

A major ingredient: good (interventionist) policies

Belief in the importance of competition in the domestic market

Yet, at the same time, belief in the virtues of protectionism vis-à-vis the outside

... but this could not continue in a globalizing world

Good coordination between monetary and fiscal policy through most of the high-growth period

... but this gave way to excessive financial liberalization and a massive bubble

And there were some excesses ...

CHINA'S SUCCESS STORY

The main ingredient: sensible policies

Accepting that markets are efficient

... but switching only gradually from plan to market (unlike what happened in Russia)

Starting reform in agriculture (unlike what happened in the USSR)

Opening to foreign trade and FDI (unlike earlier Latin American policies)

Yet maintaining controls on capital movements (unlike South-East Asia)

Of course, mistakes were made, e.g.:

Letting pollution reach sky-high levels

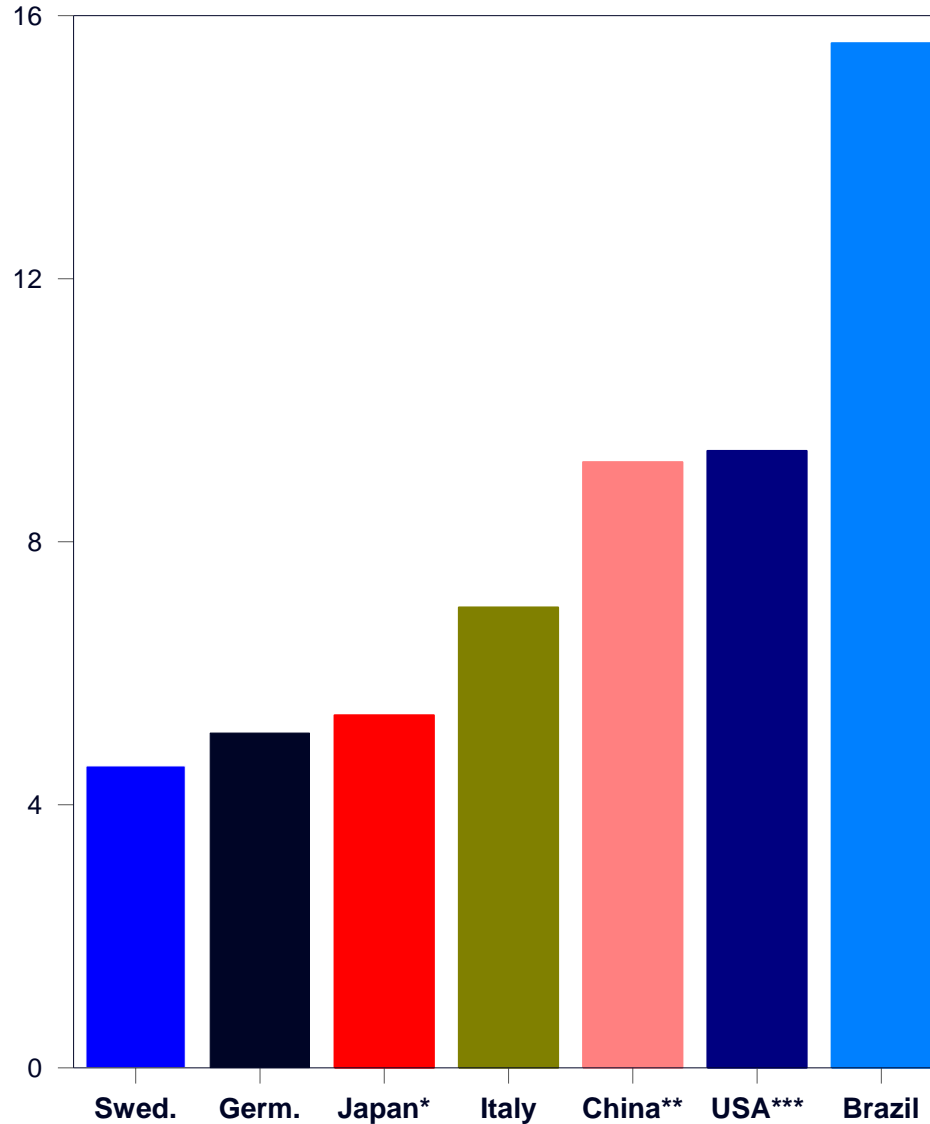
Allowing wide income gaps to emerge

And there were some excesses ...

INCOME DISTRIBUTION 2015

SELECTED COUNTRIES

Ratio of highest to lowest quintile



Source: World Bank.

* 2008.

** 2012.

*** 2016.

CHINESE EXCESSES

"China poured more cement and concrete between 2011 and 2013 than the US did in the whole of the 20th century"

L.Summers, *Financial Times*, 11 January 2016

POVERTY IN CHINA

Per cent of population living in poverty*

1990 **67 per cent**

2015 **1 per cent**

*** Defined by the World Bank as an income below \$ 1.90 a day at 2011 purchasing power parity.**

Source: World Bank.

JAPAN AND CHINA - 1

JAPAN AND CHINA - 2

Japan's growth decelerated sharply after 1990

Initial cause:

The bursting of a financial bubble

Secondary causes:

Monetary and fiscal policy mistakes

South-East Asian crisis

Longer-term causes:

Economic maturity

Demography

Does China face similar dangers ?

Financial bubble:

Yes, up to a point

Other potential problems:

Internal disequilibria

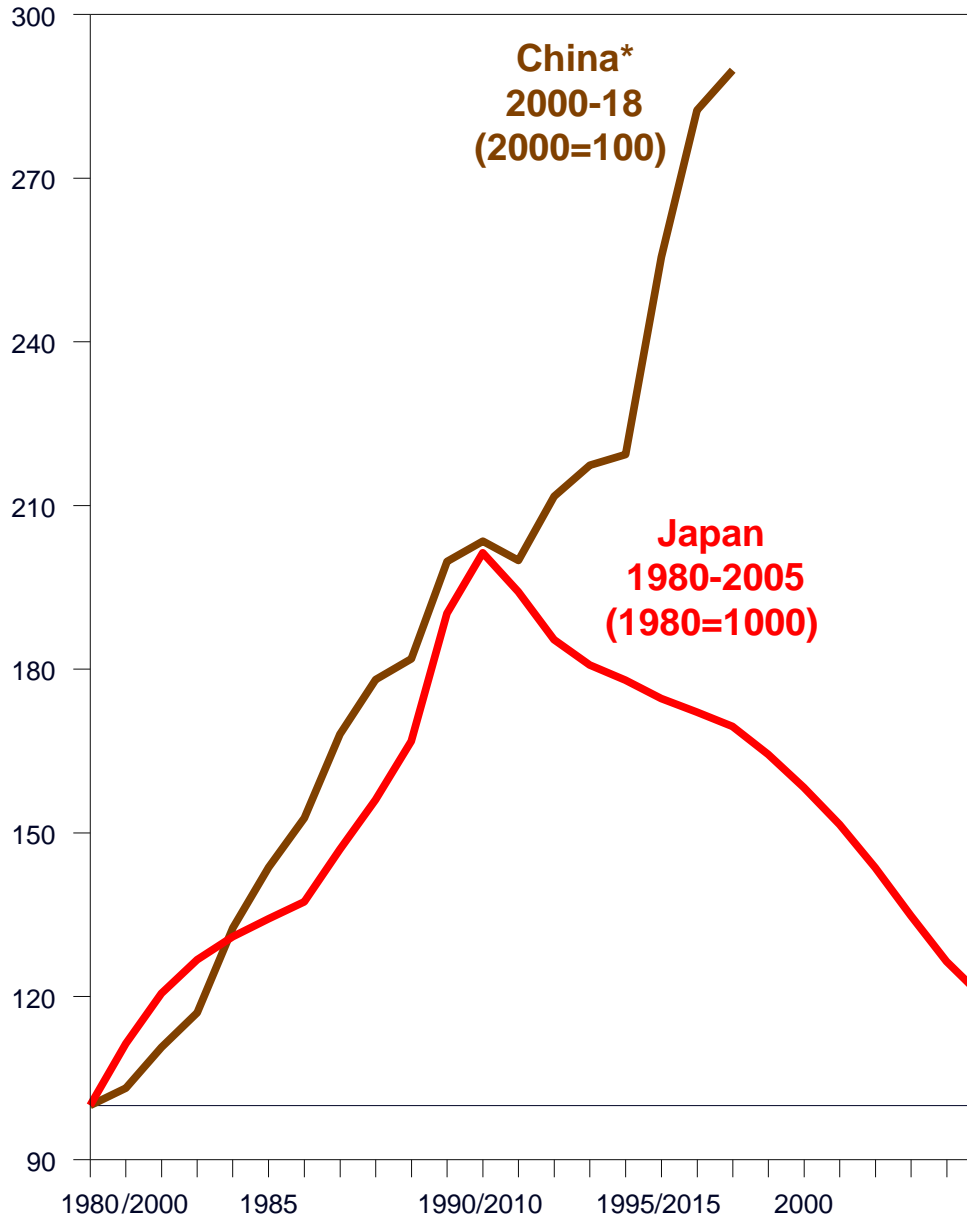
Trade war with the US

Longer-term causes:

Maturity - eventually, but not yet

Demography - yes !

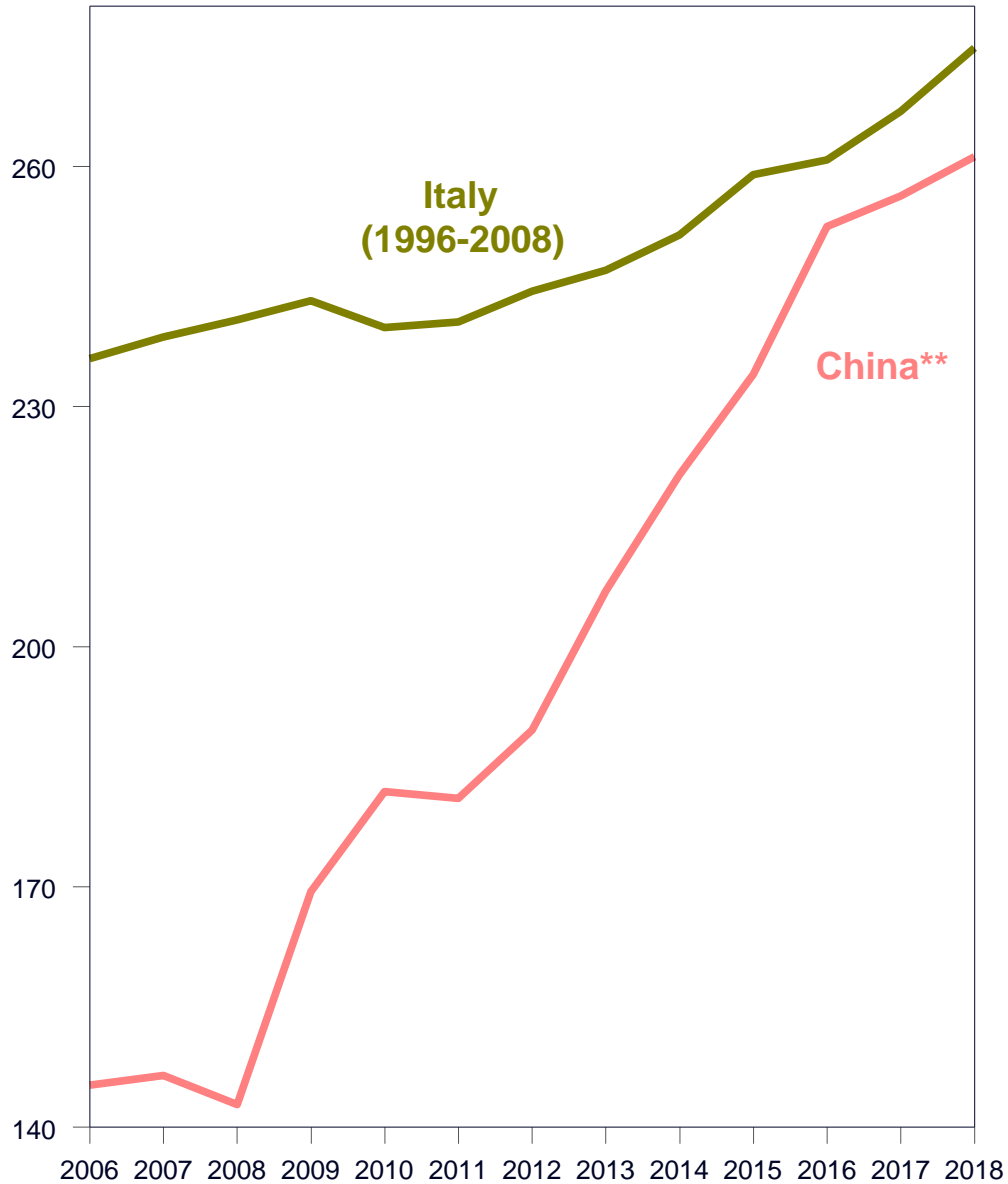
JAPAN AND CHINA HOUSE PRICES



* Major cities. Note: The 2000-05 data for China are VERY tentative.

CHINA - TOTAL DEBT*

(in per cent of GDP)

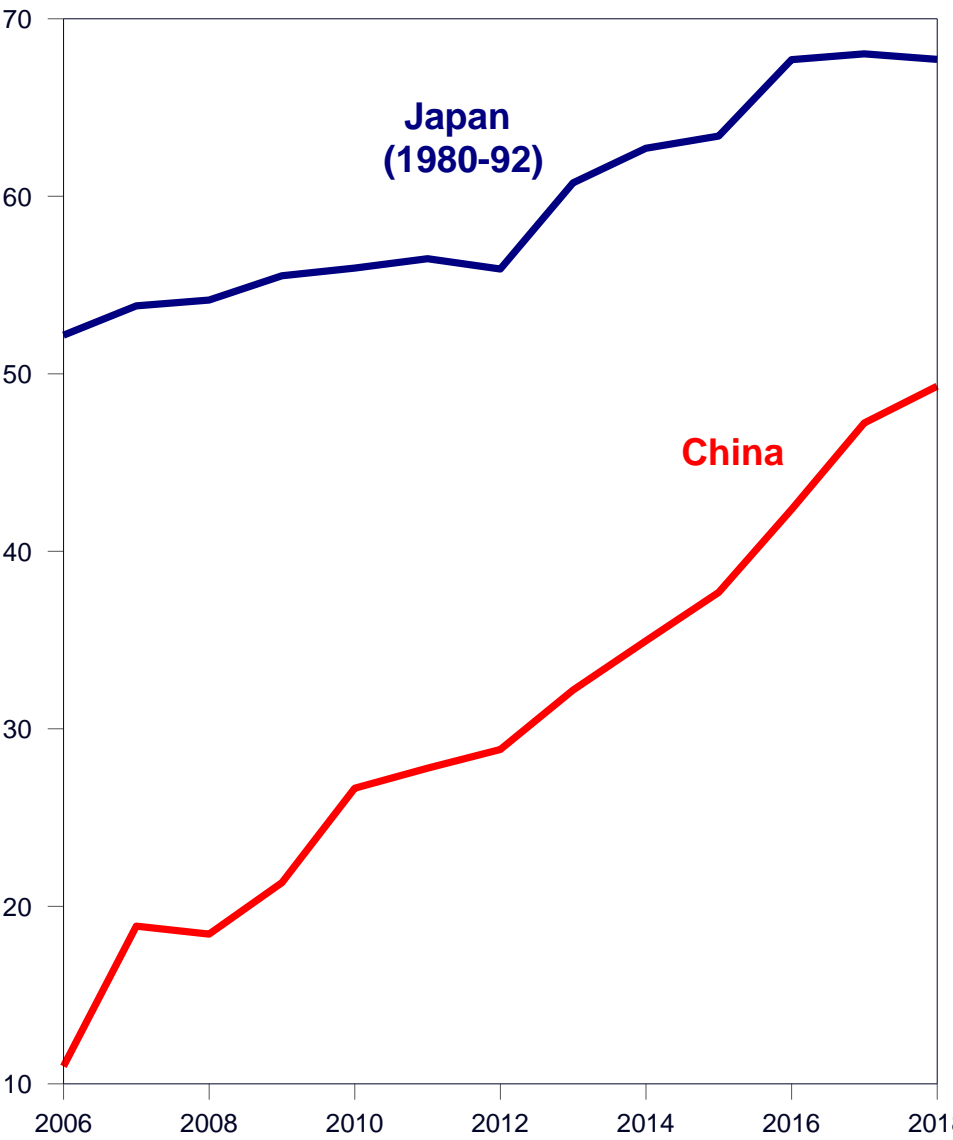


* Families, companies (excluding the financ. sector) and government.

** China 2018 first quarter only. Sources: BIS, Oxford Economics.

JAPAN AND CHINA

Household Debt (in per cent of GDP)

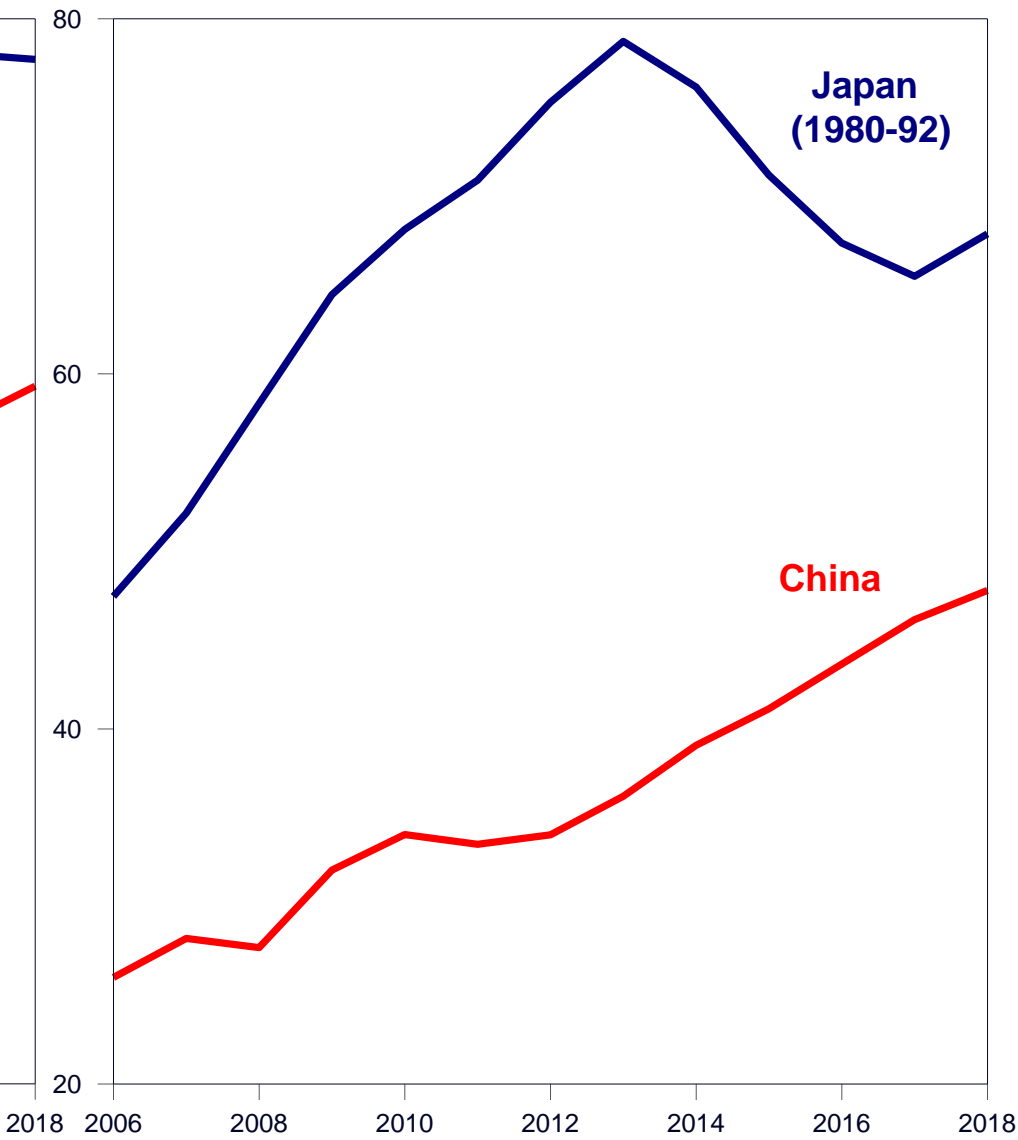


* Non financial sector.

Sources: BIS and Oxford Economics.

JAPAN AND CHINA

Public Sector Debt (in per cent of GDP)



(1st
qtr)

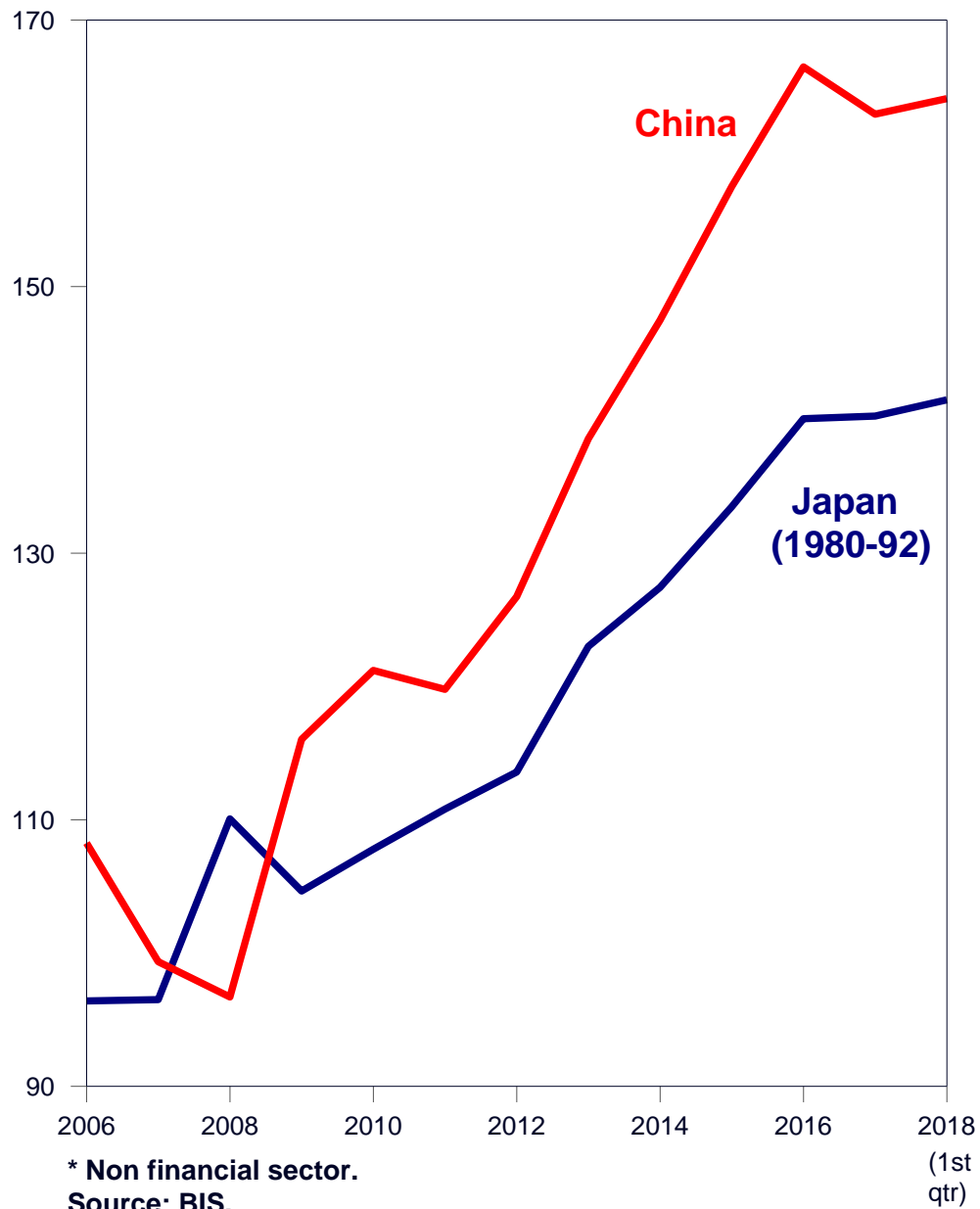
* Non financial sector.

Sources: BIS and Oxford Economics.

(1st
qtr)

JAPAN AND CHINA

Corporate Debt* (in per cent of GDP)



CAN CHINA COPE WITH A FINANCIAL BUBBLE ?

Yes. Better, in any case, than most other countries

Japan's monetary policy reacted very hesitantly to what was happening. And fiscal policy was tightened in 1997, just as South-East Asia plunged into crisis

China's authorities have many more fiscal and monetary instruments than Japan had at the time and have shown their readiness to use them

In addition, capital controls protect the country from a sudden outflow of capital (as occurred in South-East Asia in the late 1990s)

CHINA'S STRUCTURAL DISEQUILIBRIA

China's growth has been driven by an incredibly high rate of investment which has, until recently, been concentrated on manufacturing and exports

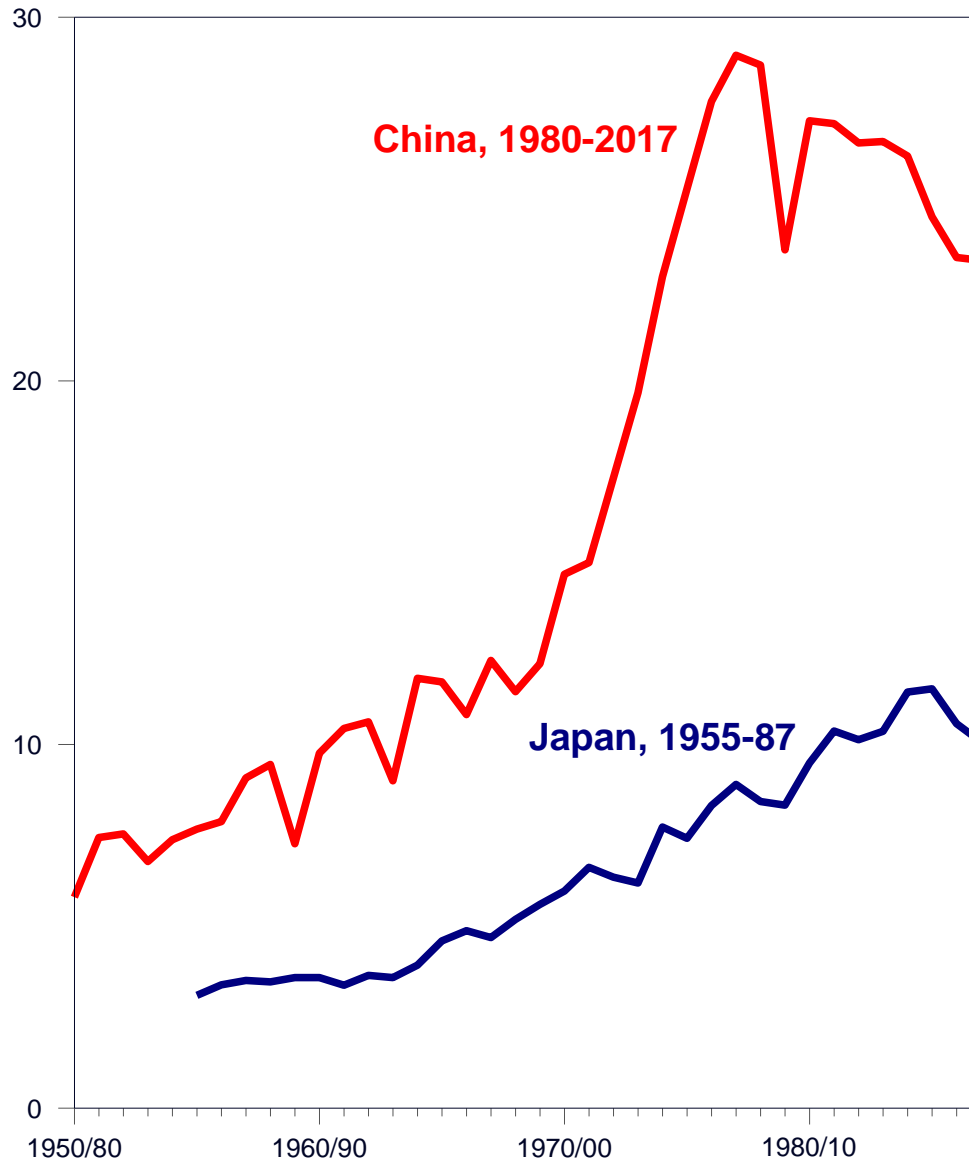
The importance of exports has declined somewhat, but the weight of investment and of manufacturing remain excessive

The authorities are conscious of this and would like to rebalance the economy towards consumption and services

This, however, clashes with the growth objective, particularly at present, in the presence of a slowdown and a trade war

JAPAN AND CHINA

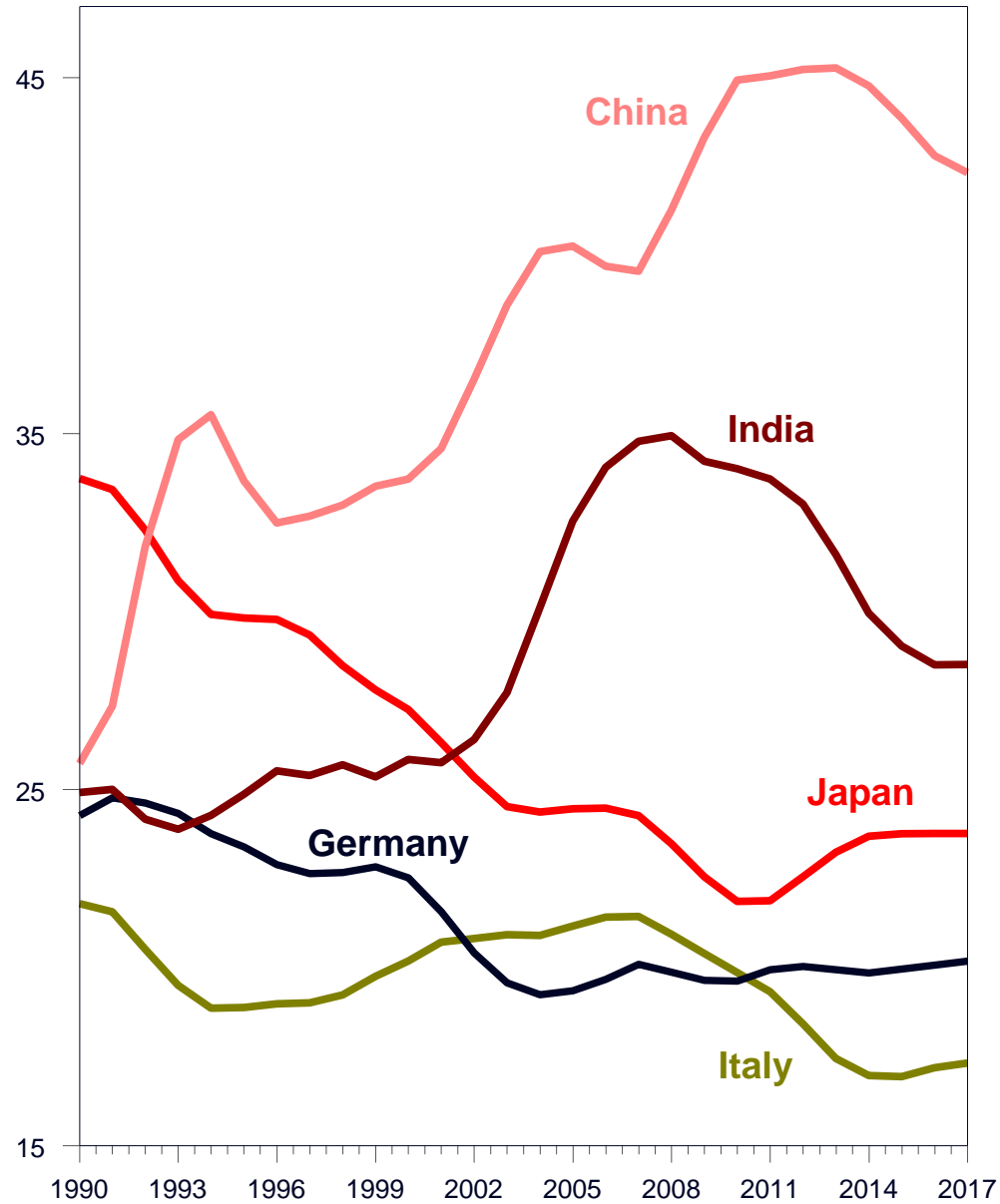
Ratio of Exports to GDP*



Sources: Historical Statistics of Japan; Oxford Economics Database, November 2018.
* Constant prices.

GROSS FIXED INVESTMENT

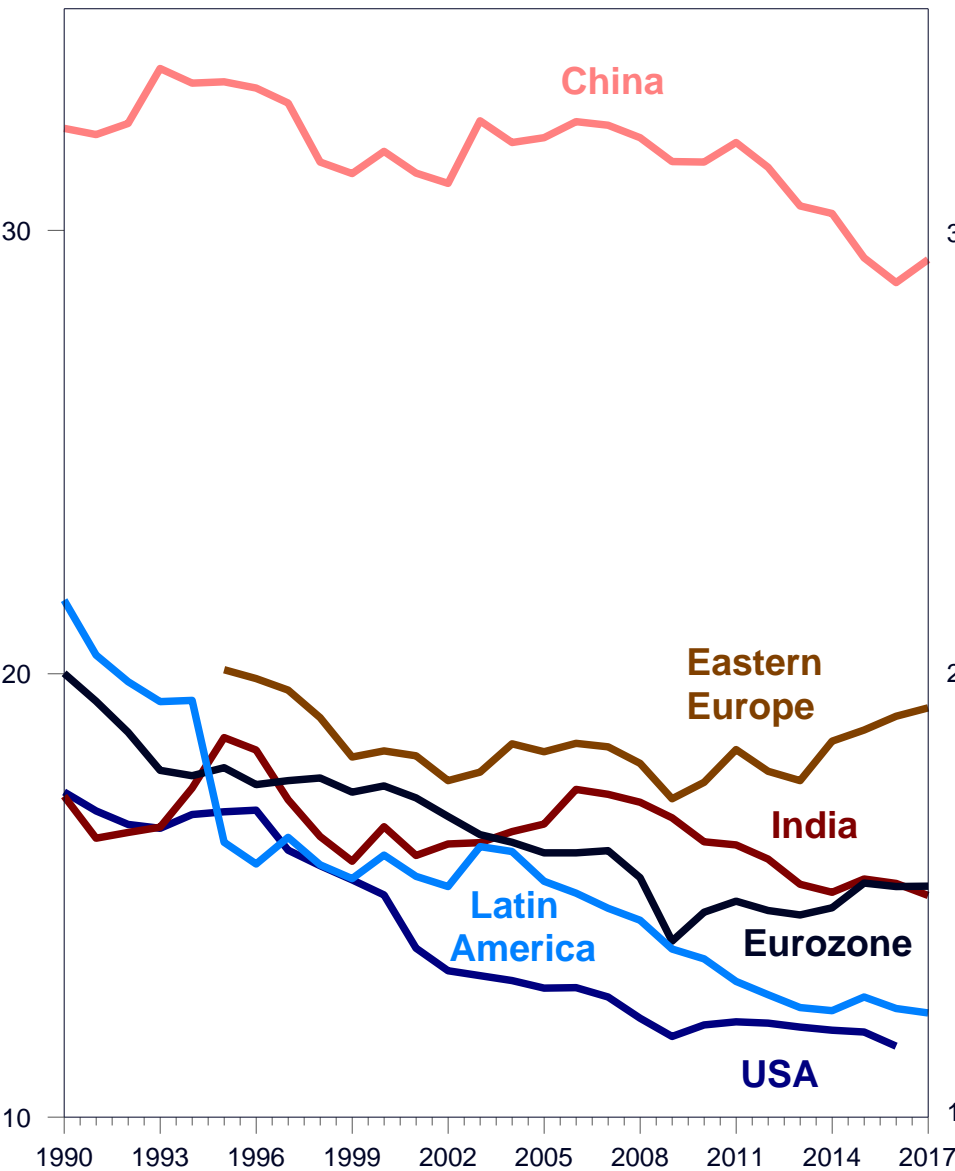
(in per cent of GDP; 3 years mov. avrgs.)



Source: World Bank.

MANUFACTURING OUTPUT

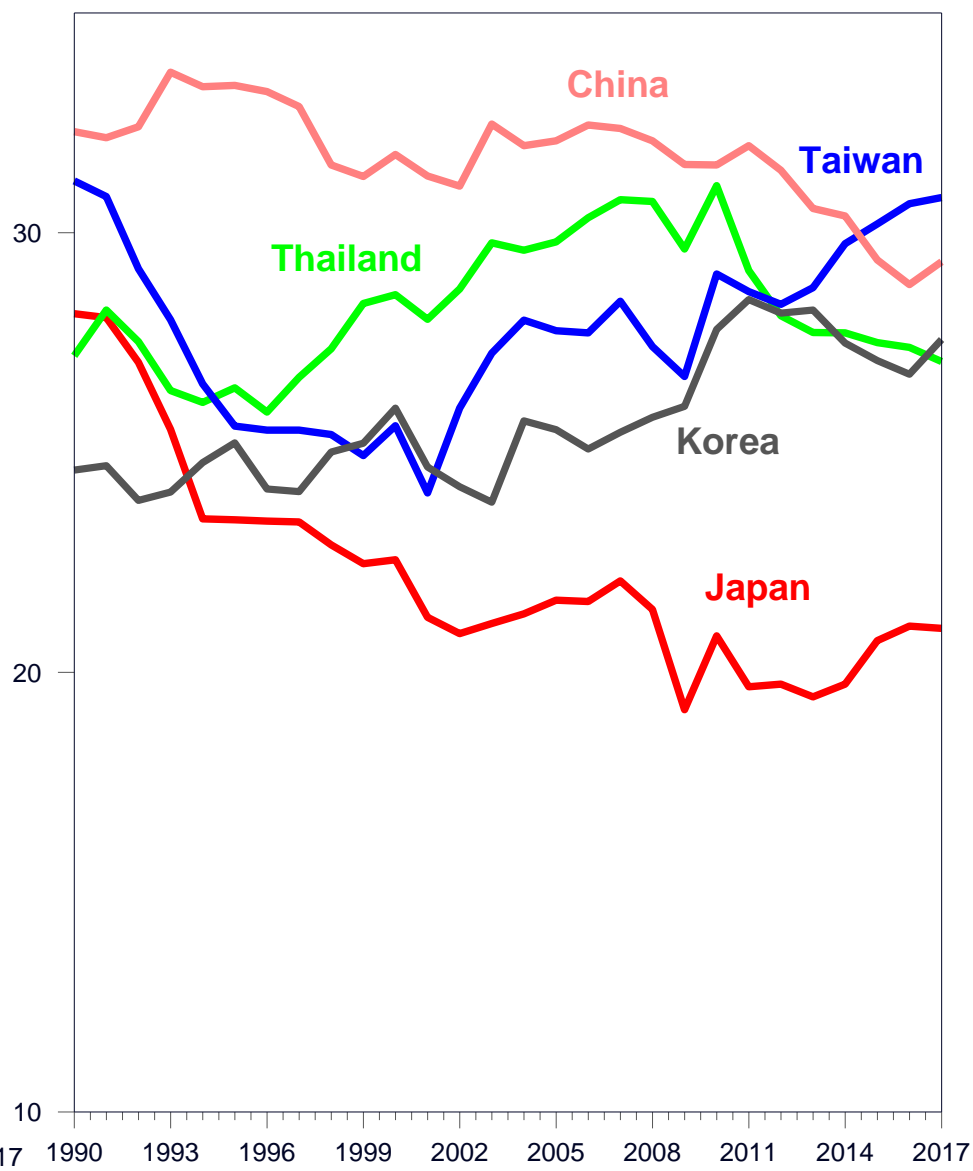
(in per cent of GDP; 3 years mov. avrgs.)



Source: World Bank.

MANUFACTURING OUTPUT

(in per cent of GDP; 3 years mov. avrgs.)



Source: World Bank.

THE US-CHINA TRADE WAR

So far, this has been contained, and its likely effects are hardly devastating

It could, however, last a long time, well beyond Trump

It is not just about China's trade surplus, but about a technological battle between the world's two largest economies

And China would suffer more than America given the trade imbalance:

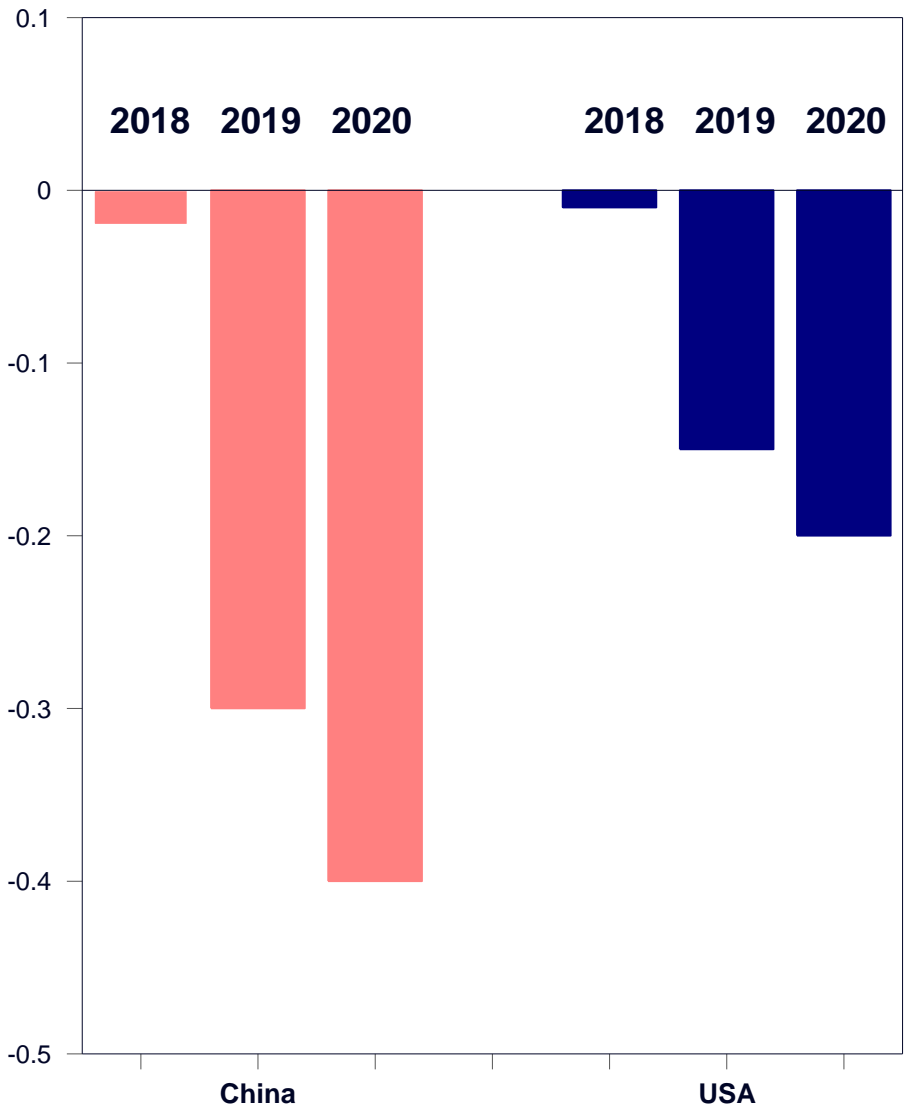
2017 US exports to China \$ 130 bn

2017 China exports to US \$ 505 bn

And also its dependence on imports of foreign technology

THE US-CHINA TRADE WAR

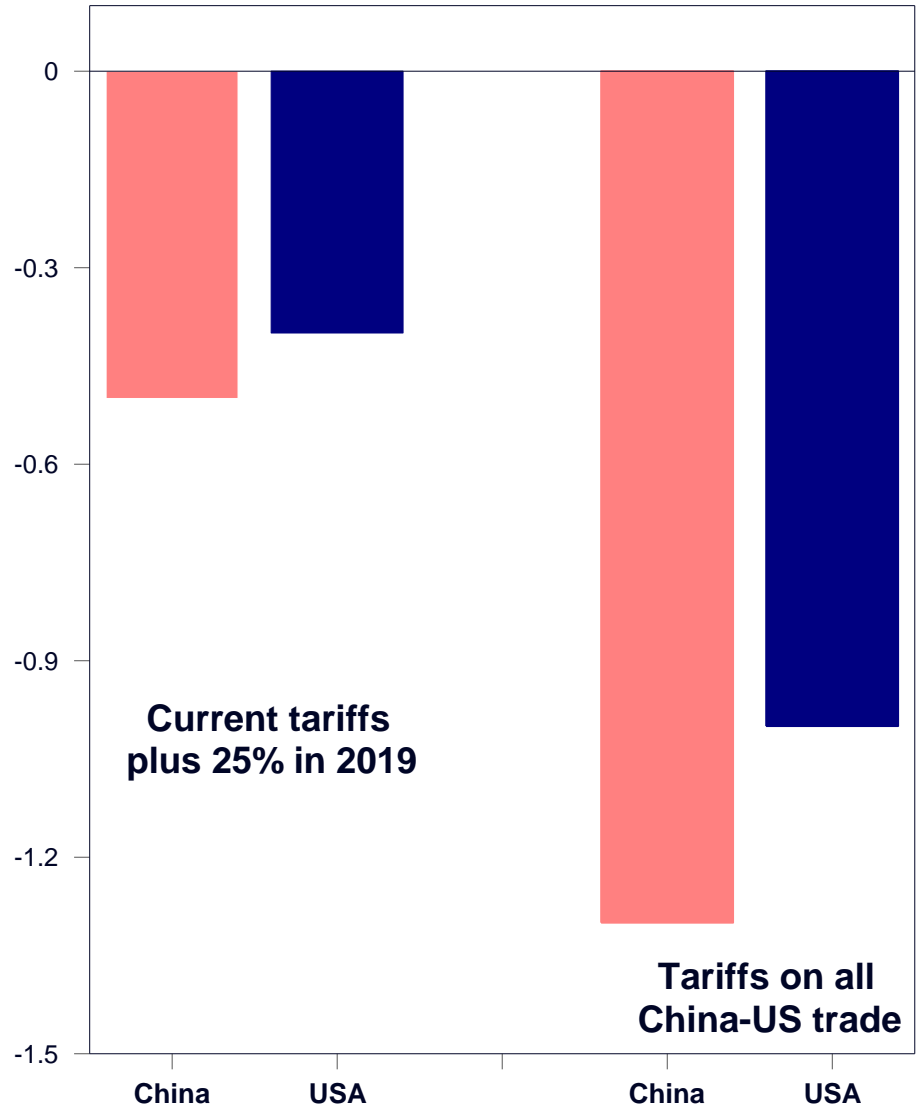
Cumulative effects of measures taken or announced so far on GDP levels*



* Including a 25% tariff from 1.1.2019. Source: Oxford Economics.

THE US-CHINA TRADE WAR

Cumulative effects of measures taken, announced or threatened on 2021 GDP levels



Source: OECD

HOW CAN CHINA RESPOND ?

Raise tariffs on imports from the US to much higher levels

Trump would do the same

Sell US Treasury Bonds

Could hurt China almost as much as it hurts the US

Sharply devalue the renminbi

Could lead to massive capital flight and destabilize many other countries

Make life difficult for US companies in China

Possible, but US companies matter for employment, exports and technology

Gradually liberalize and open up which, in the end, would be beneficial

(and, in the meantime, live with the costs)

CAN CHINA COPE WITH THESE CHALLENGES ?

Probably, in the light of its past (and more recent) policy successes

It coped extremely well with the "Great Recession"

It is reducing the share of investment and of manufacturing in GDP

It has reduced the importance of exports to the economy

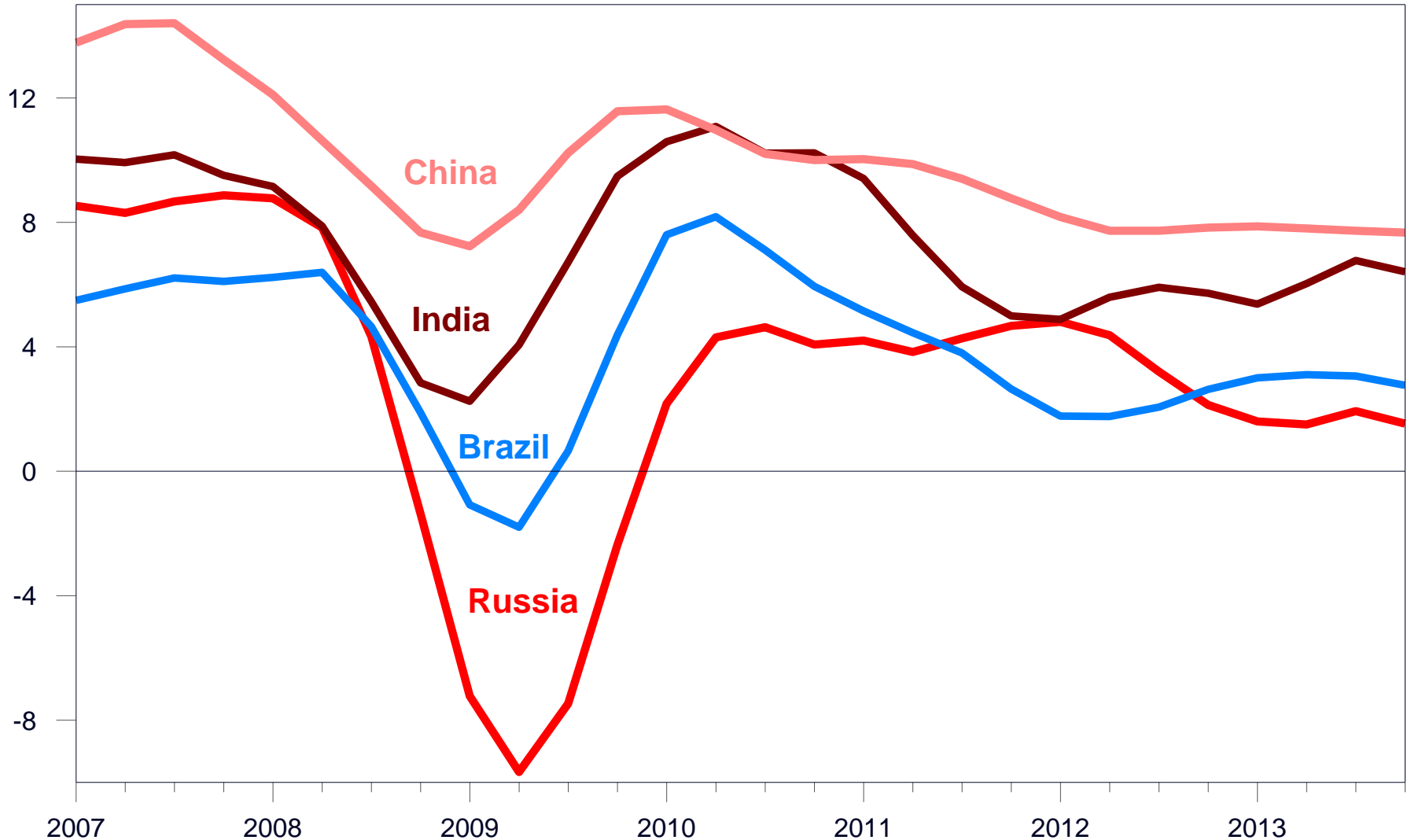
It is achieving some reduction in (regional) income differentials

It is gradually cooling the housing market

etc., etc.

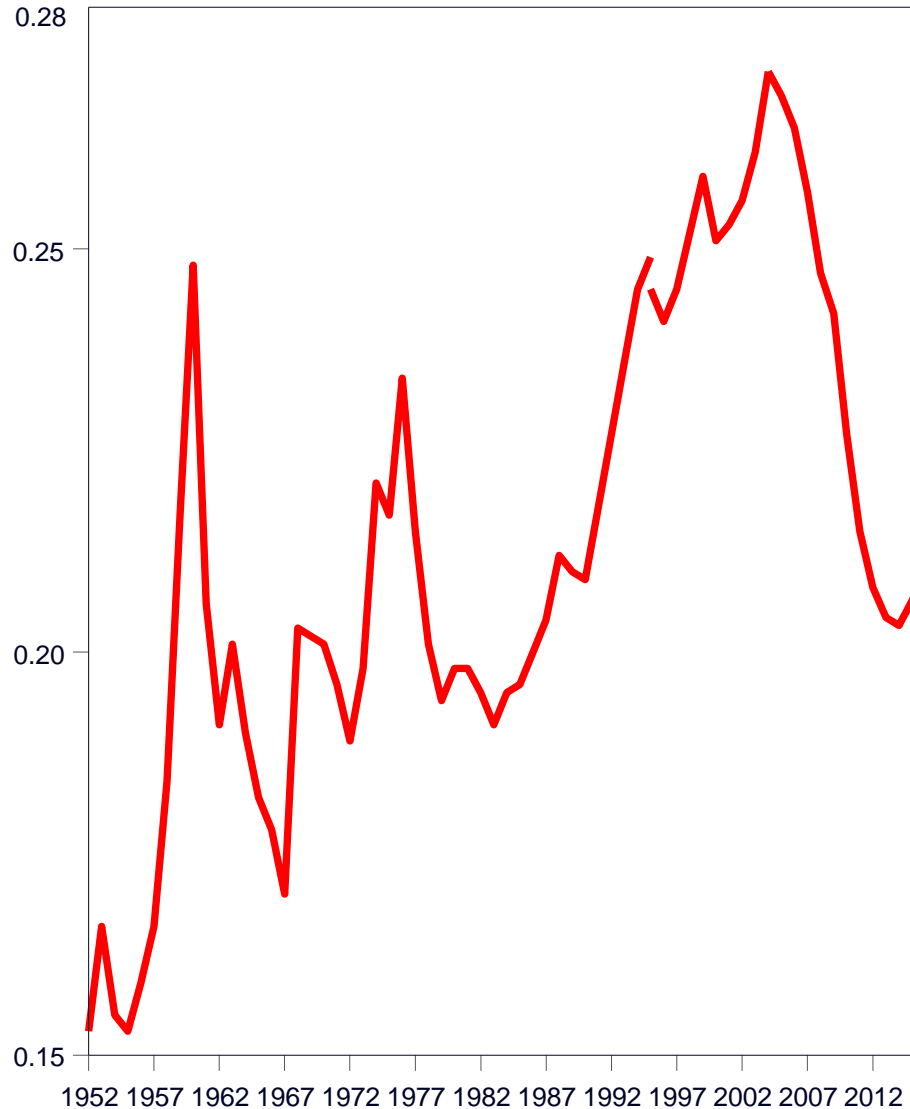
THE BRICs IN THE "GREAT RECESSION"

(GDP; per cent changes; 3 quarter moving averages)



CHINA - REGIONAL INCOME INEQUALITY

(Gini coefficients for regional per capita GDP)



Sources: *China Economic Review*, 2001; China Statistical Yearbook.

CHINESE POLICIES

" The Chinese political system has a striking ability to target a few critical issues and mobilize talent and resources to address these issues when it is absolutely necessary to do so".

**Barry Naughton, *The Chinese Economic System*,
Cambridge MA, 2007, p.11.**

WILL SUCCESS CONTINUE ?

But will such successes continue ?

Optimistic view:

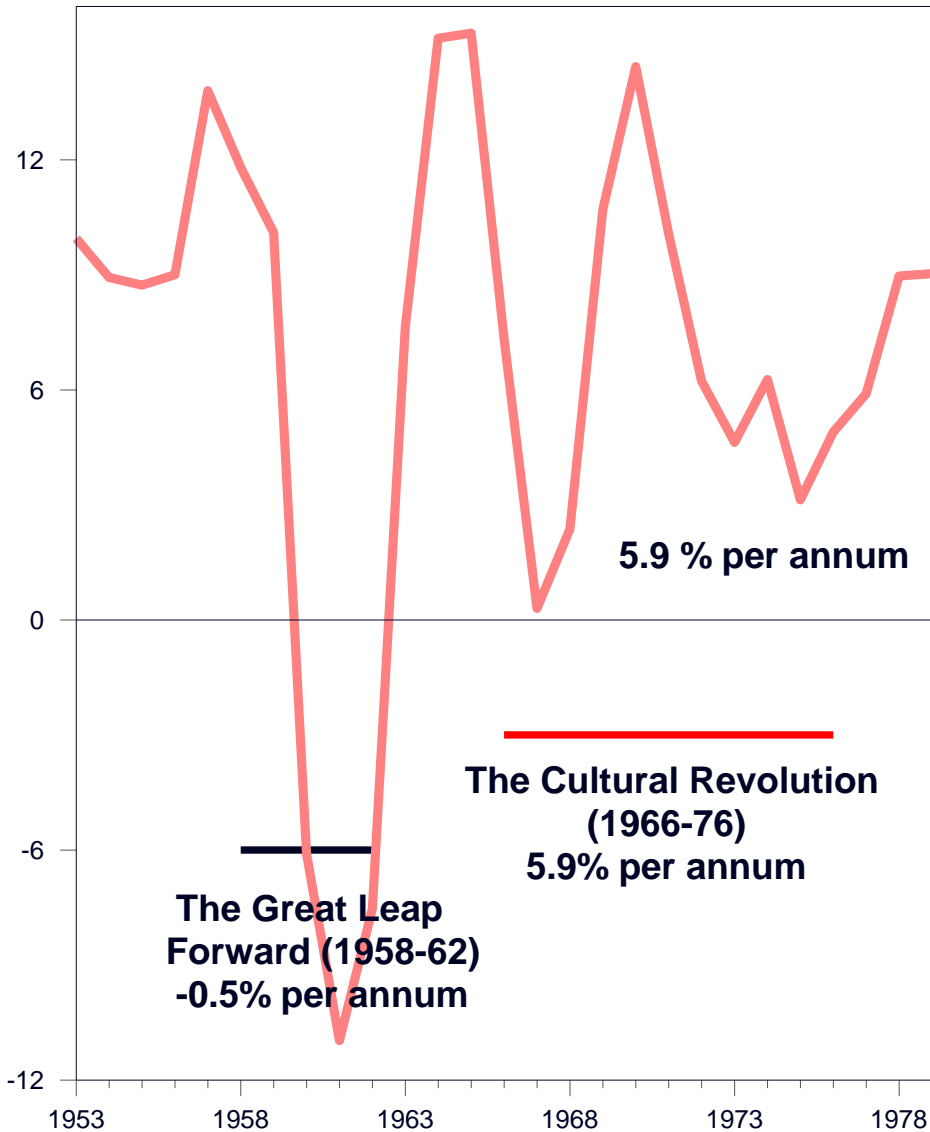
**The authorities are clearly conscious
of the problems they are facing
Technocratic quality is improving
The relatively liberal Bank of China
is gaining influence
Regional policy competition remains
in place**

Pessimistic view:

**There is one main danger: politics
Excessive centralization (as seen at
present) can lead to very costly
mistakes (remember Mao)**

MAO AND CHINESE GROWTH

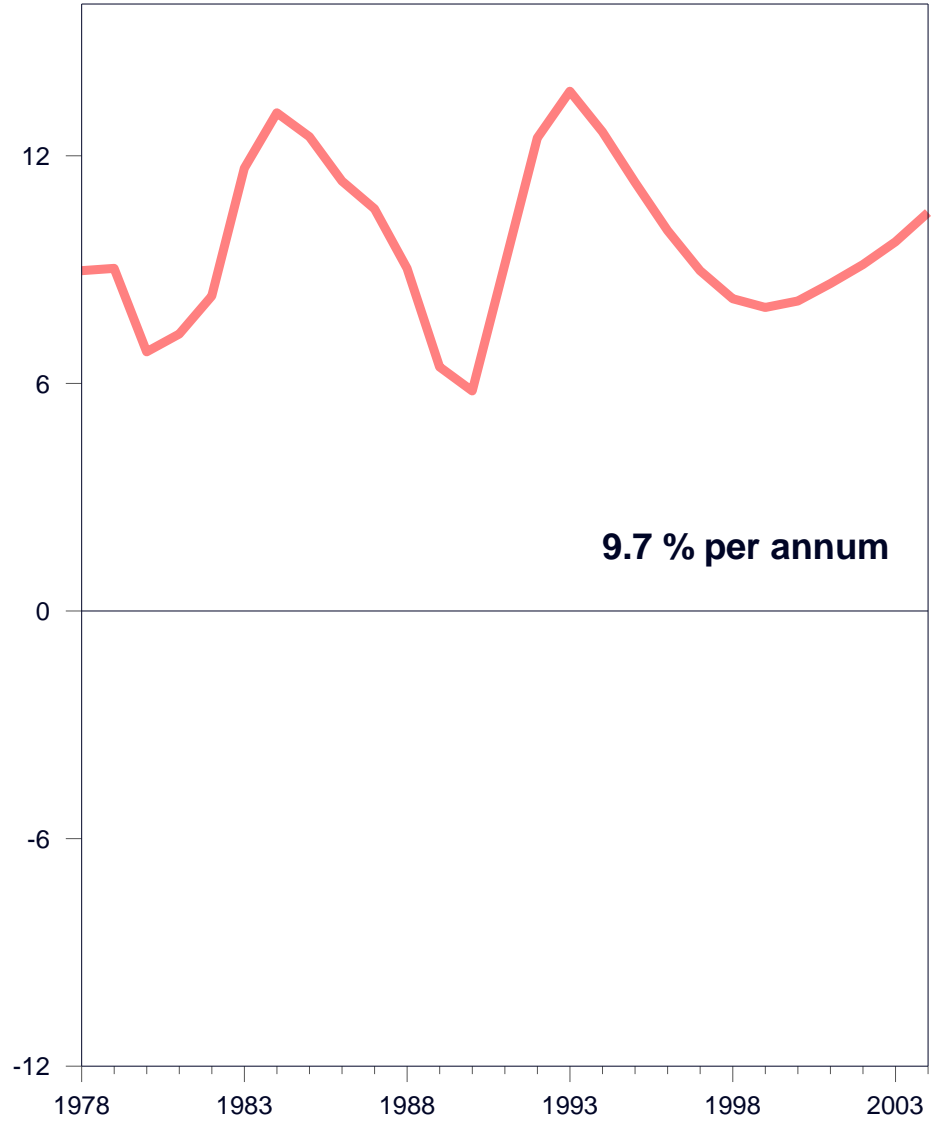
(GDP; percent changes; 3 years mov. avrgs.)



Source: Maddison.

DENG AND CHINESE GROWTH

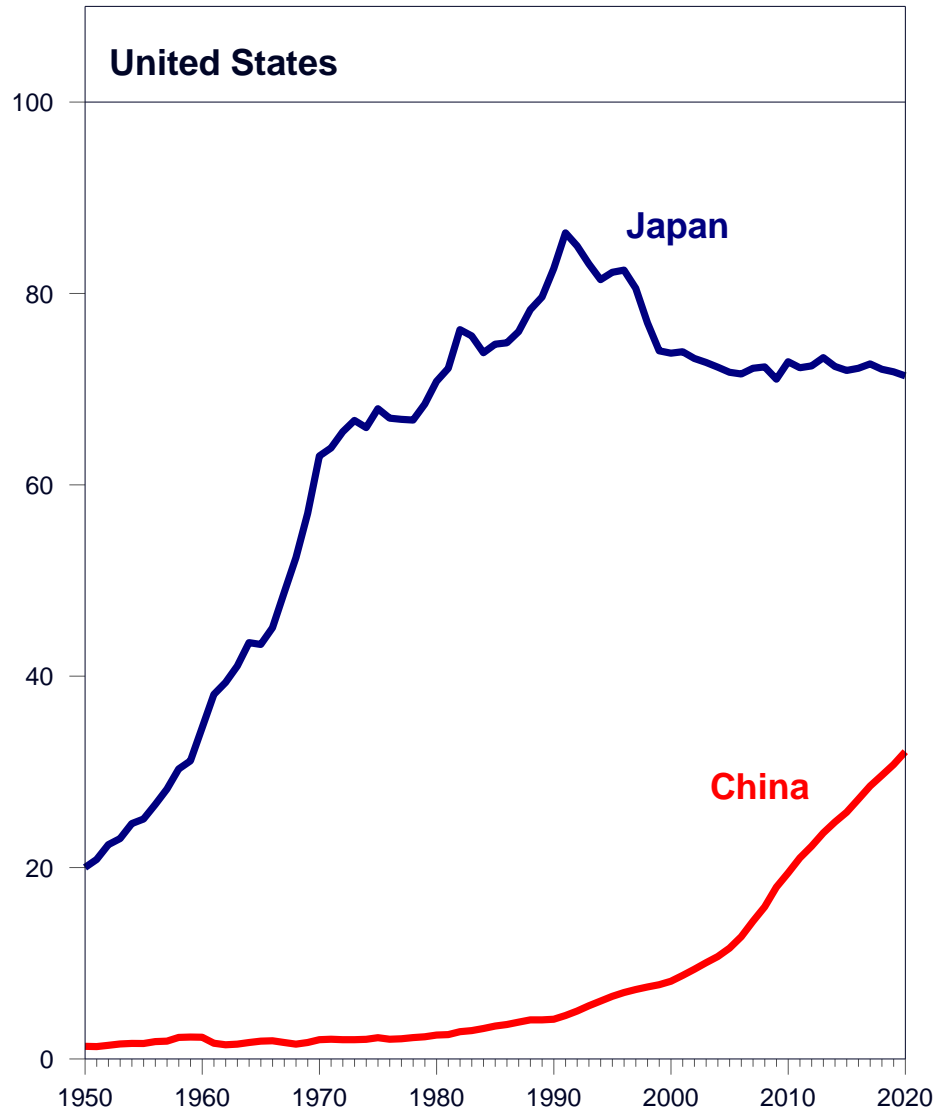
(GDP; percent changes; 3 years mov. avrgs.)



Source: Maddison.

JAPAN AND CHINA

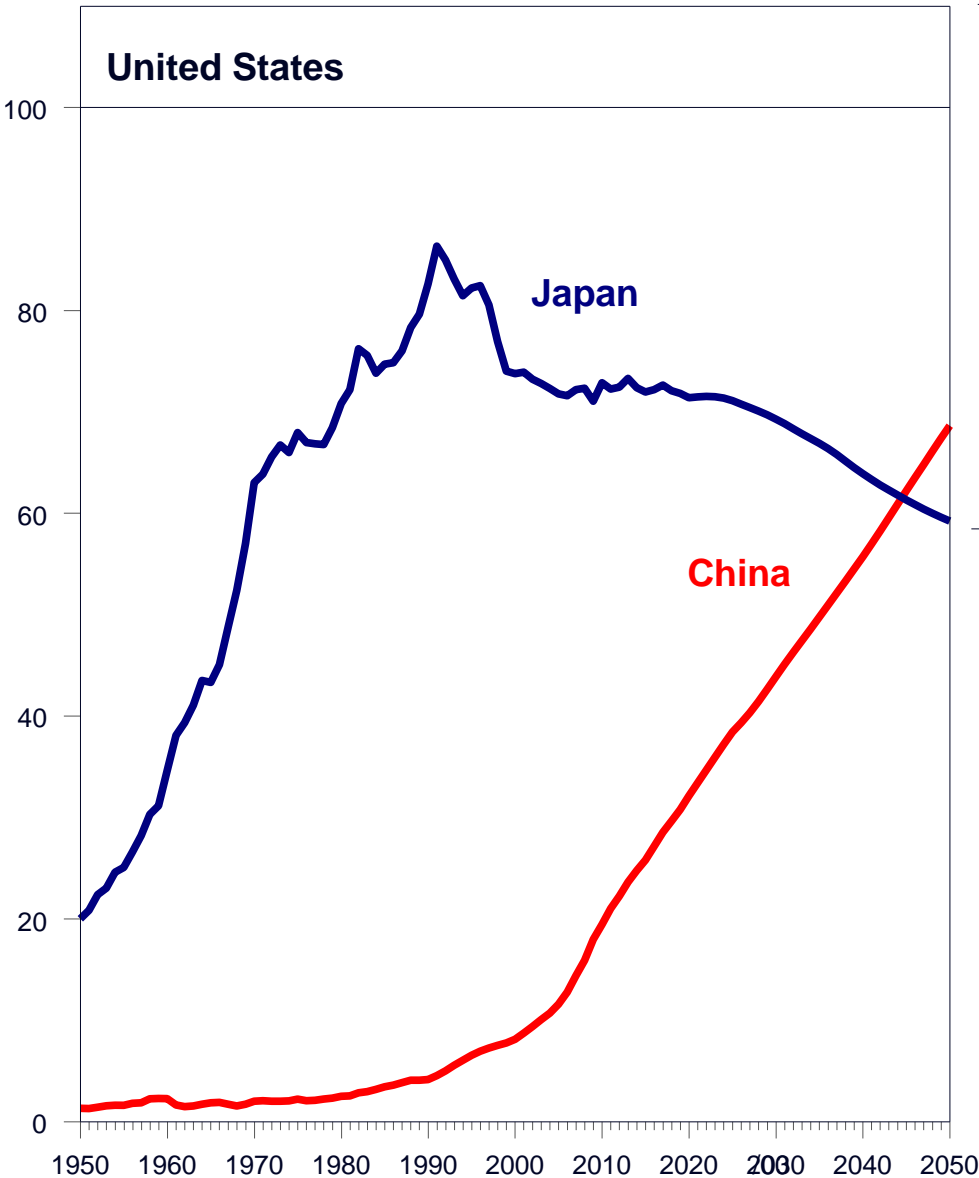
GDP per Capita (in per cent of US level)



Sources: Conference Board, Total Economy Database, March 2018;
Oxford Economics Database, October 2018.

JAPAN AND CHINA

GDP per Capita (in per cent of US level)



Sources: Conference Board, Total Economy Database, March 2018; Oxford Economics Database, October 2018.

ASSUMPTIONS

GDP per capita average annual growth rates, 2020-2050

United States 1.4

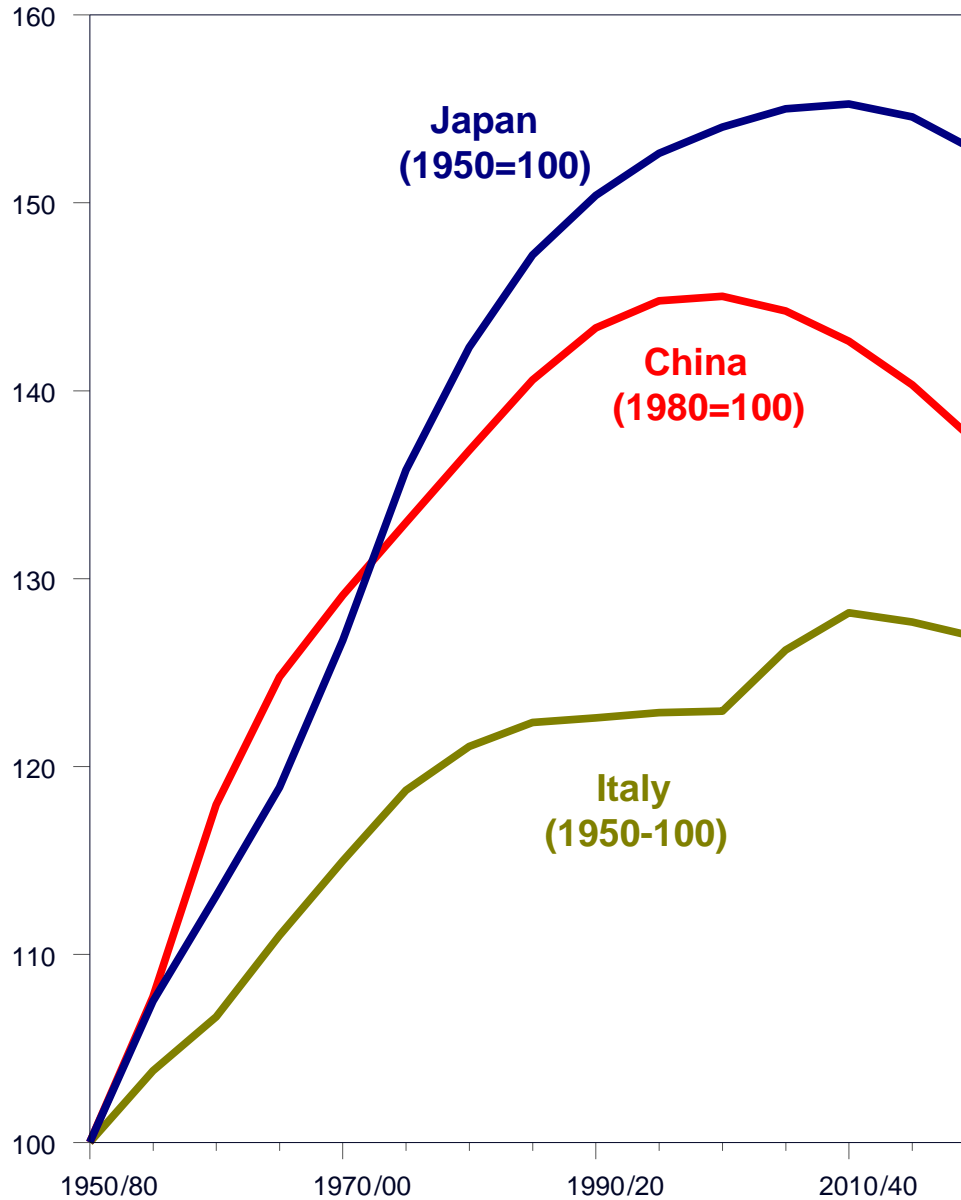
Japan 0.7

China 4.0

Source: Oxford Economics Database, September 2018.

JAPAN AND CHINA

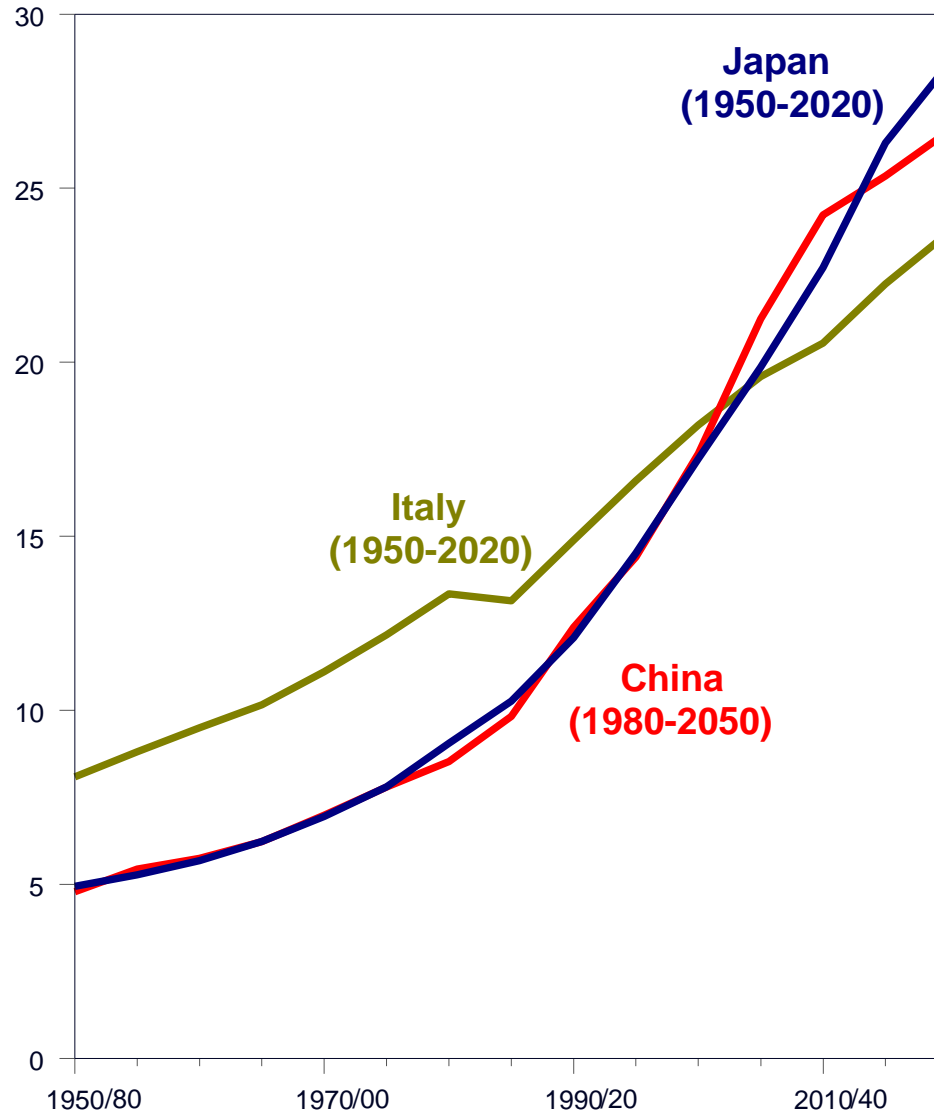
Population (indices)



Source: UNPD

JAPAN AND CHINA

Ageing (share of people aged 65 and more in total population)



Source UNPD

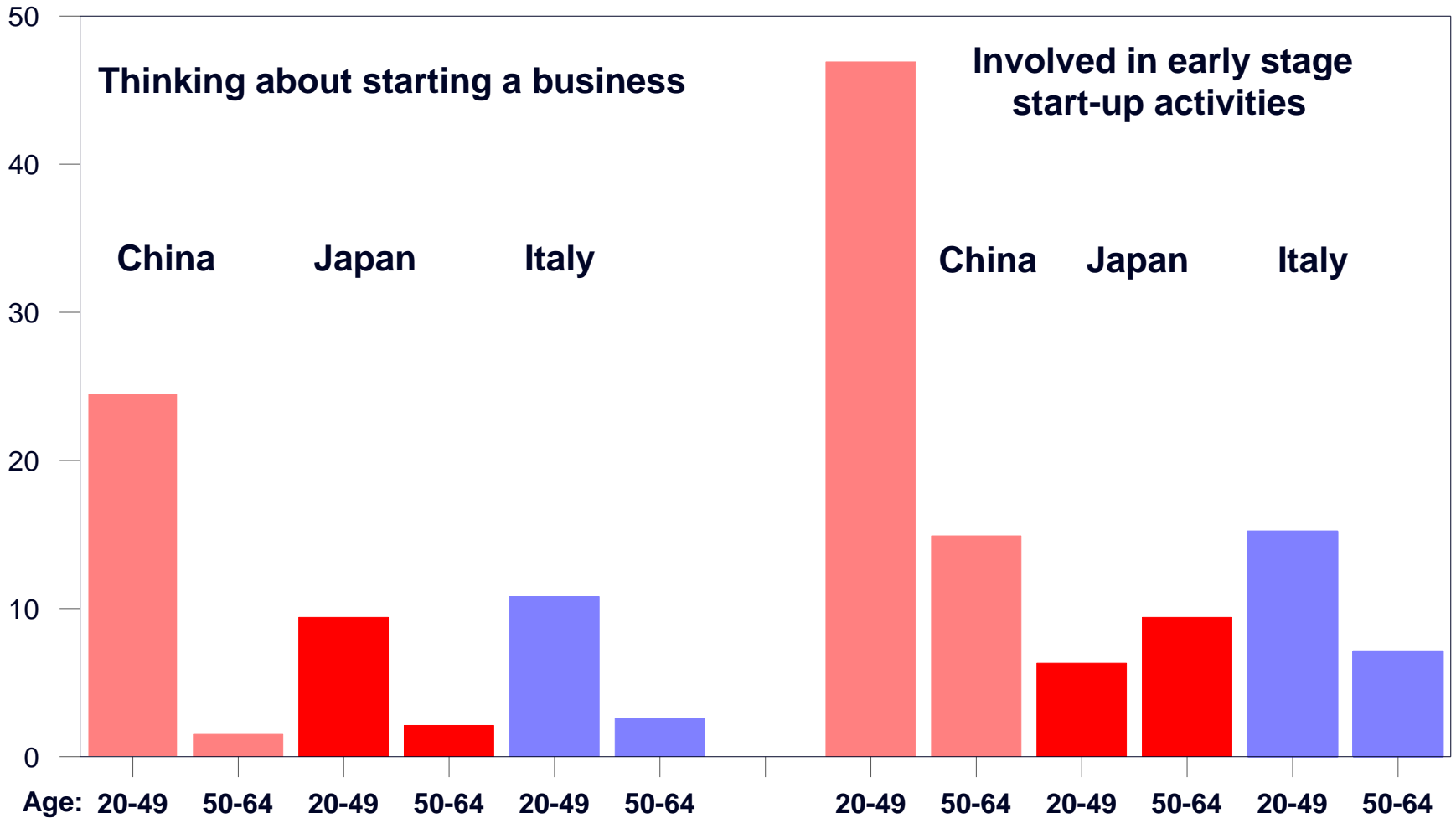
AGEING AND ECONOMIC GROWTH

An older population is likely to:

- i) Reduce growth because of lower labour supply**
 - ii) Save less, thus raising interest rates and depressing investment**
 - iii) Lead to a rising pension burden and increasing health costs, implying higher taxes, or budget deficits, and spurring inter-generational tensions**
 - iv) Be less dynamic and entrepreneurial**
-

ENTREPRENEURSHIP BY AGE, 2009

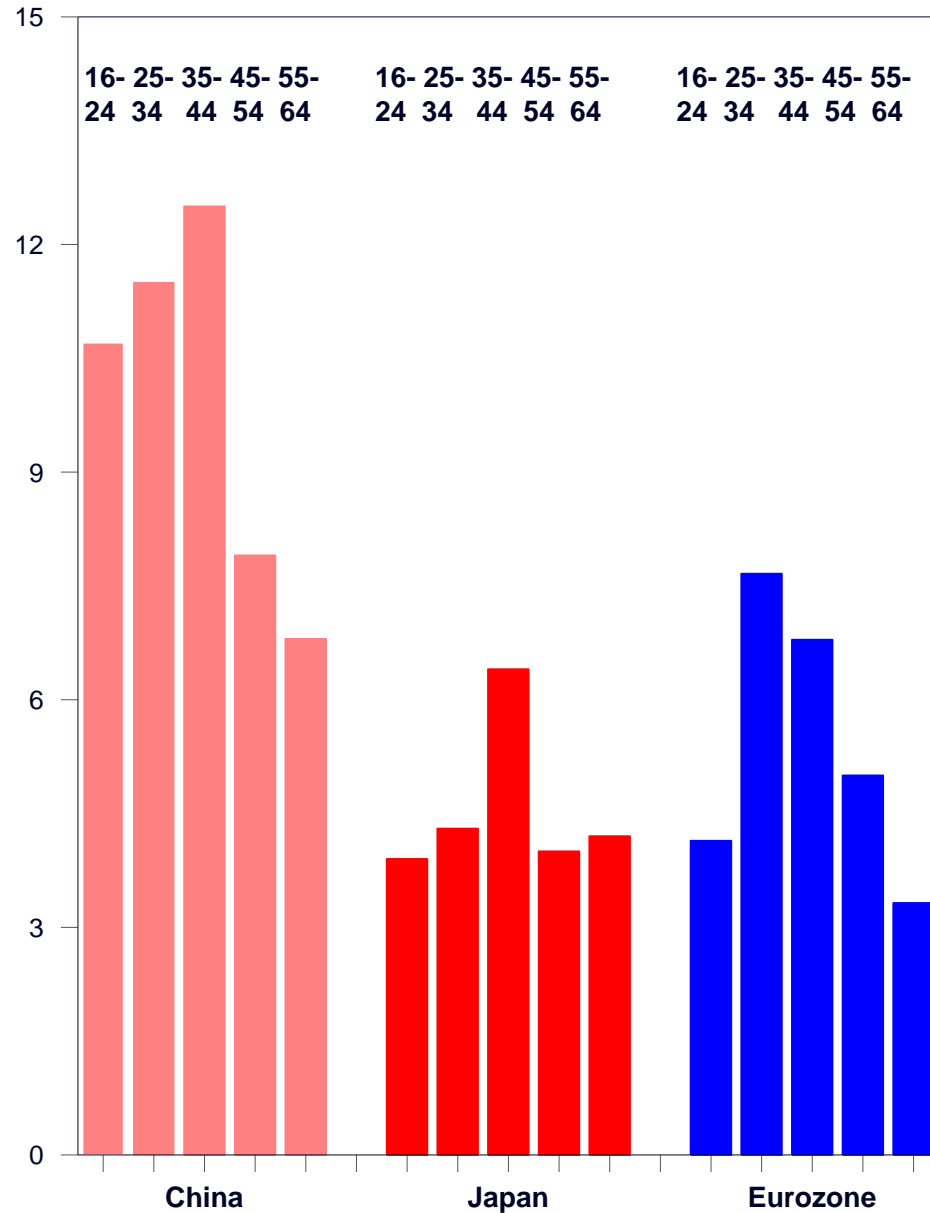
(percentages)



Source: EU, Eurobarometer.

ENTREPRENEURSHIP BY AGE

Total entrepreneurial activity*, 2017



* Starting or owning/managing a new/recent venture. Source: GEM.

AN EARLIER PROJECTION

China

Share in World Output (ppp)

1978	4.9
2020	19.8*

* Assuming average annual growth of 6 per cent for China and 3.5 per cent for the World.

Sources: Maddison, *The World Economy* 2001 (for 1978); Boltho, *Singapore Economic Review* 2004 (for 2020).

China

Share in World Output (ppp)

1978	1.9
2018	19.1*

* Actual growth rates: China 9.4 and World 3.3 per cent.

Source: Conference Board, Total Economy Database, March 2018.

2040	32.5*
-------------	--------------

* Assuming average annual growth of 4.75 for China and 2.25 for the World.
