

# China in the Global Economy

# China's Growth and Integration into the World Economy Prospects and Challenges

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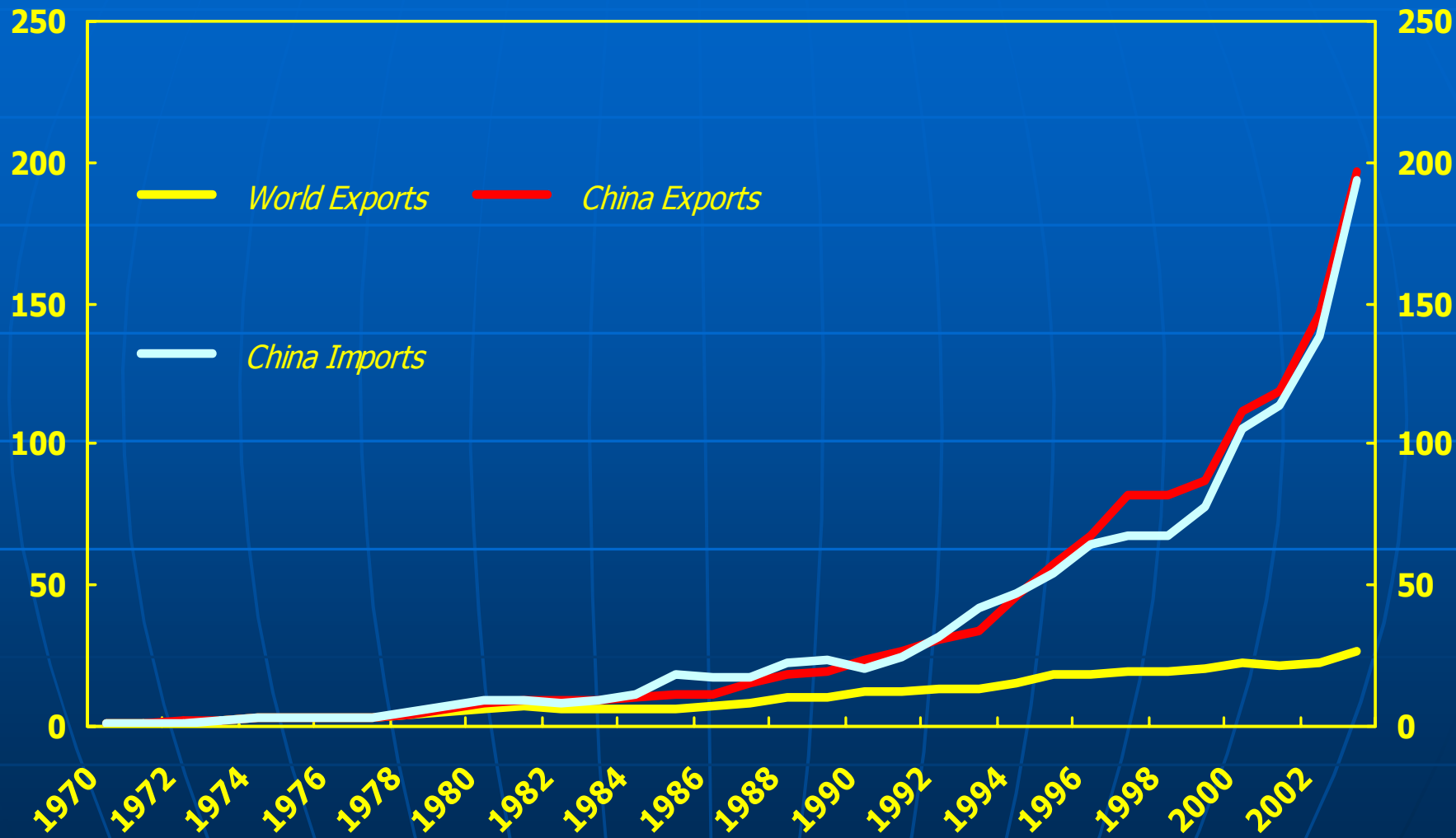


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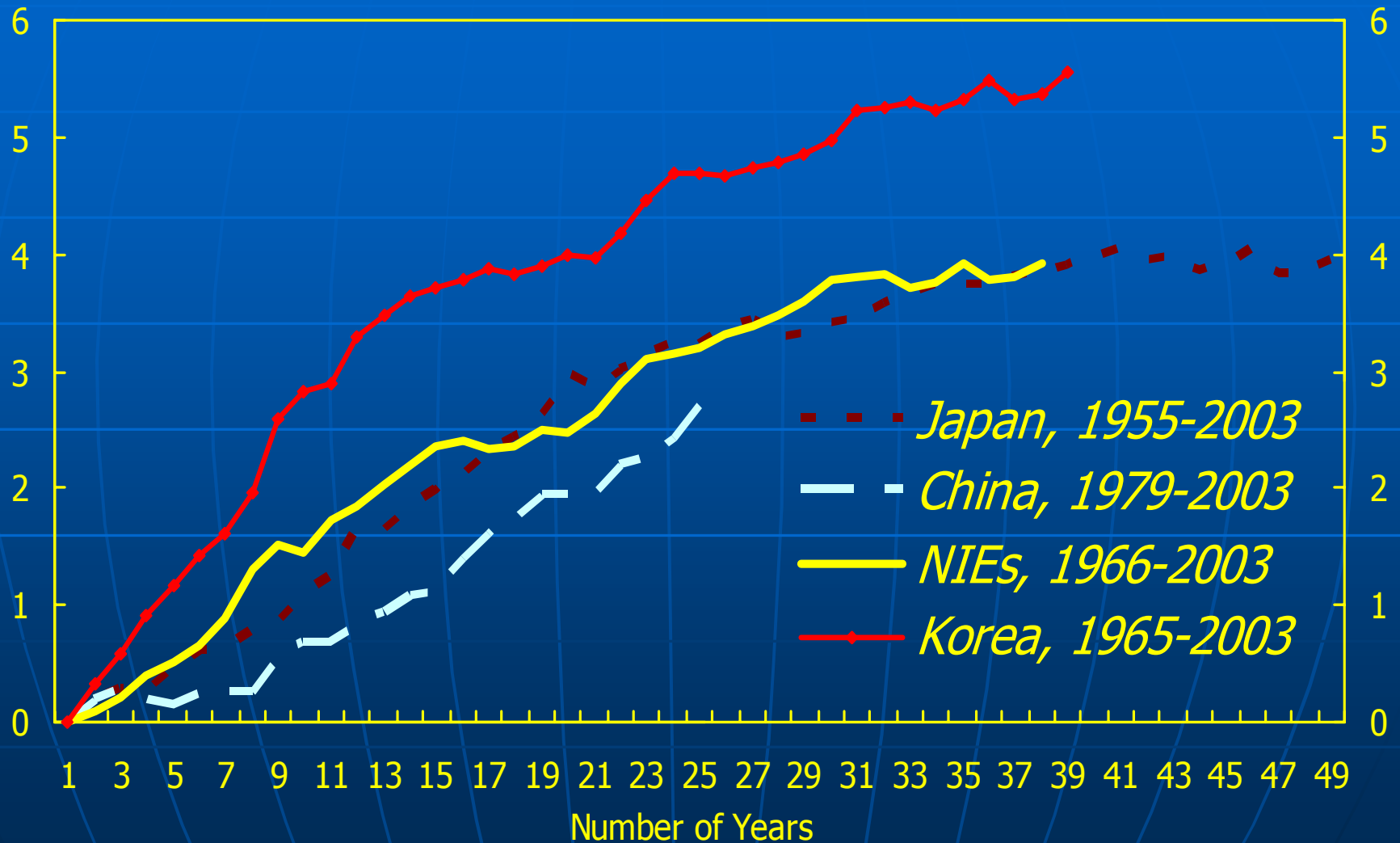


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# China: Growth in Trade, 1970-2003 (Index, 1970=1)



## Exports in US\$ Constant Prices (Index, beginning of period = 1; log scale)



# Bilateral Trade Balances with Selected Economies

## (In billions of U.S. dollars)

	1997	2003		1997	2003
	China			China plus Hong Kong SAR	
US	16	59	} <b>+57</b>	41	88
EU	5	19		9	29
Japan	3	-15	} <b>-51</b>	-14	-30
Rest of Asia	18	-15		-46	-111
Others	-1	-23		6	-11
<b>Total</b>	<b>40</b>	<b>25</b>		<b>-4</b>	<b>-35</b>

**+67**

**-81**

# China's Increasing Prominence in the World Economy

- Over 6 percent of world trade
- Strong import growth, both for processing trade and domestic consumption
- Accounted for a quarter of world growth in 2002-03

# Major Policy Challenges

- Reforms of the banking and state-owned enterprise sectors
- Rising unemployment
- Widening regional disparities in income



## Reported Nonperforming Loans

### Nonperforming Loans

In percent of total loans    In percent of GDP

2002

2003

2002

2003

#### Five-tier classification

SCBs	26	20	20	16
JSCBs	12	8	2	2
Policy banks	20	17	3	3

#### Four-tier classification

RCCs	37	30	5	4
City commercial banks	18	13	1	1
Others	...	...	1	0

# Selected Countries: Comparison of Public Debt and Fiscal Positions, average 2000-2002 (In percent of GDP)

	Public debt	Overall balance	Primary balance
China	24.4	-3.4	-2.6
Emerging markets	64.5	-4.0	1.2
of which: emerging Asia	71.4	-3.4	1.6

# Looming Fiscal Pressures

- Contingent liabilities in banking system
- Unfunded obligations of pension system
- Rising pressures for social expenditures--health, education etc.

# Unemployment

- 150 million surplus workers in rural sector
- 10-11 million surplus workers in SOE sector
- Working-age population increasing by 11-12 million annually

# Interconnectedness of Required Reforms

- Banking sector
- State-owned enterprises
- Center-local fiscal relations
- Labor market pressures

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# Tools to Meet Reform Challenges and Deal with Shocks

- Better Institutions
- Social Safety Net
- Independent Monetary Policy
- Flexible Exchange Rate

# Exchange Rate Flexibility

- In China's own interest
- More flexibility, not a revaluation
- Could be phased approach to flexibility
- Not synonymous with capital account liberalization
- Weak financial sector not a reason to avoid flexibility
- Timing

## A Decomposition of the Recent Reserve Buildup (In billions of U.S. dollars)

	Average 1998-2000 (1)	Average 2001-2003 (2)	Change (2)-(1)
<b>Foreign reserve increase</b>	8.5	95.0	86.5
<b>Current account balance</b>	23.7	32.9	9.2
<b>Capital account balance</b>	0.3	55.0	54.7
<b>FDI, net</b>	38.5	43.8	5.3
<b>Errors and omissions, net</b>	-15.4	7.1	22.5
<b>Non-FDI capital account balance (including errors and omissions)</b>	-53.6	18.3	72.0



# Prospects

- Significant progress in some areas of reform agenda
- Vigilance required to prevent new problems from building up
- Outcome matters for world economy