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KINESERNE KOMMER!
TRENDER I INTERNASJONAL
OG NORSK ØKONOMI

1. Hva skjer i Kina?

- Har du lest ”Wild Swans: Three daughters of China” av Jung Chang?
- The Middle Kingdom’s history stretches back 5-6000 years
- Today, 1.3 billion Chinese. GDP equal to that of France. Risen by a factor of seven since 1978
- 7 % growth and GDP doubles in 10 years

- Market economy is developing
 - ⇒ Free to choose

 - Tianamen Square 4 June 1989
 - ⇒ Political reforms are frozen. No choice
- ⇒ Are the two compatible in the long run?
- Legitimacy to the existing regime by delivering continued economic growth, benefiting most of the people most of the time

- Hu Jintao takes over for Jiang Zemin:
 - November 2002 as Party Chief
 - March 2003 as President
 - September 2004 as Supreme commander of armed forces

- Wen Jiabao is prime minister

- Hu and Wen have substituted political reform with bureaucratic reform

⇒ Make government officials more accountable. But not politicians accountable to the people through democratic and free elections

Will focus on:

- Corruption
- Rule of Law
- Banking
- Agriculture
- FDI
- Investment
- International Trade
- Exchange rate policy
- Relations with EU
- Consequences of WTO

Corruption

One Party Rule

Not well developed Checks and Balances

Fighting corruption has high priority.

Rule of Law and predictability is in short supply.

December 2001 member of WTO.

⇒ External pressure to abide by the Rule of Law.

Banking

- Four large State Owned Banks (SOBs). Lend primarily to State Owned Enterprises (SOEs). 60 % of credit supply from SOBs
- Want foreign strategic investors
- August 2004: HSBC buys 19,9 % of Bank of Communication (fifth largest bank)
- SOBs are in a mess. Technically insolvent

- Non-performing loans (NPLs) in China, 20-30 % of loans outstanding
- Excessive investments and lending in 2003-2004
⇒ NPLs may increase in the downturn
- Loans considered as a form of "social welfare"
- Lending rates are now free to vary. Significant improvement. SOBs have incentive to lend to private sector
- Lack of collateral and interest rate margins must be higher

Fred Hu (Goldman Sachs), largest risk to the Chinese economy:

”Banks continue their unsound lending and poor risk management”

- Stock market has been slow to develop
- Shanghai index lost 50 % in 4 years
- Losers may be compensated
- Government owns 2/3 of listed stocks
- Goldman Sachs bought into Chinese brokerage house in December 2004

Agriculture is the dominant sector. Close to 50 % work the land, producing 15 % of GDP.

- Ca 200 million surplus rural laborers
- 100 million migrants workers in China.
- 70 % of them are owed pay by their employers.
- Often paid once a year
- Unclear who bears the responsibility when wages are not paid
- Big challenge: Social justice

- People living in absolute poverty have declined from 200 mill. to 30 mill. in twenty years.

BUT: Difference between rich and poor is increasing

- Focus on better incentives in agriculture. Reduced taxes. Improved access to credit. Longer leases of land

Foreign Direct Investments (FDIs)

- 2003, FDI in China
 - 4 bill. USD from the US
 - 4 bill. USD from EU
- Total FDI from the US is 40-50 bill. USD
- As much European investment in Texas alone as all US investment in Japan and China put together.

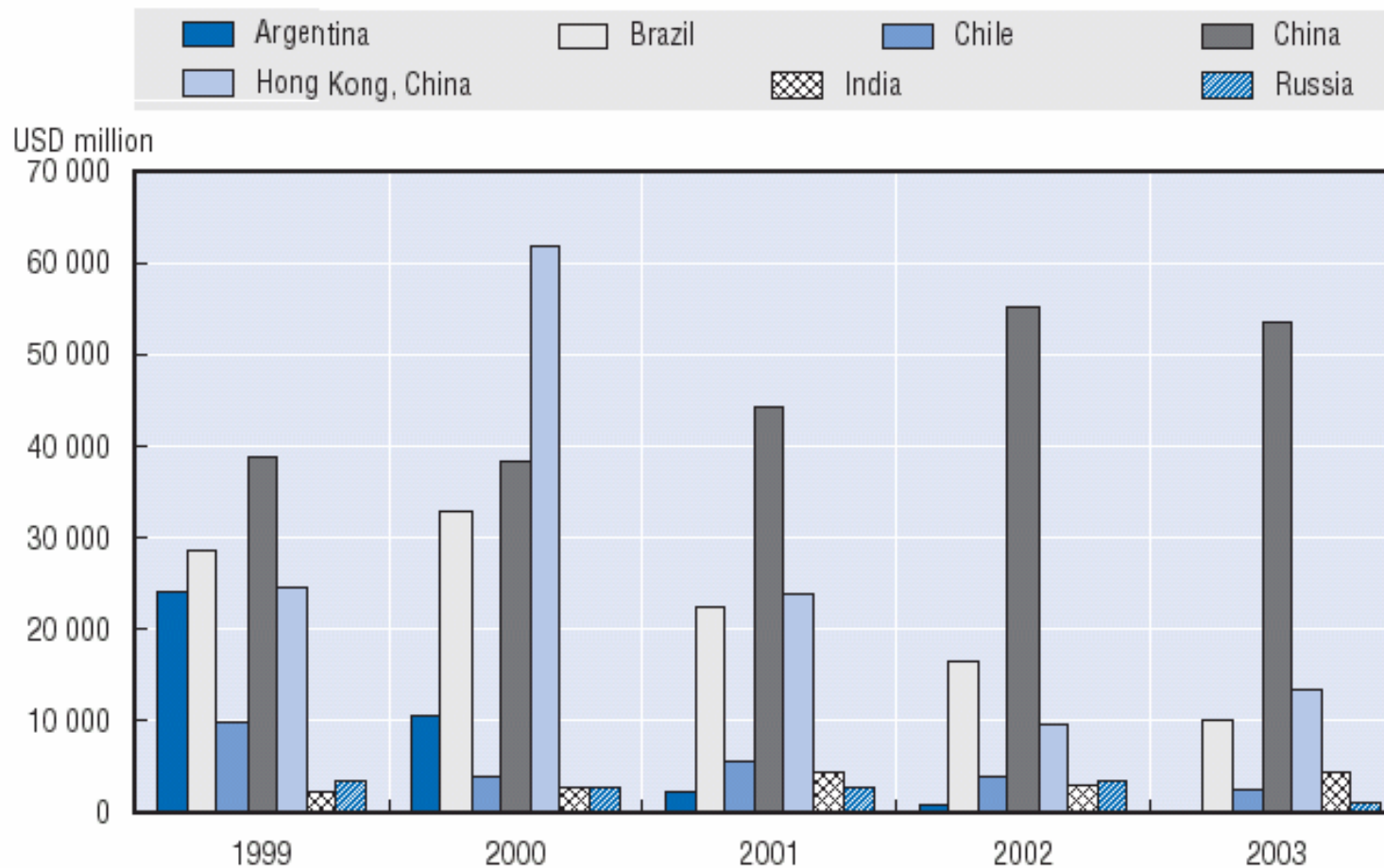
- 2003: USA invested
 - 4.1 bill. USD in Denmark
 - 1.5 bill. USD in India
 - 19.0 bill. USD in the Netherlands
 - 22.0 bill. USD in the whole of Asia
- Modest R&D in China. Need FDI to obtain access to new technology

Where Is China's FDI From?

(In US\$ bn of FDI Utilized)

Source	1996	1998	2000	2001	2002
Hong Kong	21,3	18,9	15,9	17	17,8
Taiwan	3,5	2,9	2,3	3	4
Singapore	2,2	3,4	2,2	2,1	2,3
Japan	3,7	3,4	2,9	4,4	4,2
Korea	1,4	1,8	1,5	2,2	2,7
Subtotal	32,1	30,4	24,8	28,7	31
US	3,4	3,9	4,4	4,4	5,4
Virgin Island	0,5	4	3,8	5	6,1
Total Utilized	41,7	45,4	40,4	46,9	52,7

Figure 1.1. FDI inflows to developing and other countries



Source: IMF International Financial Statistics and national sources.

Investment

- More than 40 % of GDP allocated to real investment in 2003
 - Domestically financed
 - 70 % of real investment by state sector
 - Provincial governments keep increasing real investment
- Real danger: Excess capacity
- Wen Jiabao orders tightening of lending (April)
 - Higher interest rate may attract foreign capital and put upward pressure on the exchange rate.

1 USD = 8,28 RMB since 1994

- 1870: China produced 30 % of world GDP
2003: China produced 13 % of world GDP
China consumed 40 % of world concrete
and 27 % of world steel
- Thailand 1996: 43 % investment rate
35 % savings rate
⇒ Had to borrow abroad. Excess capacity developed
2 July 1997: Had to abandon the fixed exchange rate
- Will China engineer a soft landing? Or will something similar to the Thai experience materialize?

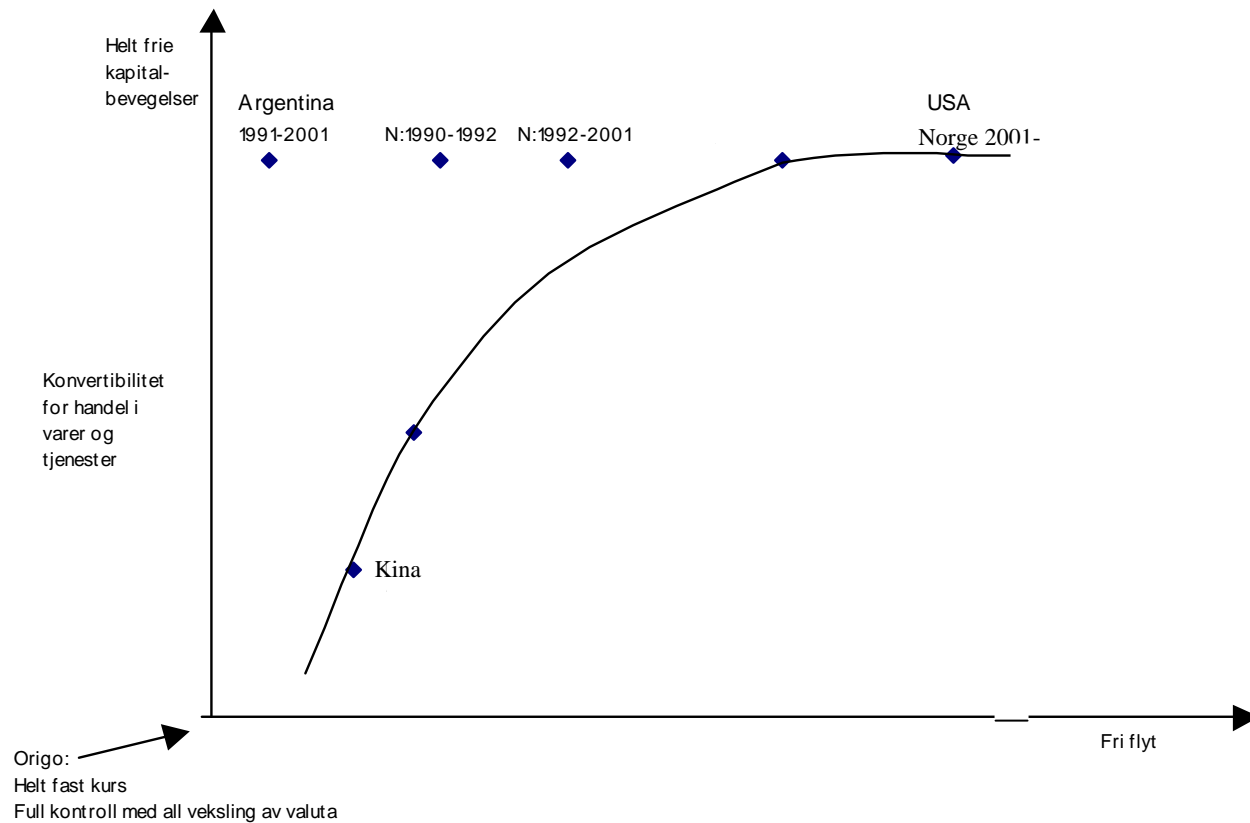
- Why don't the Chinese consume more?
65% of GDP to private consumption in the 1980s
Only 54 % in 2003
- People feel insecure and save
 - One-child policy
 - Save for education of child
 - Save for own old age
 - 100 mill. workers stripped for social security in SOEs
 - Banks are broke, and future taxes may have to increase
 - Health and education increasingly privatized

International trade on the increase. Last five years exports up by 140 %, total production by 60 %.

- Export as a share of GDP from 20 % to 29 %.
- Trade equally much with
 - Japan
 - USA
 - EU
- Huge surpluses against the US (ca. 140 bill. USD in 2003) matched by deficits towards rest of the world

- Chinese companies can now retain 30 – 50 % of export revenue. Until May 2004, only 20 %
- Unfair trade?
 - Non-performing loans
 - Too weak currency
 - Low wages
- Will a stronger currency do the trick?

Figur 1: Sammenheng mellom regler for flytting av penger og kursregime



- Hva med valutakursen?
 - Som nå
 - Binde til kurv (max. ti valutaer)
 - Gammeldags revaluering, evt. pluss kurv
 - Fri flyt (Inflasjonsstyring)

Fri flyt neppe aktuelt. Men vedtatt mål å ha mer fleksibel valutakurs. Frigjøring av renten for innenlandske formål

- Gradvis friere transaksjoner på kapitalbalansen. Men vil ta tid. I første omgang, utgående kapital i hovedsak

- Peoples Bank of China (PBC) har vel 600 mrd. USD i valutareserver. Behov for å diversifisere porteføljen?
- Kina har *overskudd* i handel med USA på 140 mrd USD
- Den *samlede* handelen med Russland er på 20 mrd USD

Relation with EU is steadily improving. Trade will soon surpass that with the US

- Politically EU and China share concerns about American unilateralism
- EUs arms embargo of 1989 may be lifted. Will leave Taiwan more exposed. Not in the interest of the US
- China wants to diversify arms' purchase away from Russia

Consequences of WTO

- March towards a full fledged market economy will continue
 - Outside pressure brought to bear upon SOBs and SOEs
 - Challenges
 - Combine market solution with fair distribution
 - Clamp down on corruption
 - Develop democracy, Chinese style
- ⇒ Need for WTO to level the playing field and make business climate more stable and predictable

2. Globale ubalanser

1. Handelsbalansen i USA

1997: 130 mrd. dollar i underskudd

2004: Nærmere 600 mrd. dollar i underskudd

2. Statsfinansene i USA

2000: Overskudd på 2 % av BNP

2004: Underskudd på 5 % av BNP

USA i krig og presidenten ber om skattelettelse – for de rikeste

3. Fare for proteksjonisme i USA

4. Veksten i Kina må roes ned

For mye ledig kapasitet ved store realinvesteringer?

5. Energiprisene forblir høye

- Mangel på raffineringskapasitet
- Saudi-Arabia vurderer å heve "target range" fra 22 – 28 dollar til 30-40 dollar
- Bergsten: Behov for skatt på energi i Amerika, "... to reduce the need for future military interventions abroad"

- Disse fem elementene kan lett bli gjensidig forsterkende. Viktigste USA kan gjøre:
 Redusere underskuddet i statsfinansene
- Vil Kina revaluere? Mer sannsynlig med wider bands. Viss svekkelse av konkurranseevnen via inflasjonen.
- Uklart hva som er passende valutakurs

3. Hva skjer i Norge?

<u>Arbeidsmarkedet</u>	<u>1970</u>	<u>2003</u>
Sysselsetting	100	140
Arbeidede timer	100	108

40 % flere i jobb, men bare 8 % flere arbeidstimer

Deltidsarbeid } Økende (sykefravær ned nylig)
Sykefravær }

Regnet som prosent av Arbeidsstyrken:

6 % er sykemeldt

12 % er uføretrygdet

5 % er på rehabilitering eller attføring

11 % er på jobb i industrien

Antall uføretrygdede har i gjennomsnitt vokst med 0,2 % av arbeidsstyrken pr. år 1980 – 2003

Arbeidsledigheten vil holde seg i underkant av 4 %.

Pengepolitikk

Andre land har startet å heve renten

Bank of England: fra 3,5 % til 4,75 %

Fed : fra 1 % til 2,50 %

Men Norges Bank og ECB holder fast på

1,75 % for Norges Bank

2 % for ECB

Mål om 2,5 % inflasjon, neppe realisert før 2007

Økt fokus på valutakursen

- Direkte vikning på inflasjonen
- Betydning for konkurranseevnen.

Norges Bank har tre virkemidler

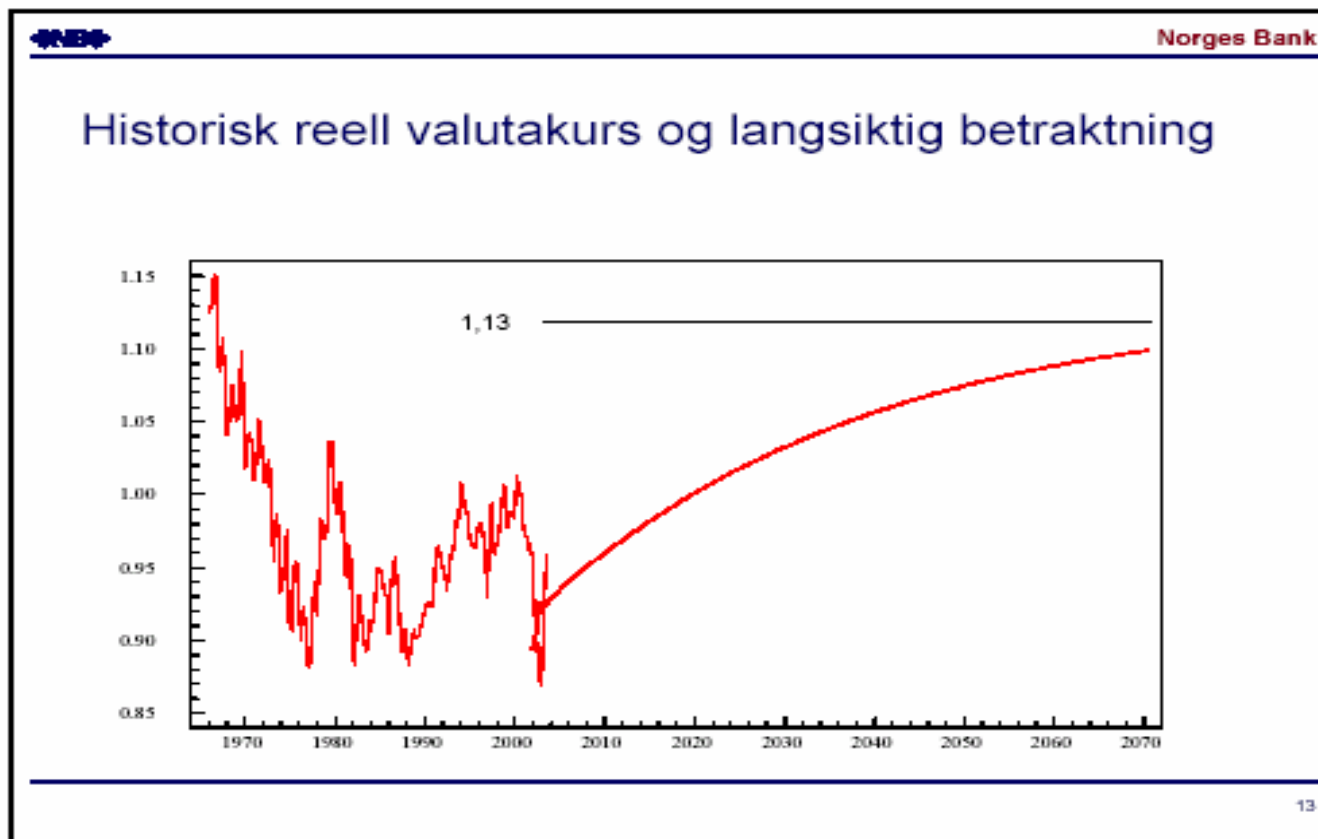
- Renten
- Intervensjoner i valutamarkedet
- Historiene som fortelles

Gjedrem åpner for intervensjoner

”... intervensjoner kan være aktuelt dersom kronekursen er vesentlig forskjellig fra det som er rimelig ut fra fundamentale forhold og kursutvikling samtidig svekker utsiktene til å nå inflasjonsmålet.”

Hvor går smertegrensen?

1 Euro = 7,50kroner ?



Kilde: Foredrag av Svein Gjedrem 26 august 2004 (slide 13)