

# Final destination: China

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# Motivation

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- it accounts for nearly 10% of global imports
- China's share of total Italian exports is now three times higher than in 2000; its share of Germany's exports has grown five times.

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So far China's growth has been mainly driven by **exports and investments**, while the GDP share of private consumption has rapidly shrunk.

The share of **capital goods and intermediaries** exceeds 85% of total Chinese imports from advanced countries

# Motivation

## Now China's is at a turning point:

- the economic activity is gradually slowing, but...
- ...first signs of rebalancing toward domestic demand and consumption are becoming visible
- government reforms and structural economic and demographic factors will probably lead to radical changes of Chinese demand composition during the next 15-20 years
- China's weight on global demand will increase further

# This paper

The aim of this paper is twofold:

- investigating the China's role as a market of final destination for the productions of major Euro Zone countries (France, Germany, Italy or EA-3);
- assessing how the future change in China's demand composition will affect the major countries of the Euro Area

# This paper

## The two pillars of the analysis:

In order to address these questions we need the following ingredients:

- projecting the future trajectory of Chinese demand
  - 1.OECD long-term forecasts of consumption and investment
  - 2.our estimates on the future composition of Chinese consumption

# This paper

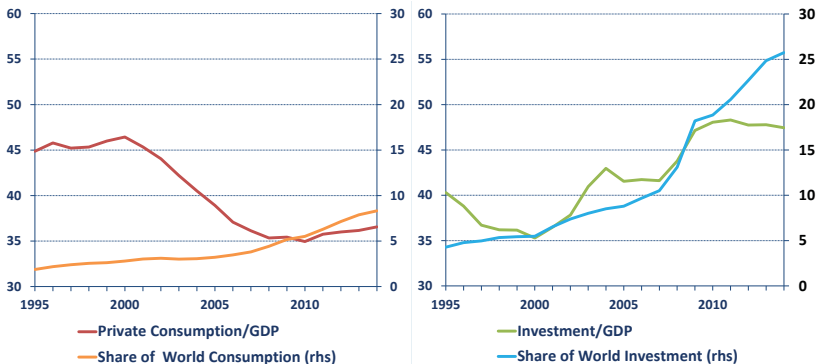
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  - 2.our estimates on the future composition of Chinese consumption
- assessing the linkages through which the final demand in China activates productions abroad, taking into account GVC
  - 1.WIOD Inter-Country Input-Output tables
  - 2.new analytical tools: Koopman, Wang and Wei, 2014 + bilateral decomposition developed by Borin and Mancini, 2015

# Evolution of China's final demand

China is already one of the most important players in global economy...

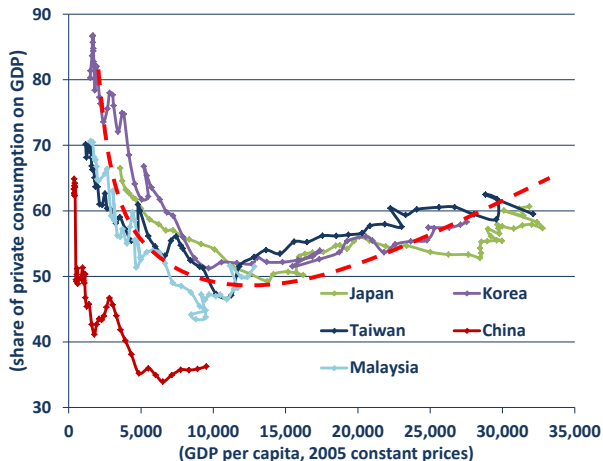


Source: IMF WEO



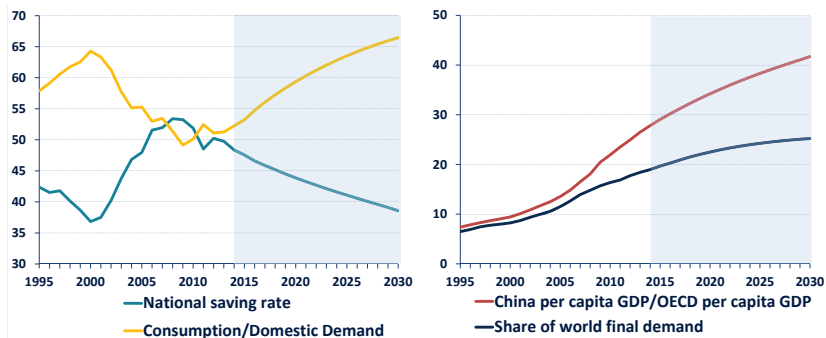
# Evolution of China's final demand

China has probably reached a turning point. The consumption share is going to stabilize or even rise...



# Evolution of China's final demand

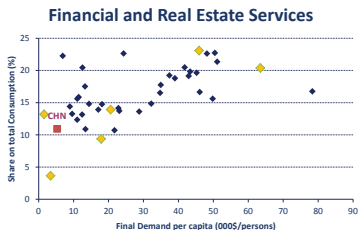
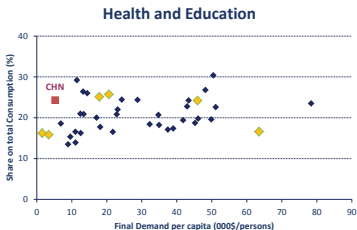
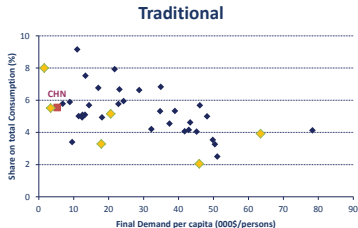
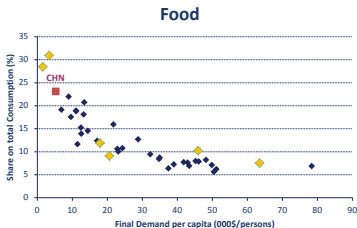
...and, while rebalancing, by 2030 will reach 25% of world final demand



Source: OECD projections

# Evolution of China's final demand

Structural relationships suggest that the consumption structure will change



# Projecting the future pattern of consumption

We exploit the non-homotheticity of preferences to project future patterns of consumption

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- Then we can use estimated coefficient to project the evolution of consumption by sector for the out of sample period (2012-30)
- For investments we maintain the same sectorial composition of 2011, applying the aggregate growth rate estimated by the OECD

# Evolution of China's final demand

Sectoral composition of China's consumption: projections  
(percentage points)

	2011	2020	2030	$\Delta(2030-2011)$
Agriculture	10.2	6.4	4.3	-6.0
Food, Beverages and Tobacco	14.3	11.9	9.9	-4.5
Traditional	5.9	4.7	3.7	-2.2
Machinery, Electrical and Optical Equipment	2.8	3.3	3.4	0.5
Transport Equipment	4.9	4.5	4.1	-0.7
Other Manufacturing	1.9	1.6	1.5	-0.3
Fuel, Gas and Electricity	1.4	1.9	2.5	1.2
Real Estate Services and Construction	7.9	8.4	8.6	0.7
Wholesale, Retail and Other Business	11.6	13.4	14.5	2.9
Hotels and Restaurants	4.7	4.0	3.7	-0.9
Transport and Telecommunications	5.5	6.6	7.0	1.5
Financial Intermediation	3.7	4.6	5.1	1.3
Education	10.9	12.1	12.5	1.6
Health and Social Services	14.3	16.7	19.2	4.9



# China's demand: a VA approach

# Role of China's final demand: a VA approach

## Traditional Imports vs Foreign Value Added in final demand

- Which is the weight of processing trade?  
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in 2011 China accounted for 9.7% of global imports, and 12% of foreign VA in final demand

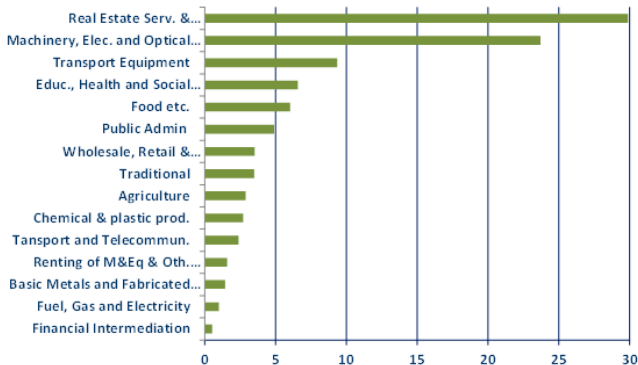
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in 2011 China accounted for 9.7% of global imports, and 12% of foreign VA in final demand
- Which is the foreign content of Chinese final demand?  
18% of Chinese final demand is made of foreign VA (> USA and Japan)  
foreign VA intensity is higher in investment (22.3%), with respect to consumption (13.9%)

# China's final demand

Which sectors of China's final demand activate foreign value added the most?



# China as a destination market for the EA-3

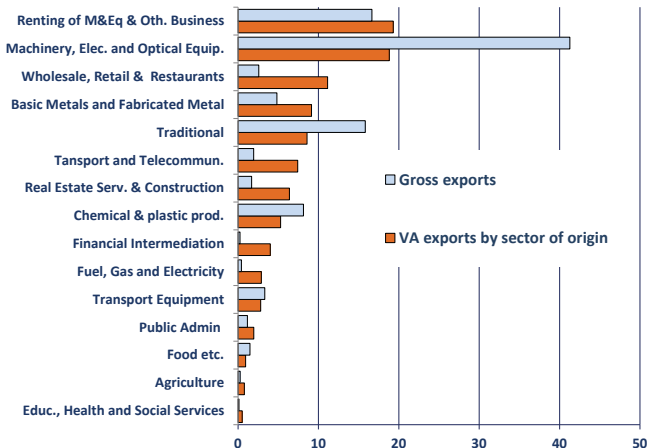
In terms of absorbed VA, China is a more relevant market for EA-3 productions

	<b>France</b>	<b>Italy</b>	<b>Germany</b>
<b>Gross exports to China (million of US\$)</b>	19,361	15,513	91,370
<b>share of total exports</b>	2.8%	2.6%	5.7%
<b>VA absorbed in China (million of US\$)</b>	16,996	13,811	70,574
<b>share of total GDP exported</b>	3.8%	3.6%	6.5%

Caveat: WIOD tables do not take properly into account processing-trade

# Italian sectoral exports to China

VA in the sectors of origin vs gross exports: a very different picture



# Dissecting global value chains

How EA-4 made VA gets to China's final demand?

Recovering information from the decomposition of bilateral exports

	France	Italy	Germany	Spain
<b>direct to China</b>	<b>70.7</b>	<b>71.2</b>	<b>77.5</b>	<b>42.5</b>
through other countries	29.3	28.8	22.5	57.5

*share of VA exported to China through a third country*

<b>EU-27</b>	49.4	50.7	40.2	58.2
<i>France</i>		7.6	6.9	11.6
<i>Italy</i>	4.9		4.0	6.9
<b>Germany</b>	20.4	22.1		16.2
<i>Spain</i>	2.8	2.1	1.2	
<i>USA</i>	3.7	3.5	3.9	5.0
<i>Japan</i>	2.2	1.3	2.0	1.0
<i>EME ASIA excl. China</i>	8.9	6.6	10.4	3.1
<i>Oth Emerging markets</i>	35.7	38.0	43.4	32.8



# Effects of China's growth and rebalancing

OECD projections: Chinese final demand +148%  
(+215% C, +71% I)

Effect on DVA destined for Chinese mkt

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	France	Italy	Germany
Agriculture	106	115	123
Food etc.	116	119	123
Traditional	114	113	127
Machinery, Elec. and Optical Equip.	113	109	111
Transport Equipment	114	145	161
Chemical & plastic prod.	142	138	141
Basic Metals and Fabricated Metal	116	115	119
Fuel, Gas and Electricity	139	126	137
Real Estate Serv. & Construction	134	138	134
Wholesale, Retail & Restaurants	124	129	132
Renting of M&Eq & Oth. Business	142	150	140
Transport and Telecommun.	153	134	141
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Public Admin	172	167	145
<b>TOTAL</b>	<b>133</b>	<b>129</b>	<b>131</b>

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- +0.1 p.p. of additional GDP growth per year for Italy and France; twice as large for Germany.

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- Great heterogeneity b/w sectors: service vs manufacturing
- +0.1 p.p. of additional GDP growth per year for Italy and France; twice as large for Germany.
- For Italy this effect is 30% higher compared to the period 1995-2011

## Concluding remarks (1)

- China's is going to account for almost **1/4 of world total demand by 2030**.
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**New data and analytical methodologies** to assess the effects on the major Euro Area countries

## Concluding remarks (2)

- Compared to traditional (gross) statistics, Chinese market plays a greater role for EA-3.
- About 30% of VA originated in ITA and FRA and finally absorbed in China is exported through third countries, mainly other EU and in particular Germany (about 1/5th of it). The share is larger for ESP (57.5%).
- It is relevant for a large number of industries in the countries of origin
- Chinese demand growth in the future will be a **key source for EA-3 GDP activation**, but the effect will probably be heterogeneous across sectors  
*Caveat: what will be the effect of the quality upgrading of Chinese consumption*



Thank you for your attention