

China Bubble?

Chinese Growth Prospects in the Short to Medium Term

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Introduction

- There is no doubt that Chinese growth has been energy and resource intensive, with a large CO₂ footprint
- China is very large, and still in early stages of catching up, so we should look at trends (also because of data quality)
- Q1: How large and how unsustainable are the Chinese internal and external imbalances, in context?
- Q2: Are there catalysts, such as financial or sociopolitical crises that may derail its growth?
- Conclusion preview: soft landing of the Chinese economy is more likely. In case of collapse, China would not be our biggest concern!



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1 The Chinese Growth Path

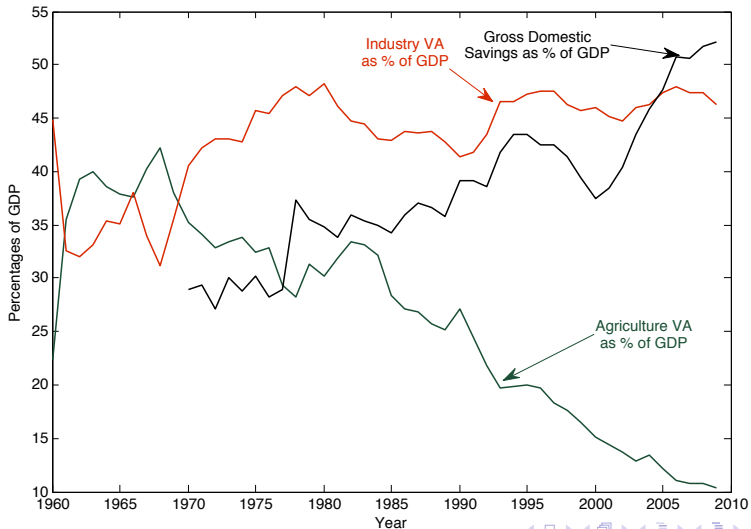
- GDP Composition, Energy, and Environment
- Imbalances, Internal and External

2 Sanity Check: Cross Country Comparisons?

- Imbalances
- Catalysts? Financial Sector and Socioeconomics

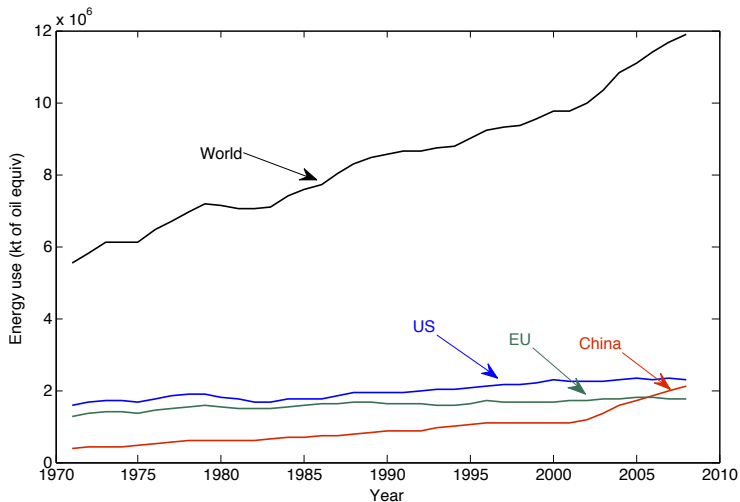
Composition of China's GDP

Will food supply become a problem? More on Potential Social Unrest at the End



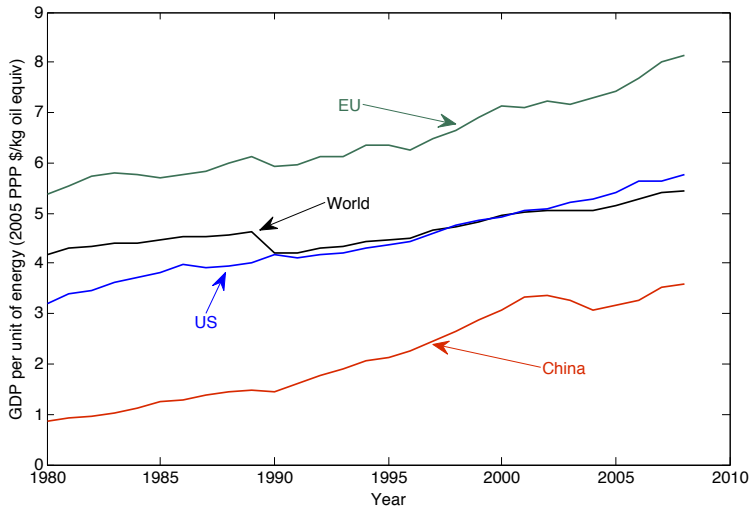
Energy Consumption in kt of Oil Equivalent

Surging Energy Demand in Absolute Terms



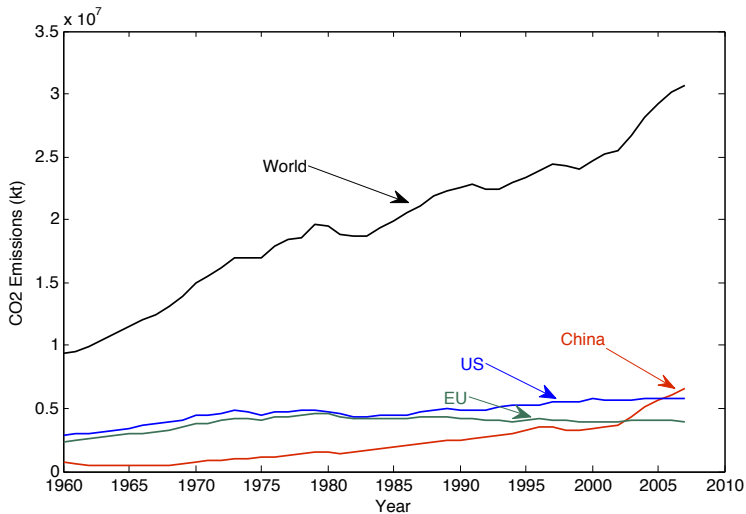
GDP (2005 \$) per kg of Oil Equivalent

Relatively Inefficient Energy Use, but Catching Up



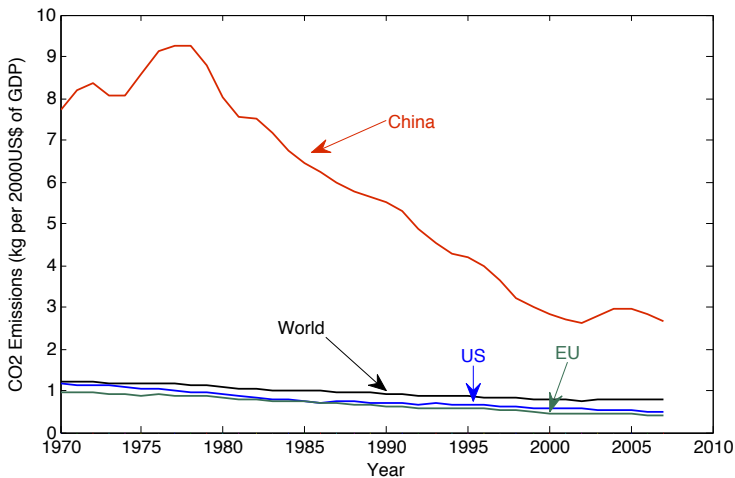
Carbon Dioxide Emissions in kt

Surging Carbon Footprint in Absolute Terms



Carbon Dioxide in kg per (2000 \$) of GDP

Relatively High Carbon Intensity, but Catching Up



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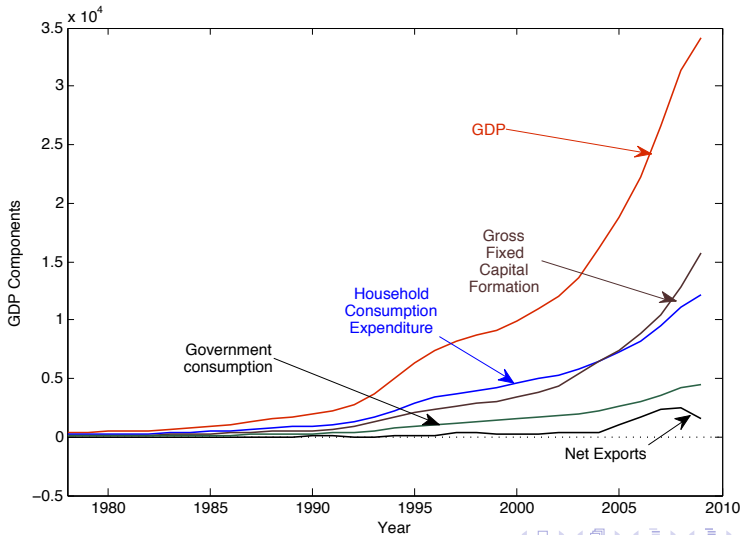
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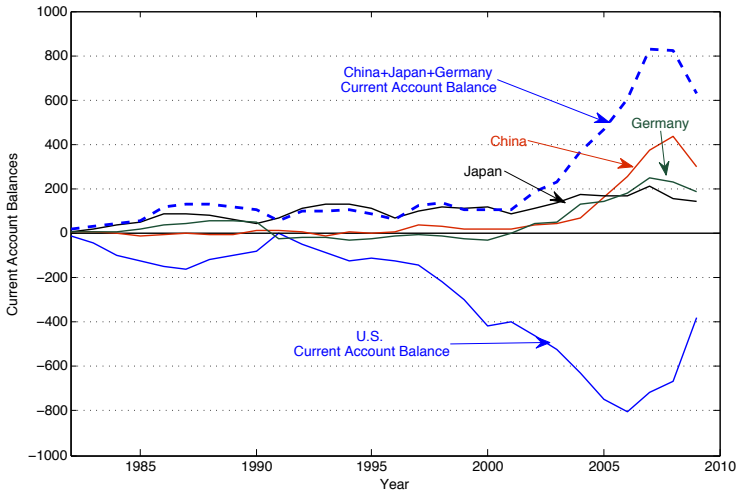
GDP Decomposition, Redux

Well Known Investment-and-Exports "Extensive Growth" Story



External Imbalances

Of Course, China is Not Alone on This Path

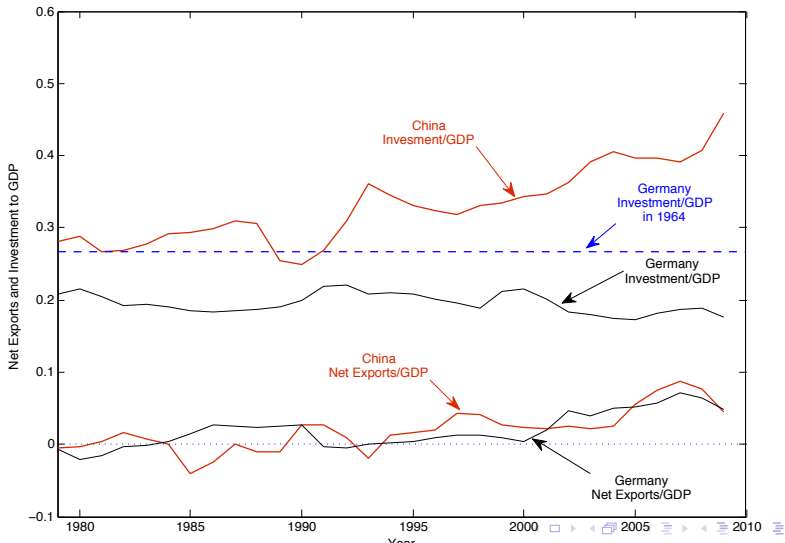


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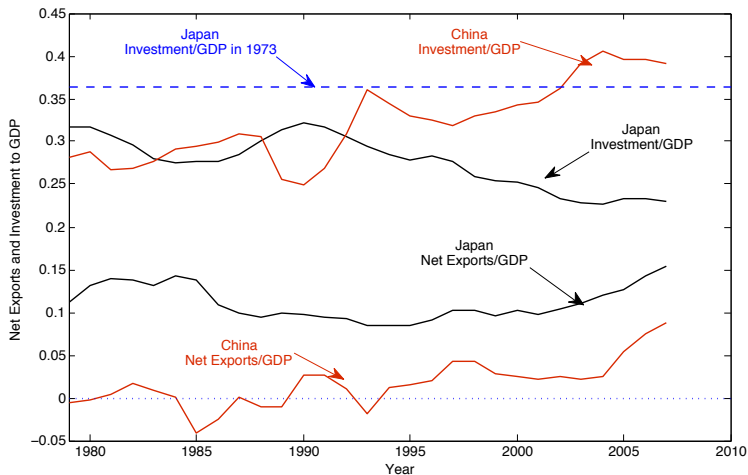
Comparison with Germany

For Investment, Compare to Germany Ca 1960s



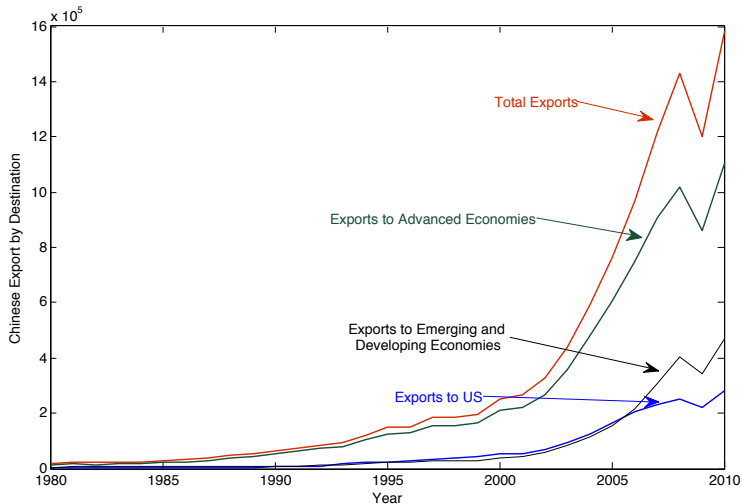
Comparison with Japan

For Investment, Compare with Japan Ca 1970s



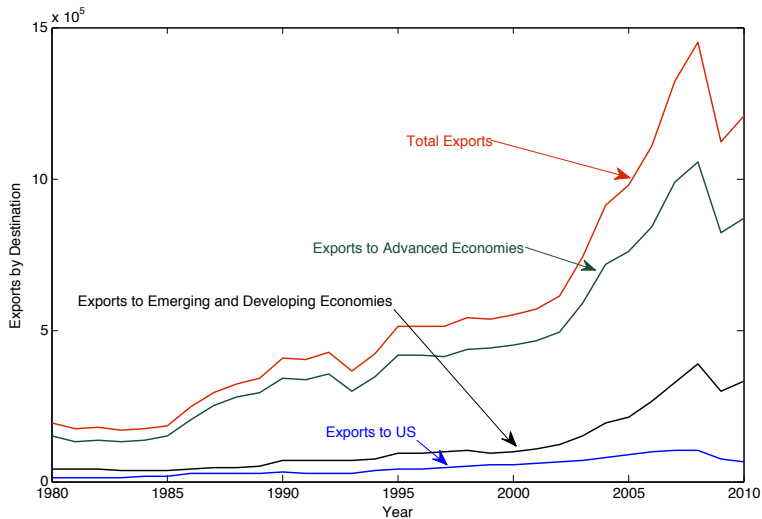
Chinese Exports by Destination

The Story May be More about U.S. Relative Decline



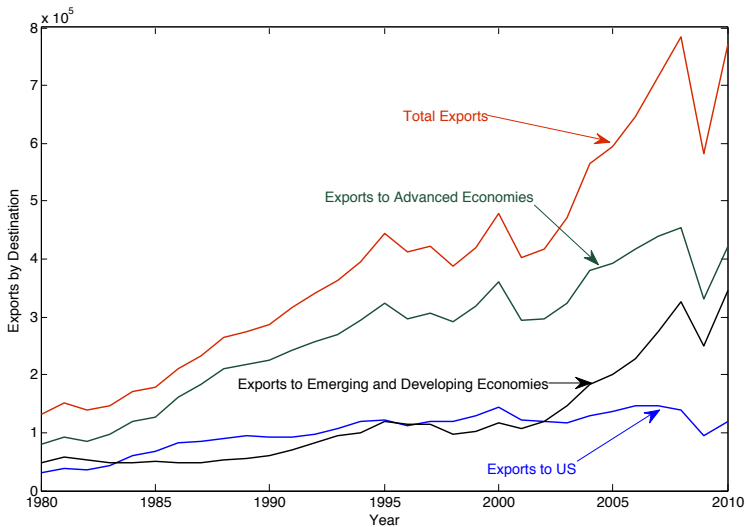
German Exports by Destination

The Story May be More about U.S. Relative Decline – Even More Pronounced



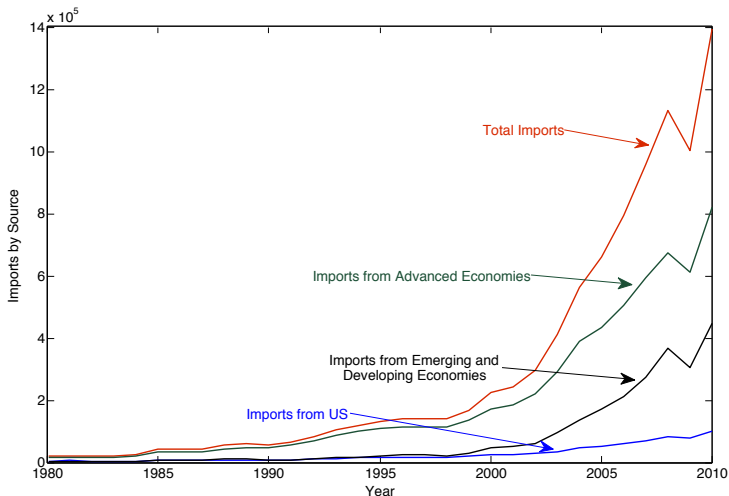
Japanese Exports by Destination

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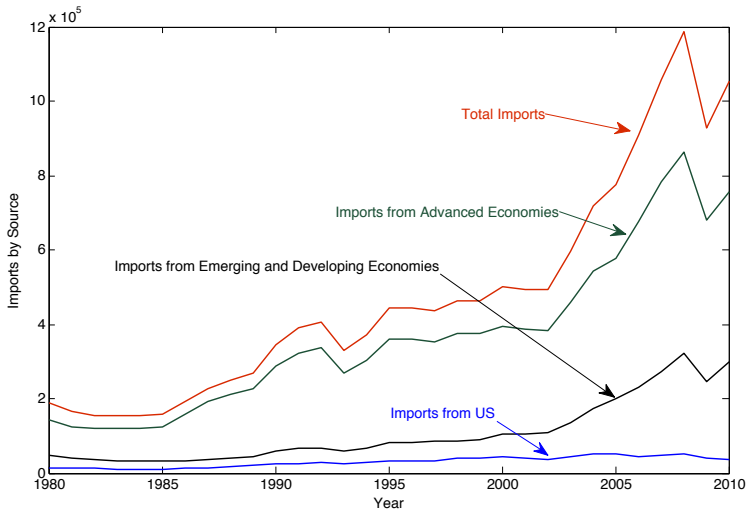
Chinese Imports by Source

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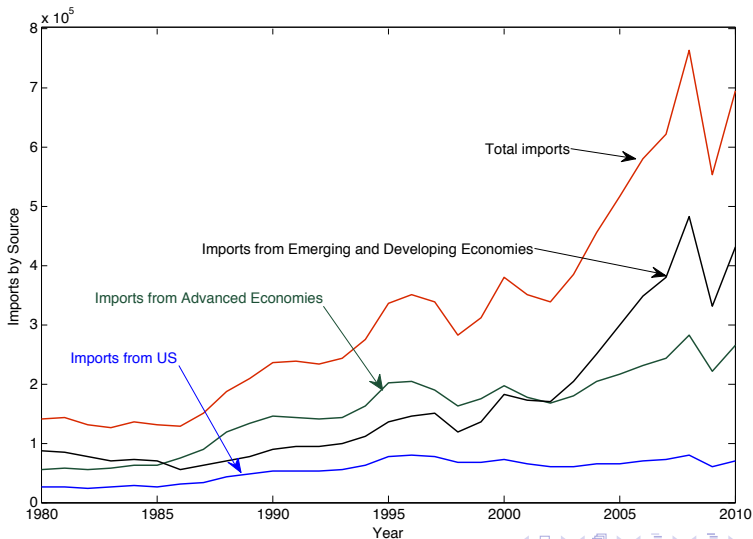
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Japanese Imports by Source

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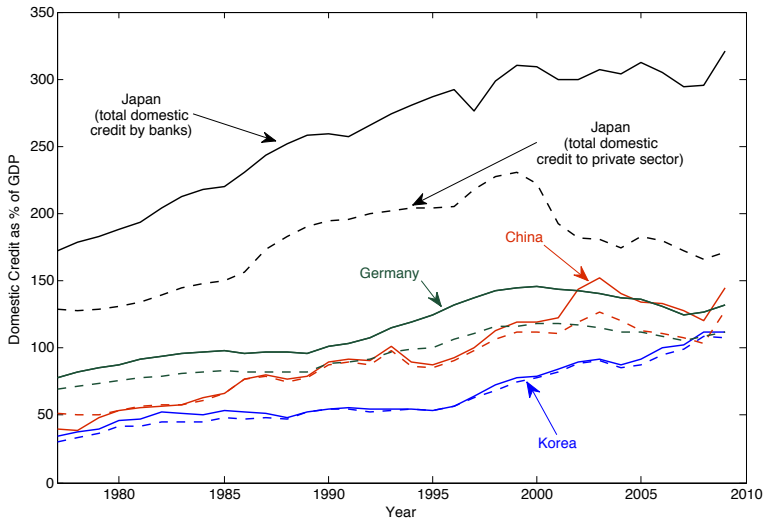


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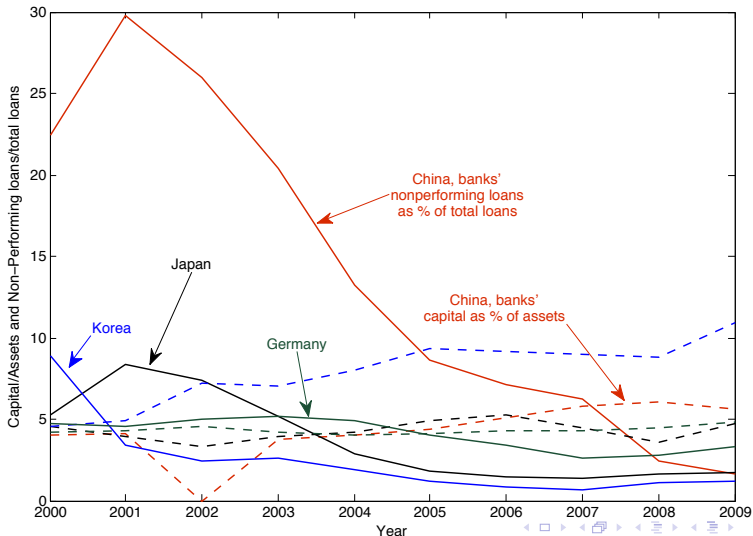
Credit Bubble?

China is Not Nearly as Aggressive as Japan – Comparable to Germany



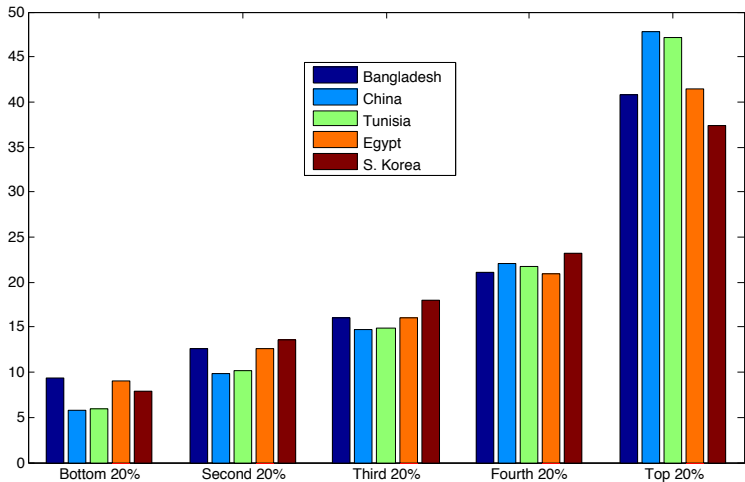
Bank Health

Brought Capitalization Up and NPL Down + Huge War Chest to Recapitalize as Needed



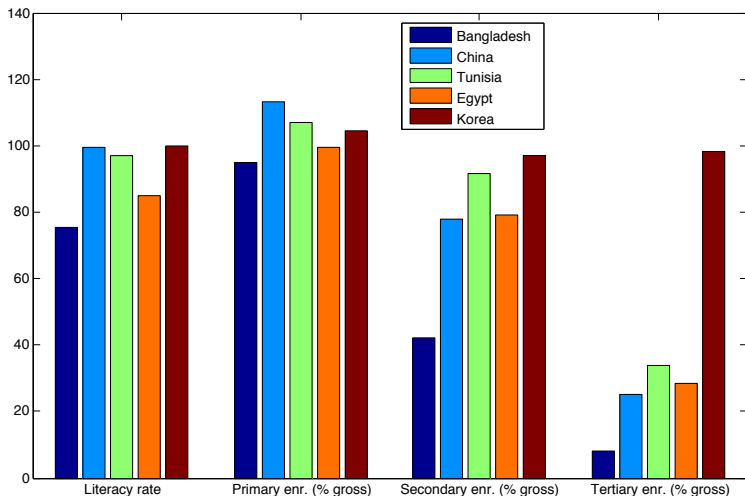
Income Distribution

Egypt and Tunisia Were Following the Chinese Model, with Some Success – Contrast w/ Korea



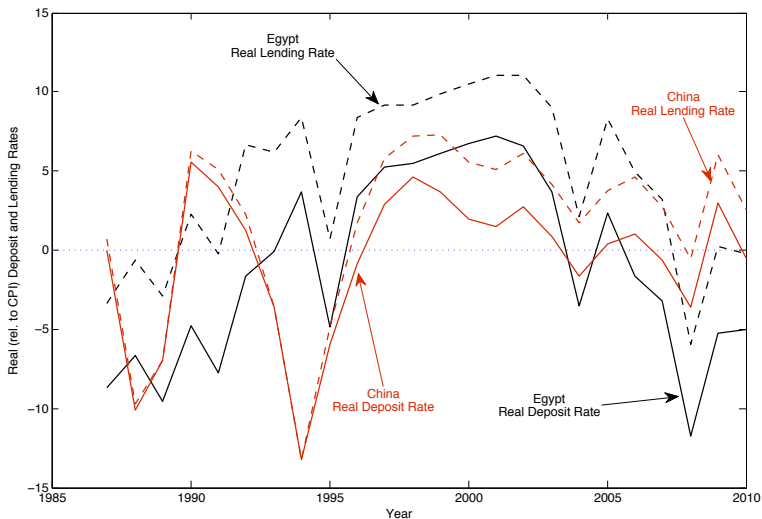
Education Attainment

Catching Up on Education ... and General Public's Political Sophistication?



Real Interest Rates

Negative Real Interest Rates Same to Redistribute in Favor of Rich



Conclusion

- The risks of social unrest in China should not be ignored (esp. taking into account Chinese history)
 - Larger collective action problem, assuming 10% mobilization rule of thumb (Tunisia: 1/10 million, Egypt: 8/80 million)
- China's growth path is not extremely atypical, but its size is
- Chinese soft landing seems the more likely path, fortunately, because a hard landing would be disastrous for everyone
- And, as the referee has said, correctly, "China is too large to fail"



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