

# HOW CHINA'S REBALANCING SHIFTS THE GROUND UNDER ALL OF ASIA-PACIFIC

Paper Discussion: Soumya Bhadury

# 5 DIMENSIONS OF CHINA'S REBALANCING ACT


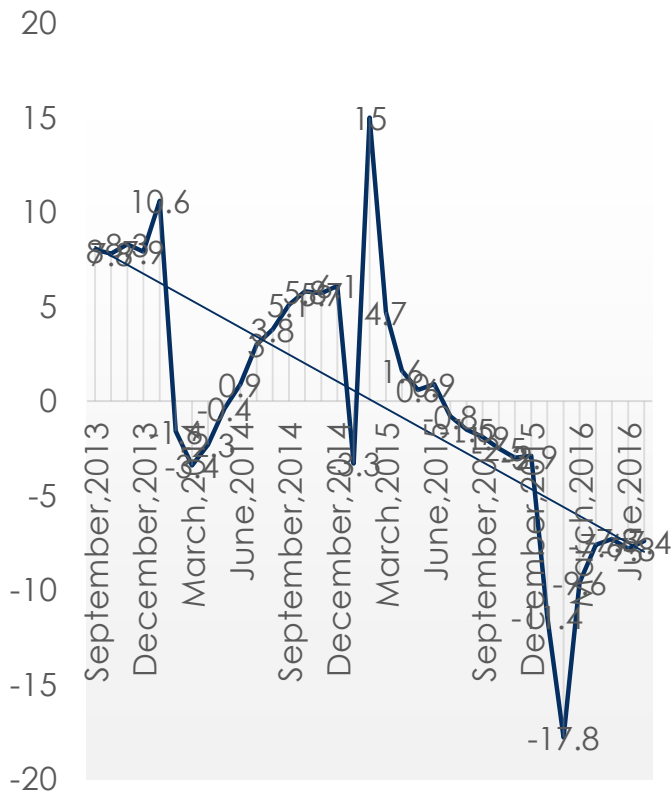
- Slowing World growth, fall in Global trade, less reliance on export-led growth
  - Investment-GDP ratio high, return on capital fallen, investment to consumption
  - Excess capacity, Coal and Steel, old-industrial to new-consumption sector
  - Energy consumption high, sustainable growth, current to future generation
  - Regional inequality high, increased urbanization drive, from urban to rural
- 

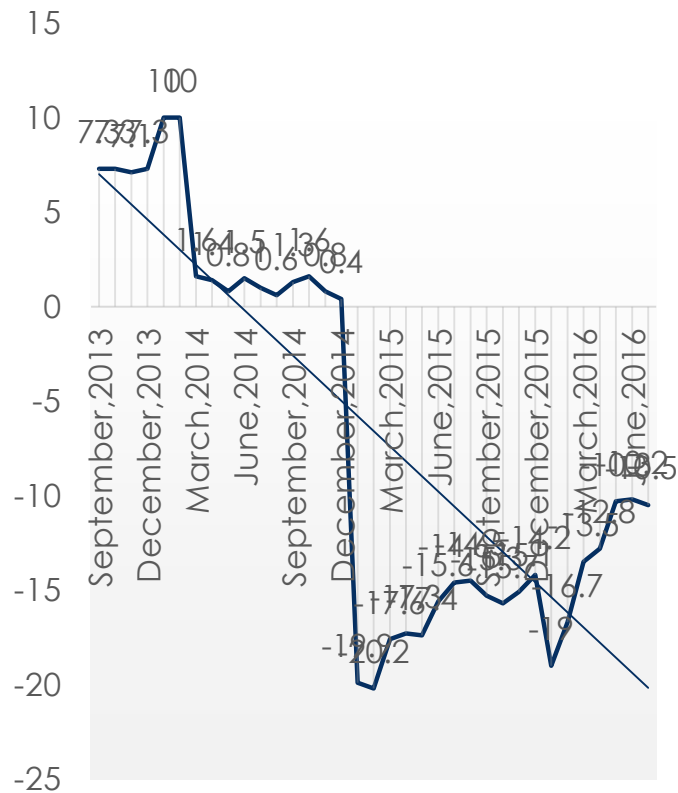
Fig 1: Total Value of Export (% growth)



## WHAT'S HAPPENING TO GROWTH IN EXPORT?

- Beginning in mid-2015, the export growth has hit negative number.
- Source: **National Bureau of Statistics of China**

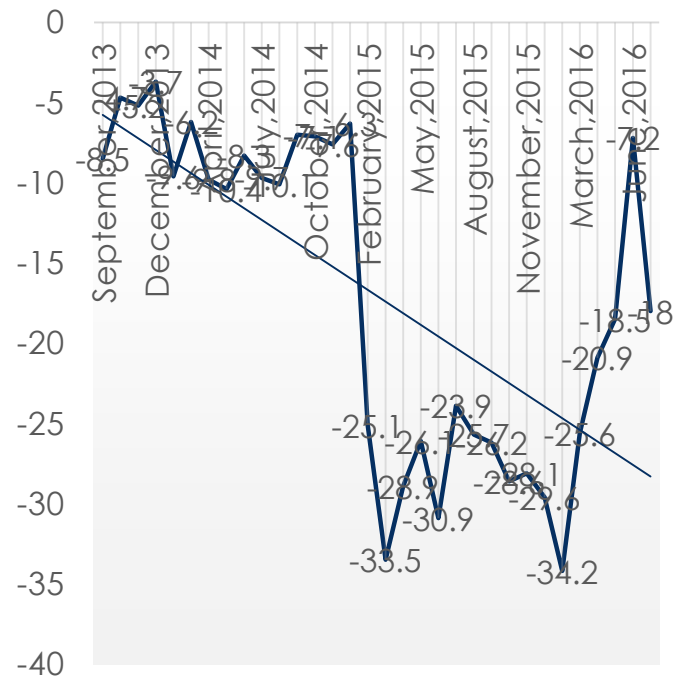
Fig 2: Total Value of Import(% growth)



## WHAT'S HAPPENING TO GROWTH IN IMPORTS?

- Beginning in late-2014, the imports have started to shrink
- Is China becoming more inward-looking economy?
- Source: **National Bureau of Statistics of China**

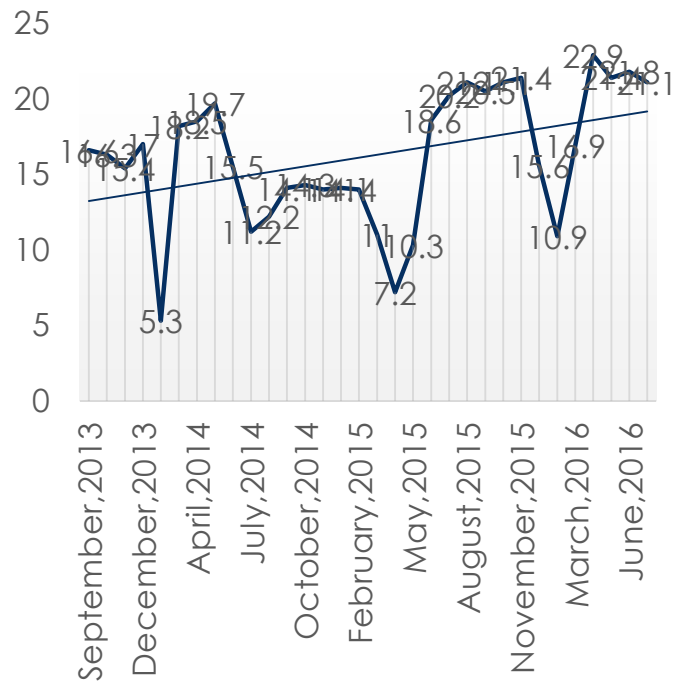
Fig 3: Sources of Funds for Investment in Fixed Assets, Foreign Funds (% growth)



## WHAT'S HAPPENING TO FOREIGN FUNDS?

- Private investment in fixed assets decelerated
- Source: **National Bureau of Statistics of China**

Fig 4: Sources of Funds for Investment in Fixed Assets, State Budget (% growth)



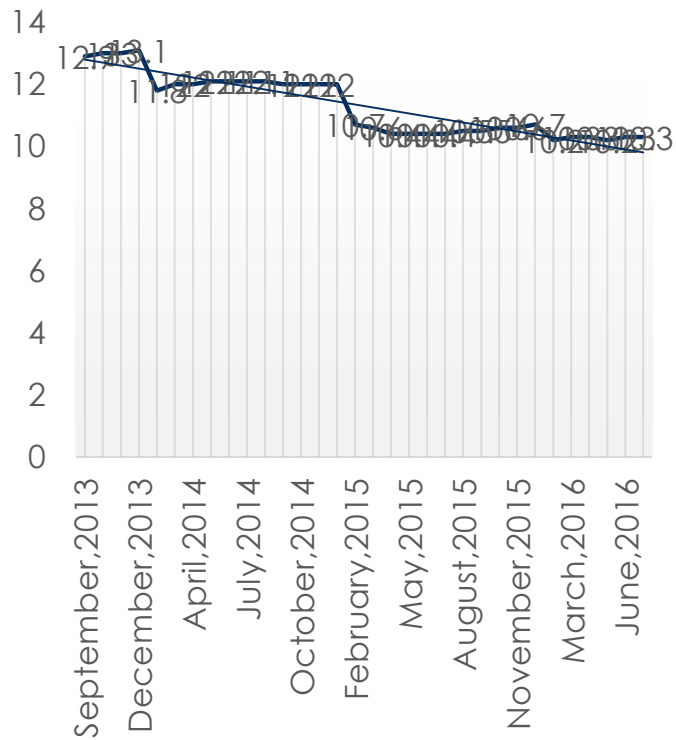
## WHAT'S HAPPENING TO STATE BUDGET ?

- From January to June 2016, state-owned fixed-asset investment has accelerated over the same period last year
- Source: **National Bureau of Statistics of China**

# SENSITIVITY OF SECTOR REVENUES TO CHINESE INVESTMENT

- Quarterly data from 2010-2015, 550 firms avg. each sector, 22 sectors identified.
- Pairing sectoral-level data with Chinese consumption & investment
- Asia-Pacific wide measure of sectoral revenue instead of each sector for each country
- However, Chinese State and Private investment behaved differently.
- **Talking Point 1:** If possible, State and Private investment decomposed; sensitivity of sectoral revenues to State and Private investment analyzed separately.
- **Talking Point 2:** (A) Flip-flop analysis, identifying key Chinese investment and consumption sectors
- **Talking Point 2:** (B) Sensitivity analysis, pairing Chinese sectoral-level data with Asia-Pacific wide measure of trade revenue.

Fig 5: Retail Sales of Consumer Goods (% growth)



## WHAT'S HAPPENING TO DOMESTIC CONSUMPTION ?

- Consumption growth in terms of retail sales yet to pickup
- Growth has remained fairly stable at 10%
- Source: **National Bureau of Statistics of China**



# CAPTURING CHANGES IN COMPOSITION WITHIN SECTOR, FOLLOWING REBALANCING

- As China rebalances from old-economy industrial to new-economy consumption driven sectors.
  - There will be changes in the composition within sectors.
  - For example, under **Metals and Mining sectors**, due to excess capacity in Coal and Steel production, there will be cut by 500 and 150 million tones respectively.
  - As China rebalances, investment in vast housing development might decrease, car production might increase.
  - Metals used in consumer goods like Zinc, Palladium might outpace Coal and Steel production both in China and in Asia-Pacific region
  - **Talking Point 3:** While performing *more recent* sensitivity analysis, we should be able to capture the sectoral transformation.
- 

## REGARDING THE “MINING PARADOX”

- Australia's iron ore and coal industries depend heavily on China, and they boomed along with Chinese investment
  - Results show sensitivity of Australian metals and mining sector revenues to Chinese investment is quite high at 2.0
  - China's steel consumption contracting, investment reduction in coal and iron-ore
  - Low-cost miners continue to expand supply to China
  - Shipment of iron-ore from Australia increased to 39.53 million metric tons last month
  - From 36.63 million in February, 2016 and 36.61 million a year earlier
- 