



CEBRI COURSES
BRAZILIAN CENTER
FOR INTERNATIONAL
RELATIONS



IBRACH
Institute for
Brazil-China
Studies



清华大学
Tsinghua University

Anna Jaguaribe Executive Program

China Today

SUPPORT:



China's Macro Economic Transition under Post-pandemic Recovery

Yuning Gao

School of Public Policy and Management, Tsinghua University

2022.09.21

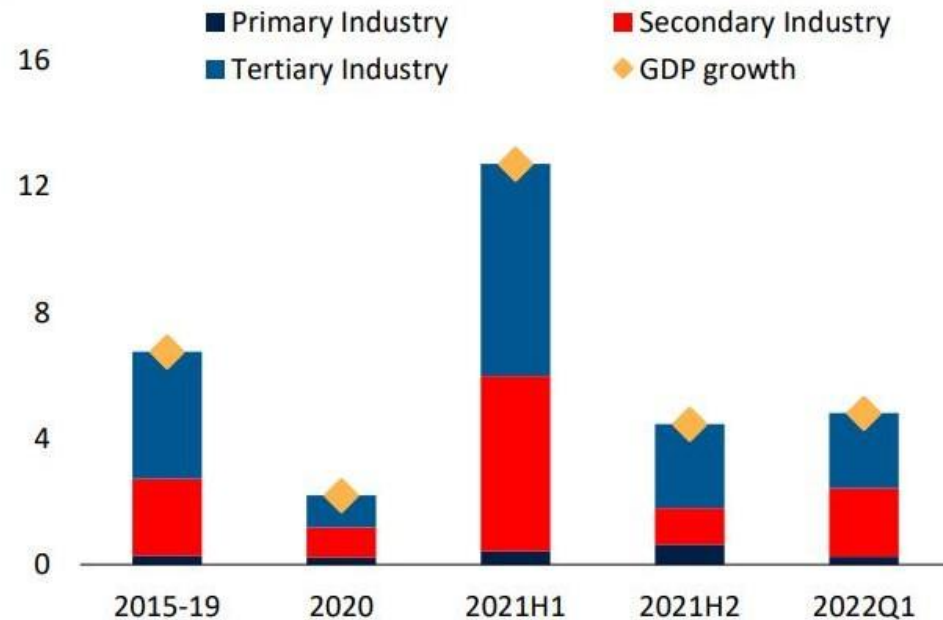
The 2022 Annual Target of Economic Growth

- GDP growth of around 5.5 percent
- over 11 million new urban jobs
- surveyed urban unemployment rate of no more than 5.5 percent
- CPI increase of around 3 percent
- ...
- move faster to develop the long-term rental market, promote the construction of government-subsidized housing, and support the commodity housing market in better meeting the reasonable needs of homebuyers. **We will keep land costs, housing prices and market expectations stable**

Relative stable growth in 2022Q1

A. GDP sectoral composition

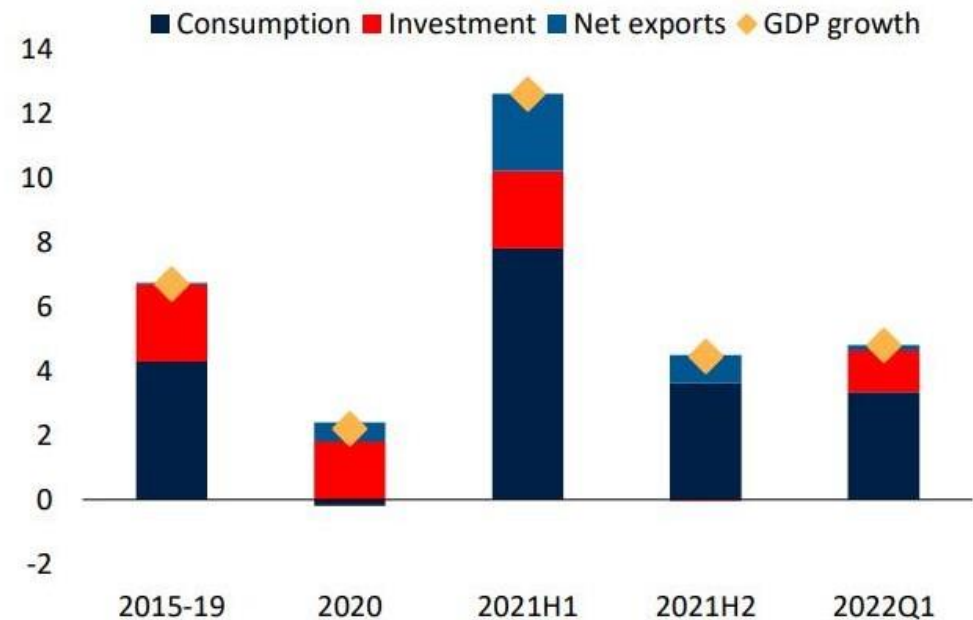
(Contribution to growth, percentage points)



Source: NBS; World Bank.

B. GDP demand components

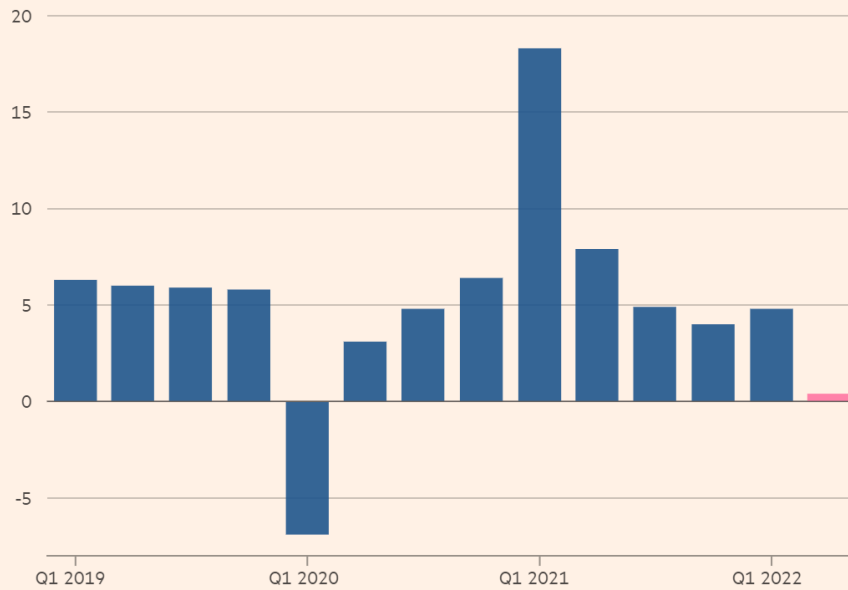
(Contribution to growth, percentage points)



Unexpected COVID Impact in 2022Q2

China's economy has avoided a second contraction of the pandemic

Gross domestic product, year-on-year growth (%)



Source: National Bureau of Statistics of China
FT Data: Andy Lin/@imandylin2

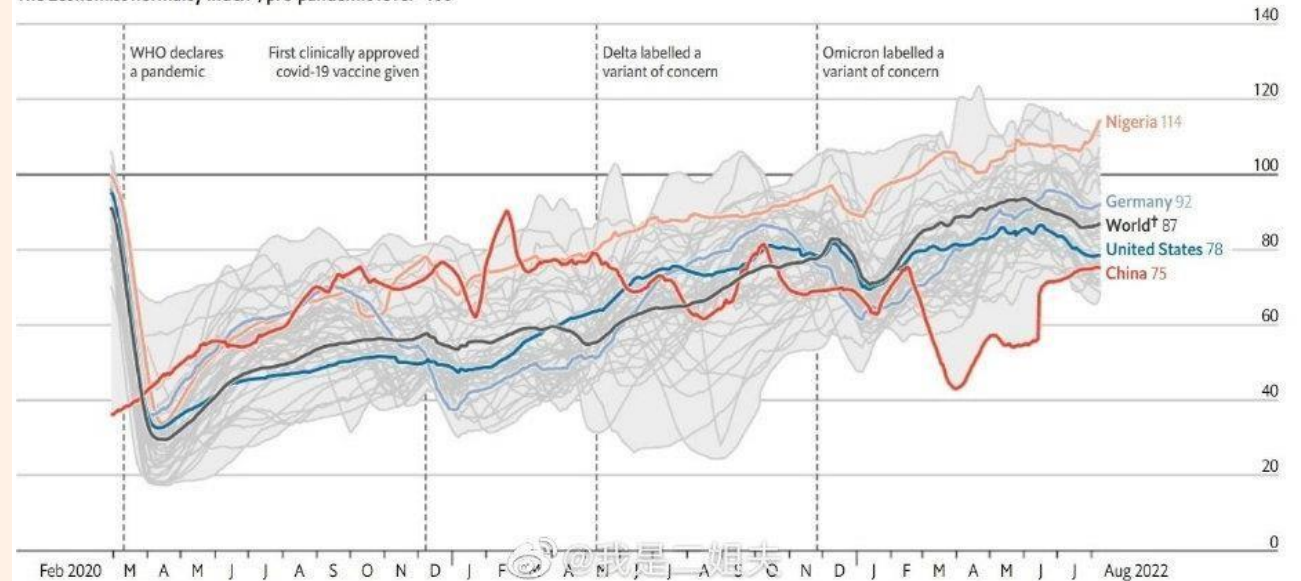
FINANCIAL TIMES

Graphic detail The global normalcy index

The Economist September 10th 2022 89

→ Most of the world is returning to pre-pandemic activity levels, but some changes may persist

The Economist normalcy index*, pre-pandemic level=100

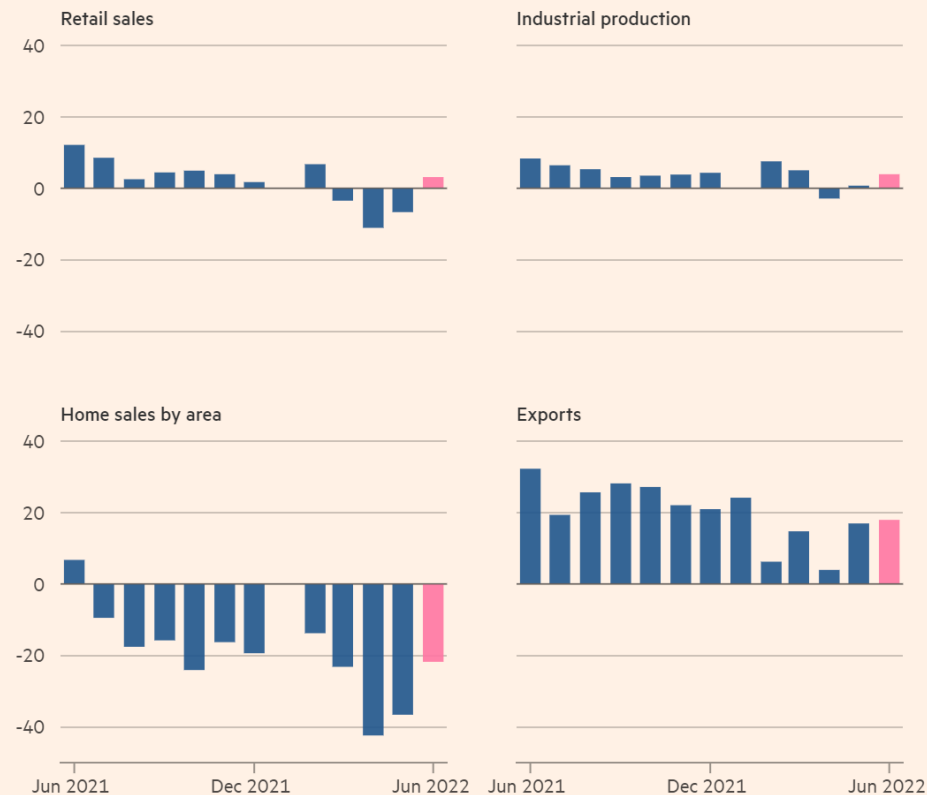


China Today

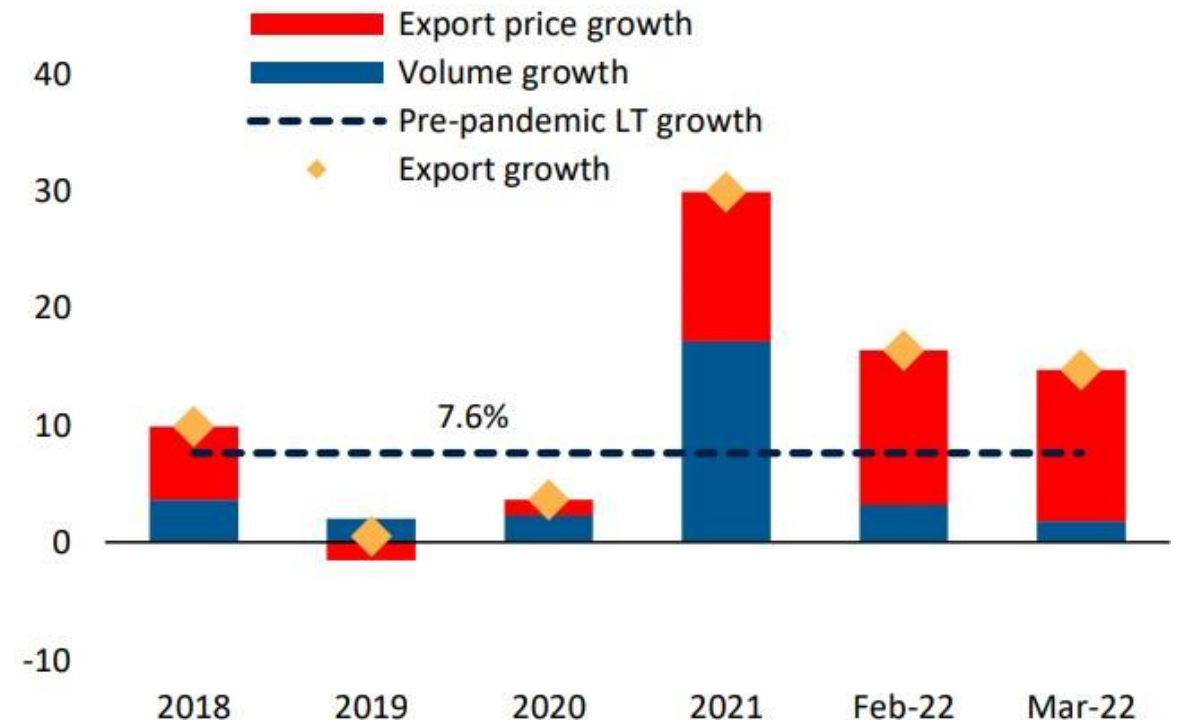
External demand kept strong as for price change

Retail sales returned to growth in June but remained down for the quarter

Economic indicators, year-on-year change (%)



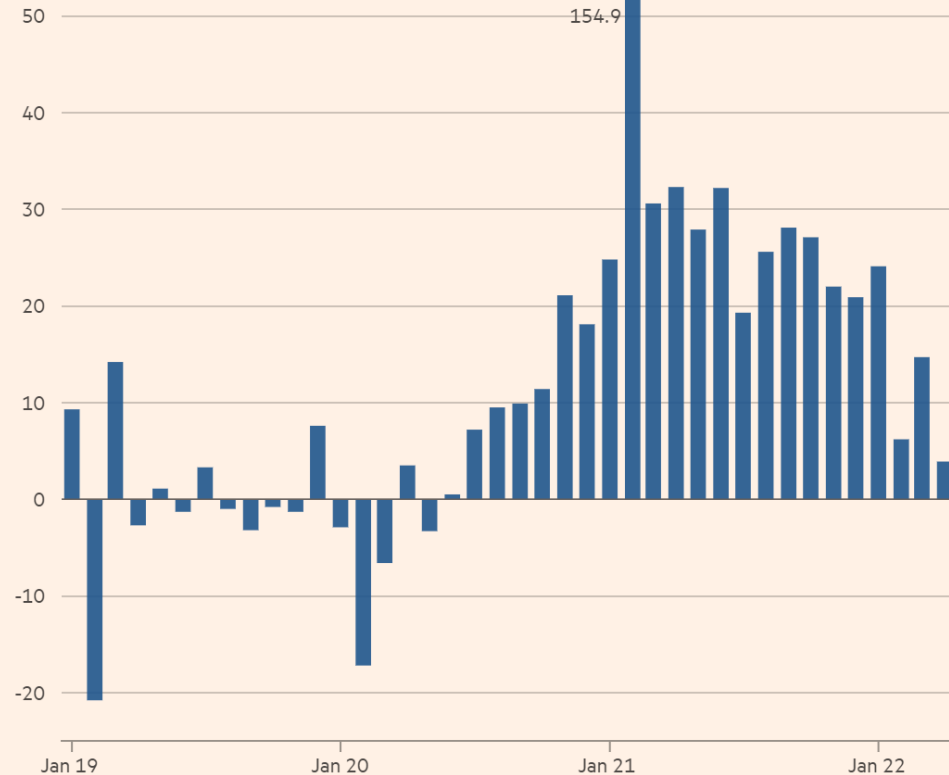
D. Goods export growth (y/y percent)



Export and supply chain vulnerability

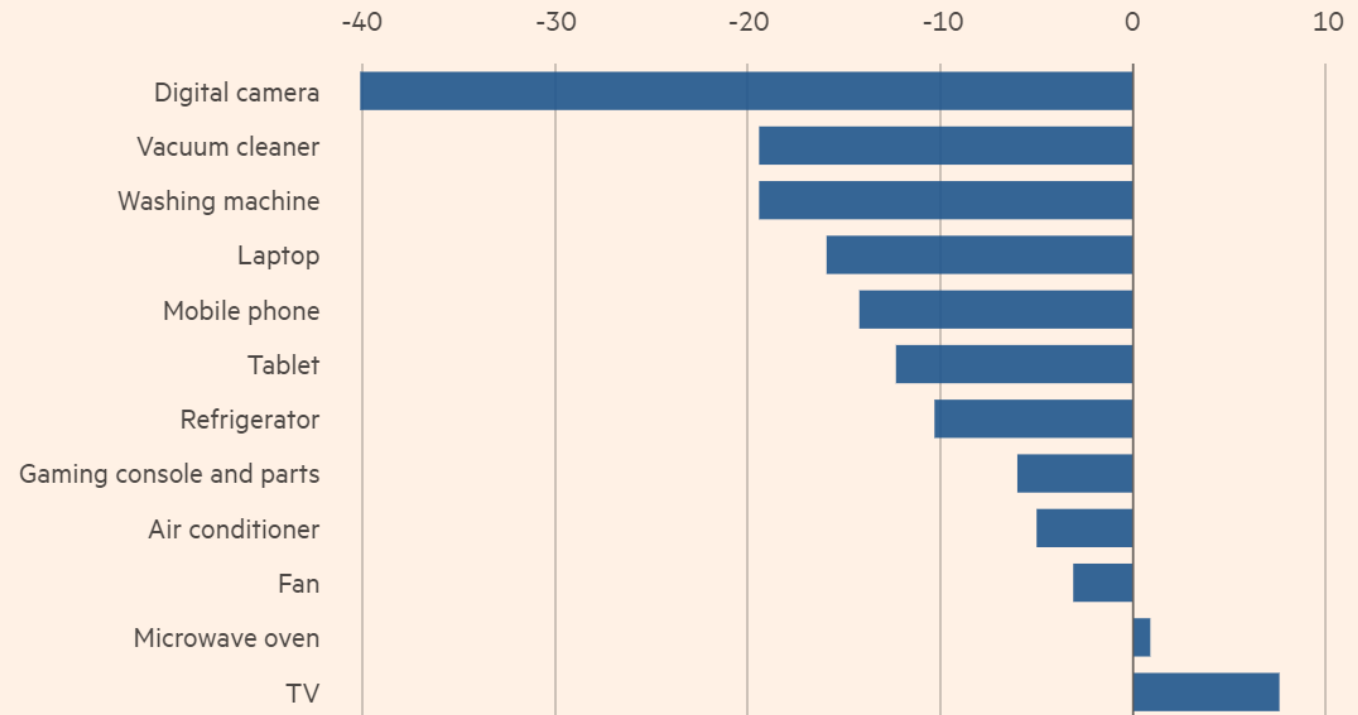
China's export growth levelled off after lockdown-fuelled demand receded

Exports in nominal dollar terms, year-on-year change (%)



Fading demand for consumer goods is hurting Chinese exports

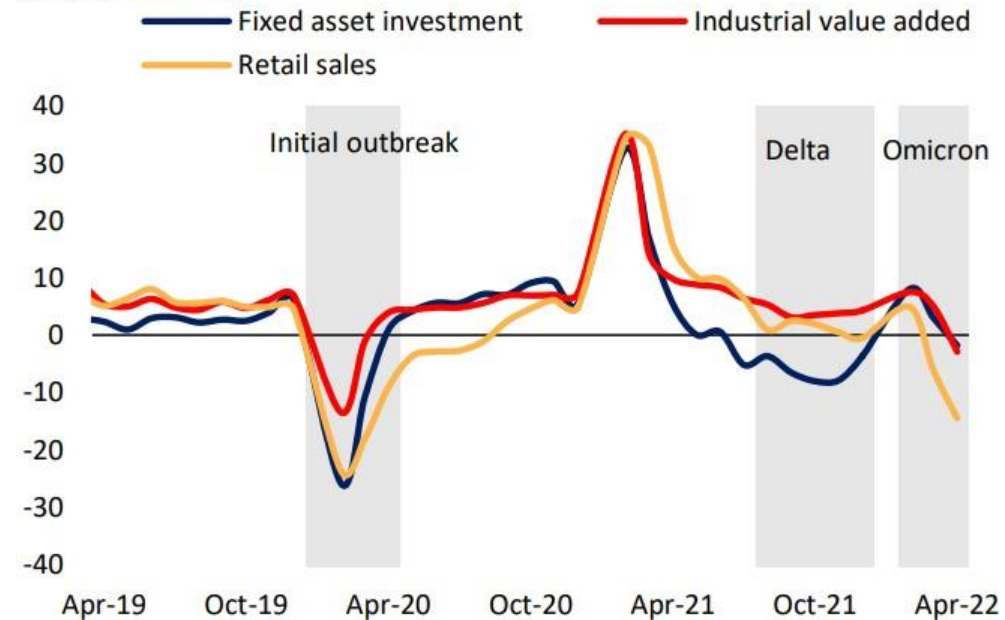
Consumer electronics and home appliance exports volume in Jan-Apr 2022, year-on-year change (%)



Consumption recovered till August

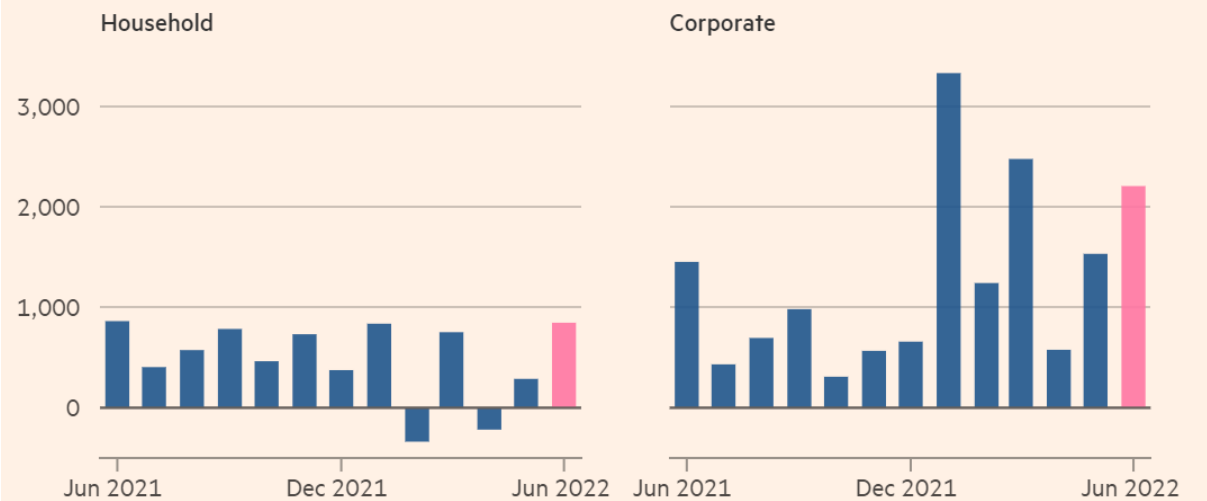
B. Fixed asset investment, industrial value-added, and retail sales

(y/y percent)



Households are expanding credit after recent hiccups

Outstanding renminbi loans, month-on-month change (Rmb bn)



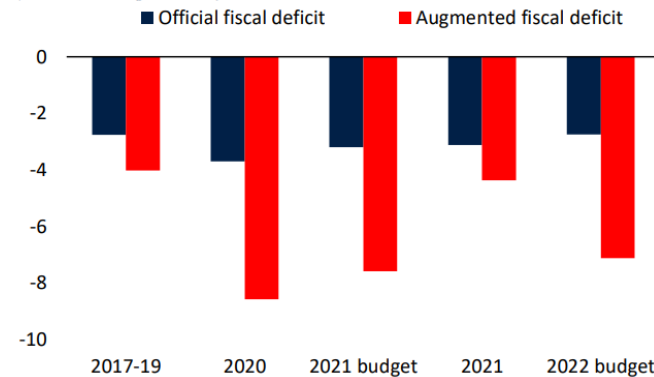
Source: People's Bank of China
 FT Data: Andy Lin/@imandylin2

Stressed fiscal balance

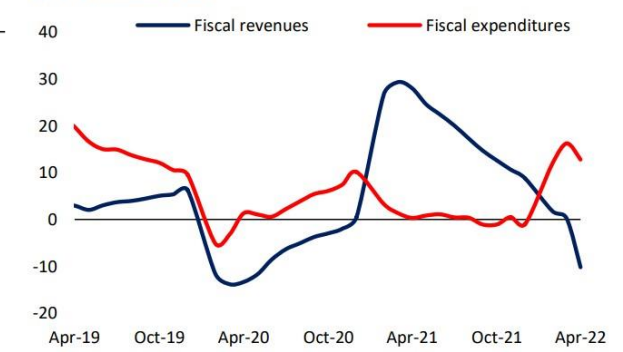
- The State Council recently introduced no less than 300 billion yuan additional policy development financial instruments quota, revitalization of more than 500 billion special local debt balance
- policy-oriented developmental financial instruments to put the amount of 300 billion yuan, to support investment projects more than 900, the total investment in the project plan more than 3 trillion yuan.
- January to August, the fixed asset investment grew 5.8% year-on-year, infrastructure investment grew 8.3% year-on-year.

Figure 16. The consolidated fiscal deficit widened

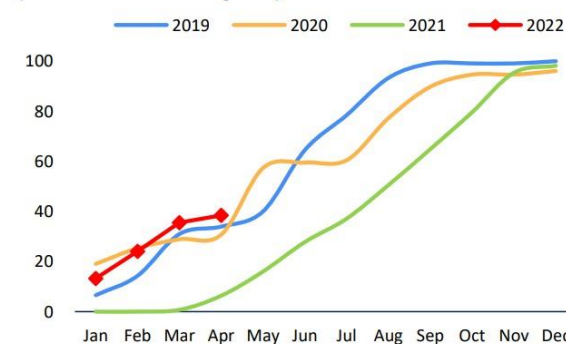
A. Consolidated fiscal deficit
(Percent of GDP)



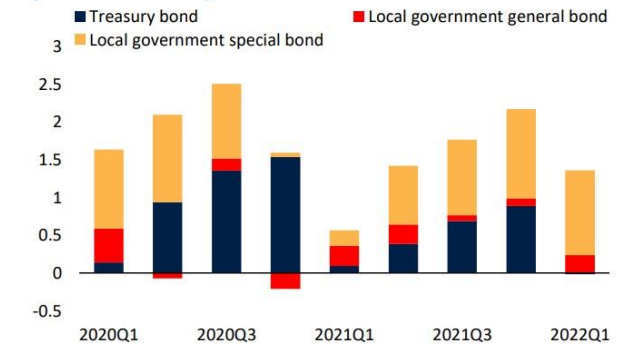
B. Growth in consolidated fiscal revenues and expenditures
(y/y percent, ytd)



C. Local government special bond issuance
(Percent of annual quota)



D. Net financing from government bond issuance
(Percent of GDP)



Sources: NBS; MOF; World Bank

Note: Figure A. The consolidated fiscal balance adds up the General Public Budget balance and the Government Fund Budget balance.

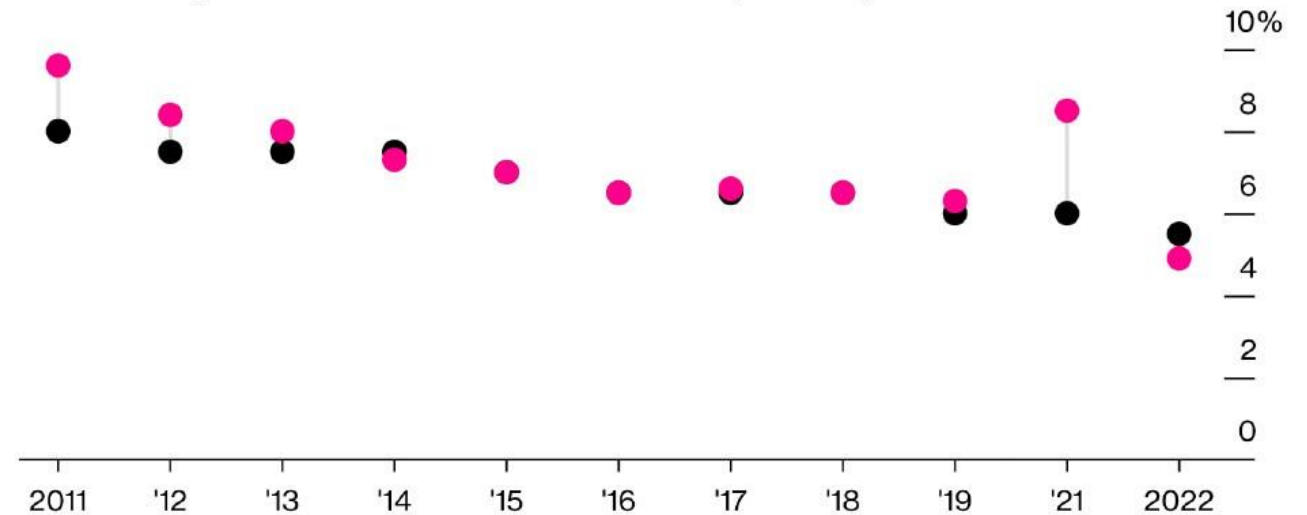
GDP growth rate may loose its target



Ambitious Target

Economists forecast China growth below target for the first time since 2014

● Official target ● Median economist forecast in May of each year

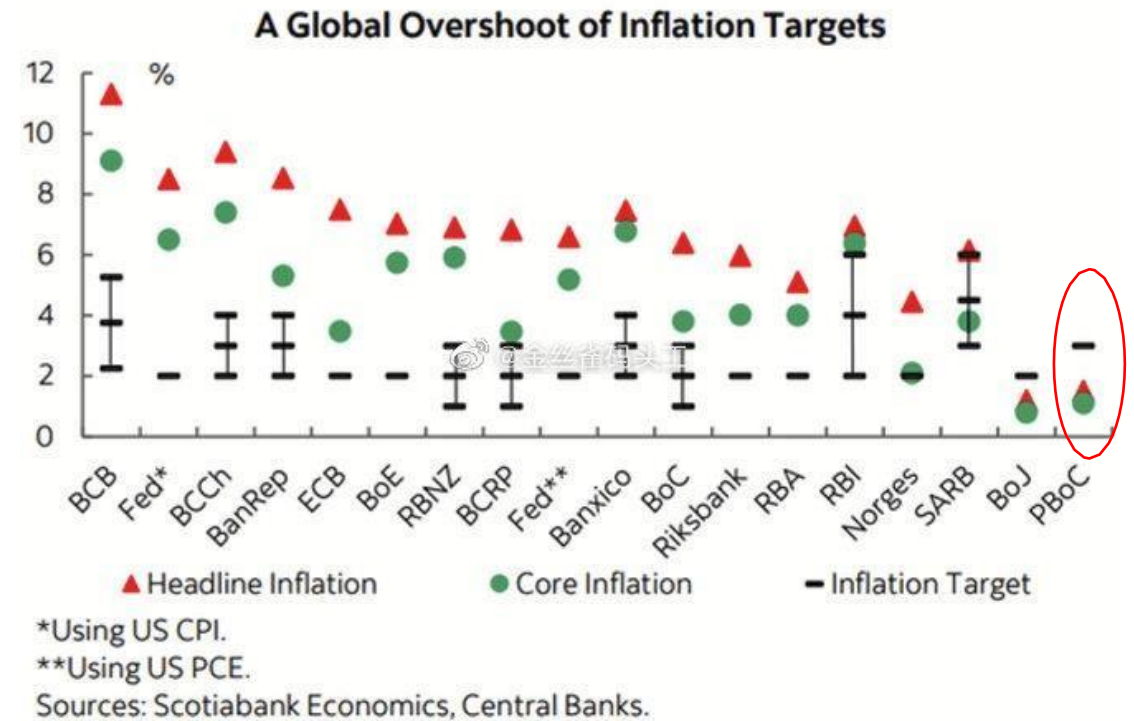


Sources: Bloomberg surveys, China National People's Congress documents

Note: No official target was given in 2020. If official target given as a range, middle of the range is used

China Today

But still space for stimulus under low inflation



Midterm and Long Run Challenges and Opportunities

1. Manufacture Dominance

- China's manufacture value added in the world's total increased from 28.7% in 2019 to 29.8% in 2021.

In fact, China has come to dominate many businesses in this way. *The Economist* looked at export data for 120-odd global manufacturing industries. We estimate that in 2005 China was ascendant (defined as a share of global exports of more than a quarter) in 42% of them. In 2019 that hit 67%, a record. The share of export markets that China dominated—which we define as a market share of more than half—tripled over the same period, to a third.



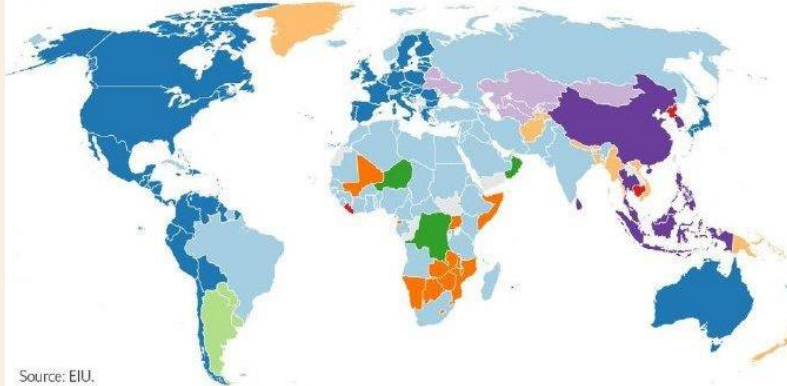
China's manufactured exports, for example, have been growing significantly faster than those of Germany, the U.S., Japan or South Korea. As a result, its share of global manufactured exports by value surged to a new high of 21% last year, compared to just 17% in 2017. The country is now a more important international supplier than Germany, the U.S. and Japan combined.

Key center of global supply chain

China has become a major source of imports since joining the WTO

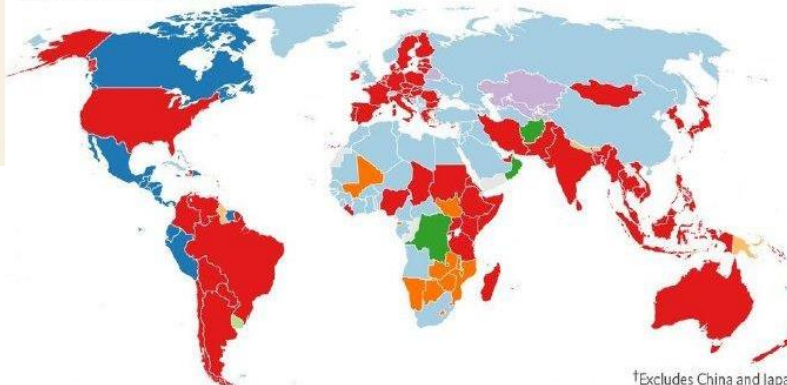
■ Africa ■ Asia & Australasia[†] ■ Europe* ■ Latin America ■ Middle East
■ North America ■ China ■ Japan ■ Russia ■ n/a

(Top source of imports by value, 2000)



Source: EIU.

(Top source of imports by value, 2021)



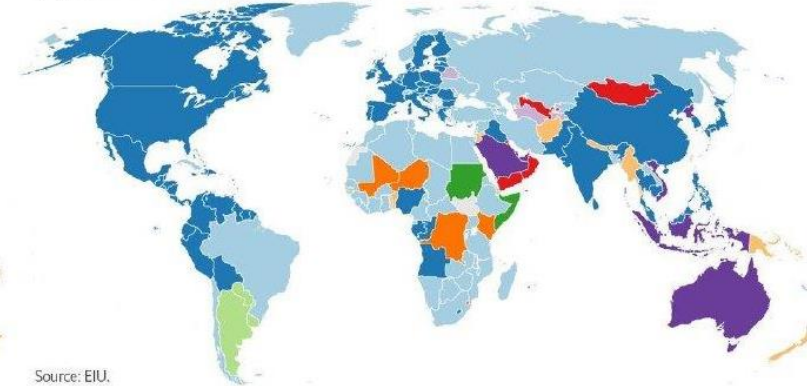
Source: EIU.

[†]Excludes China and Japan
*EU, UK, Switzerland, Turkey and Norway

The EU remains the top destination of global exports

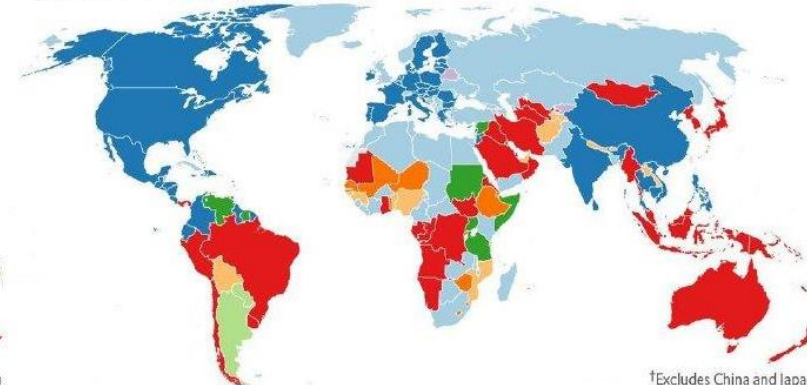
■ Africa ■ Asia & Australasia[†] ■ Europe* ■ Latin America ■ Middle East
■ North America ■ China ■ Japan ■ Russia ■ n/a

(Top destination of exports by value, 2000)



Source: EIU.

(Top destination of exports by value, 2021)



Source: EIU.

[†]Excludes China and Japan
*EU, UK, Switzerland, Turkey and Norway

China is converging to the openness of a normal mega-economy

Exports & imports, as a % of GDP

— US — China — Japan — EU*



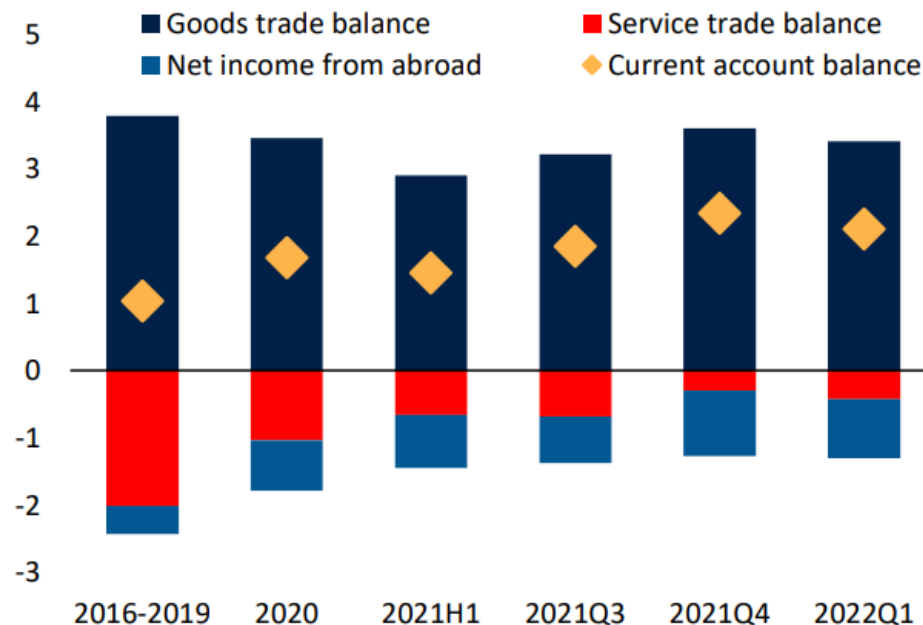
* EU excludes intra-EU trade
Sources: Richard Baldwin (VoxEU.org, CEPR), WTO, WDI

©经济学哈耶客

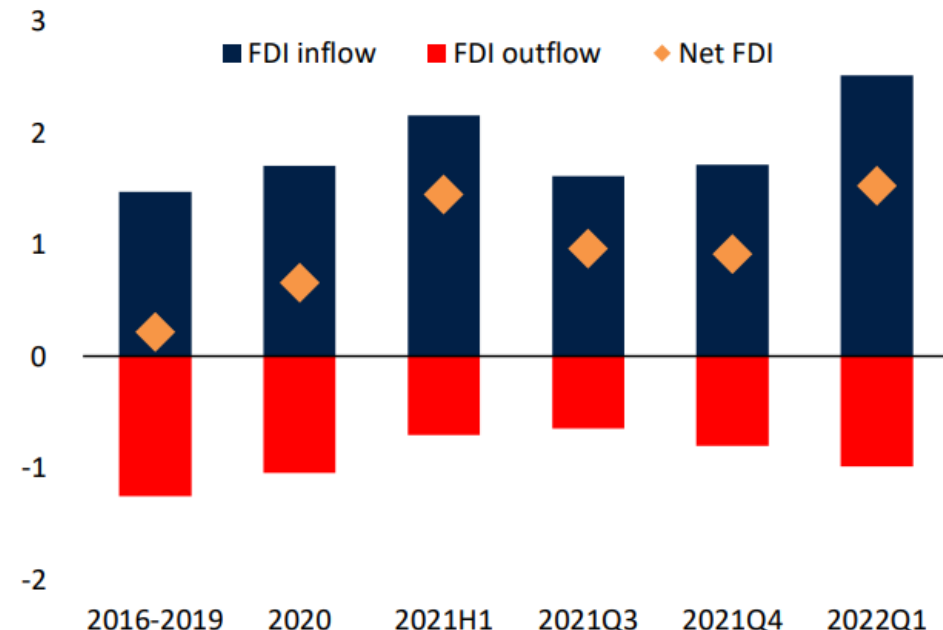
Sustained a comfortable external balance

- From January to August, foreign direct investment increased by 16.4%. South Korea, Germany, Japan and the United Kingdom's investment in China increased by 58.9%, 30.3%, 26.8% and 17.2% respectively.

A. Current account balance
(Percent of GDP)



B. Foreign direct investment
(Percent of GDP)



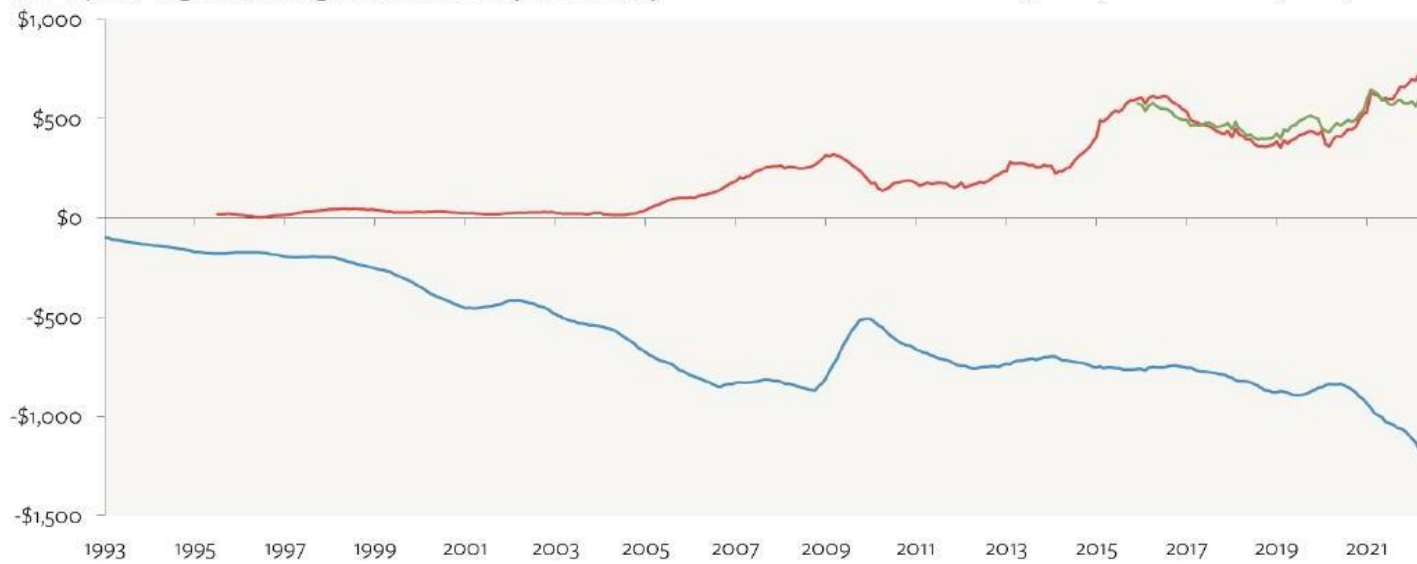
2. US-China trade balance

- Trade balance restructured

Symbiosis?

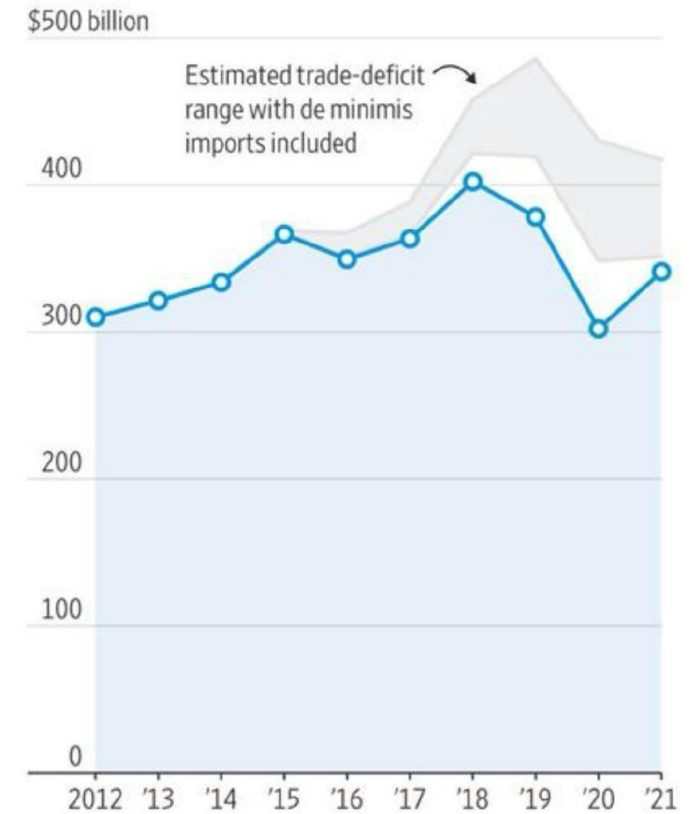
Since the start of the pandemic, the yearly U.S. trade deficit in goods with the rest of the world has widened by about \$350 billion. That almost exactly matches the increase in China's goods trade surplus with the rest of the world, according to its customs agency (GACC).

Net exports of goods, rolling 12-month sums (USD billions)



Source: Bureau of Economic Analysis, General Administration of Customs (China), State Administration of Foreign Exchange, Matthew Klein's calculations

Trade deficit between the U.S. and China



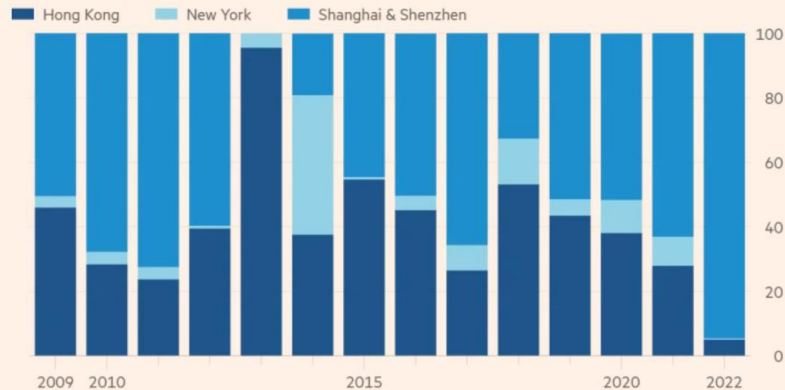
Source: WSJ analysis of Census Bureau and Customs and Border Protection data

Settle down on some rules...



Overseas listings evaporate

Share of Chinese IPO fundraising on major exchanges (%)



2022 figures cover year to date
Source: Dealogic
© FT



美国驻华使领馆 US MissionCN @USA_China_Talk · 20h

美国 政府组织

美国证券交易委员会主席加里·根斯勒：今天，美国和中国当局就一项框架达成了一致，允许美国上市公司会计监督委员会（PCAOB）来指导检查与调查设于中国和香港的审计事务所。

这是我们首次自中国得到如此详细、具体的承诺。

阅读我的声明：

china.usembassy-china.org.cn/zh/statement-o...



Gary Gensler @GaryGensler · Aug 26

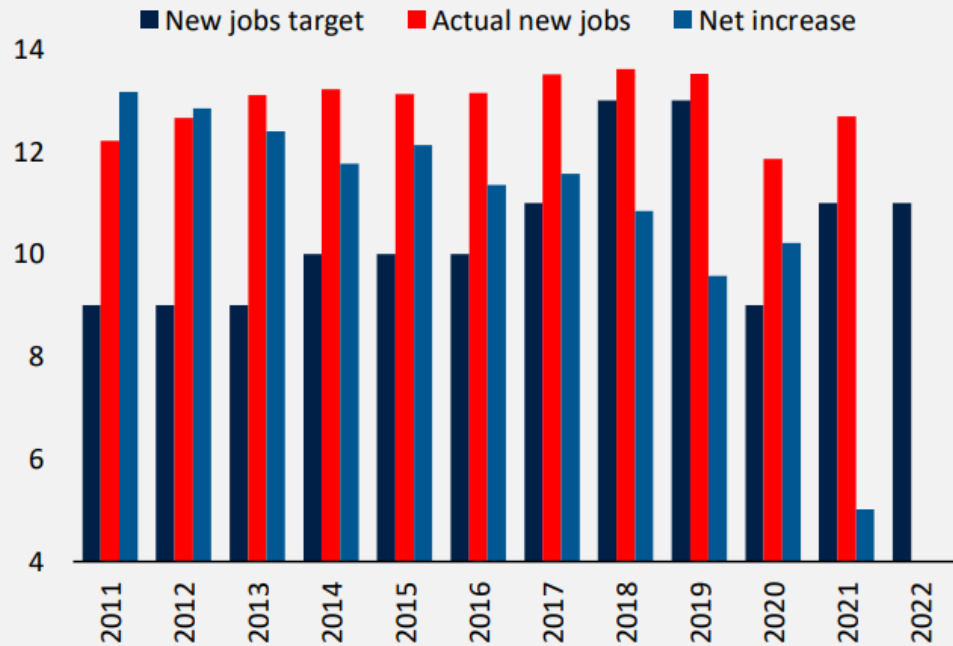
Today U.S. & Chinese authorities agreed to a framework to allow the PCAOB to inspect & investigate auditors in China and Hong Kong.

It's the 1st time we have received such detailed & specific commitments from China.

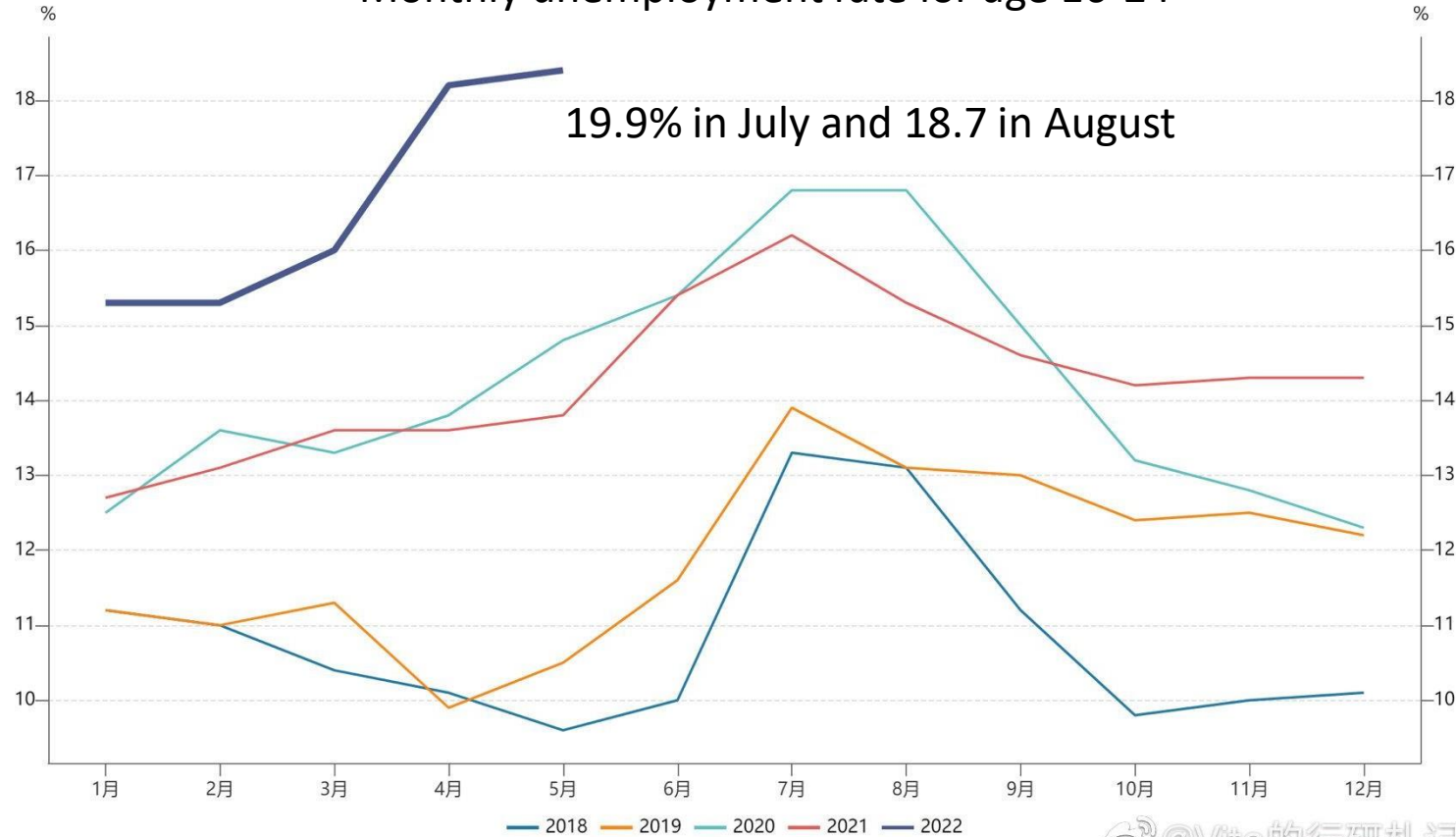
Read my statement:

3. Unemployment will be the biggest challenge

B. Urban job creation
(Million)



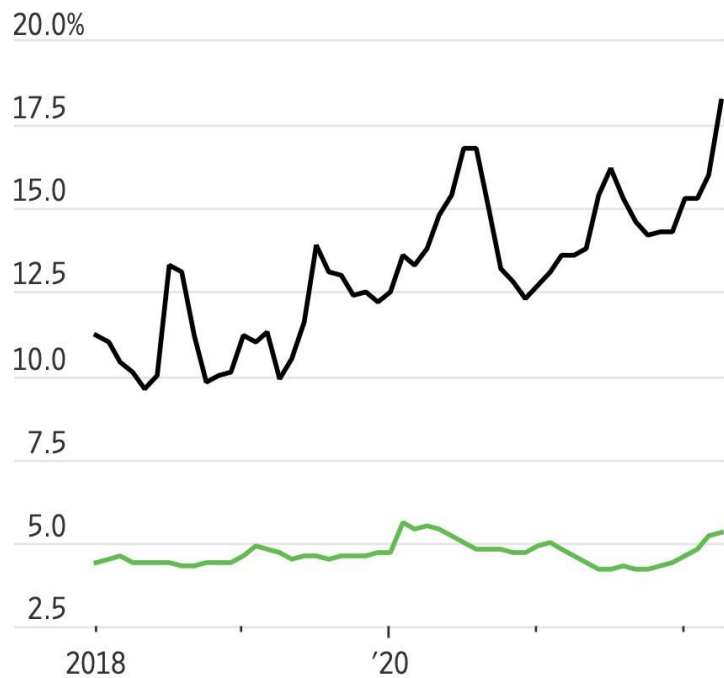
Monthly unemployment rate for age 16-24



Birth rate and aging in the long run...

Surveyed unemployment in China by age group

■ 16 to 24 ■ 25 to 59

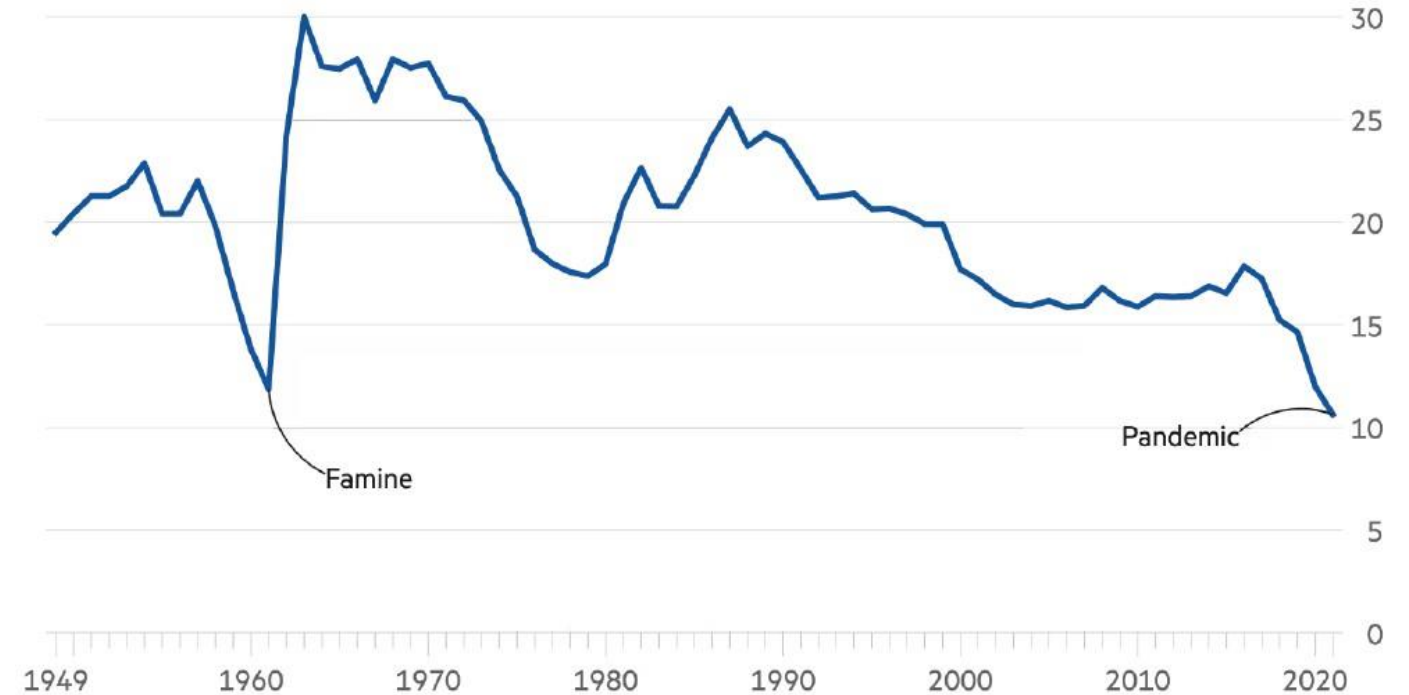


Source: CEIC

@夏田王永敬教授

Births in China

Mn



Source: National Bureau of Statistics

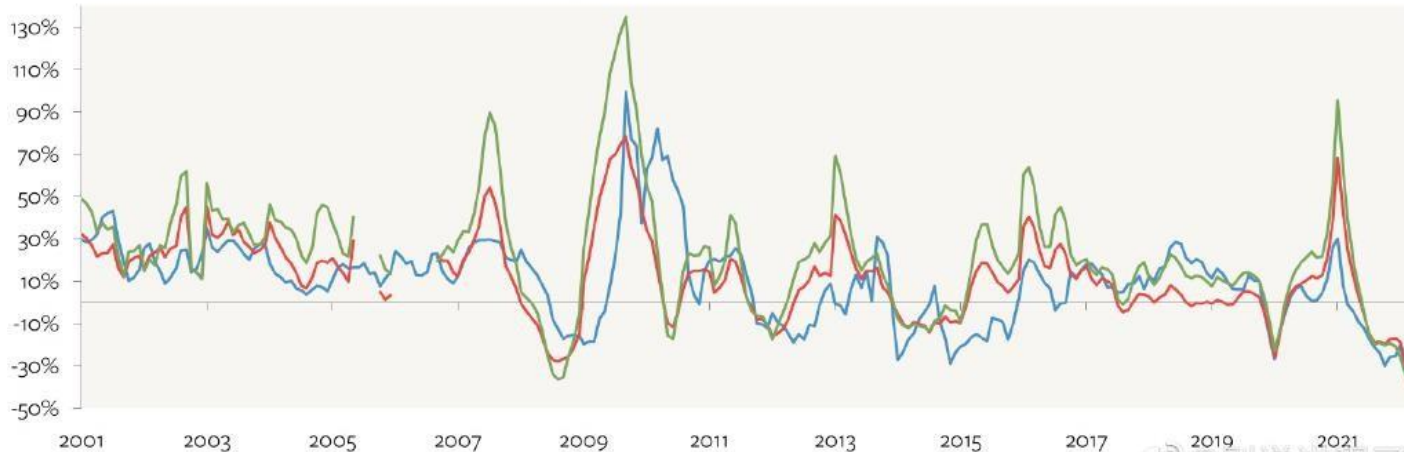
© FT

4. Property market under common prosperity

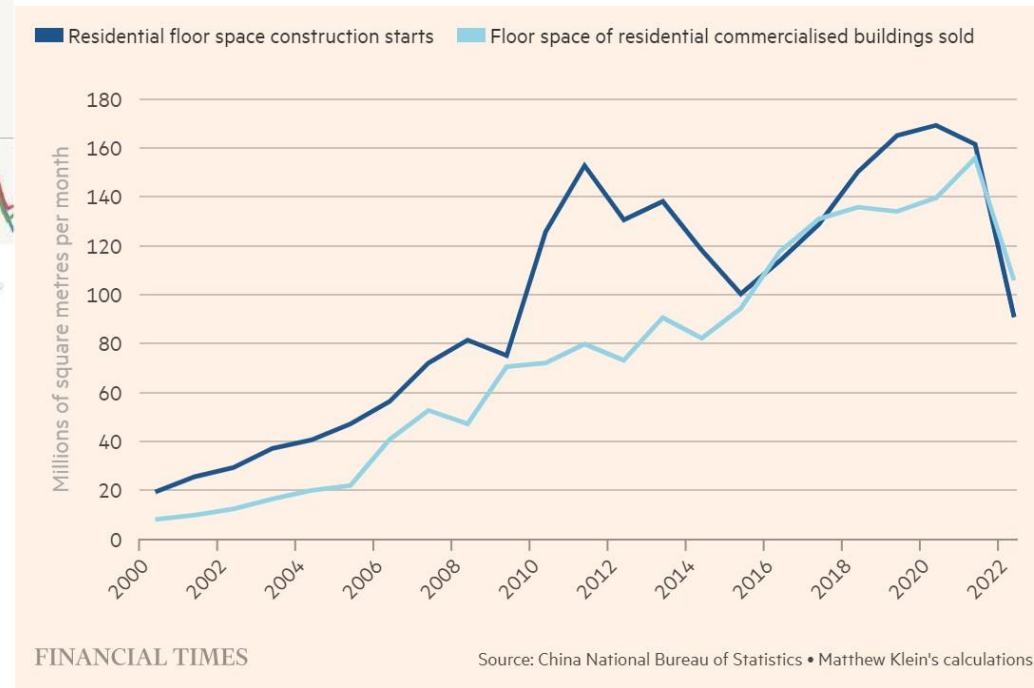
Chinese home sales have dropped by a third since last year while new construction is down by almost half. Housing demand (mostly for investment) is at its lowest point since 2015-2017, while residential building was slower in 2022Q2 than at any equivalent point since 2009.

Chinese residential property sector activity, yearly changes in 3-month averages

- Residential floor space started this year (square meters)
- Floor space of residential buildings sold (square meters)
- Total sale of commercialized residential buildings (CNY)



Source: China National Bureau of Statistics, Matthew Klein's calculations



Source: China National Bureau of Statistics • Matthew Klein's calculations

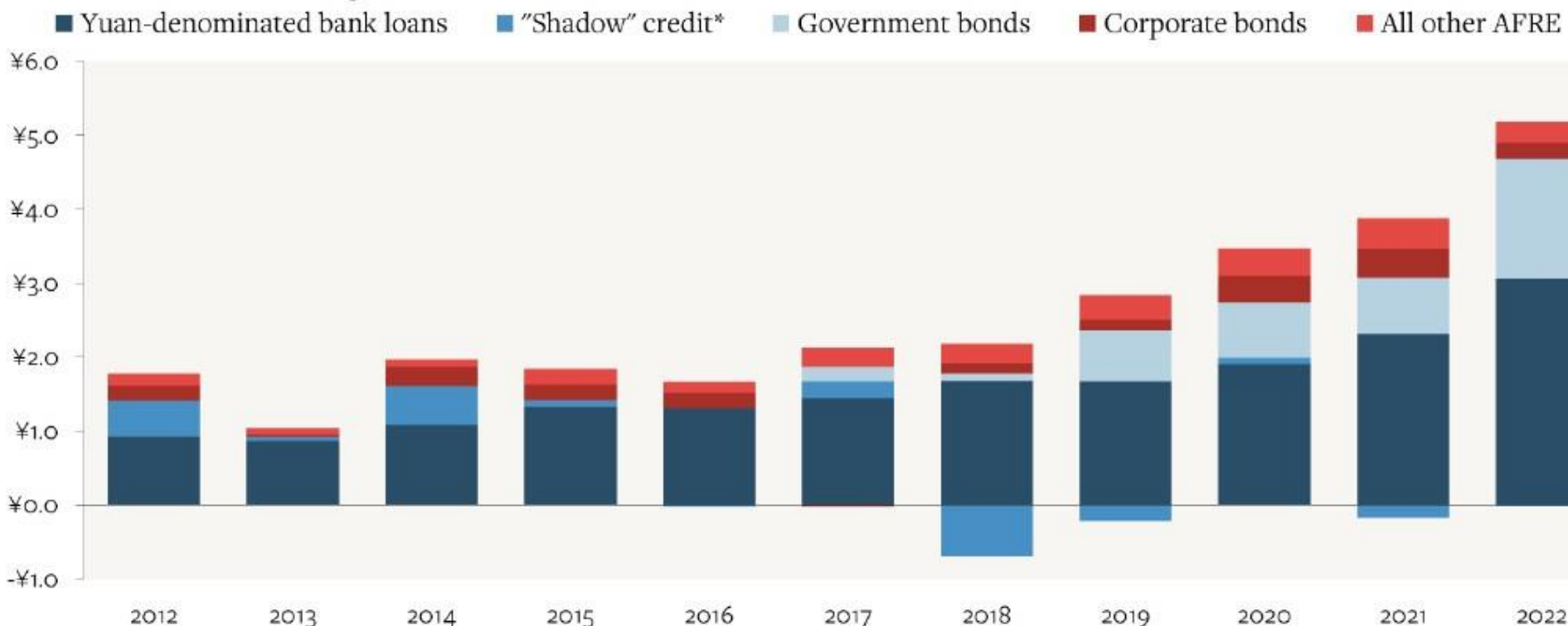
On the edge of property bubble

		Japan in 1990	China in 2022
Real Estate and Real Economy	Land price increase over the past 10 years	100%	75%
	Nominal GDP increase over the past 10 years	80%	120%
	Prices increase over the past 10 years	20%	24%
	Real Estate output to GDP ratio	30%	14%
Real Estate and Financial Credit	Total Stock Market Capitalization / GDP	140%	70%
	Private Sector Credit / GDP	170%	180%
	M2 / GDP	180%	220%
Real Estate and Income	House prices in the Core area	1.5 million JPY per sqm	100 thousand CNY per sqm
	Average annual income in the Core area	about 5.8 million JPY	about 180 thousand CNY
	Years needed to work to buy a 70 sq.m. house (without any consumption)	18	39

5. Lacking fuels for Local Government Financial Vehicle

June 2022 had more net new “aggregate financing to the real economy” than any other June on record. Unprecedented government bond issuance and surging bank lending powered the expansion even as other sources of financing remained weak.

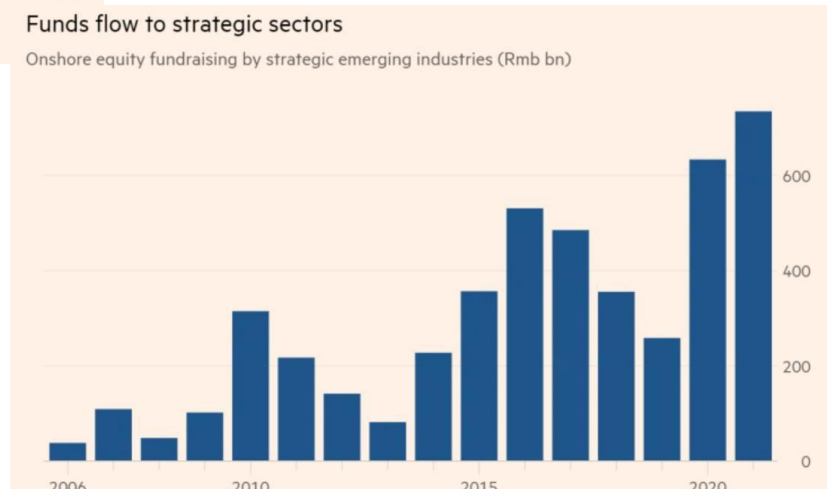
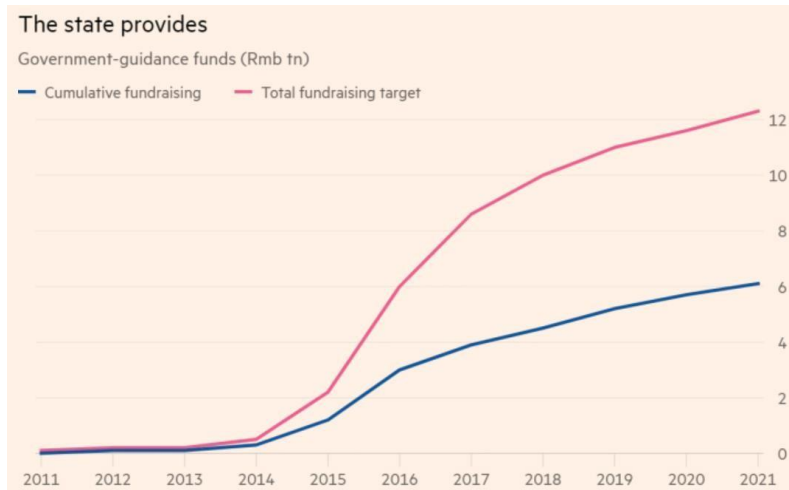
Incremental social financing in June, CNY trillions



*"Shadow" credit is the sum of entrusted loans, trust loans, and undiscounted bankers' acceptances

Source: People's Bank of China, Matthew Klein's calculations

Towards more self-motivated innovation



*Promotion to either a provincial party secretary (the highest local post) or a provincial governor ** 1992-97
Sources: Ruihan Huang, Joshua Henderson, Macro Polo
© FT

Source: Gavekal Dragonomics
© FT

Summary

- Unexpected COVID impact damaged the quarterly GDP growth of China and may lead to the missing of its annual target, even consider there is more space for stimulus
- Midterm and long run opportunities and challenges would be:
 - Manufacture dominance and external balance
 - US-China trade balance and settle down of rules
 - Unemployment and aging society in the future
 - Property market disappoint local government finance
 - Rely more on self-motivated innovation



Anna Jaguaribe Executive Program

China Today

Thanks !