

Winners and losers in the great Chinese rebalancing

Economist

Jul 26, 2014

China's hunger for fuel

- Near the centre of Sumatra
- Five years of constant traffic, propelled by China's hunger for fuel, has formed deep ruts in the dirt road
- Recently, however, the lorries have stopped moving at midday. China's appetite for coal has plateaued

Exports to China

- After averaging 10% annual growth for 30 years, the Chinese economy has managed only 7.5% over the past two years
- Taiwanese machine-tool makers have seen exports to China fall by more than 20% since 2012
- Australian iron ore for delivery to China recently hit its lowest price in 21 months

But ...

- But enduring is not the right word for all those doing business with China
- The number of Chinese visitors to Sri Lanka more than doubled in the first half of the year
- Chinese women in their 30s are now the biggest group of foreign buyers on the website of Lotte, a big South Korean retailer, snapping up cosmetics

Changes to Chinese growth

- Consumption is at last edging out investment as the economy's main engine
- Household consumption has been inching up of late as a proportion of GDP, rising from 34.9% in 2010 to 36.2% last year, according to official data
- Some economists think the true share could be ten percentage points higher

- This year even with the government's “mini-stimulus”—a burst of spending on railways and public housing—consumption has still accounted for over half of Chinese growth

Rebalancing

- This rebalancing is beginning to make itself felt beyond China's borders
- Taiwan is more exposed to China's appetites than any other Asian economy, with sales to China constituting about 6% of its GDP
- **The great Chinese rebalancing**

Taiwan's export to China

- But many of Taiwan's exports, such as mobile phones, are geared towards consumption rather than investment
- These are still faring well: Taiwan's export orders to China were up by 15% in June from a year earlier

- More at risk are those that mainly export commodities and capital goods such as heavy machinery to China
- The most exposed is Australia's mining

- Even those countries that do not export much to China will feel the effects of its rebalancing via commodity markets
- More tepid Chinese demand means lower prices for many raw materials: witness the nearly 50% fall in Indonesian coal prices since 2011