23 October 2020

Asia Chart of the Week

Is China holding up the world?

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Economics - Asia

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It would seem so…economically speaking, that is. First in and out of lockdown, growth in mainland China is now up sharply. Sure, the 4.9% y-o-y expansion in the third quarter fell short of expectations, but that's still a pretty punchy number all considered. Is mainland China, then, holding up the world economy? Yes and no. In the sense that it is the only major market currently expanding, it is certainly supporting activity elsewhere. And its economy is substantially larger than it was, say, during the Global Financial Crisis - the last time we've all relied on a demand impulse from mainland China. On the other hand, the local stimulus delivered this time around falls well short of what came before. The net result: the contribution of mainland China to world GDP growth this year is roughly the same as during the previous episode - very helpful, but hardly a panacea for the global economic malaise. Plus, as important as reviving demand in mainland China is for many companies elsewhere (think car makers, for example, or commodity producers), China is still less import-reliant than many other markets. Put simply: China may be holding up global GDP, arithmetically at least, but that's not translating into as large a global growth impulse as if, say, Europe was firing back up.

These are my principles. And if you don't like them, I have others.
Groucho Marx

Let's step back a little. Chart 1 shows the change in GDP for different economies over time, expressed in US dollars. Look at the black arrows: in terms of incremental demand, mainland China's contribution was roughly the same in 2009 as it is expected to be this year (its economy was smaller then, but it was growing faster). Helpful, welcome, and a rare bright spot for many companies, but not exactly a 'game changer' for the world.

That said, note that next year, mainland China will likely add about double the demand it did in 2010, the year after the last big global crisis. And yet, while impressive, this will be roughly comparable to what other economies will contribute.

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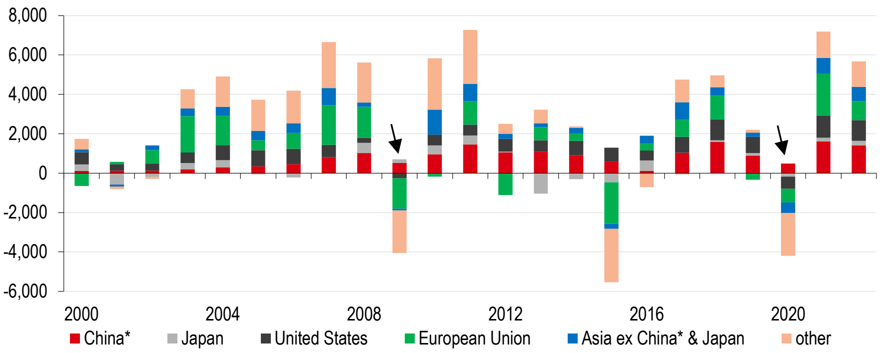
Chart 1: Incremental nominal USD GDP (USDbn)



Source: IMF, HSBC; NB: *refers to mainland China

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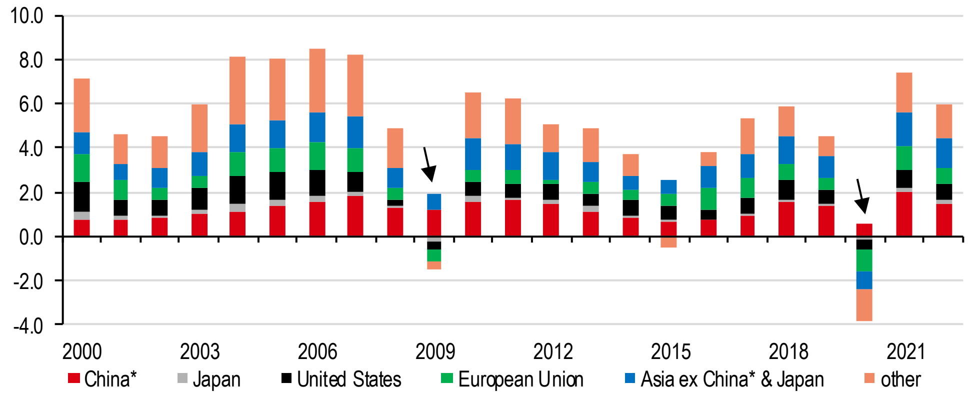
That already puts mainland China's importance in perspective. But our measure still has some drawbacks. For one, exchange rate changes can distort the picture. While small currency moves wash out in the big scheme of things, at times they can have a large impact: notice the decline in incremental USD GDP in 2015 in many places. This was partly because the dollar rallied sharply between 2014 and 2015, thus affecting our calculation.

One way to correct for big currency swings is to use the 'international dollar', converting national GDP by using purchasing power parities, which are more stable. This approach, admittedly, has some drawbacks as well, as it overstates the international demand impulse emanating from different markets. Still, it's worth a look. Chart 2 shows that the overall picture doesn't really change: mainland China's contribution is still positive, albeit smaller today than in 2009. Note also that after the Global Financial Crisis, emerging Asia (ex-mainland China) added to global GDP, unlike today.

Chart 2: Contribution to world GDP growth (ppt, PPP basis)

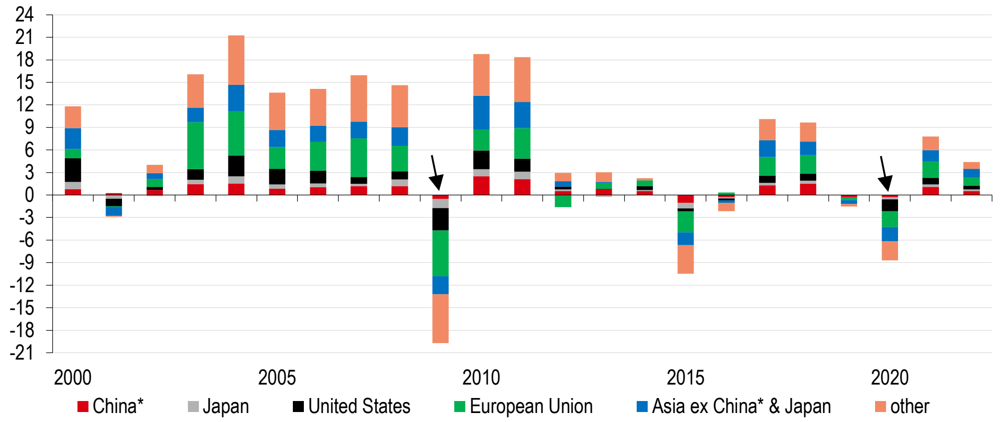


Source: IMF, HSBC; NB: *refers to mainland China

The second drawback when looking at incremental GDP, whether in nominal USD or PPP terms, is that it tells us little about the direct spill-overs from one economy to another. For this, we need to take a look at imports. Chart 3 shows the contribution to world import growth over time. Mainland China's contribution in 2009 and 2020 is comparable.

What's more, despite a much better growth performance compared to its trading partners, the contribution of mainland China to world imports was still slightly *negative* in both years. Not as negative as elsewhere, to be sure, but still negative. This reflects both a price and a volume effect,

Chart 3: Contribution to world imports (ppt, nominal USD basis)



Source: IMF, HSBC; NB: *refers to mainland China both of which matter for the demand impulse: the prices of some commodities, notably oil, still fall during a global crisis even if mainland China demands lots of it. At the same time, the import demand in China is highly growth elastic: even a marginal deceleration in GDP growth tends to lower import volumes notably…and that's why, when it comes to an import rebound, it is economies elsewhere that will drive things next year.

Disclosure appendix

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