

China's economy is in trouble. How bad is it?

Group Project

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Presentation outline

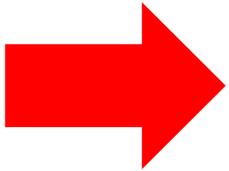
- Motivation – why is Chinese economy in trouble?
- Modelling approach
- Impact of GDP shock and policy simulation
- Conclusion

Reasons of potential financial crisis in China

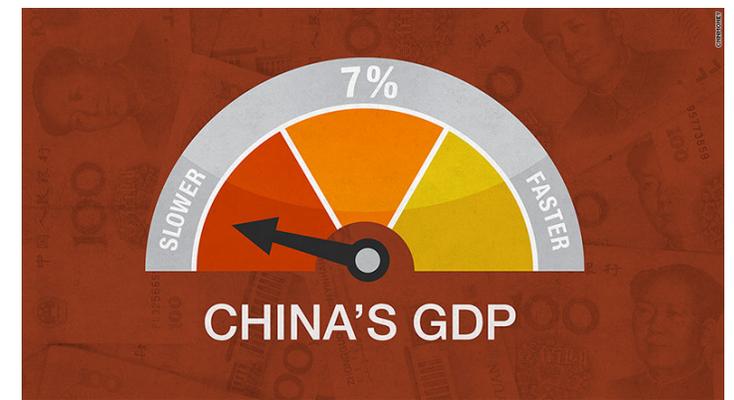
- Long years of prosperity and large capital accumulation
- But, rumors about potential financial crisis in China:
 - Growth based on unsustainable levels of investments and low consumption –led growth (VOX.com, Sep 2013: *China's economic slowdown – 11 things you need to know*)
 - Real estate bubble (Forbes Sep, 2015 : *The real ticking time bomb is China's economy*)
 - Misreporting GDP figures (CNN, Aug 2015: *China's economy is in trouble. How bad is it?*)

Is Chinese economy in trouble?

- Long years of prosperity and large capital accumulation
- But, rumors about potential financial crisis in China:
 - Growth based on unsustainable levels of investments and low consumption –led growth (VOX.com, Sep 2013: *China's economic slowdown – 11 things you need to know*)
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 - **Misreporting GDP figures (CNN, Aug 2015: *China's economy is in trouble. How bad is it?*)**



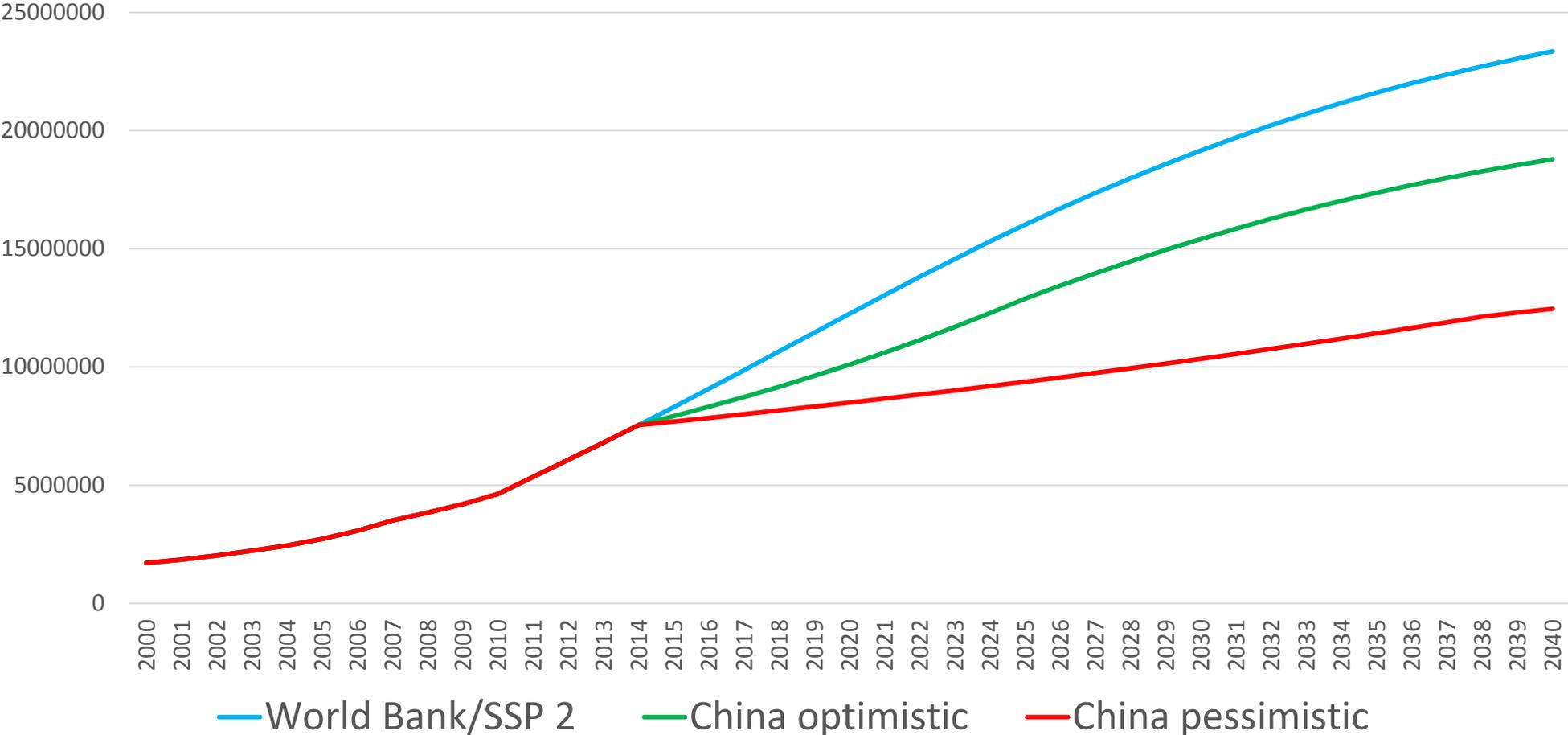
Modelling approach



- Simulate the effect of financial crisis via lowering potentially overvalued GDP growth rates
- Baseline scenario: Chinese GDP growth rates according World Bank and SSP2 Projections
- GDP shocks:
 - **PL1**: “ Optimistic variant”: shock TFP to reproduce GDP growth of **5%** p.a.
 - **PL2**: “ Pessimistic variant”: shock TFP to reproduce GDP growth of **2%** p.a.
- Policy shock:
 - **PL3**: PL1 + Boost economy via reducing taxes on capital income
 - **PL4**: PL2 + Boost economy via reducing taxes on capital income

Assumptions - GDP projections with Chinese crisis

China's GDP evolution



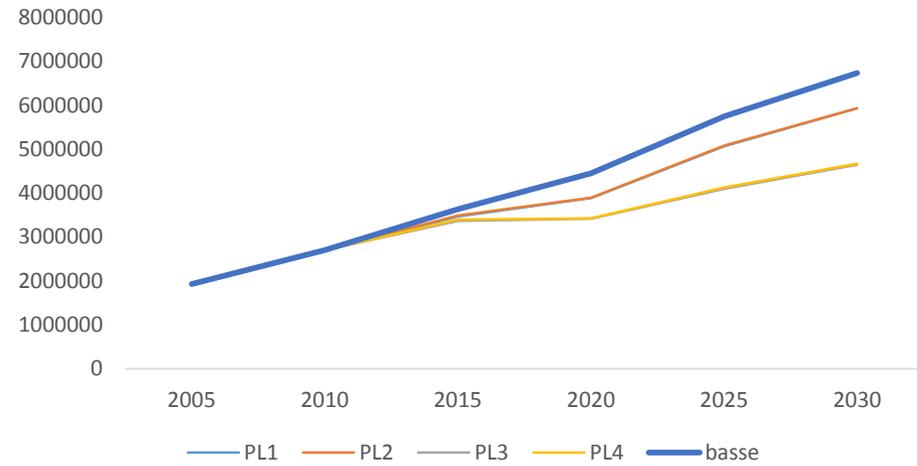
Source: World Bank (2001-2014), SSP2 and own predictions

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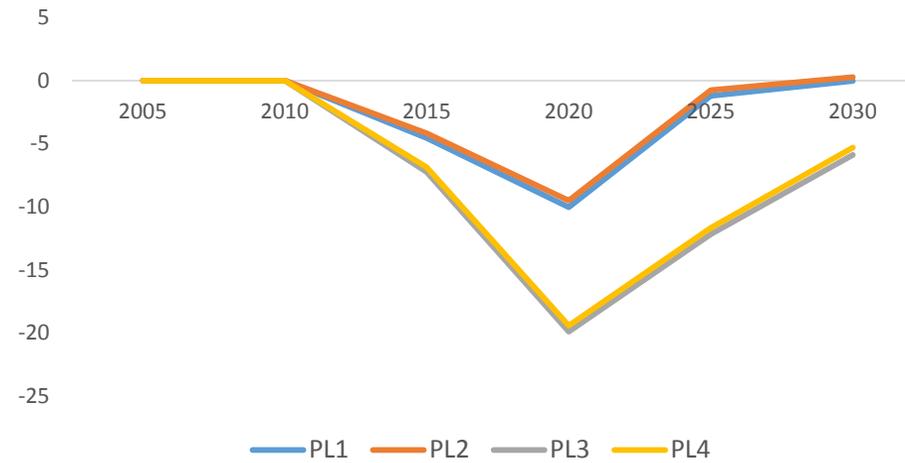
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Effect of crisis on China (year-on-year differences)

CHN GDP



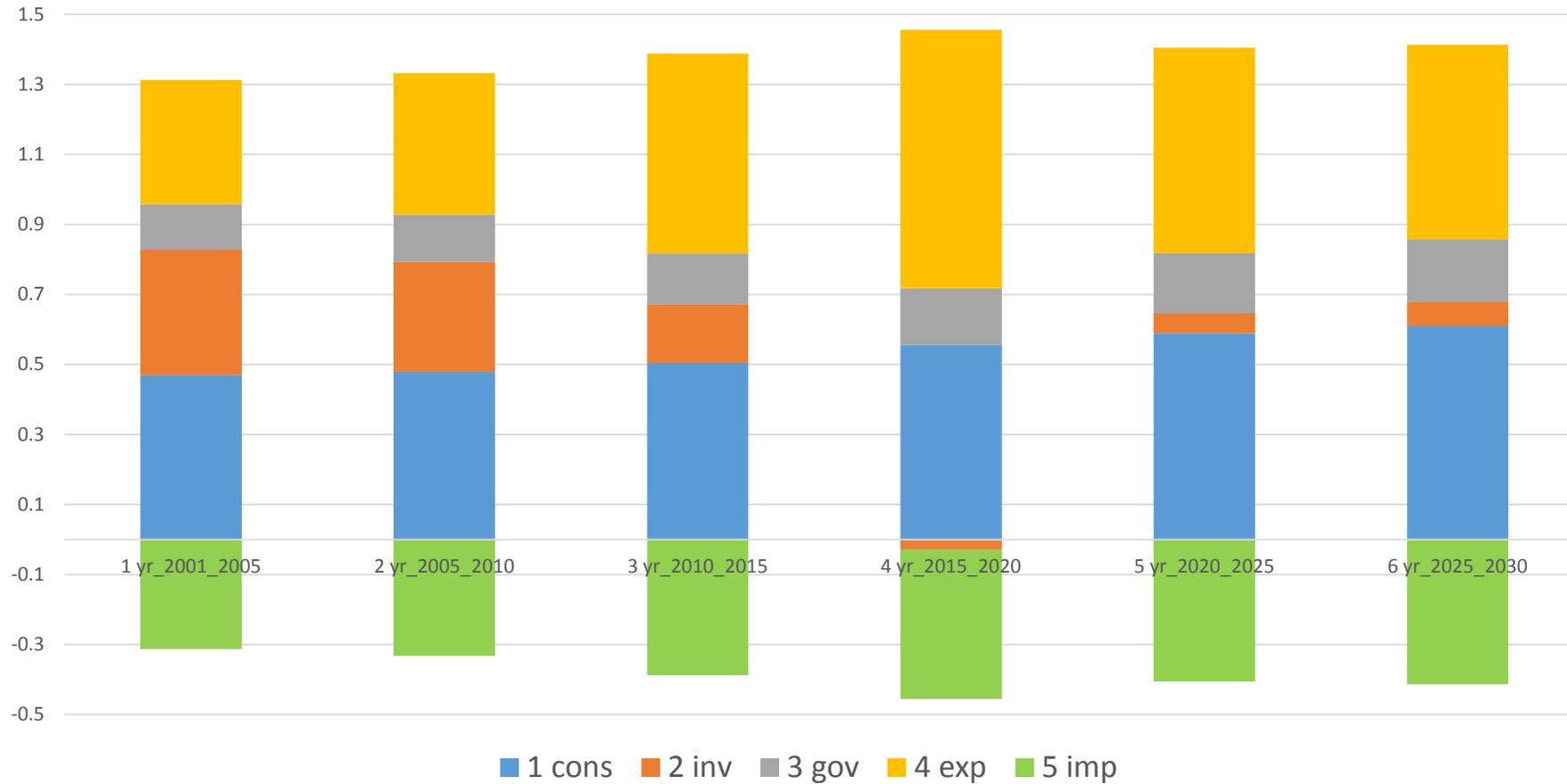
CHN qgdp



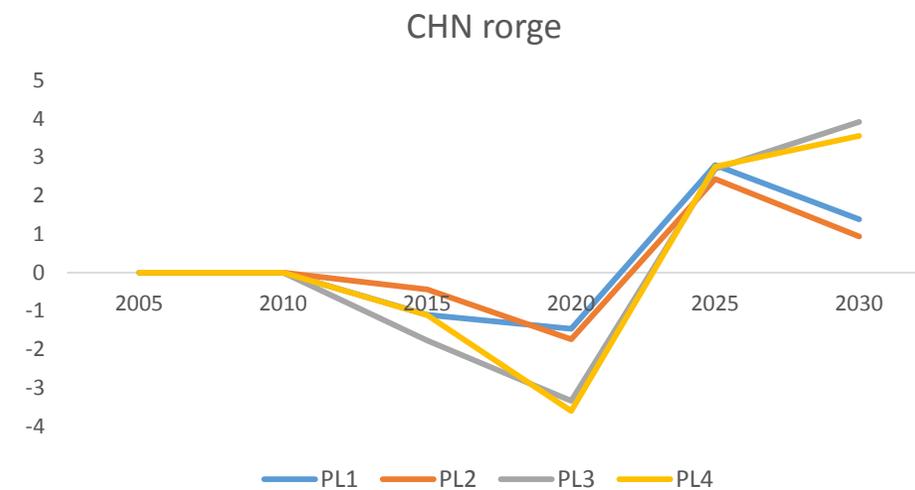
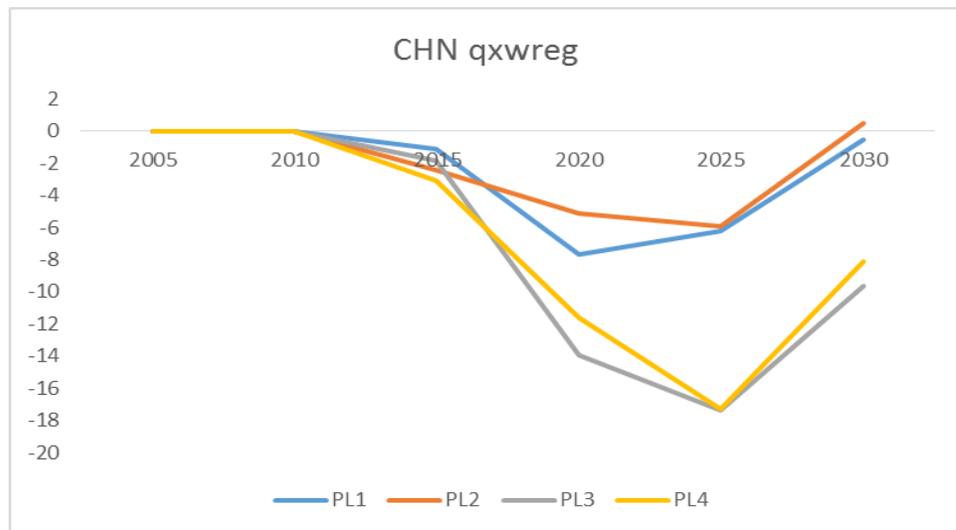
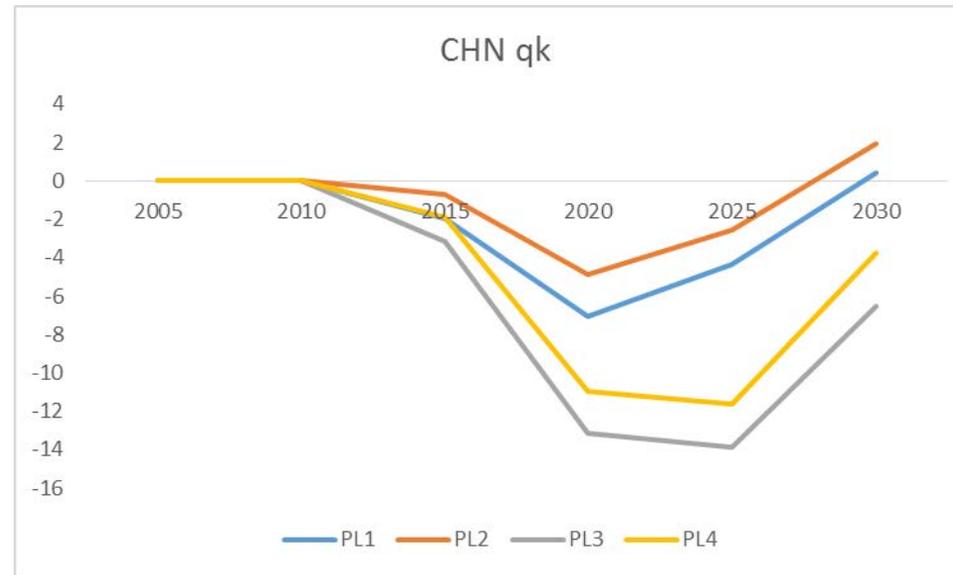
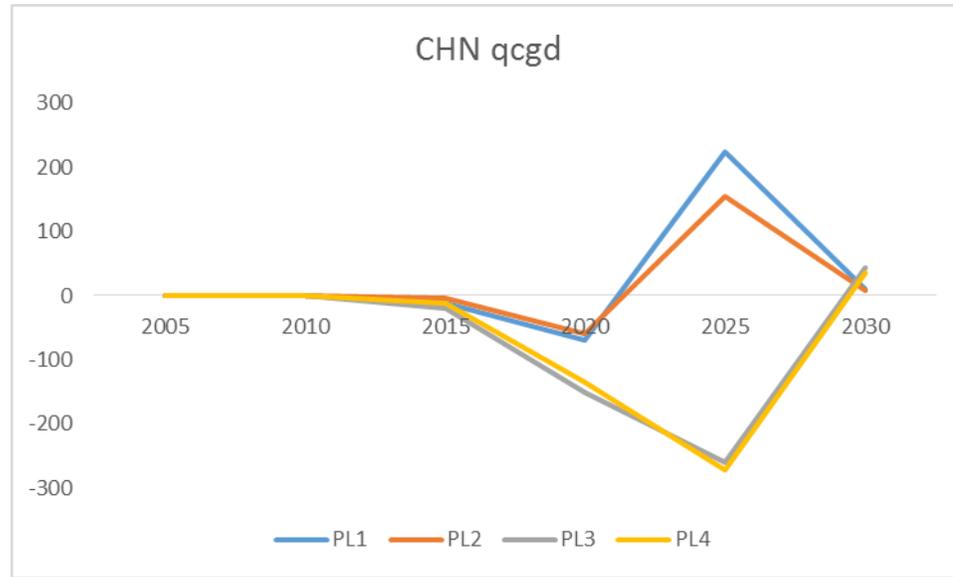
Note: **PL1** = GDP shock (optimistic) **PL2**: GDP shock with policy **PL3**: GDP shock (pessimistic) **PL4**: GDP shock with policy

Decomposition of GDP

Decomposition of expenditure side of GDP (Pessimistic scenario)

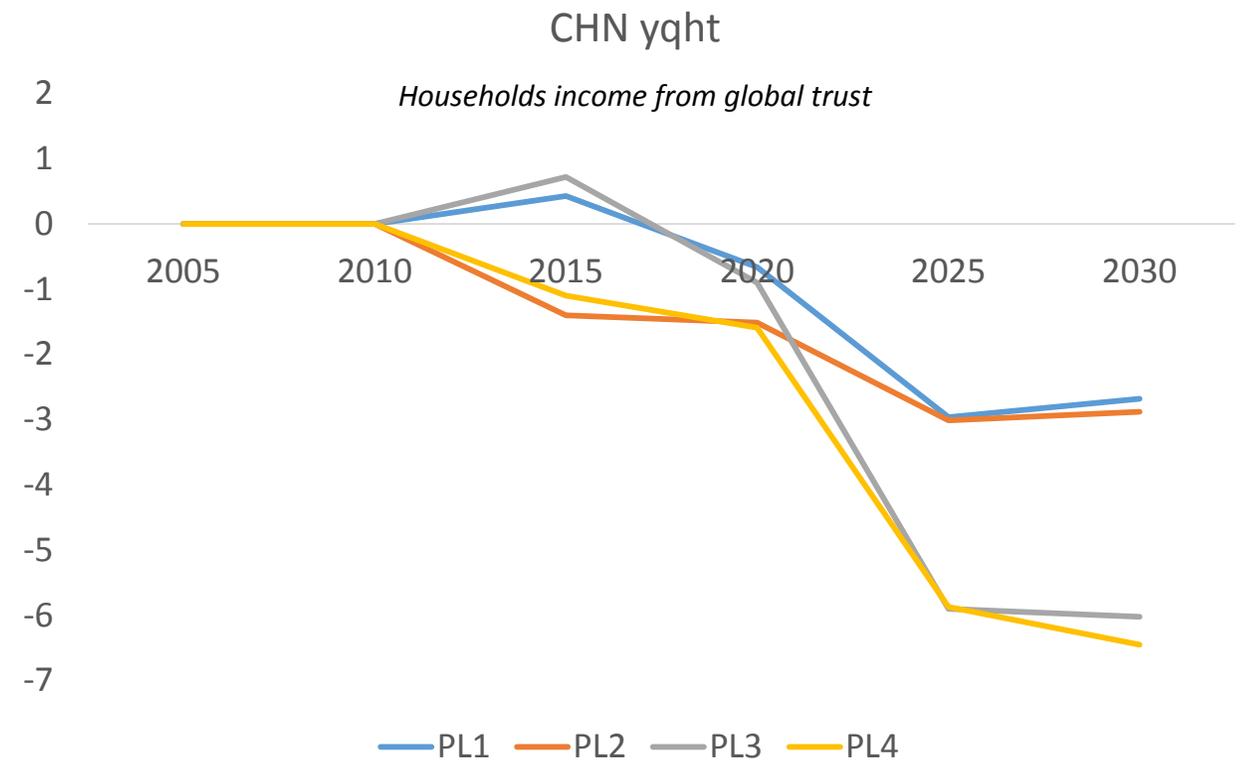
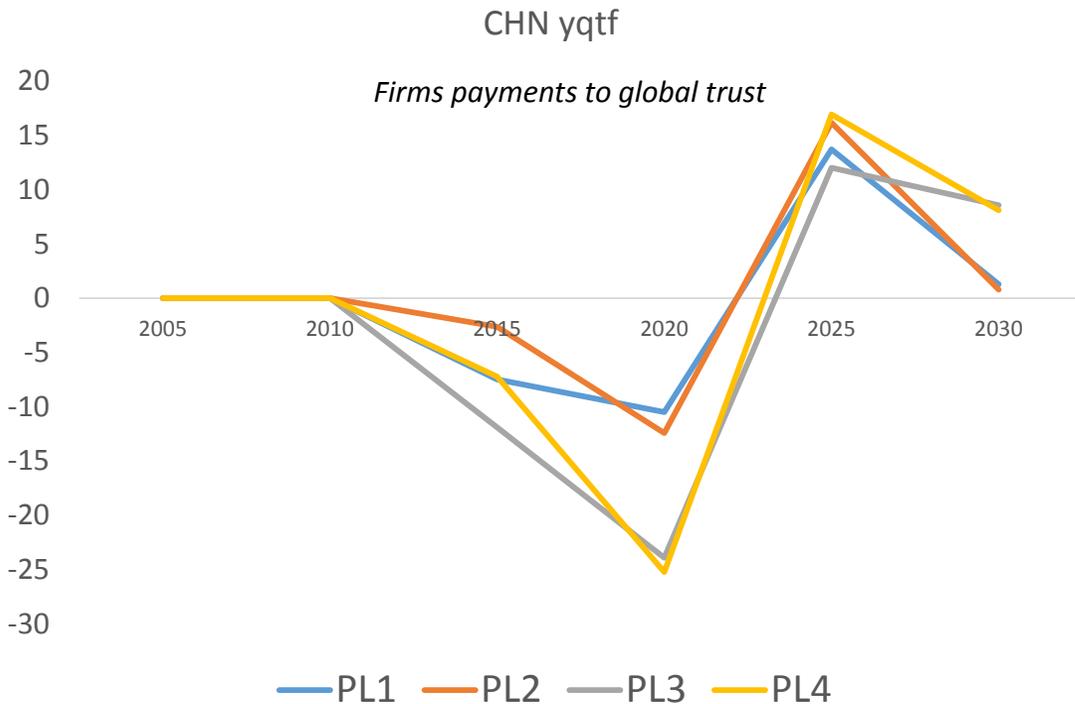


Effect of crisis on China (year-on-year differences)



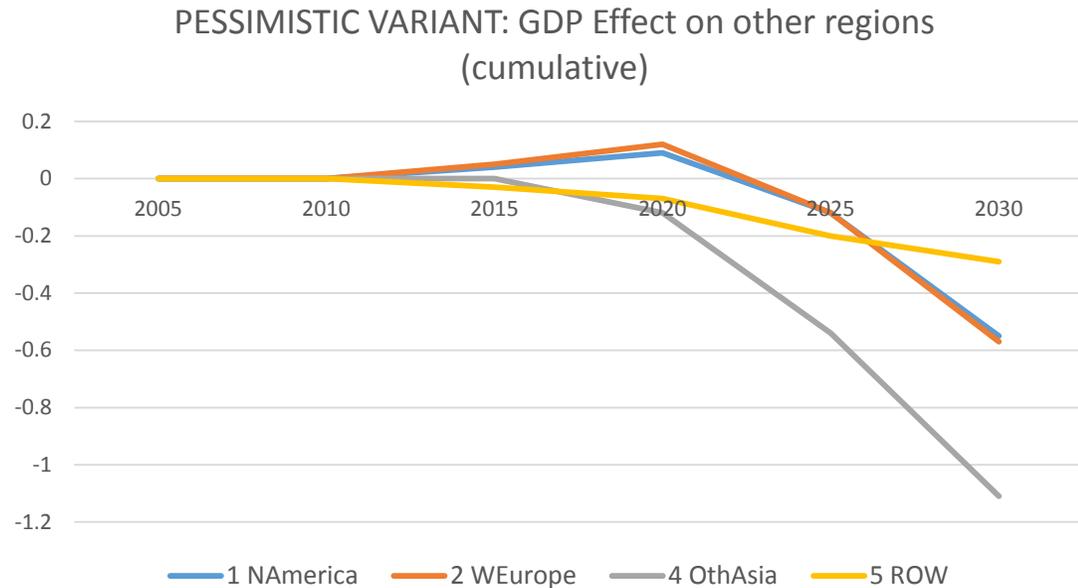
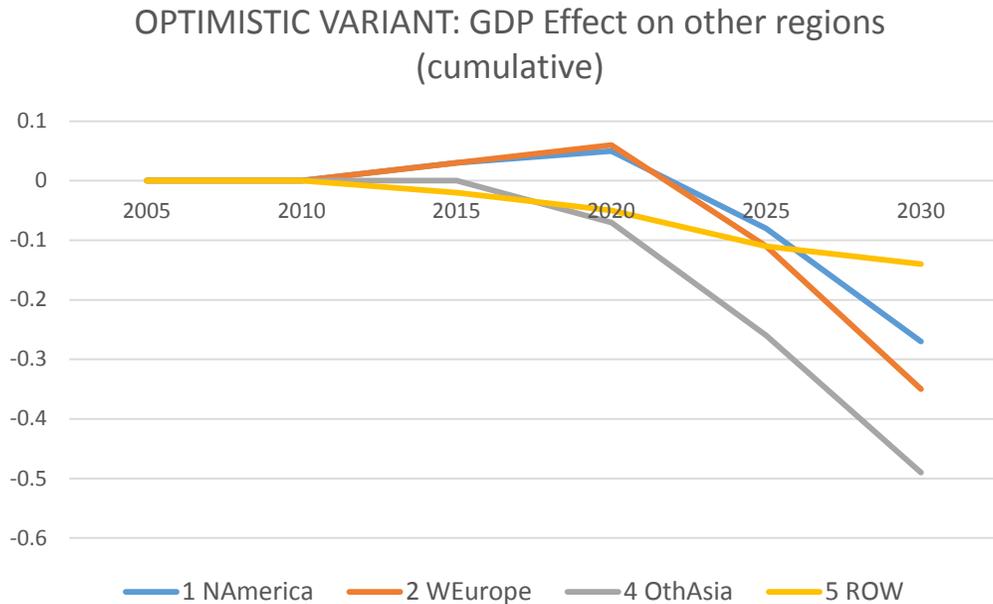
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Effects on payments and income from trust (year-on-year differences)



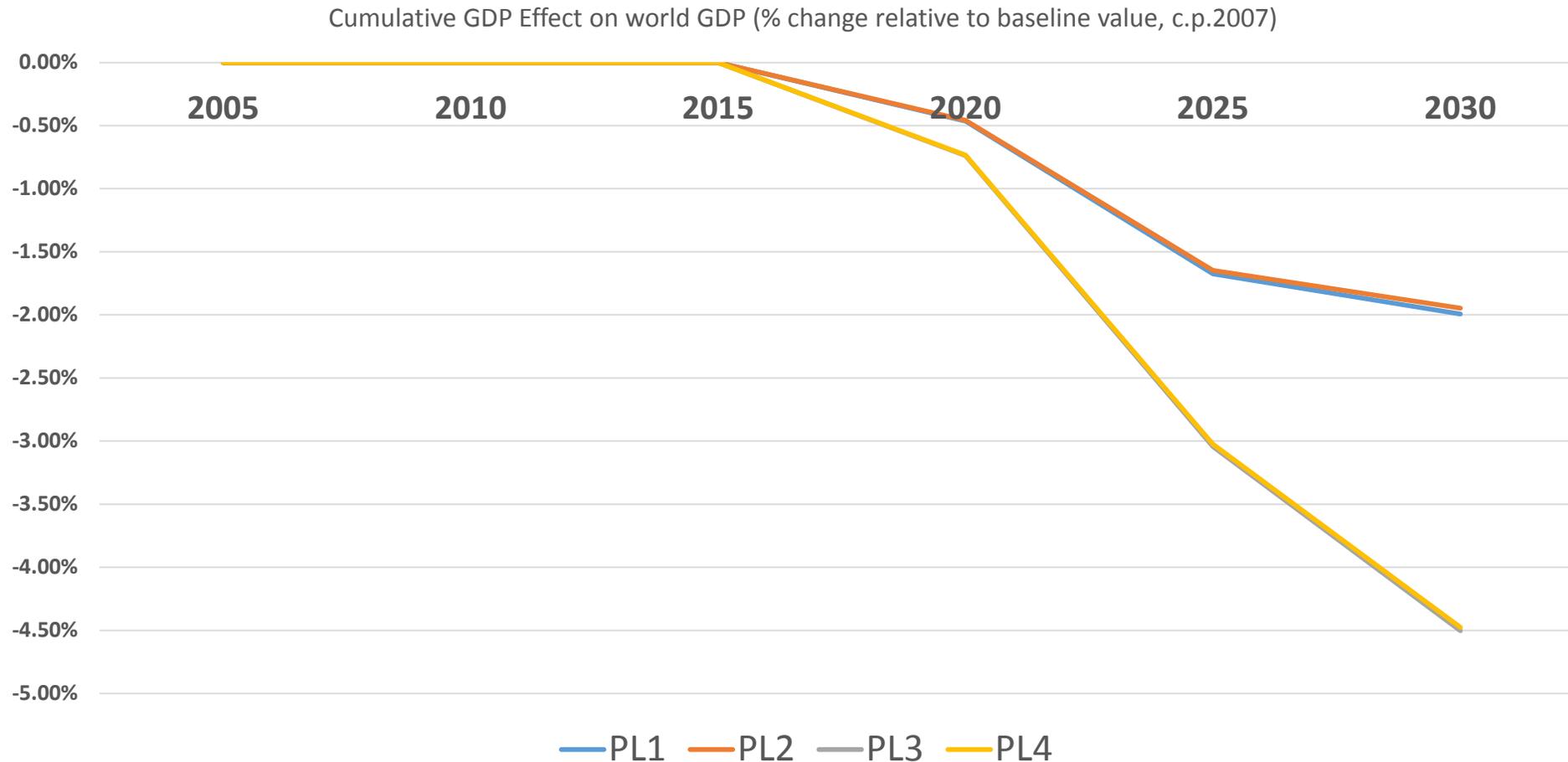
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Effect of Chinese crisis on other regions (cumulative differences)



Note: In the short run, GDP of NAmerica and WEurope goes up, but in the long run, all regions are worse-off !!!

Cumulative Effect on global GDP: up to 4.5% lower relative to baseline



Note: **PL1** = GDP shock (optimistic) **PL2**: GDP shock with policy **PL3**: GDP shock (pessimistic) **PL4**: GDP shock with policy

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Conclusion

- Chinese economic crisis might result in large fluctuations of investments
- In the long run, the impact on all other countries is negative
- Other Asian countries will be hit more than other countries
- Tax relief policy is not very effective in offsetting the negative results

Xie xie😊
Thank you