



Asia-Pacific  
Economic Cooperation

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**2007/ASCC/2.6**

Session: China's Impact on the Global Economy

2.6.3

## **What is the Challenge to Manufacturing?**

Purpose: Information

Submitted by: Dr John Edwards  
HSBC, Sydney



**Annual Conference of APEC Centres  
Melbourne, Australia  
18-20 April 2007**

# China's Impact

*What is the challenge to manufacturing?*

## APEC 2007 Annual Conference of APEC Centres

Melbourne April 20 2007

John Edwards

**HSBC Chief Economist Australia & New Zealand**

john.k.edwards@hsbc.com.au

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| Ranking | Country | 2005<br>Nominal<br>GDP<br>(USDbn) | Country               | 2005 GDP<br>PPP<br>(USDbn) |
|---------|---------|-----------------------------------|-----------------------|----------------------------|
| 1       | US      | 12455.1                           | US                    | 11651.1                    |
| 2       | Japan   | 4505.9                            | China                 | 7642.3                     |
| 3       | Germany | 2781.9                            | Japan                 | 3737.3                     |
| 4       | China   | 2228.9                            | India                 | 3389.7                     |
| 5       | UK      | 2192.6                            | Germany               | 2335.5                     |
| 6       | France  | 2110.2                            | UK                    | 1845.2                     |
| 7       | Italy   | 1723.0                            | France                | 1769.2                     |
| 8       | Spain   | 1123.7                            | Italy                 | 1622.4                     |
| 9       | Canada  | 1115.2                            | Brazil                | 1507.1                     |
| 10      | Brazil  | 794.1                             | Russian<br>Federation | 1424.4                     |

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## China's challenge

- China now the fourth biggest national economy measured in current exchange rates
- Using World Bank estimates, it is already the second biggest economy using purchasing power parity exchange rates
- On present trends it will match US output in PPP terms by 2010
- By 2050 China's output will be twice the size of US output
- China's per capita income then will be half of US per capita income – or roughly equivalent to US per capita income today

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## China is assuming regional centrality

- China is emerging as the centre of a regional system of production and distribution
- China accounts for around one third of total world growth, and has become the first or second most important export market for Korea, Japan and South East Asia. It has become the second most important export market for Australia (after Japan)
- Korea, Japan and Taiwan are major investors in China, and not only in final assembly production
- As China grows and incomes increase, its domestic market becomes an important export market for the region

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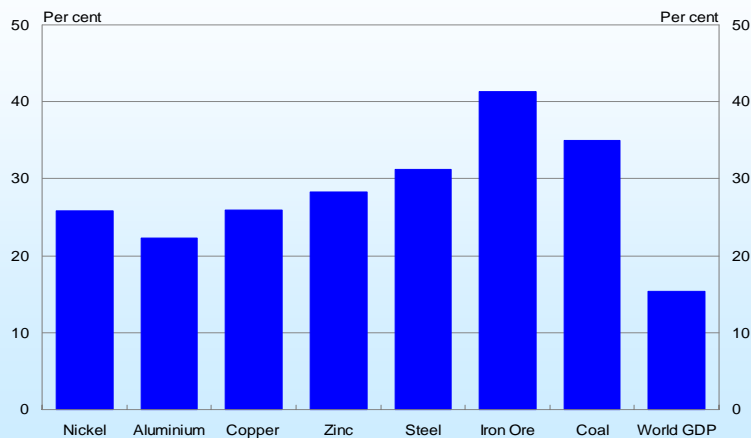
## The world in 2050

- Today India plus China and the rest of East Asia (excluding Japan) produce only half of the output of North America, Europe and Japan
- They are growing much faster, however, and will match by the middle of the century
- Output growth will be complemented by population growth (compared to Europe, but not Africa)
- The weight of global economic activity will by 2050 have shifted to the Asian time zone

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## China's Share of World Consumption



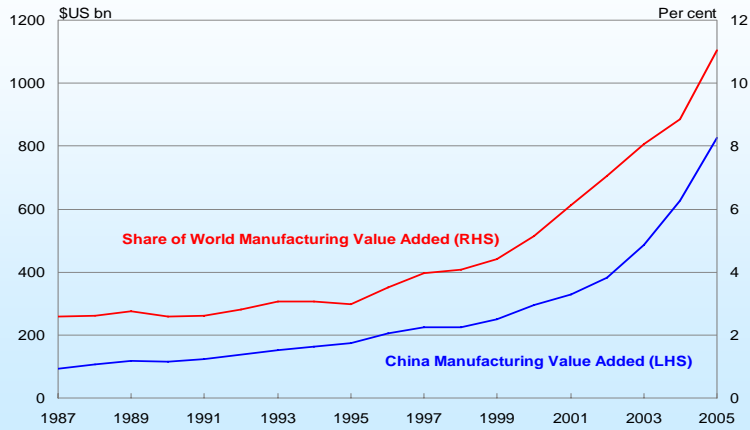
Source: Macquarie Research, IMF and BP

The Treasury

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## China's Manufacturing Value Added



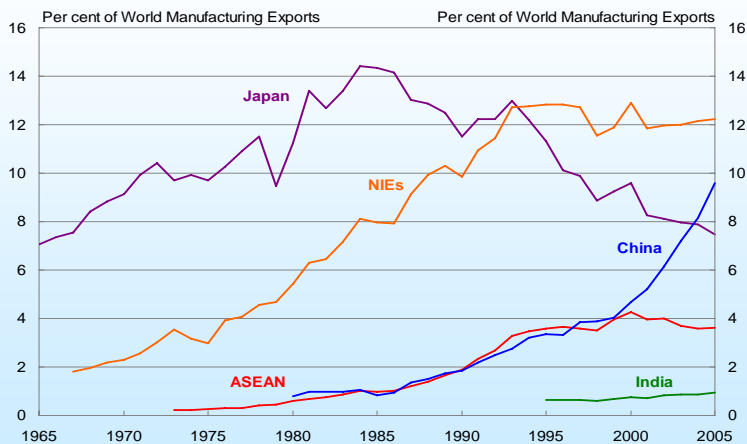
Source: WDI, CEIC and Treasury

The Treasury

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## Gross Manufacturing Exports



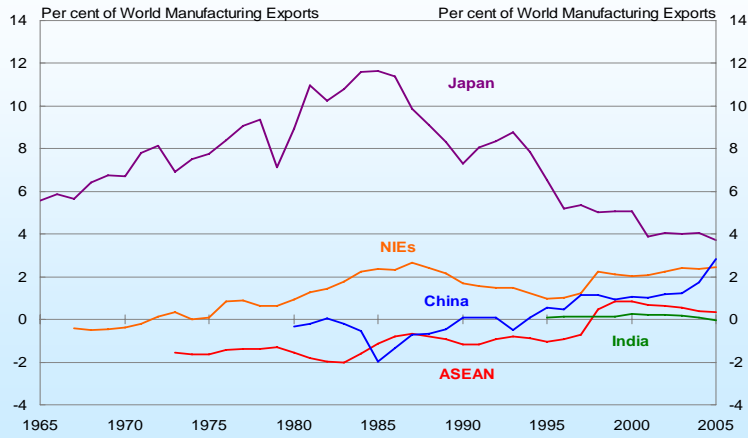
Source: WTO Trade Statistics, WDI and Treasury

The Treasury

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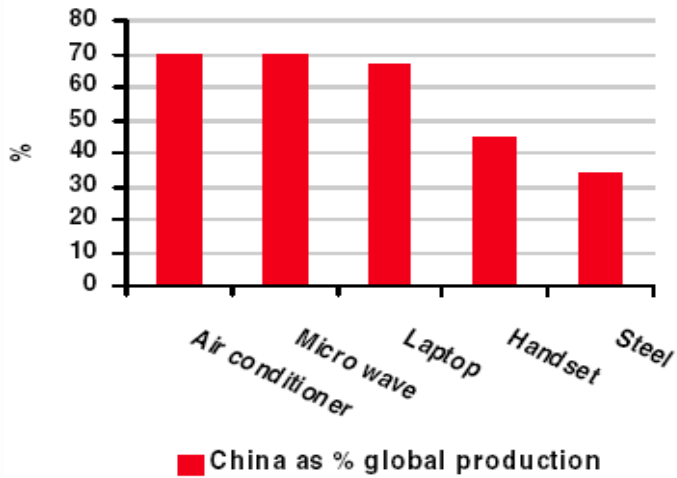


# Net Manufacturing Exports

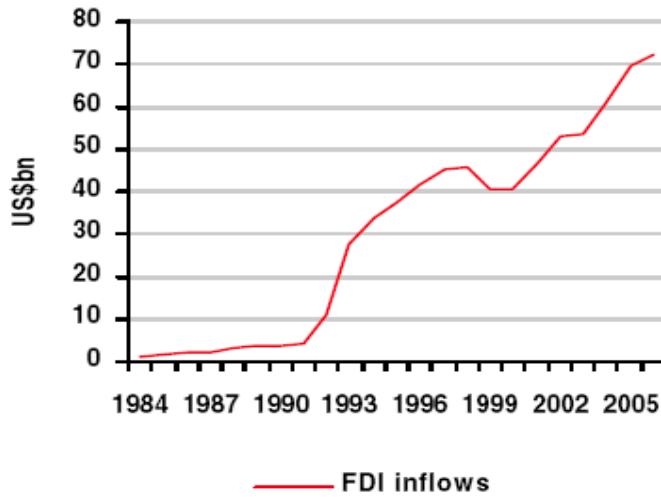


Source: WTO Trade Statistics, WDI and Treasury

The Treasury



Source: HSBC, China State Statistical Bureau



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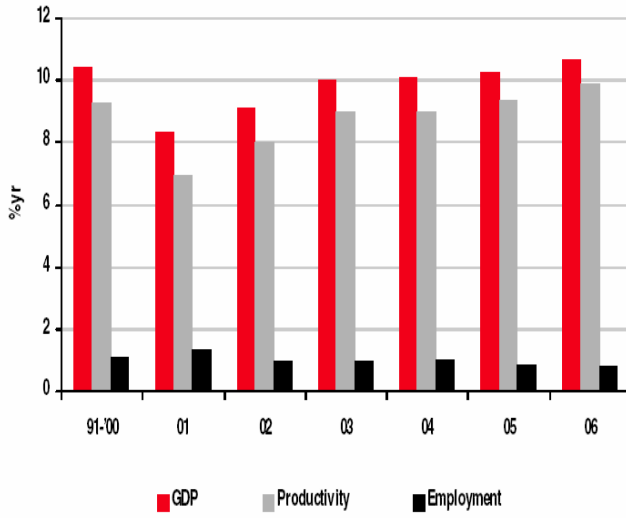
| Rank | China's top 10 exporters, 2005                         | Parent Company             | Export value, USD |
|------|--|----------------------------|-------------------|
| 1    | Honggu Jin Precision Industry (Shenzhen) Co., Ltd      | Honghai Group, Taiwan      | 14.5              |
| 2    | Tech-Front (Shanghai) Computer Co., Ltd                | Guangda Group, Taiwan      | 11.5              |
| 3    | Motorola(China)Electronics Ltd                         | Motorola Inc.              | 6.5               |
| 4    | Maintek Computer (Suzhou) Co., Ltd                     | Asustek Computer Inc.      | 6.2               |
| 5    | China Putian Co.                                       | State owned enterprise     | 4.3               |
| 6    | Inventec (PuDong) Co., Ltd                             | Inventec Corporation       | 4.2               |
| 7    | Nokia Investments Inc.(China)                          | Nokia Corporation          | 3.6               |
| 8    | Samsung Electronics (Su Zhou)                          | Samsung Electronics, Korea | 3.5               |
| 9    | China International Marine Containers (Group) Co., Ltd | State owned enterprise     | 3.2               |
| 10   | Greatwall Technology Ltd.                              | IBM                        | 3.0               |

Source: HSBC, China State Statistics Bureau

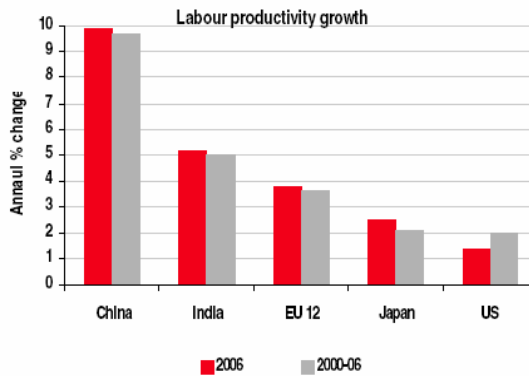
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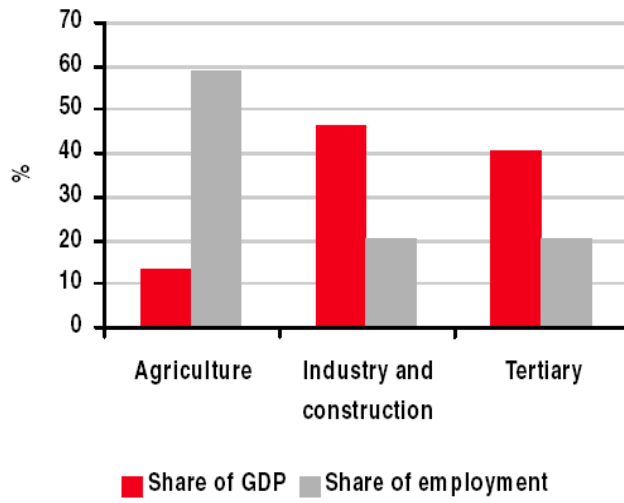
## China's growth driven by labour productivity



Source: CEIC



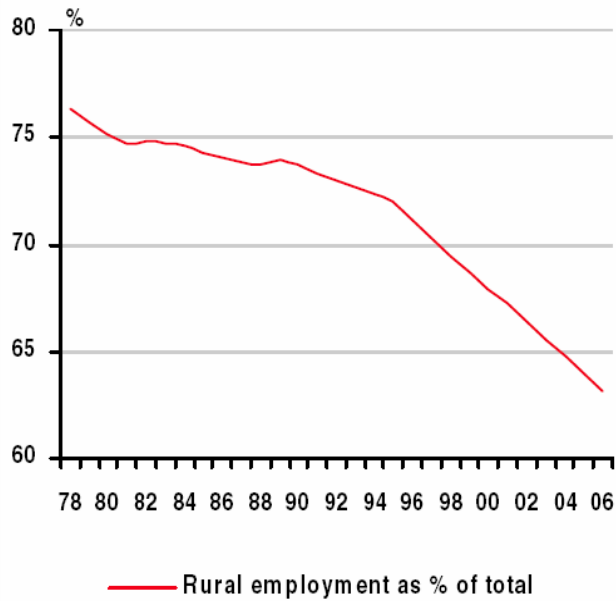
Source: The Conference Board



Source: CEIC

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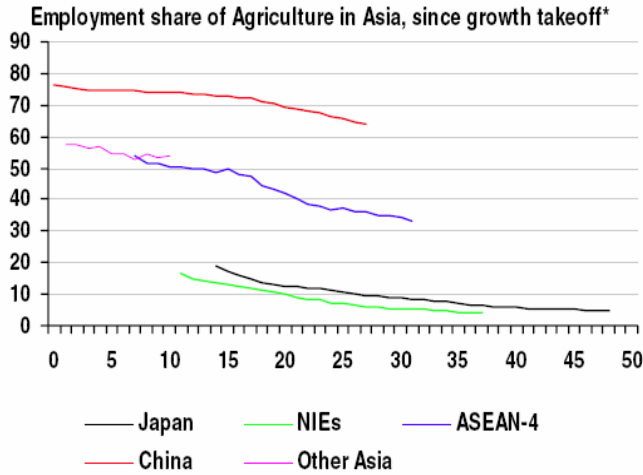
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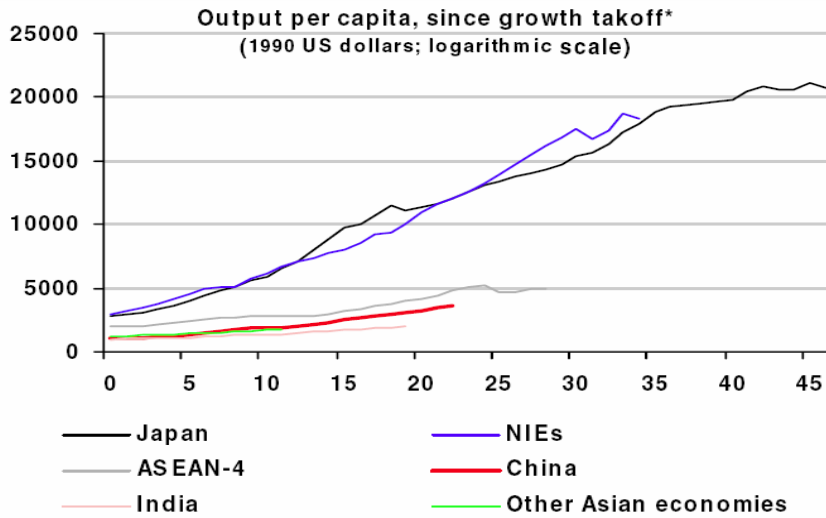
Source: CEIC

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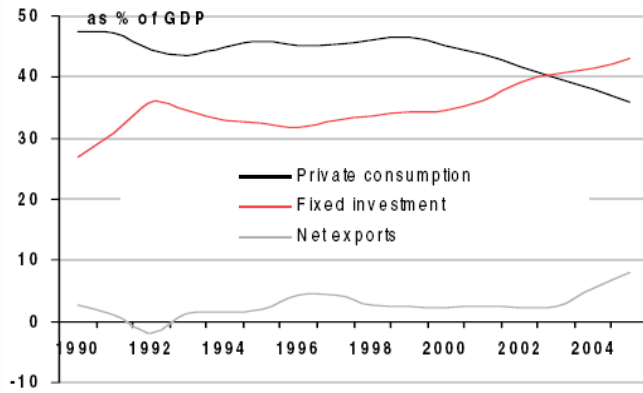
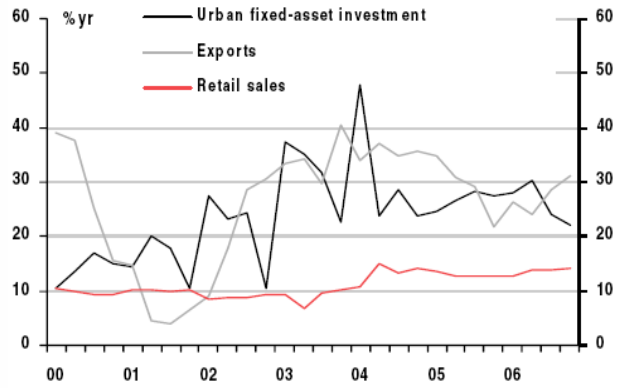
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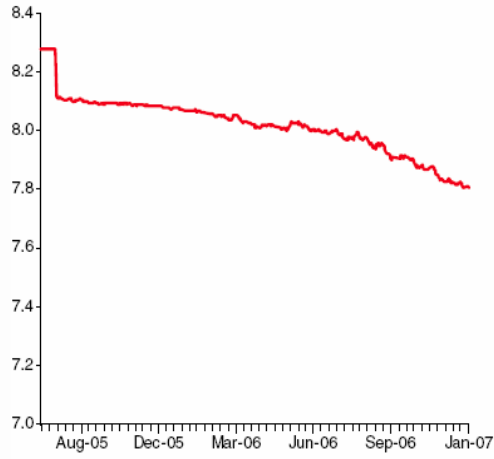
Sources: IMF; The growth takeoff is defined as occurring in 1955 in Japan, 1969 for NIEs, 1973 for ASEAN-4, 1978 for China, 1982 for India and 1990 for other Asian economies



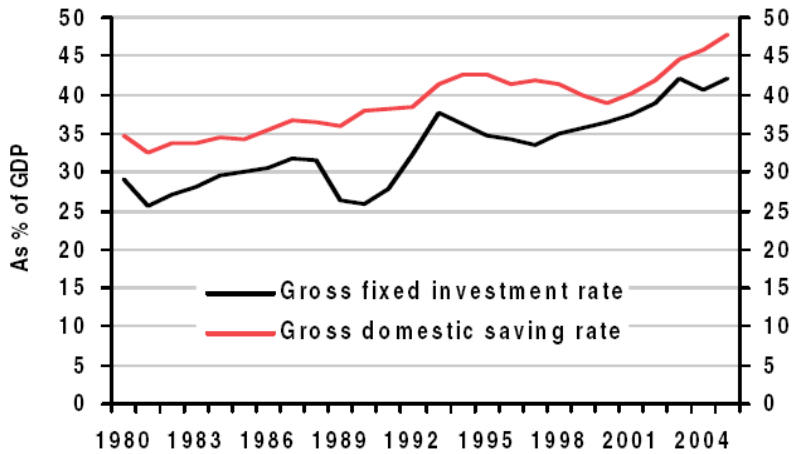
Source: IMF



China onshore spot market  
RMB/USD



Source: HSBC, CEIC



Source: CEIC, HSBC

| % Year (annual average)                              | 2001   | 2002   | 2003   | 2004f  | 2005f  | 2006f  | 2007f  | 2008f  |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Nominal GDP (RMBbn)                                  | 10,966 | 12,033 | 13,582 | 15,988 | 18,387 | 20,941 | 23,582 | 26,625 |
| Real GDP   | 8.3    | 9.1    | 10.0   | 10.1   | 10.2   | 10.7   | 10.0   | 10.5   |
| Nominal fixed asset investment                       | 13.1   | 16.9   | 27.7   | 26.8   | 26.0   | 24.0   | 22.0   | 24.0   |
| Merchandise exports                                  | 6.8    | 22.3   | 34.7   | 35.4   | 28.4   | 27.2   | 20.0   | 23.0   |
| Merchandise imports                                  | 8.2    | 21.2   | 39.9   | 36.0   | 17.6   | 20.0   | 18.0   | 20.0   |
| Real industrial production (excl. small enterprises) | 9.7    | 12.7   | 16.7   | 16.3   | 15.9   | 16.2   | 15.8   | 16.0   |
| Nominal Retail sales                                 | 10.1   | 8.8    | 9.1    | 13.3   | 12.9   | 13.7   | 14.3   | 15.0   |
| Consumer prices                                      | 0.7    | -0.8   | 1.2    | 3.9    | 1.8    | 1.5    | 2.4    | 2.2    |
| Current account (% GDP)                              | 1.3    | 2.4    | 2.8    | 3.6    | 7.2    | 6.0    | 5.5    | 4.9    |
| Budget balance (% GDP)                               | -2.3   | -2.6   | -2.2   | -1.3   | -1.2   | -1.2   | -1.0   | -1.0   |
| Foreign reserve (US\$bn)                             | 212.2  | 286.4  | 403.3  | 609.9  | 818.9  | 1066.3 | 1195.0 | 1295.0 |
| CNY/USD  | 8.3    | 8.3    | 8.3    | 8.3    | 8.1    | 7.8    | 7.4    | 7.1    |
| 3-month time deposit (%)                             | 2.0    | 1.7    | 1.7    | 1.7    | 1.7    | 1.7    | 2.6    | 2.6    |
| 1-yr lending (%)                                     | 5.9    | 5.4    | 5.3    | 5.4    | 5.6    | 5.9    | 6.9    | 6.9    |

Source: HSBC

|                         | 2006 US export<br>growth, % Yr | 2006 US export<br>growth % point<br>contributions |
|-------------------------|--------------------------------|---|
| Canada                  | 8.8                            | 2.1   |
| Mexico                  | 11.5                           | 1.5   |
| China                   | 31.7                           | 1.5   |
| Germany                 | 20.9                           | 0.8   |
| UK                      | 17.6                           | 0.8   |
| Korea                   | 16.9                           | 0.5   |
| Netherlands             | 17.4                           | 0.5   |
| Japan                   | 7.5                            | 0.5   |
| Singapore               | 19.6                           | 0.4   |
| Brazil                  | 25.1                           | 0.4   |
| Switzerland             | 34.1                           | 0.4   |
| UAE                     | 40.5                           | 0.4   |
| <b>Total US exports</b> | <b>14.5</b>                    | <b>14.5</b>                                       |

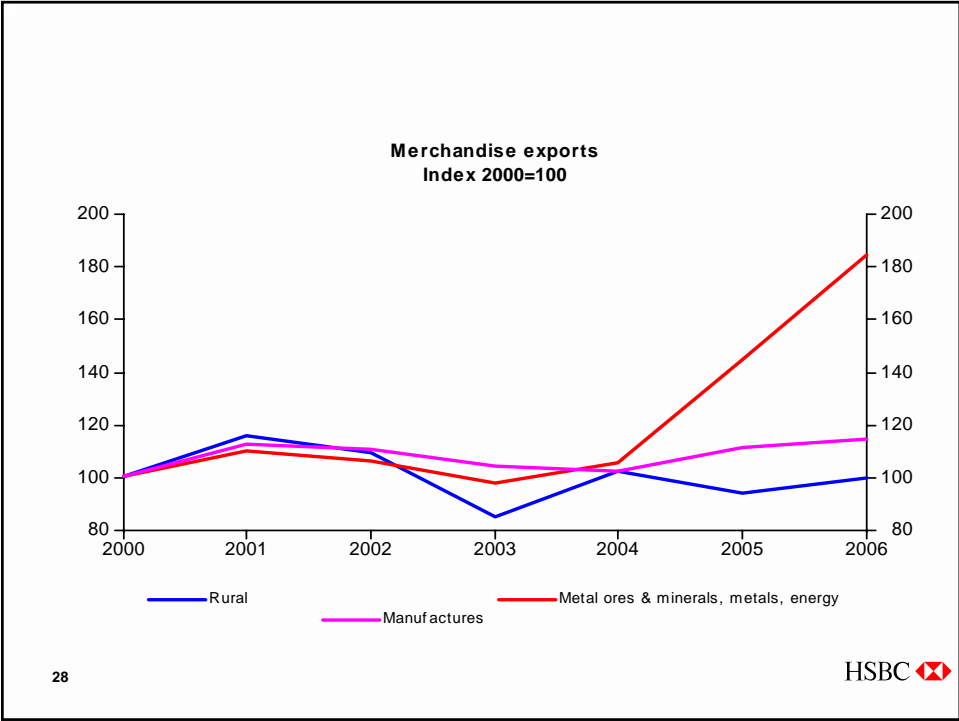
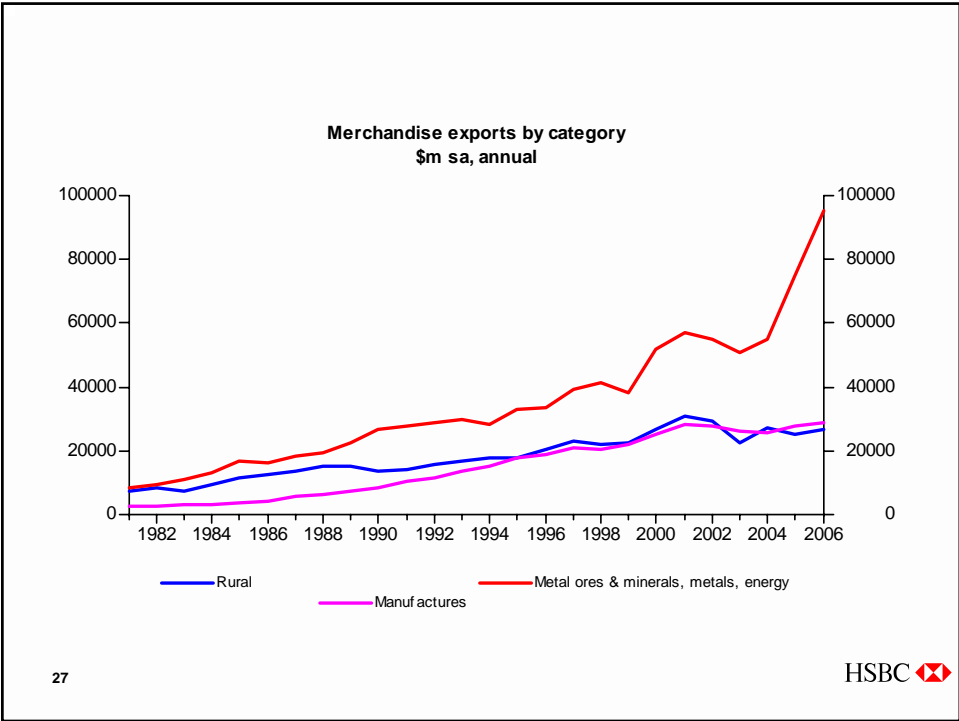
**RBA index of commodity prices: Non-rural component: Base metals: SDRs  
2001/02=100**

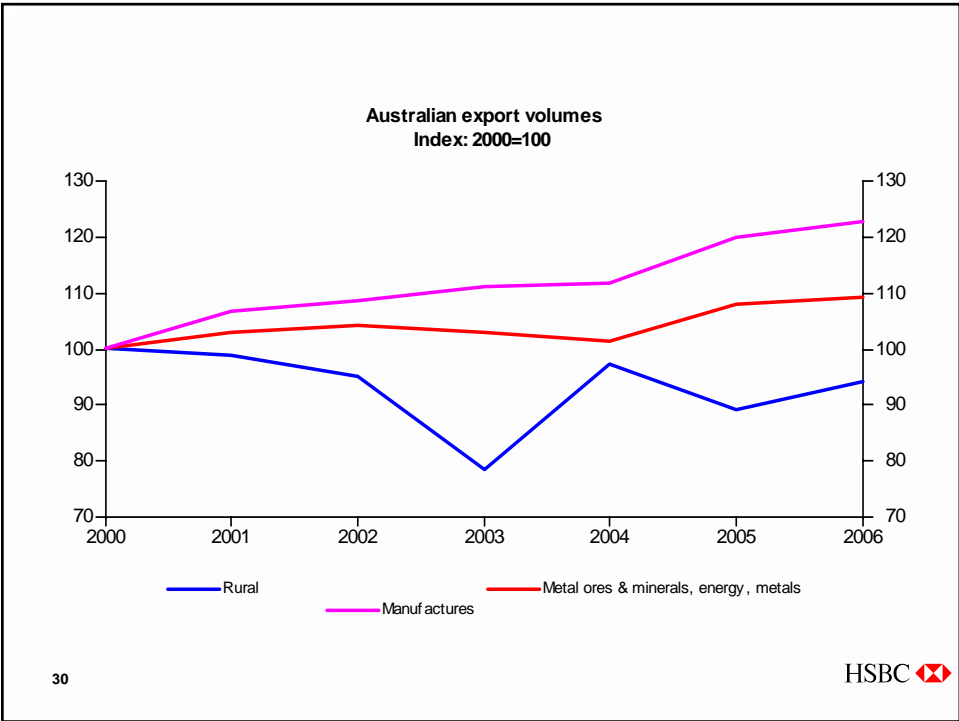
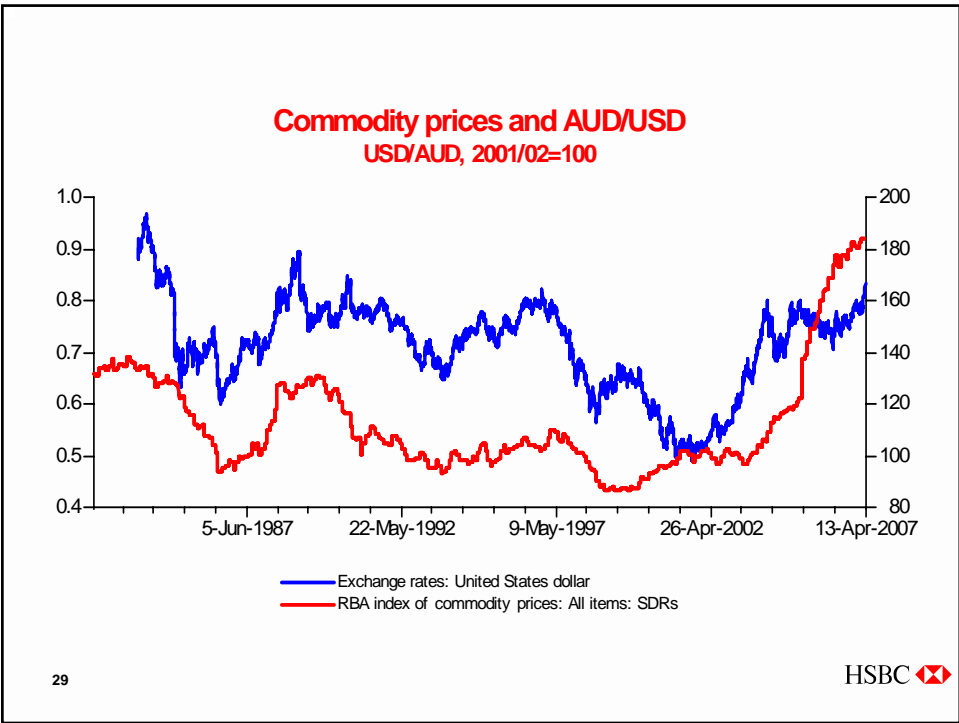


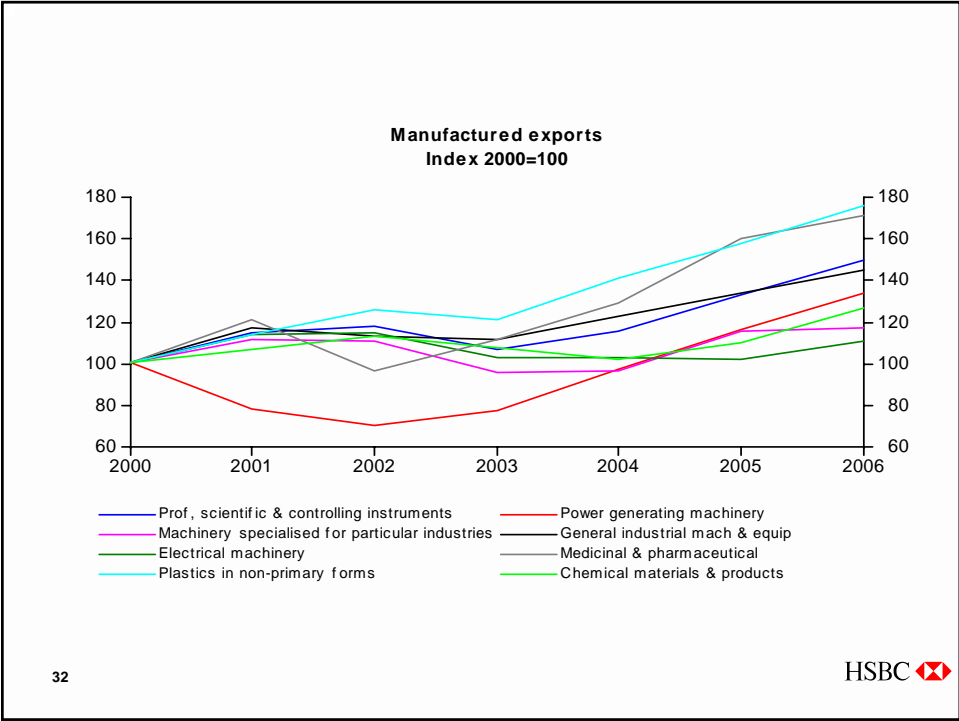
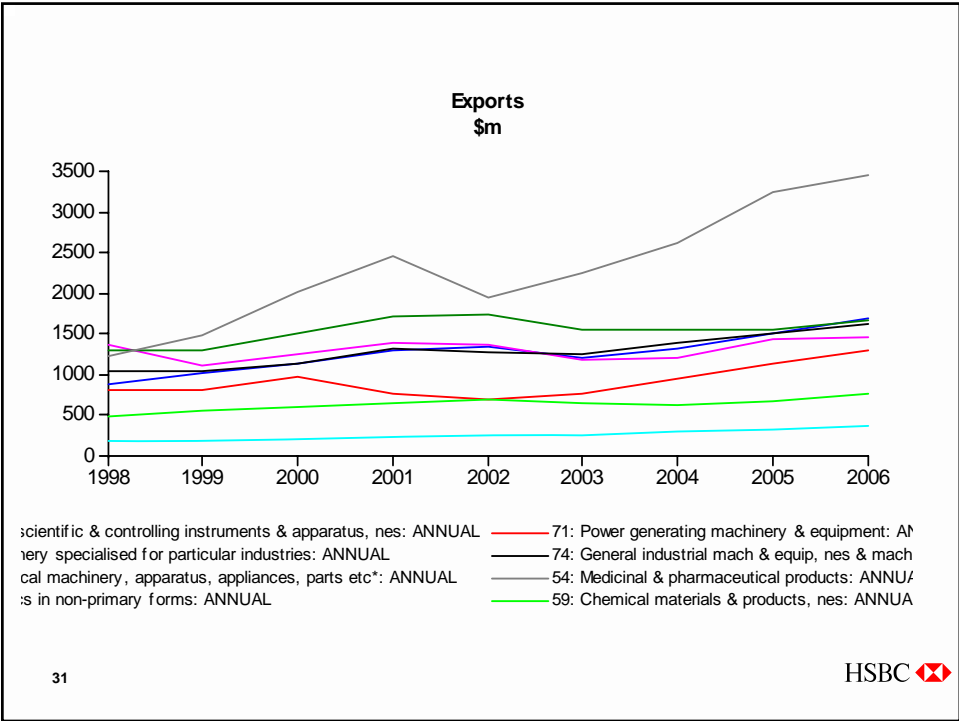
**D advanced minerals and energy projects  
october 2006**



Source: ABARE







## PPP GDP 2005

| Ranking | Economy            | (millions of international dollars) |
|---------|--------------------|-------------------------------------|
| 1       | United States      | 12,409,465                          |
| 2       | China              | 8,572,666 a                         |
| 3       | Japan              | 3,943,754                           |
| 4       | India              | 3,815,553 b                         |
| 5       | Germany            | 2,417,537                           |
| 6       | United Kingdom     | 1,926,809                           |
| 7       | France             | 1,829,559                           |
| 8       | Italy              | 1,667,753                           |
| 9       | Brazil             | 1,627,262                           |
| 10      | Russian Federation | 1,559,934                           |
| 11      | Spain              | 1,133,539                           |
| 12      | Canada             | 1,061,236                           |
| 13      | Korea, Rep.        | 1,056,094                           |
| 14      | Mexico             | 1,052,443                           |
| 15      | Indonesia          | 847,415                             |
| 16      | Australia          | 643,066                             |
| 17      | Turkey             | 612,312                             |
| 18      | Argentina          | 558,755                             |
| 19      | South Africa       | 557,971 b                           |
| 20      | Thailand           | 549,265                             |
| 21      | Iran, Islamic Rep. | 540,207                             |
| 22      | Netherlands        | 537,675                             |
| 23      | Poland             | 533,552                             |
| 24      | Philippines        | 408,637                             |
| 25      | Pakistan           | 374,313                             |

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