

Discussion on " A Rebalancing Chinese Economy: Domestic and International Implications" by Guonan Ma, Ivan Roberts and Gerard Kelly

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China's twin imbalances:

- The high investment-to-GDP / low consumption-to-GDP ratio
- A big current account surplus
- Both domestic rebalancing and reduction of external imbalance have started during the last few years.

- Can China achieve double rebalancing while maintain lower and sustainable growth? In other words, is a simultaneous resolution of domestic and external rebalance while maintaining reasonable growth possible?
- What are the possible scenarios?
- What are the implications of different scenarios of "domestic rebalancing"? Both domestically and internationally?

- First, the paper assumes current account surplus is unchanged and focus on the domestic rebalancing.
- Combination of different pace of "domestic rebalancing" and future growth paths are considered. The authors then explore the projections of different scenarios for consumption, output, saving, investment, capital/output ratio, and return to capital.
- To investigate the interaction between rebalancing on the expenditure and production sides of the economy, the authors use the Chinese input-output table.
- Finally, a broader global input-output table is used to find the wider effect of China's rebalancing on its trading partners.

Key findings

- It is not quite possible to expect even stronger consumption growth, so the main mechanism of rebalancing will be through reduction of investment.
- Meaningful domestic rebalancing would require continued rapid consumption growth and prolonged weakness in investment. For such an outcome to occur, the effect of much lower investment growth on household income and consumption has to be small. Also, the investment efficiency has to improve.
- Meanwhile, the nature of the rebalancing is "knife-edged", cannot be too fast nor too slow.

Key findings :II

- Input-output analysis show that rebalancing from investment towards consumption will imply a parallel rebalancing on the production side from manufacturing towards services. Hence, this could support a higher employment growth, cushioning the effect of the slower growth on labor market and household incomes.
- For the international implication, domestic rebalancing in China is likely to be negative for both countries that export resources commodities and for capital goods exporters, but positive for countries that export consumption goods and services.

- The domestic rebalancing has already started in recent years. This paper answers a very important question; how will this affect Chinese economy and the global economy?
- An applaudable feature of this paper is the use of the input-output table to connect the production and the expenditure side.
- International/historical comparison of the rebalancing episodes is very informational and convincing.

Comments: The interaction of the different scenario of rebalancing and the growth

- In this paper, three scenarios of domestic rebalancing are considered:
 - ① Fast (25% increase in consumption to GDP ratio and 25% fall of investment to GDP ratio from 2015-2030)
 - ② Moderate (15% increase in consumption to GDP ratio and 15% fall of investment to GDP ratio from 2015-2030)
 - ③ Slow (5% increase in consumption to GDP ratio and 5% fall of investment to GDP ratio from 2015-2030)
- Three cases of for the terminal GDP growth in 2030:
Fast (5%); Moderate (4%) and Slow (3%)
- A certain scenario of domestic rebalancing will lead to structural change on the production side and therefore affect the GDP growth path and the potential growth in the future.

Comments: From expenditure to production

- Using the input-output table, the authors show that different rebalancing paths imply different production structure, since consumption and investment demand have different impact for different industries.
- Different sectors have different TFP growth rates
- So different scenarios of domestic rebalancing will have imply different future growth paths.

- Regarding the interaction of domestic rebalancing and external rebalancing, this paper mainly focus on the implication of domestic rebalancing on external balance through the import channel.
- Different import intensities may alter the external balance for a given rotation between consumption and investment. One question is that, will the import intensities remain fixed, especially when consumption share are increasing and investment share are decreasing?
- Furthermore, the external rebalancing may also have an impact on domestic rebalancing, through global demand.

Comments: How will global factors affect China's domestic rebalancing?

- This paper focuses on the international implication of China's domestic rebalancing on China's trade partners. However, an interesting question is that how will global factors affect China's domestic rebalancing?
- For example, will the US fiscal and monetary policy affect the domestic rebalancing in China?
- How about the instability in the eurozone?
- In other words, given the current global economic environment, should China slow down or speed up its domestic rebalancing?

Comments: More discussion on policy implication?

- This paper underscores the "knife-edged" nature of domestic rebalancing. It cannot be too rapid nor too slow.
- In other words, it will be a challenging job for the policy makers. Then a natural question is the policy implication.
- The paper emphasizes that both resilience of consumption spending on the demand side and a swift increase in the efficiency of investment in the supply side are essential. What kind of policies will help to achieve these two goals?
- The reduction of financial frictions might help to improve the efficiency of investment.
- What is the implication of this paper's conclusion on the recent discussion on expansionary fiscal policy?
- Finally, what the implication for the state-owned-enterprise reform?