



Asia-Pacific
Economic Cooperation

2007/ASCC/2.6

Session: China's Impact on the Global Economy

2.6.3

Can China Maintain a Competitive Advantage

Purpose: Information

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Can China remain competitive? *Can APEC?*

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April 2007



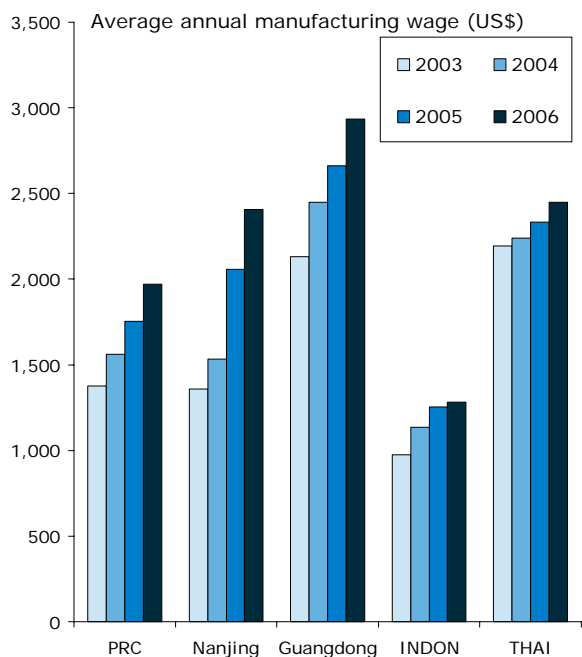
Competitiveness debate focused on the big manufacturers



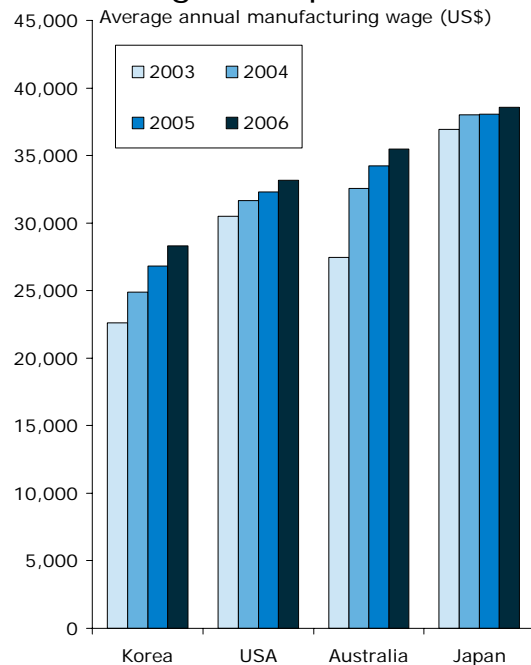
	Nominal GDP (US\$ bn)	Population (mn pp)	Province GDP as % total China GD{
Guangdong (Guangzhou)	324	91.9	12.4
Shandong (Jinan)	273	92.5	10.4
Jiangsu (Nanjing)	269	74.7	10.3
Zhejiang	195	48.9	7.5
Henan	155	93.8	5.9
Hebei	145	68.5	5.5
Shanghai	128	17.7	4.9
Sichuan	107	82.1	4.1
Beijing	96	15.8	3.7
Fujian	94	35.4	3.5

Not so competitive to emerging Asia on labour costs

Low cost producers



High cost producers

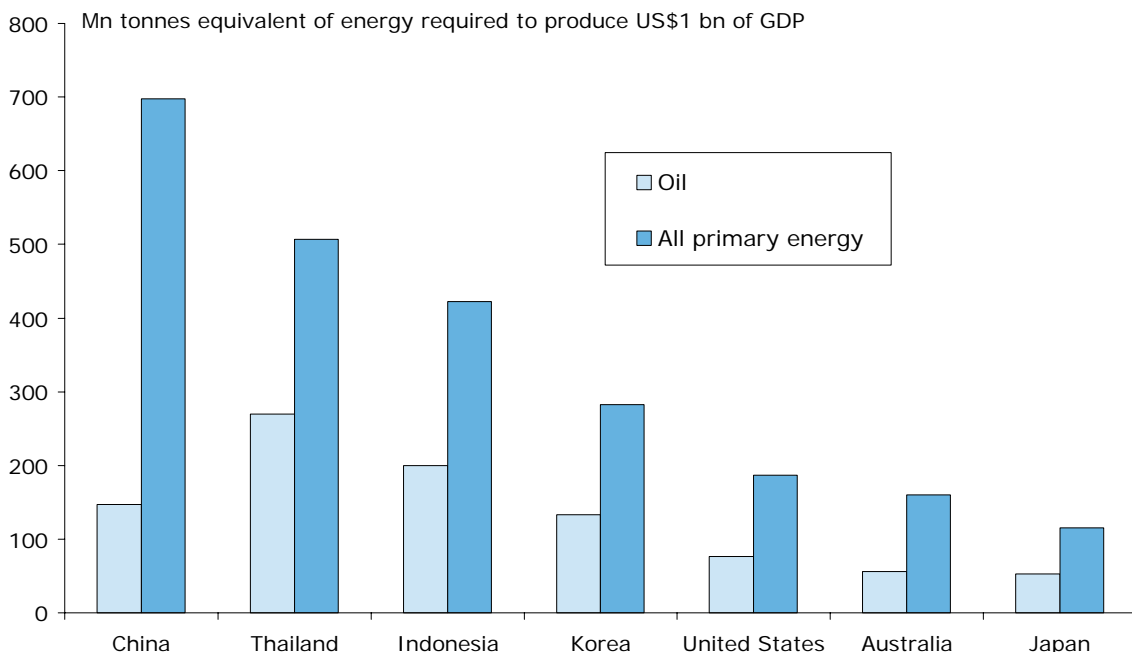


Source: CEIC, ABS

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China is inefficient in energy relative to Asia region

Energy efficiency in select APEC economies

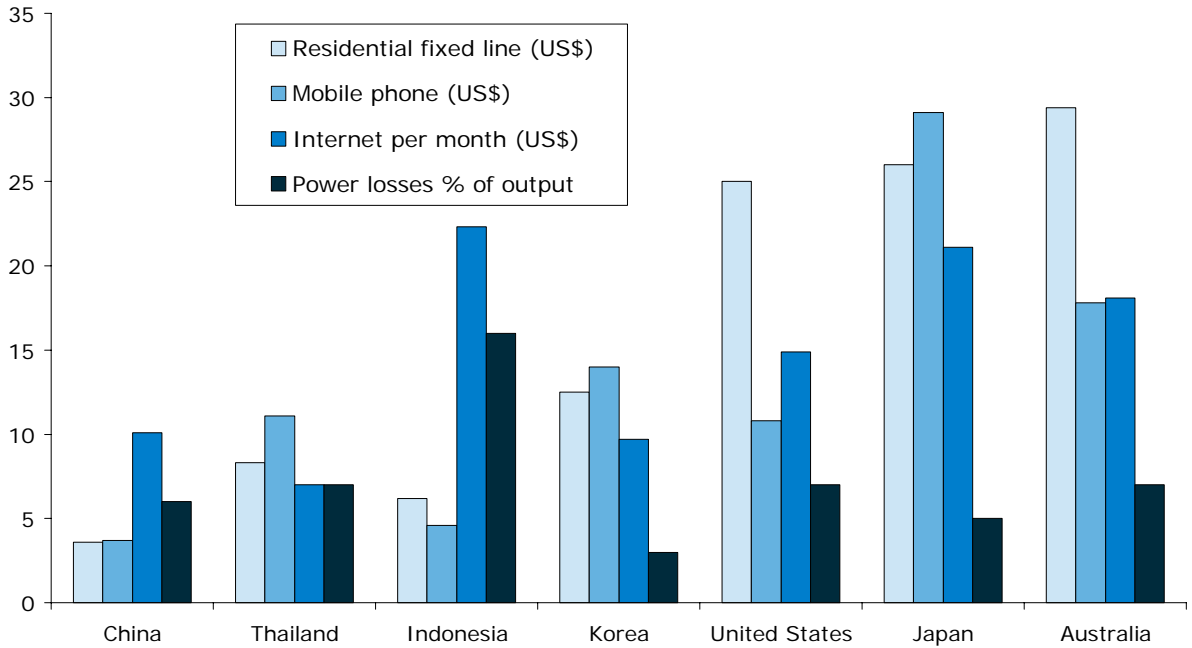


Source: BP Statistical Yearbook, IMF, Economics@ANZ

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But highly competitive in provision of equipment and plant

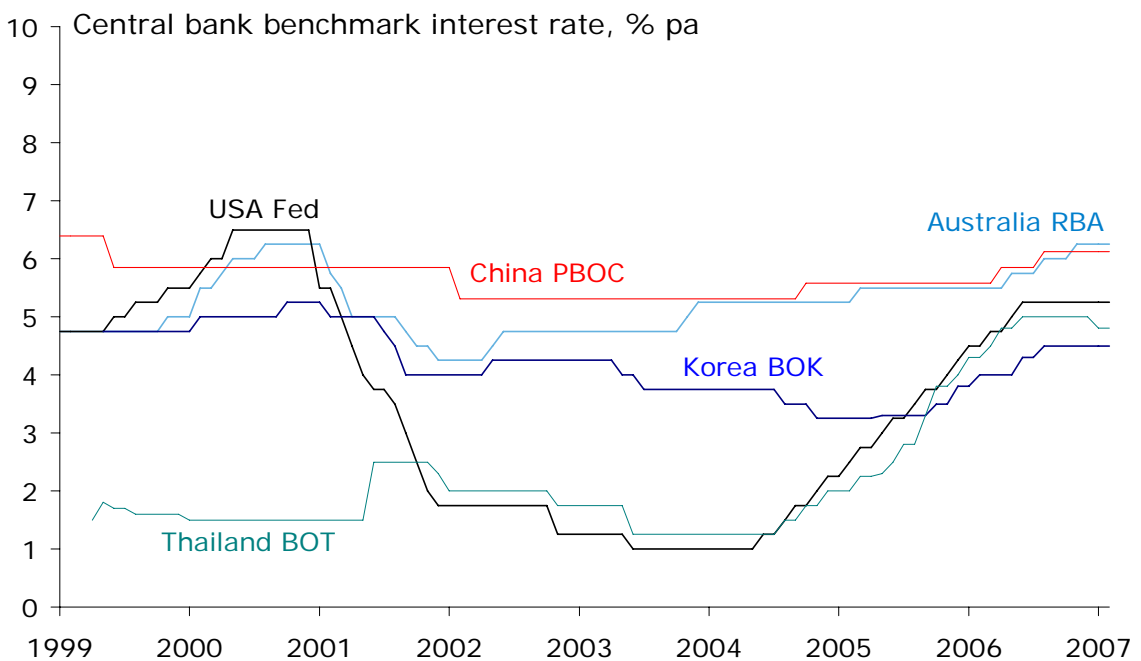
Cost of utility services, 2004



Source: The World Bank, 2006 Development Indicators

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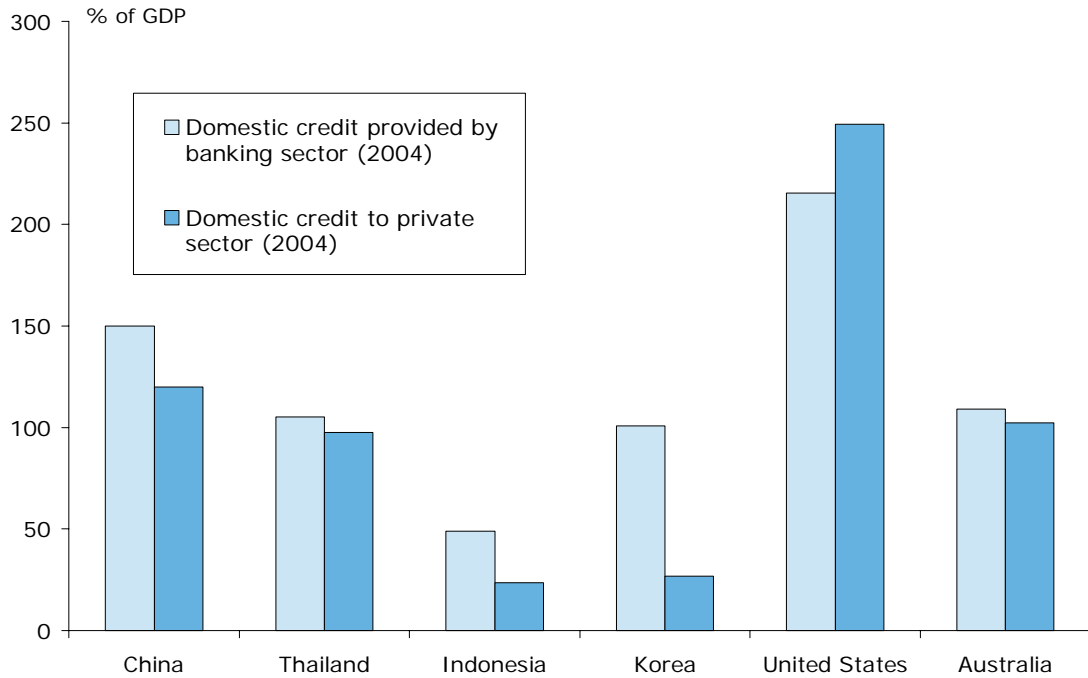
Not because interest rates are very low



Source: Bloomberg

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But because there is still so much cash going to SOEs

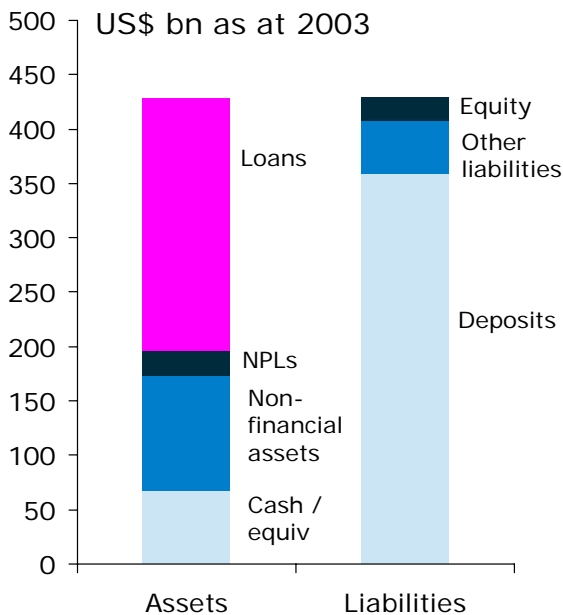


Source: The World Bank, 2006 Development Indicators

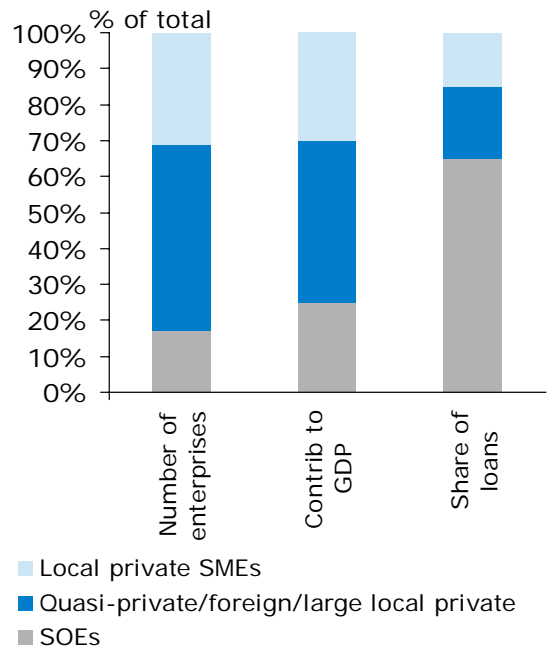
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Banks' exposure to SOEs is still high

China Construction Bank balance sheet



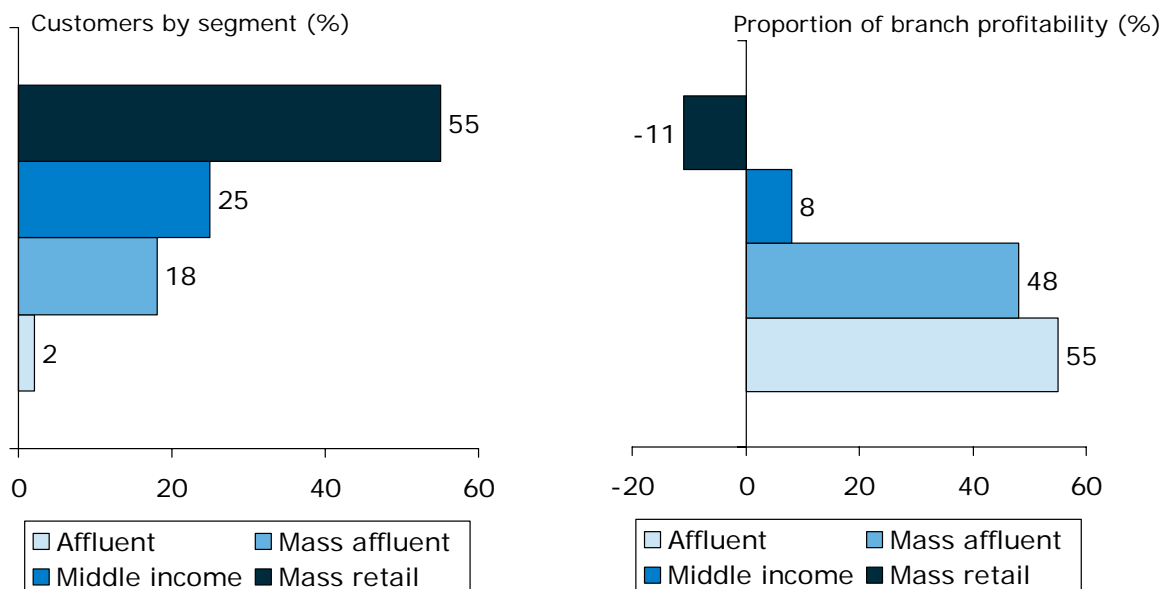
Profile of bank loans (2002)



Sources: CCB annual report; McKinsey

Banks also rely on narrow deposit base for funding

2% of households are responsible for more than half of state-owned banks' deposits and profits



Sources: McKinsey Global Institute, *Putting China's Capital to Work*, May 2006

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Capital inputs are the major input to productivity

Sources for output growth in China

	1981-1984	1984-1988	1988-1994	1994-2000
Output growth	9.56%	10.69%	9.07%	8.29%
Capital input contribution	1.94%	5.82%	4.20%	5.84%
Labour input contribution	1.17%	1.73%	1.04%	1.93%
Total factor productivity growth	6.45%	3.14%	3.83%	0.52%

Using Japan as comparison base - macro level comparison of productivity*

	China 1982-2000	Korea 1984-2000	Taiwan 1981-1999	US 1980-2000	Japan 1980-2000
1980 level	0.50	0.81	0.64	1.04	1.00
2000 level	0.66	0.83	0.93	1.08	1.00
Avg annual growth rate	2.04%	0.60%	2.44%	0.61%	0.42%

*In the above table, Japan=1, thus for example China's economy was half as productive as Japan's in 1980.

Source: "Benchmarking Industrial Competitiveness By International Comparison of Productivity," Research Institute of Economy, Trade and Industry, www.rieti.go.jp

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China's cost comparisons – crude steel

Average global cost of production: US\$228/tonne

- Labour US\$20.09
- Energy & reductants US\$ 72.14
- Ferrous raw materials US\$88.76
- Other US\$47.98

But labour is 10% or less of production costcost of capital is missing from this equation

- *Cheap money*
- *Land breaks*
- *Tax breaks*
- *Duty exemptions*

China cost US\$227/tonne

- Labour US\$9.01 (44% of global)
- Energy and reductants US\$76.44 (105% of global)
- Ferrous raw materials US\$99.99 (112% of total)
- Other US\$42.07

Russia US\$149/ tonne

Brazil US\$171 / tonne

Australia US\$191 / tonne

S Korea US\$226 / tonne

Japan US\$252 / tonne

USA US\$265 / tonne

France US\$282 / tonne

