



China's new role in the global economy

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Outline

1. Past changes
2. Ongoing changes
3. Future changes



I. Past changes

- China's opening to the world economy
- Phased and pragmatic reform, including labor mobility.
- Physical investments to improve domestic and external connectivity
- Context of globalization
- Combined to produce sustained productivity growth from factor reallocation, competition, access to new technology/practices.



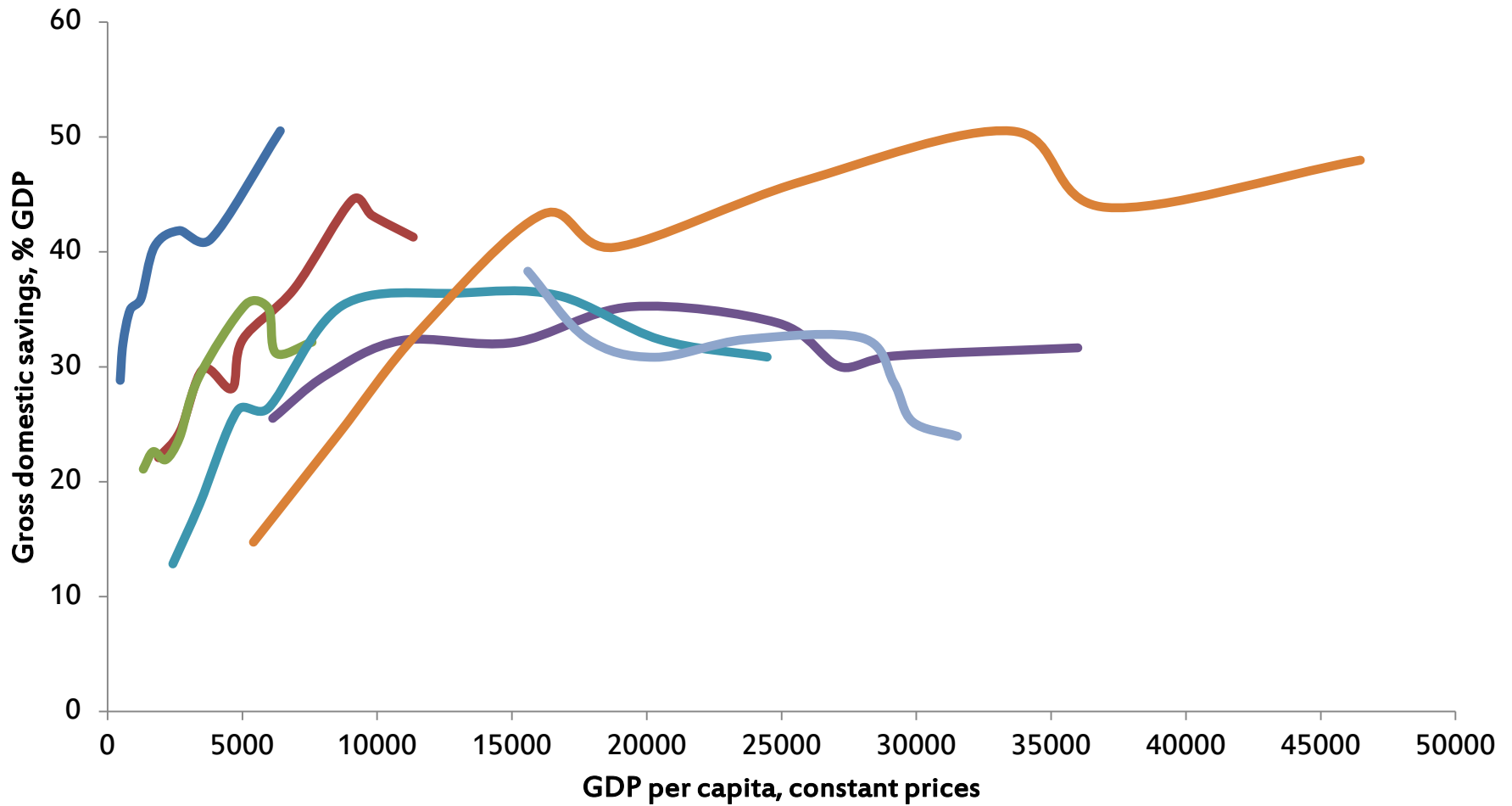
I. Results of past changes

- 10% annual growth, expanding trade.
- 2nd largest economy, largest exporter and manufacturer, largest forex reserves, etc.
- Diversified importer – commodities, inputs, final goods.
- Large net saver/creditor to world.
- No longer a one way street – China also affects the world economy, e.g. impacts on commodities markets (China represents half of world demand for several metals).



Savings even high by East Asian standards

(in constant prices, average over five-year periods)

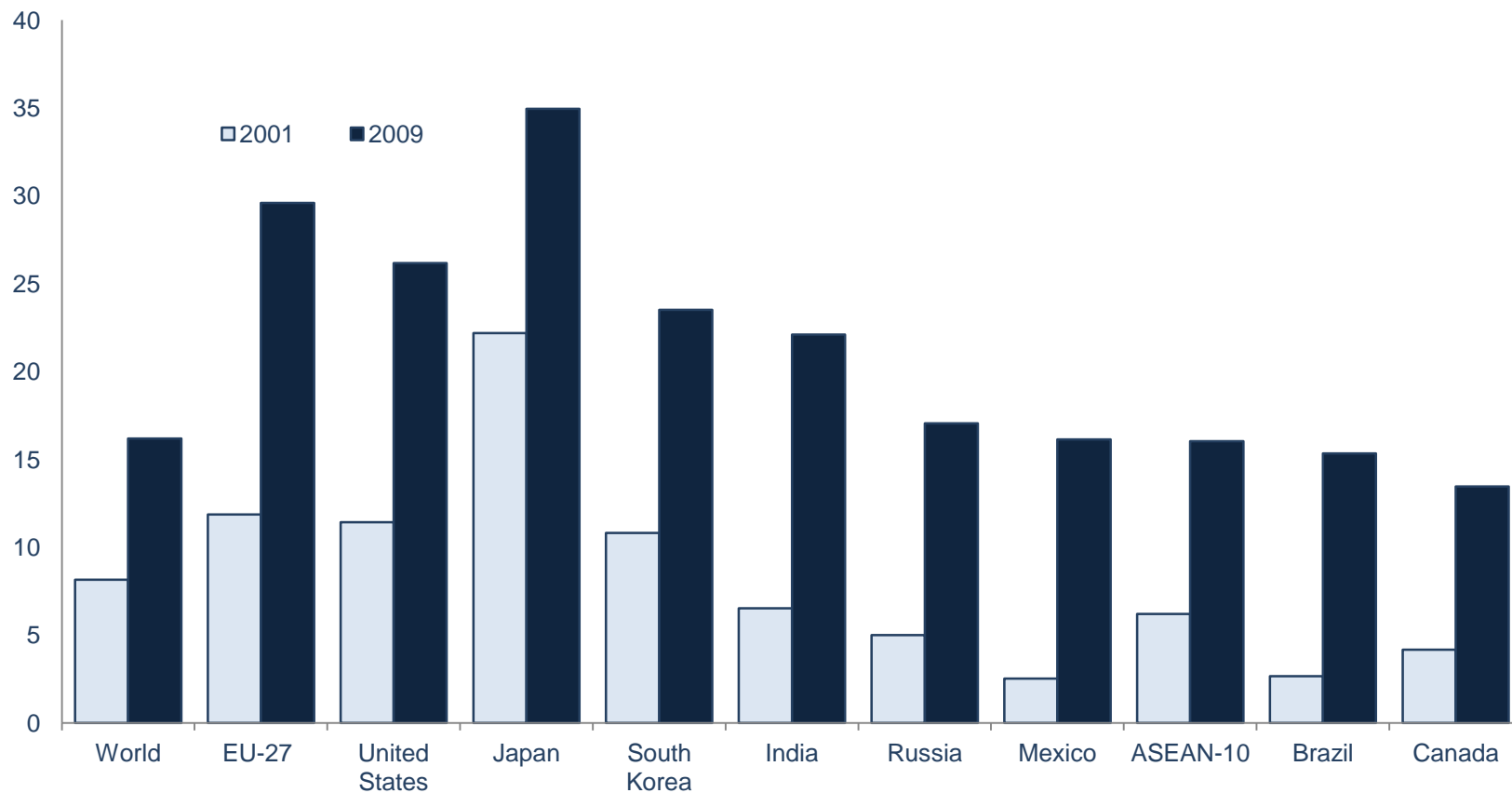


- China (1974-2009)
- Malaysia (1965-2009)
- Thailand (1965-2009)
- Hong Kong (1965-2009)
- Korea (1965-2009)
- Singapore (1965-2009)
- Japan (1974-2009)



China's share in industrial imports of 10 largest importers, 2001 and 2009

Import share from China (%)



Source: UN COMTRADE database.

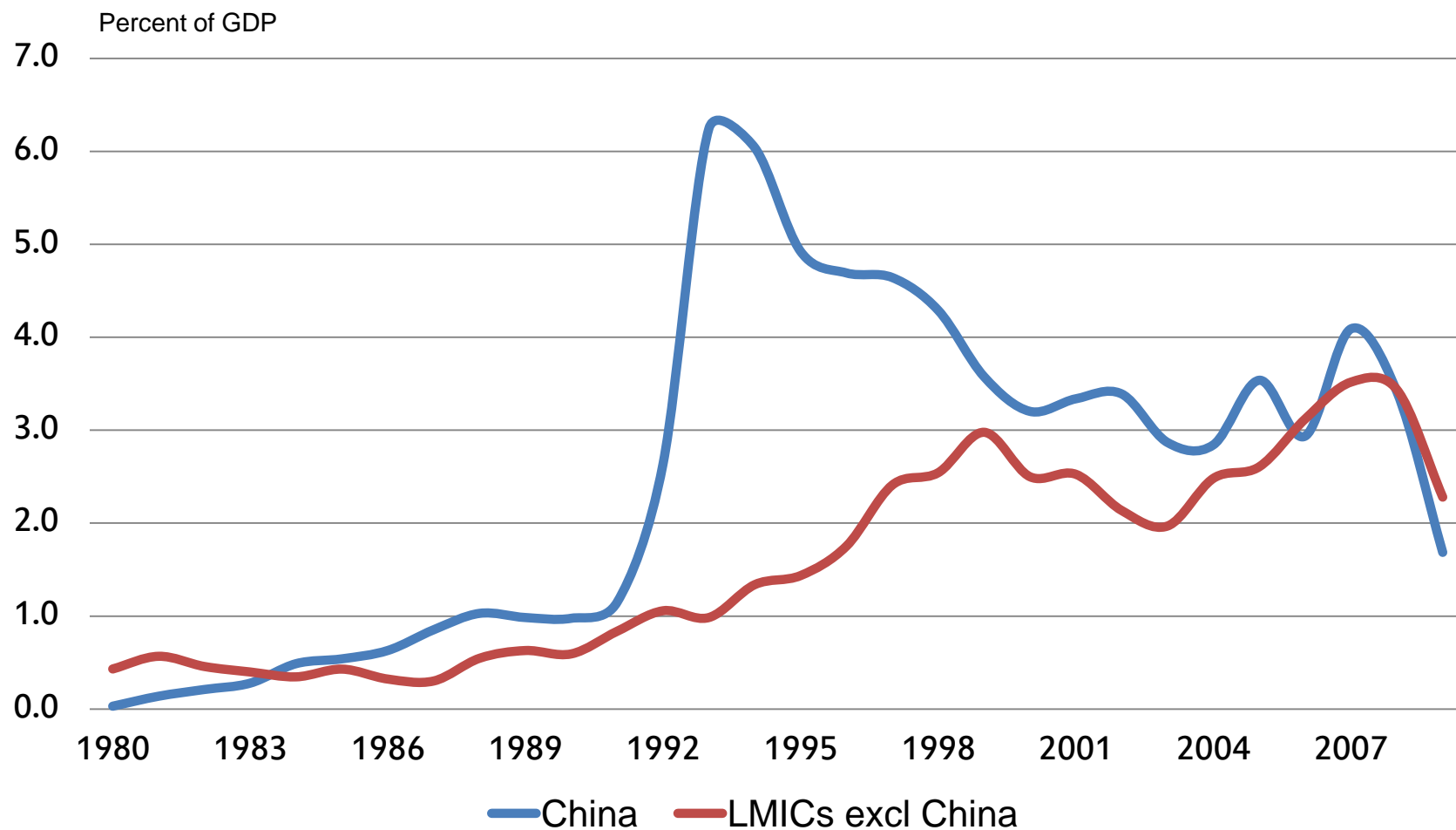


II. Ongoing changes

1. From inward towards outward FDI – first step in Chinese firms becoming global players?
2. Financial opening/RMB regionalization.
3. China as innovation leader in some sectors.
4. Restructuring and consolidation in Chinese and global value chains.
5. Industry moving up the value chain.

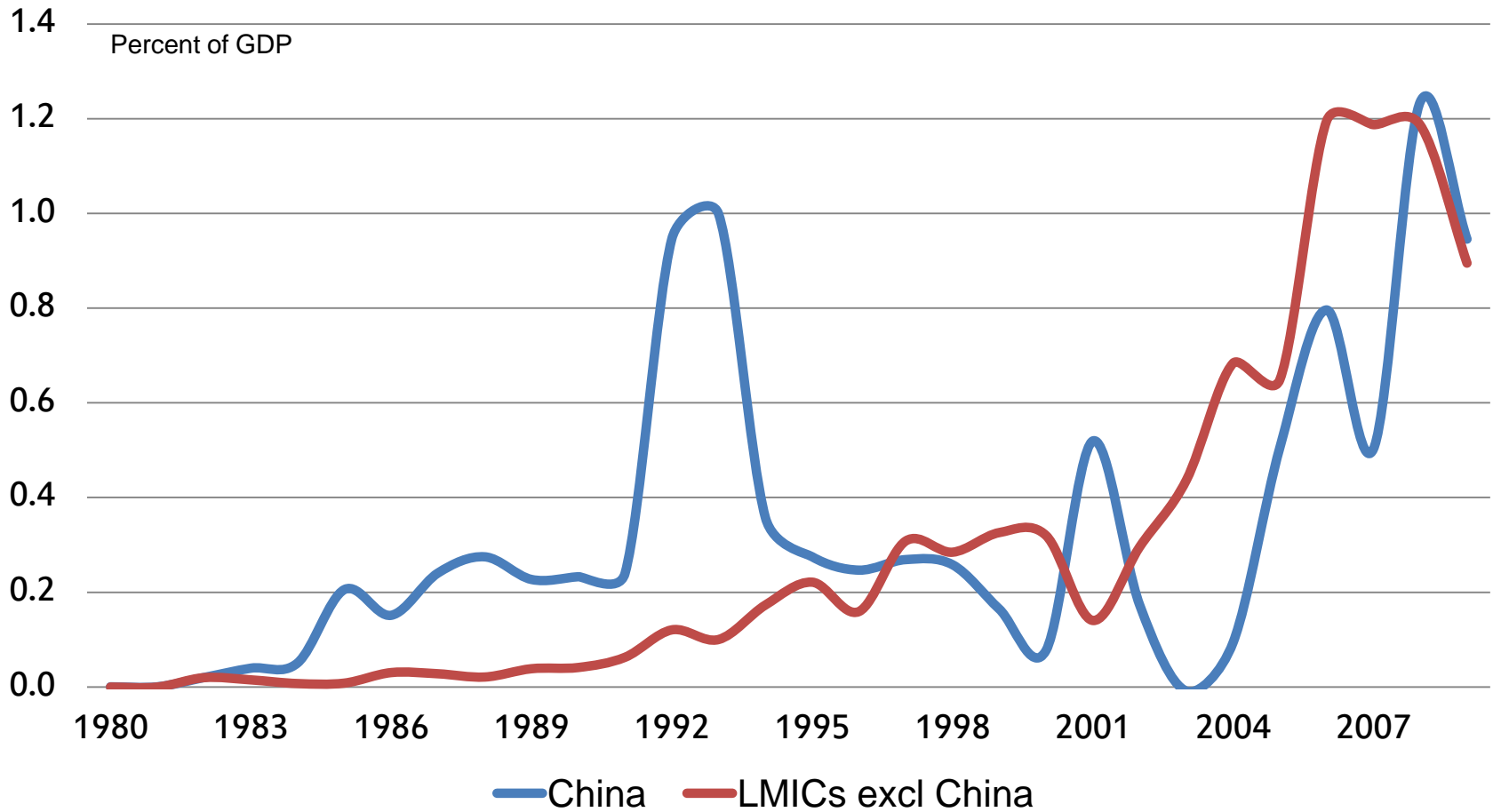


From FDI inflow.....





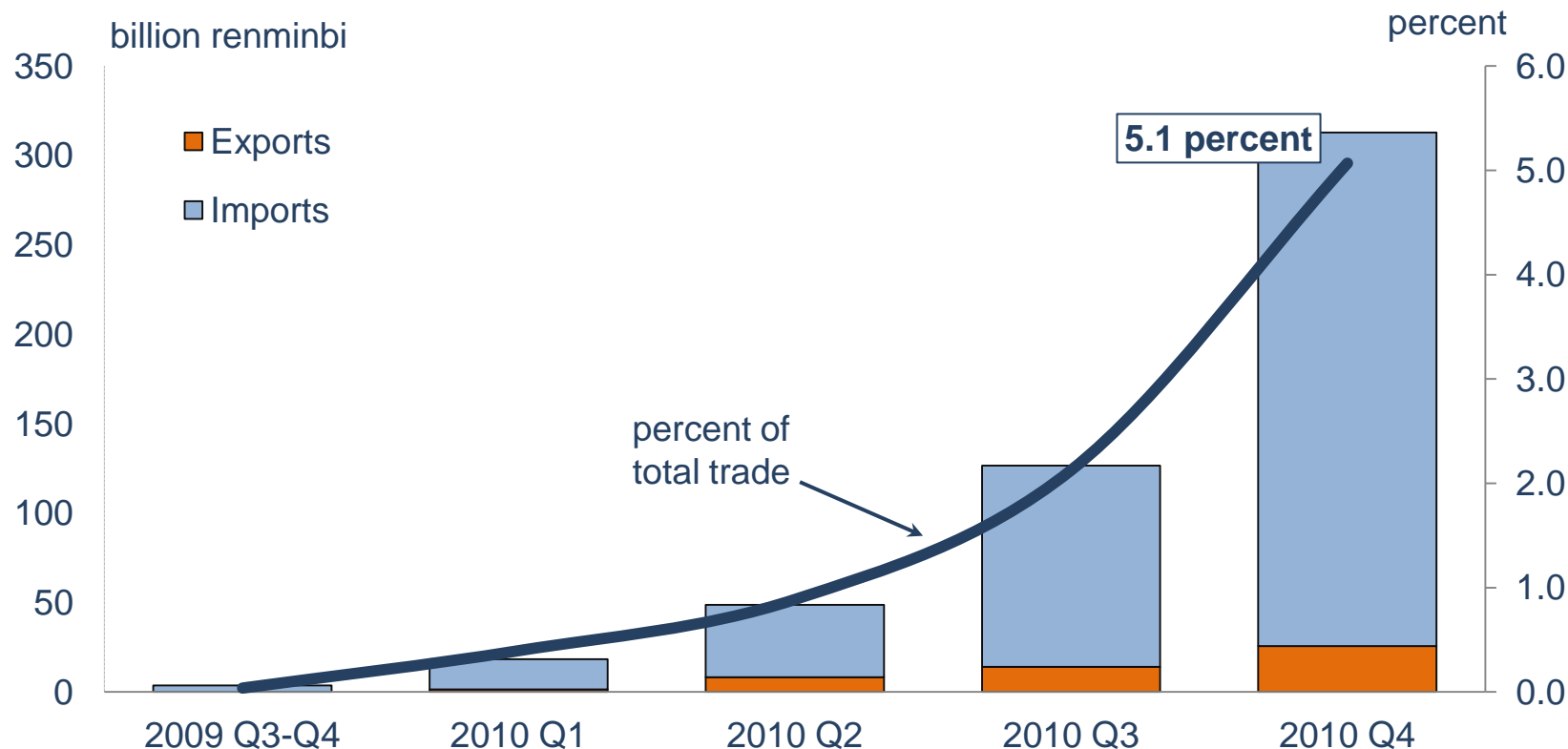
...to FDI outflows





The use of renminbi in trade settlement is growing...

Cross border trade settlements in renminbi



China's total exports 2010: \$1.75 trillion

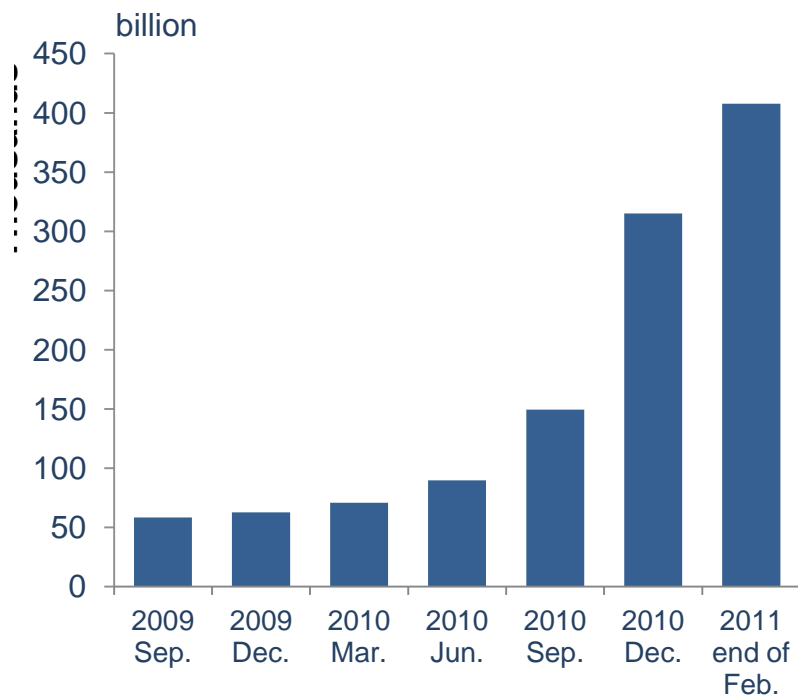
China's total imports 2010: \$1.52 trillion

Sources: People's Bank of China.



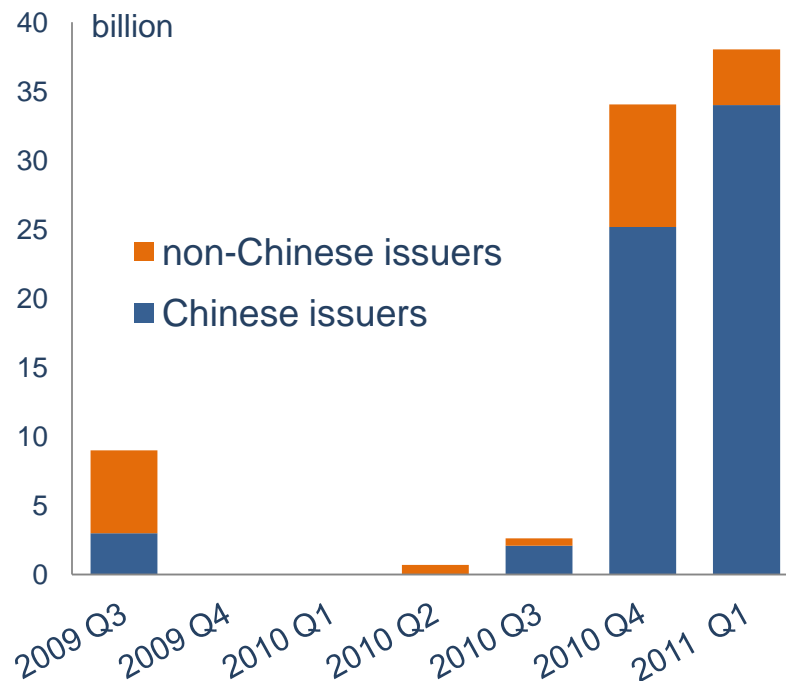
... renminbi offshore market has taken off

Renminbi-denominated bank deposits in Hong Kong SAR, China



Source: Hong Kong Monetary Authority

Offshore renminbi bond issuance



Source: Dealogic DCM

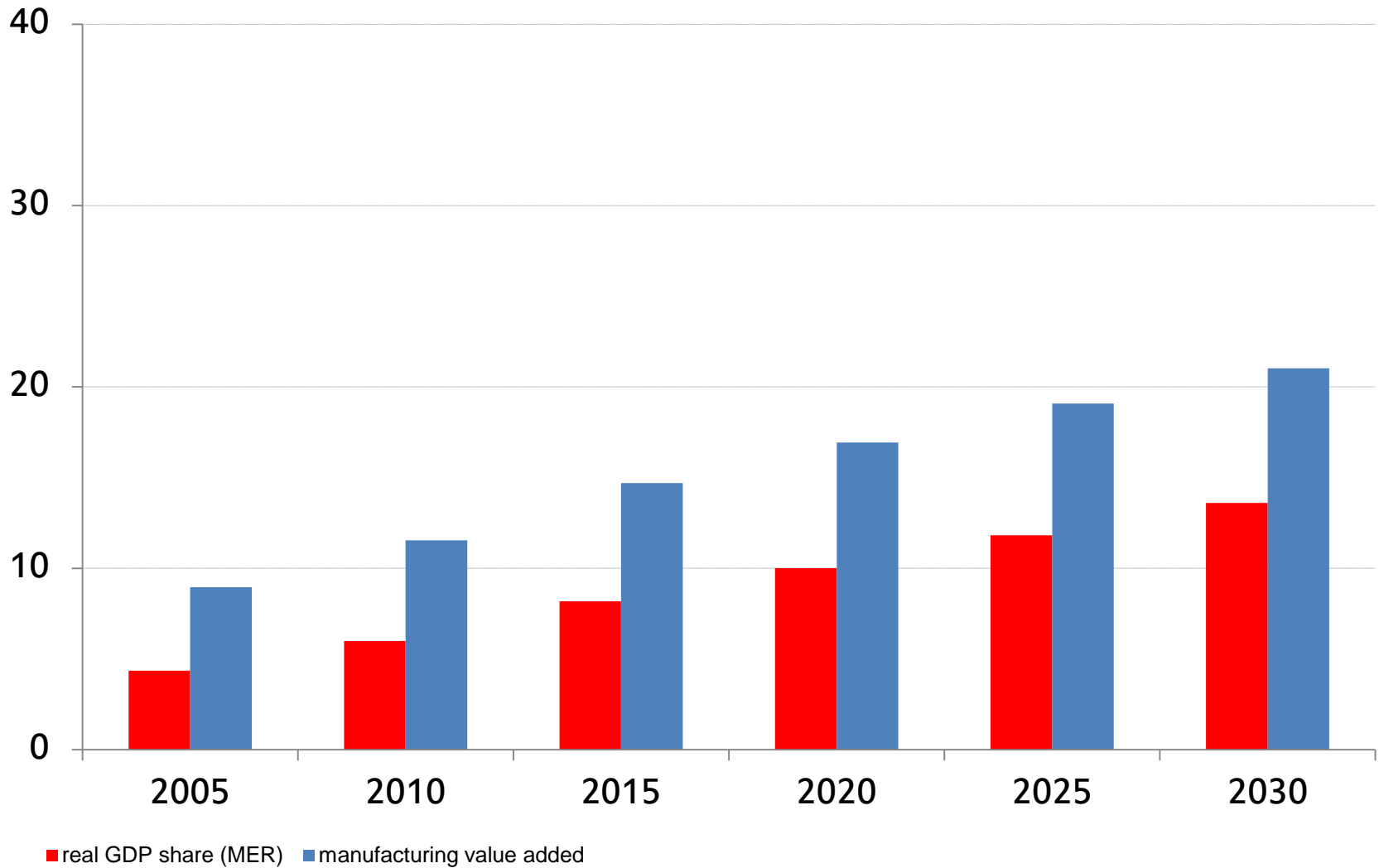


3. Looking to the future

1. China's impact on the world will further increase and change
2. The world will continue to change
3. China's characteristics will remain unique

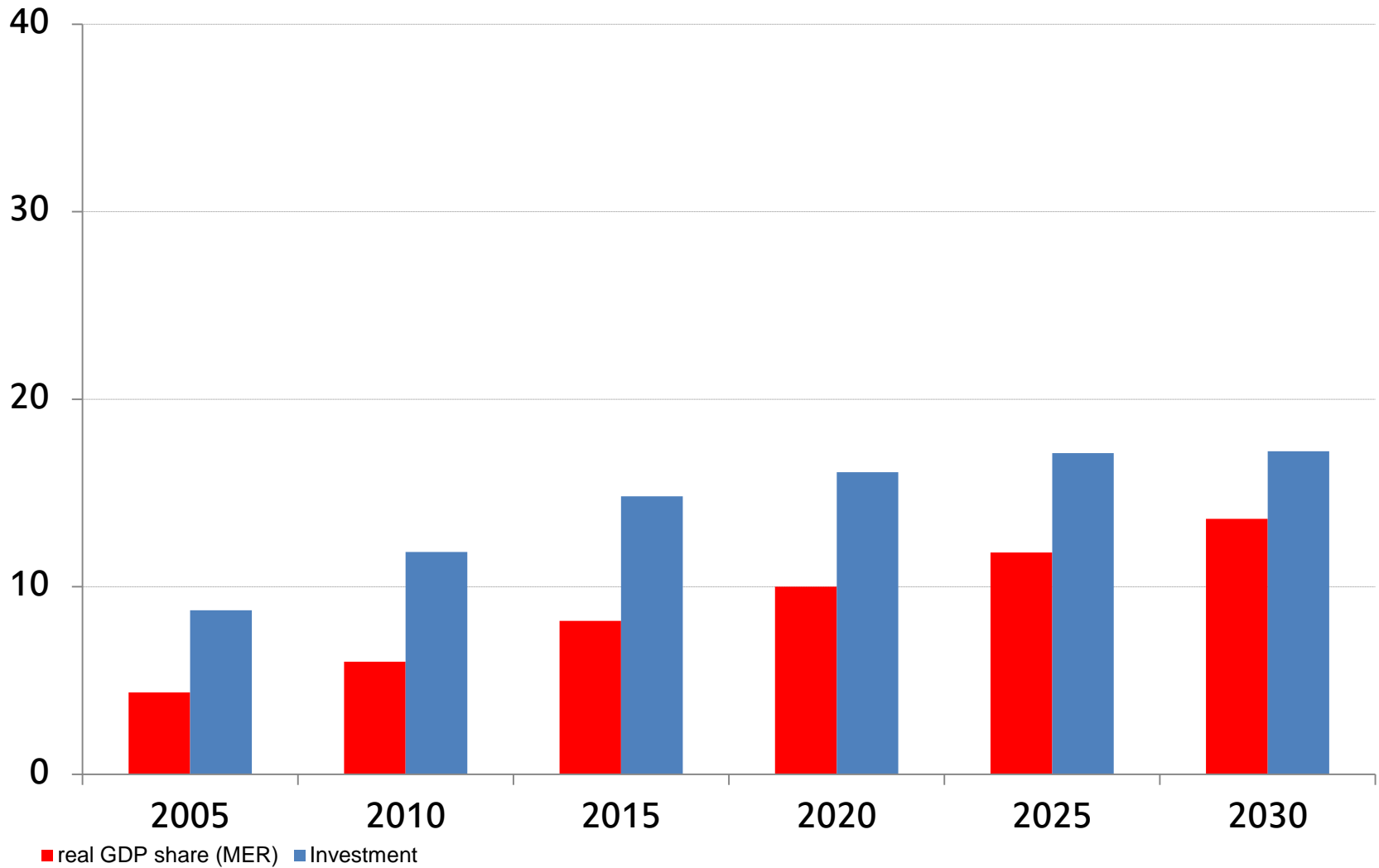


China's share in the world



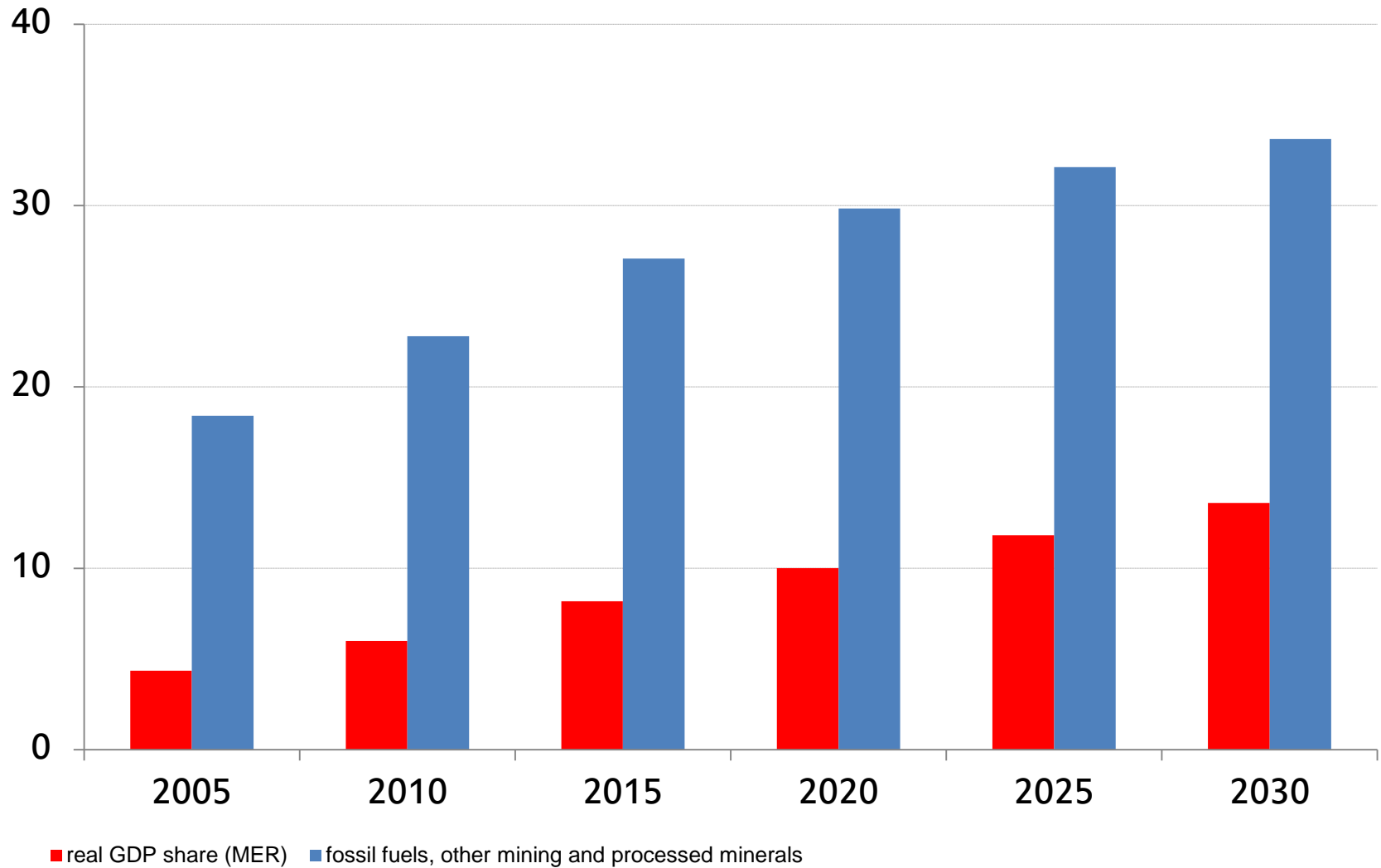


China's share in the world



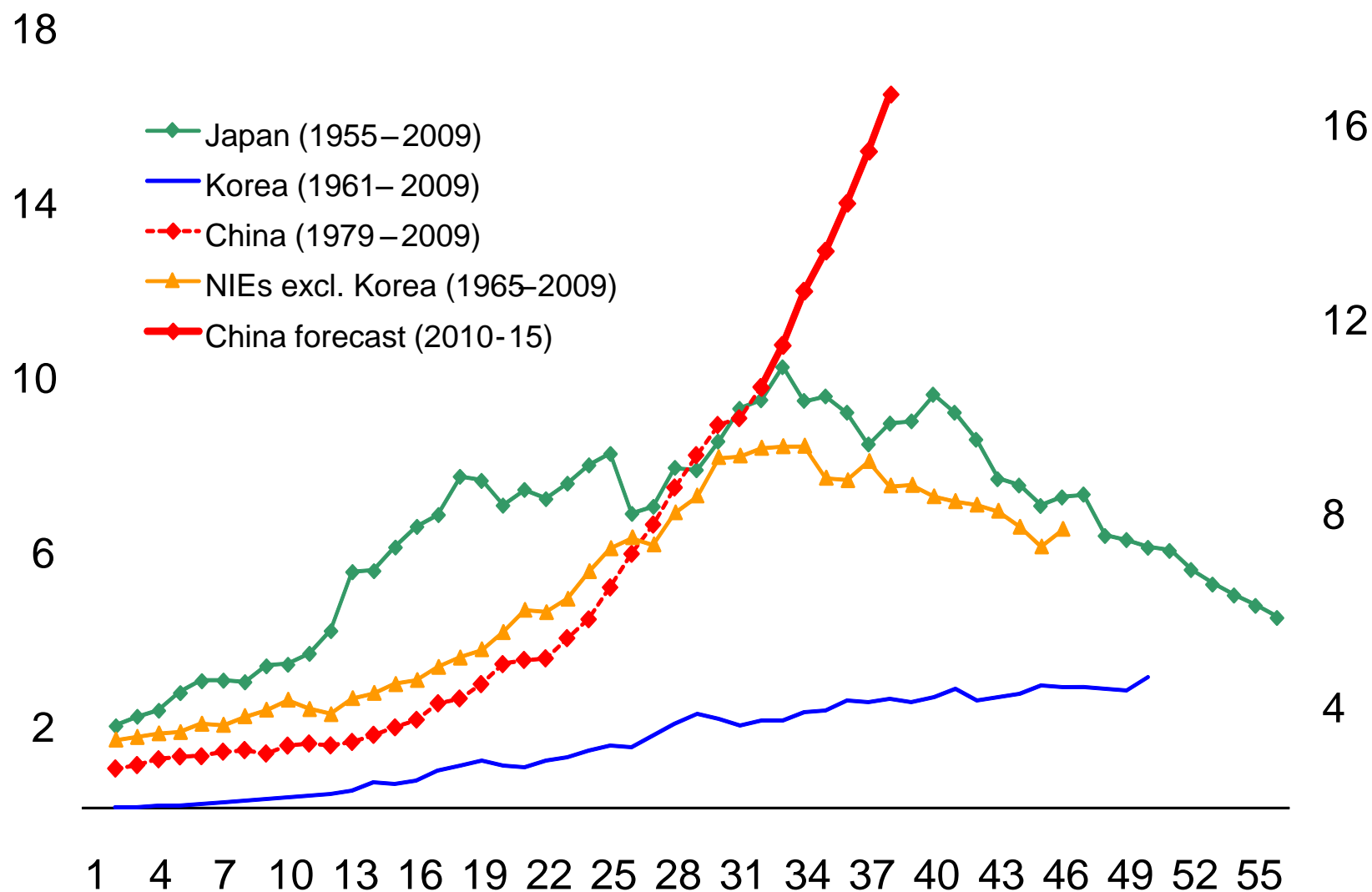


China's share in the world





China's share in selected export markets is rising



From: Guo and N'Diaye, *Is China's Export-Oriented Growth Sustainable*; in "Rebalancing Growth in Asia: Economic Dimensions for China," 2011 (Washington DC; IMF).



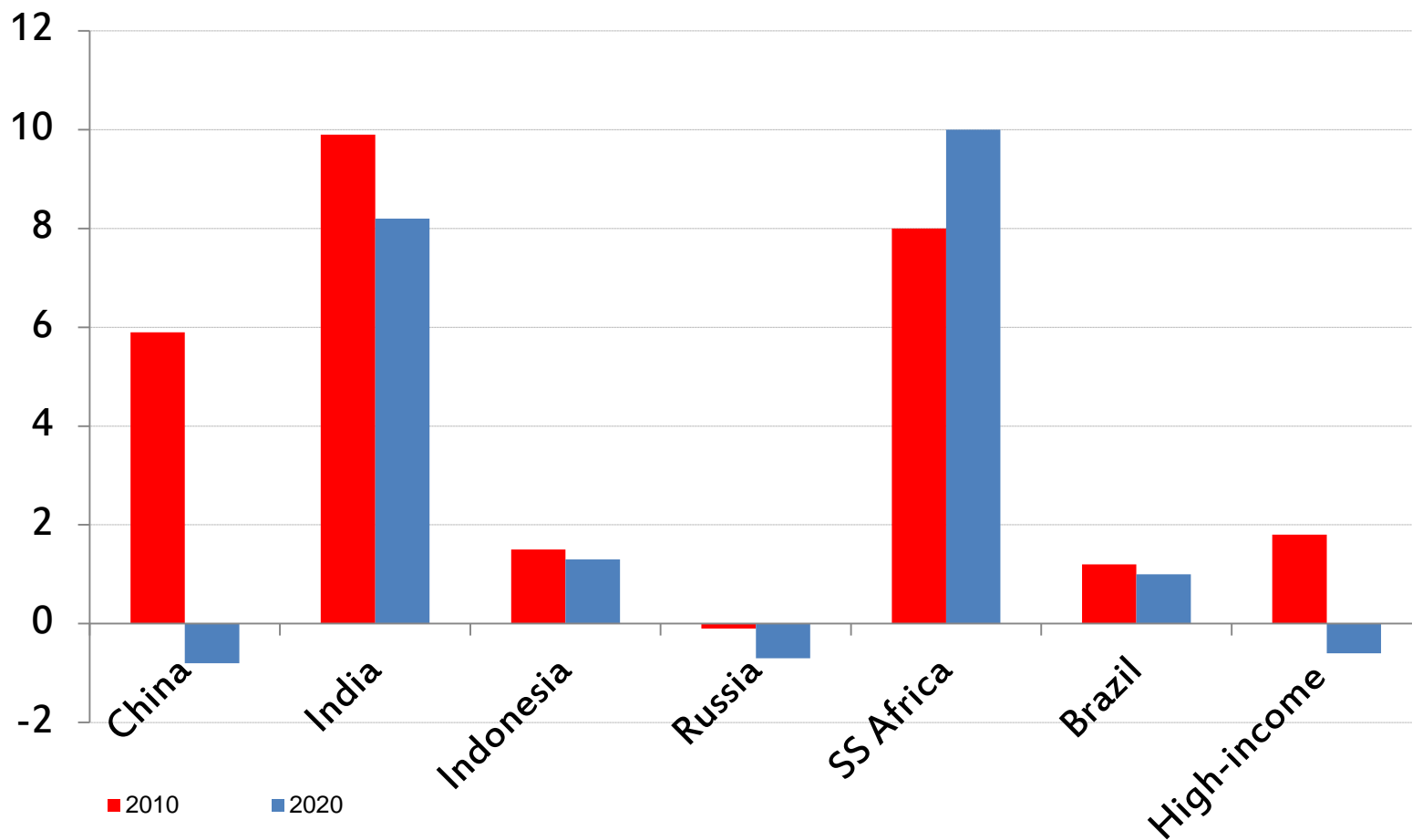
The world will change – forces that could slow global growth

- Slowing growth in labor supply and slowing migration
- Shift to services
- (Especially in China) slowing pace of capital deepening
- Scarcity of land and natural resources



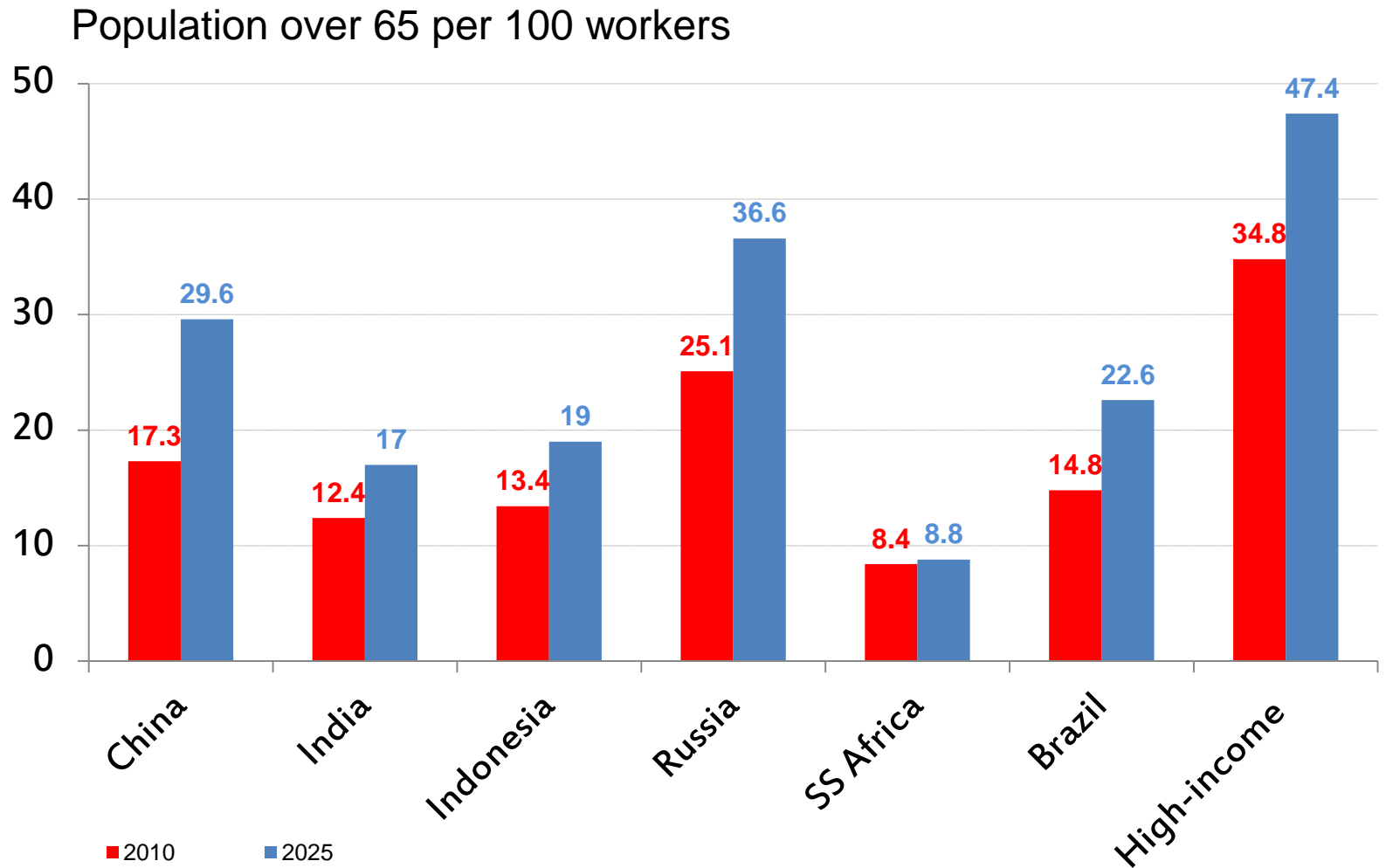
Required move up the value chain reinforced by changes in labor supply

Annual increase in labor supply; mln.



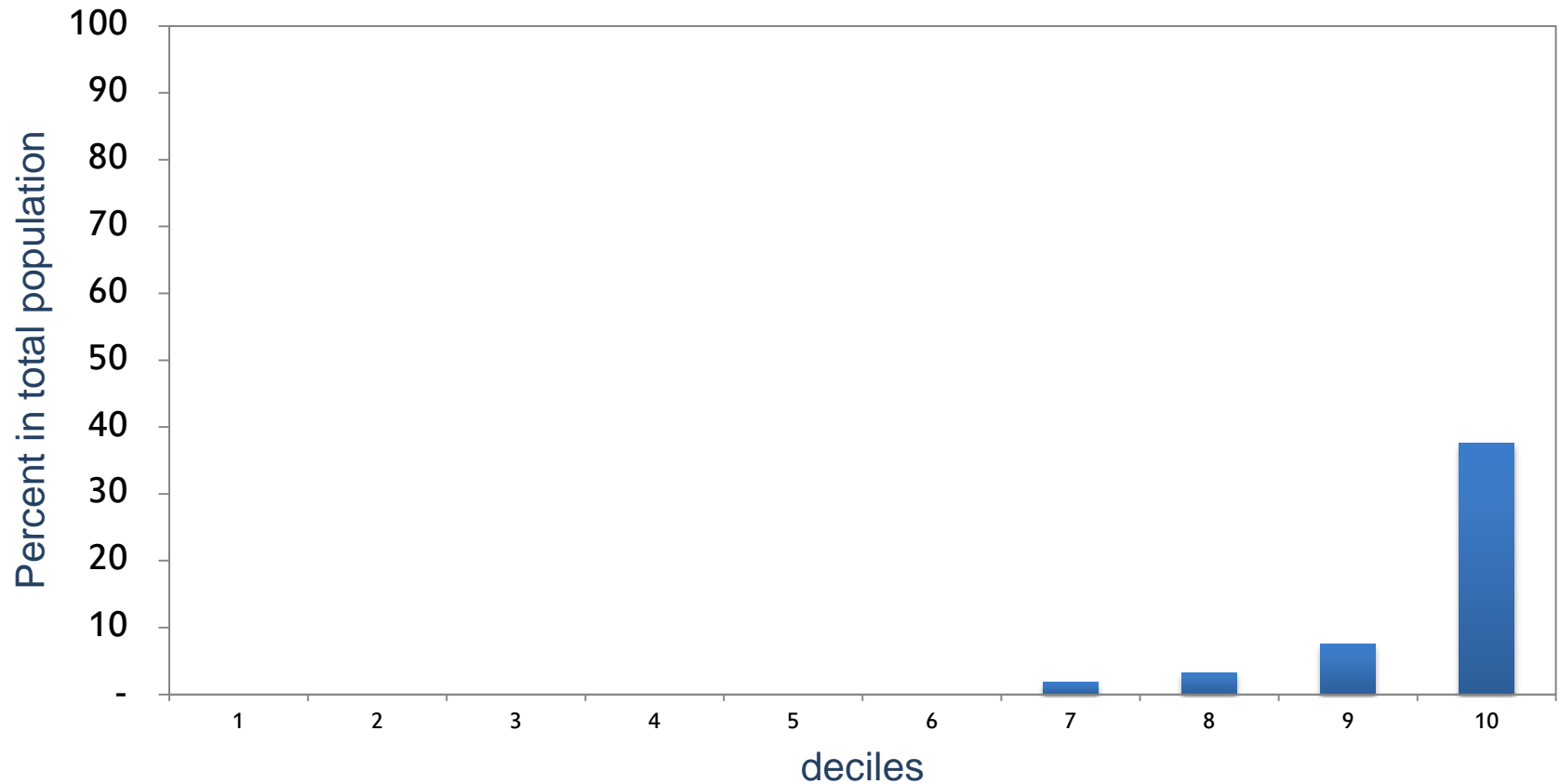


Shift to services reinforced by rapid ageing



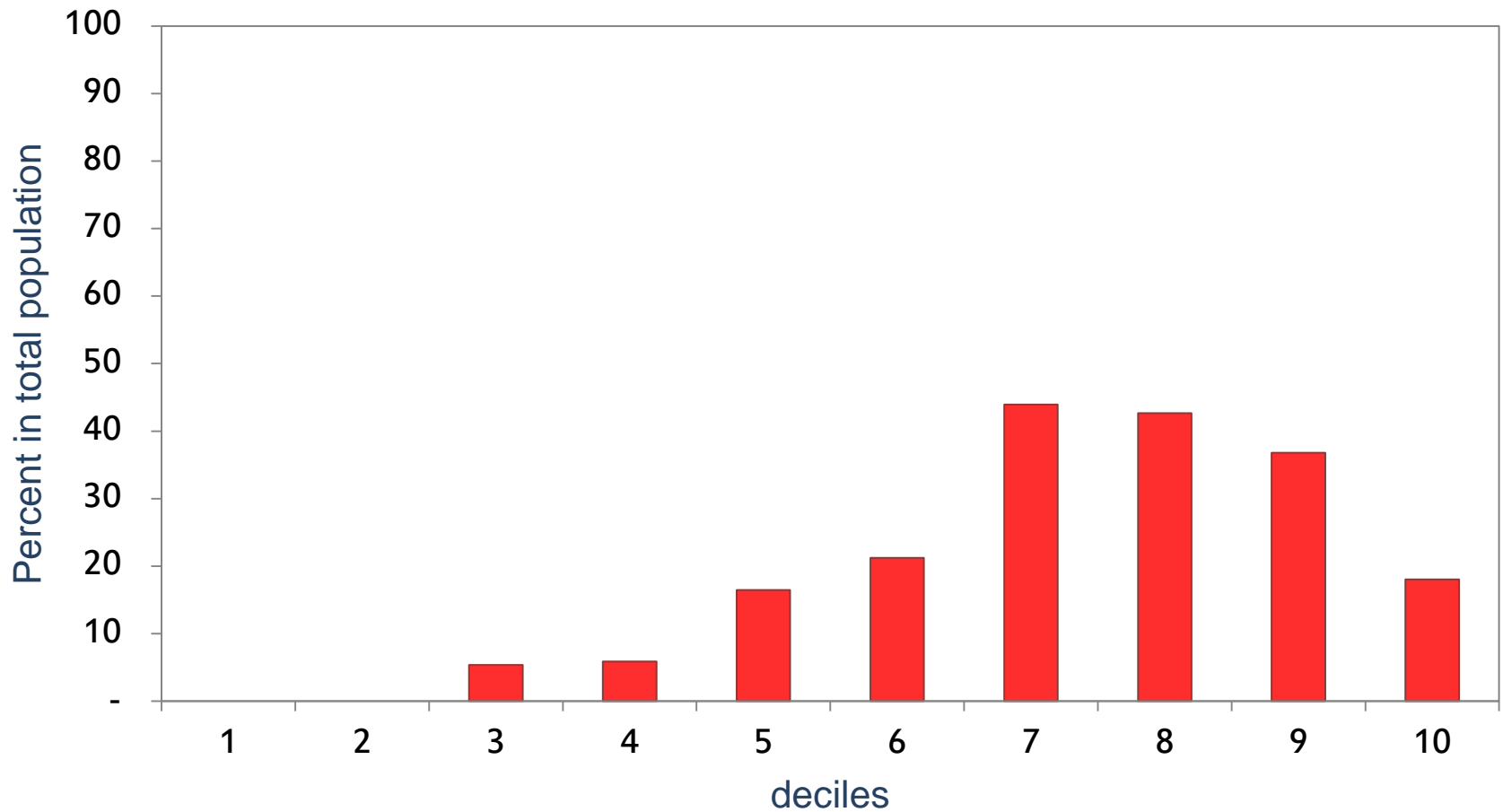


China's characteristics will remain unique US' share in deciles of Global Income Distribution - 2009





China's share in deciles of Global Income Distribution - 2030





III. Looking to the future

- More challenging external environment
- Even if growth slows, China remains dominant force in the global economy, increasingly joined by other emerging economies.
- Even greater two-way impacts.
- China as key player in solving global problems



1. Total trade will grow, but at a slower pace

- *Global environment less favorable than in the past*
- *Saturation effects (cannot gain market share forever)*
- *China will not grow rich by selling more for less, but by moving up the value chain.*



2. Intra-regional trade could expand more rapidly than total trade

Share of China's exports (2009)



3. Volume growth will dominate structural shifts

- *Rebalancing of economic structure will be at the margin.*
- *Overall demand for commodities, industrial output will continue to increase.*

Table 3. China's evolving economic structure under the baseline scenario

in percent of GDP unless indicated otherwise

	1990	2000	2010	2020	2030
Investment	25.9	34.1	45.3	40.0	37.0
Consumption	64.8	62.0	48.6	57.0	61.0
Industry	41.3	45.9	46.9	43.0	38.0
Tertiary sector	31.5	39.0	43.0	50.0	57.0
Employment in agriculture (%)	60.1	50.0	38.1	26.0	15.0
Employment in services (%)	18.5	27.5	34.1	44.0	55.0
Urbanization rate (%)	26.4	36.2	47.0	61.0	71.0

Sources: CEIC and World Bank estimates.



4. The industrial sector will restructure internally and spatially

- China looks well placed to retain or enhance its position in many global or regional production chains that are set for further consolidation. More of the value chain within China's borders.
- Any shift in industrial production away from current coastal locations (to inland or abroad) is likely to be gradual.



5. Services trade is set to expand further

- While this is growing rapidly, services only constitute 11% of China's total trade, compared to global average of 20%.
- Would diversify exports base and provide Chinese producers with necessary services.
- Scope for squeezing out productivity gains through greater competition.



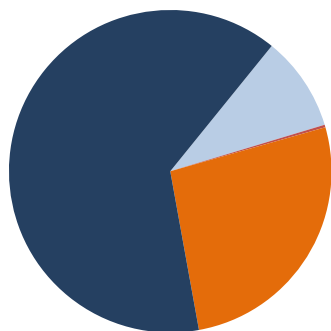
6. There is great scope to expand outward FDI

- Rose from \$2.7 billion in 2002 to \$47.8 billion in 2009, but still below 1% of GDP.
- Has been heavily focused in natural resources and the state sector.
- Untapped potential in private sector, e.g. light manufacturing.
- Longer term trend is globalization of Chinese corporations (independent players borrowing and producing in global markets)



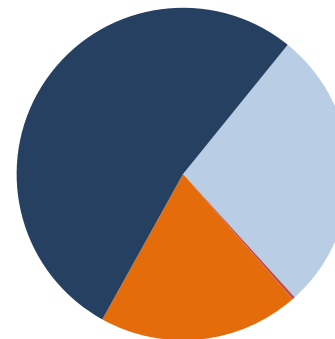
Sectoral composition of outward FDI

Advanced countries outbound M&A (2003-2010)



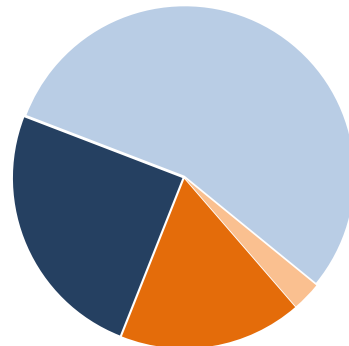
■ Mining ■ Other primary ■ Manufacturing ■ Services

China outbound M&A (2003-2010)



■ Mining ■ Other primary ■ Manufacturing ■ Services

China outbound Greenfield (2003-2010)



■ Mining ■ Other primary ■ Manufacturing ■ Services

Source: World Bank staff estimates based on Thomson-Reuters SDC Platinum & fDi Markets.



7. China will become a much larger player in international financial markets

- So far limited by capital controls, domestic entry barriers, reluctance of banks.
- Most savings intermediated abroad as official reserves.
- In the future, greater international role for RMB, Chinese financial institutions. Also greater scope for foreign participation in China.
- This will and should be a gradual process.



8. Shaping international policies and providing global public goods

- As large and increasingly developed country China can (and should) shape international policies and provide global public goods.
- Spanning the whole income spectrum, it can be a bridge between developing and developed economies.
- Rest of the world can benefit from China's next phase of development if it accommodates the globalization of China's firms and internationalization of its policies.



Thank you