

# The retreat of the monster surplus

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## China's export

- When [the dinosaur] was made in 1999, the country's exports were less than a third of America's.
- Ten years later China was the world's largest exporter.

# Current account

## Back where it belongs

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China's current-account surplus  
As % of GDP



Source: CEIC

- The country's roaring exports contributed to a growing current-account surplus, which exceeded 10% of its GDP in 2007

## blame

- The [surplus] was the subject of much debate and diplomacy at G20 summits, and the object of much blame and many bills in America's Congress
- The latest ... calls for retaliation against any country that engineers an oversized surplus with an undervalued currency

## Dying out

- China's trade surplus with America remains large and controversial, but its current-account surplus with the rest of the world is dying out.
- Last year it was less than 2.8% of the country's GDP

## Why?

- Domestic demand in China's trading partners has been slow to recover from the crisis
- China's own spending, on the other hand, has surpassed all expectations
- Investment as a share of GDP rose by over six points between 2007 and 2010

## Will it return?

- The surplus could widen again, for one of two reasons
- China's high investment could set the stage for a renewed export boom
- China's investment rate could falter without consumption rising to make up for it, forcing China to rely on foreign demand to keep the economy moving

## The first scenario

- China's big surpluses before 2008 owed to an investment boom around the time China joined the World Trade Organisation in 2001
- This investment created excess capacity in industries such as cars and steel
- When the domestic market proved too small, they flogged (sold) their surplus wares on foreign markets instead



## The post-crisis boom

- But a repeat is unlikely. ... The post-crisis investment boom was different from the post-WTO one
- The investment boom in 2009-10 was concentrated in infrastructure and property, neither can be traded across border
- But some economists believe that the latest investment boom will prove unsustainable

## The future

- The future of China's export monster thus depends on whether China's high investment rate is sustainable. Many think it is not.
- Its spectacular building boom has diverted China's energies inwards, sucking in imports and displacing exports.
- It has thus eased the world's fear of China. But it has raised fears for China.