

# Discussion of “China’s Hard Landing Scenarios,” by Al-Haschimi, Dees and di Mauro

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CONFERENCE ON "COPING WITH MACROECONOMIC VULNERABILITIES AND SPILLOVERS,"  
TOKYO, JAPAN

November 7-8, 2016

An empirical paper

## **GOAL:**

Estimate the size of spillovers from China's slowdown to other markets

## **TRANSMISSION CHANNELS:**

- ① Trade
- ② Financial linkages
- ③ Confidence/Contagion

## **METHODOLOGY:**

Global VAR

## FINDINGS:

### Trade channel

- Estimated to be important globally, with heterogeneous impacts across countries
- Impact size is on the high end relative to the literature

### Financial channel

- Judged to be of limited importance, because of small cross-border exposures

### Confidence channel

- Potentially very important
- But more work needed to understand the mechanism

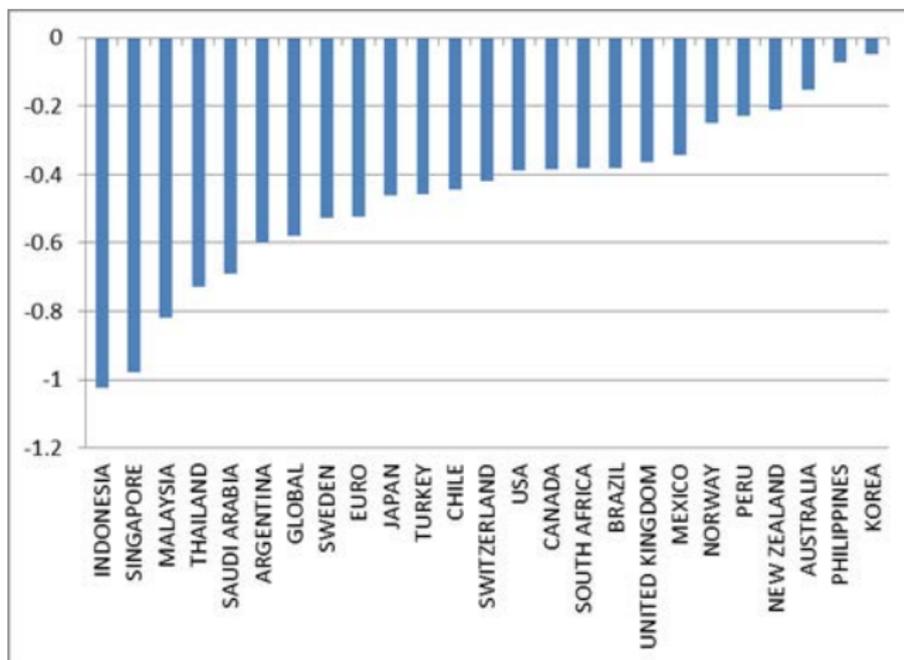
# Comment 1: Transmission channel for GDP shocks

Trade is an obvious candidate, but mechanics not clear

- Classical direct **trade channel** remains very small (Japan example)
  - Trade channel impact is around 0.03% (3% [GDP exposure to China]  $\times$  1% [GDP shock])
  - Price and 3rd country effects modify this comparison only marginally
  - GVAR estimated impact is 0.43% (15 $\times$  larger !!!)
- **What is the mechanism** for the remaining impact?
  - Sectoral linkages and composition effects
  - Global value chain linkages (but what exactly?)
  - Trade restrictions
  - Trade finance
  - Other channels (effect of confidence on investment)

# Comment 1: Transmission channel for GDP shocks (cont.)

What factors explain the estimated cross-country differences in spillovers from GDP shocks?



- E.g., trade channel predicts larger impact for Korea, relative to Japan.

## Comment 2: Global price impact as a transmission channel

Because of China's size and expected growth trajectory, a significant slowdown can impact global price trends

2011-15 drop in **commodity prices** is commonly linked to demand slowdown in China

It had a large impact on select regions and sectors

- Global investment in the mining/energy sector
- Global asset prices
- Economic activity in commodity exporting countries/regions

**Global CPI trends** and manufacturing overcapacity in China

- Important Topic
- Identified impacts are large and consistent with recent experiences
- Further research needs to focus on flashing out the mechanisms behind the spillovers