

Professor Arne Jon Isachsen

EDB Business Partners

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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.

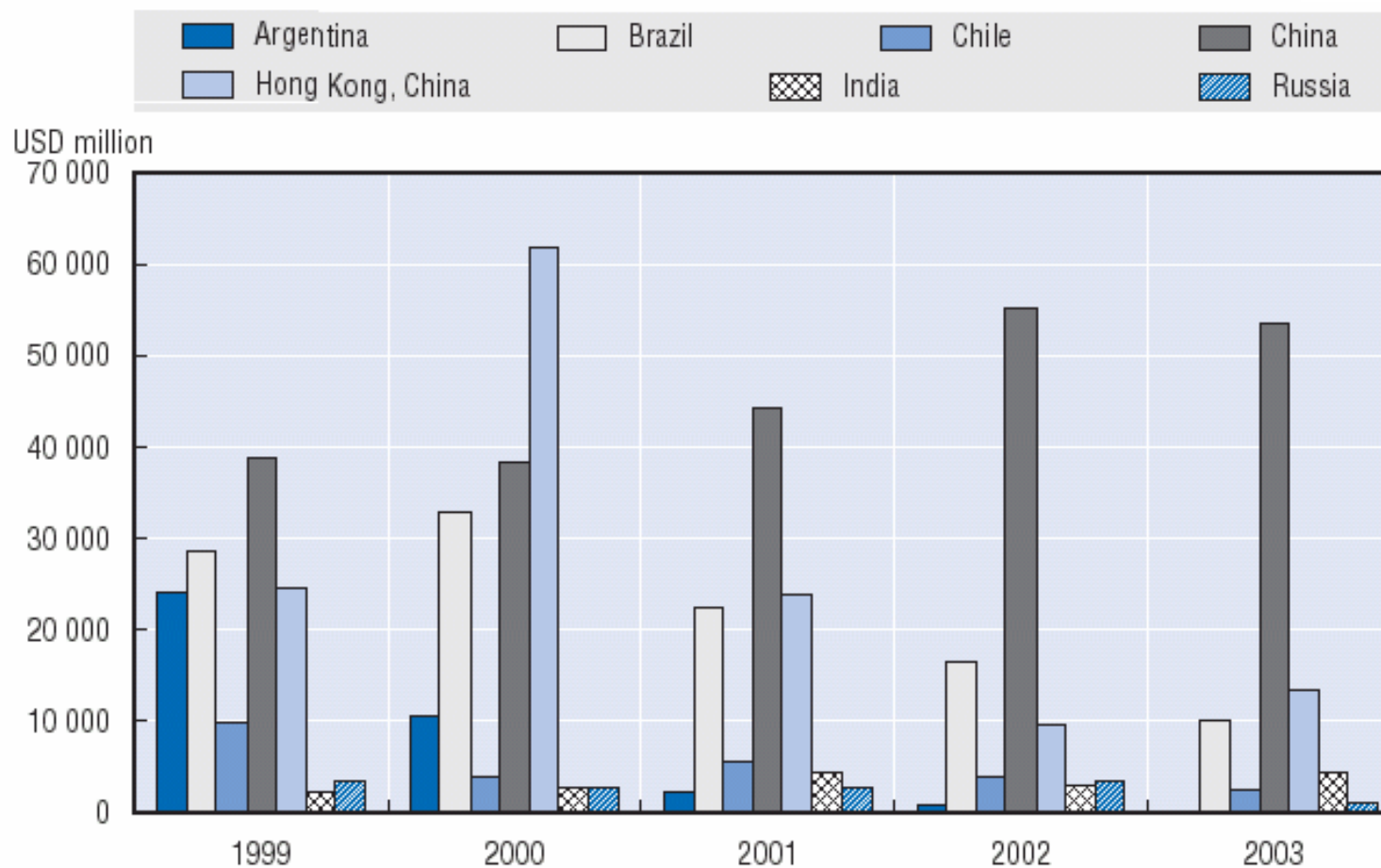
- 2003: USA invested
  - 4.1 bill. USD in Denmark
  - 1.5 bill. USD in India
  - 19.0 bill. USD in the Netherlands
  - 22.0 bill. USD in the whole of Asia
- Modest R&D in China. Need FDI to obtain access to new technology

# Where Is China's FDI From?

(In US\$ bn of FDI Utilized)

<b>Source</b>	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
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
<b>Subtotal</b>	<b>32,1</b>	<b>30,4</b>	<b>24,8</b>	<b>28,7</b>	<b>31</b>
US	3,4	3,9	4,4	4,4	5,4
Virgin Island	0,5	4	3,8	5	6,1
<b>Total Utilized</b>	<b>41,7</b>	<b>45,4</b>	<b>40,4</b>	<b>46,9</b>	<b>52,7</b>

**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?

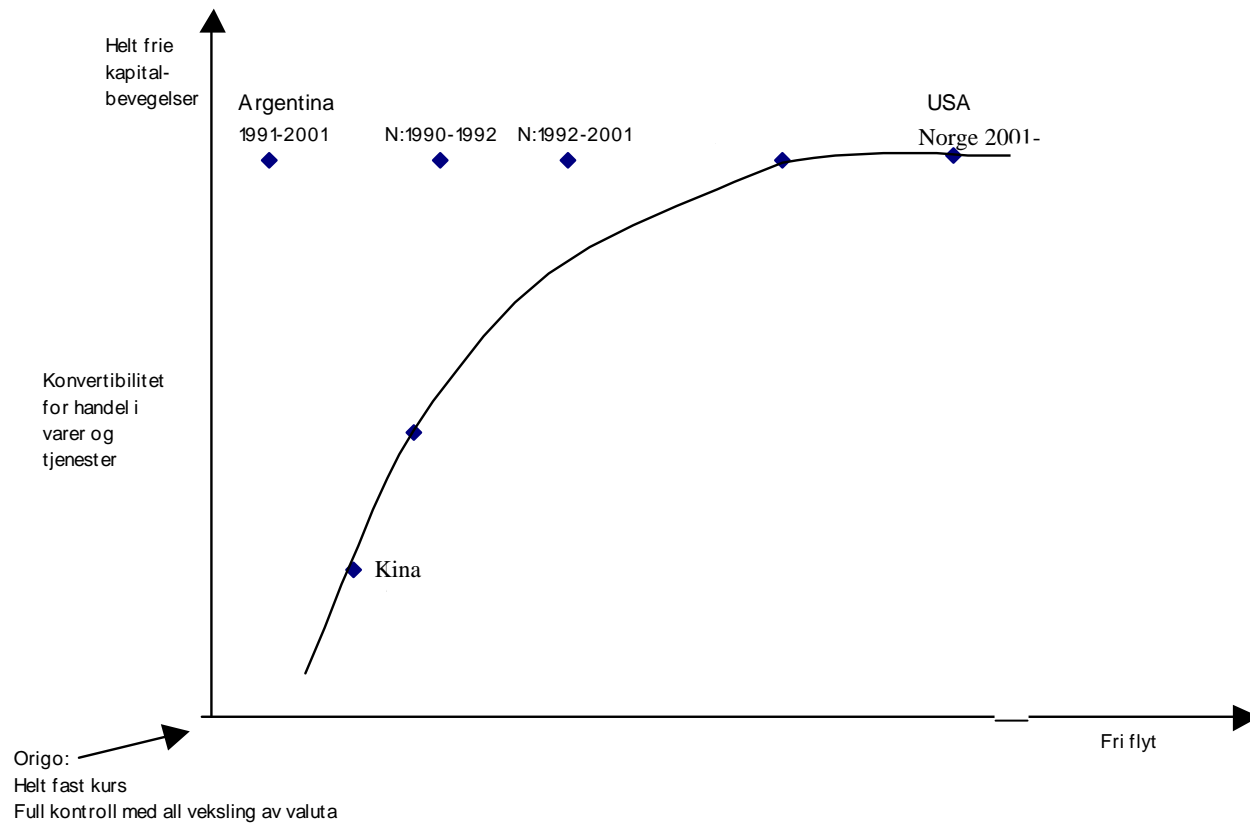
- Why don't the Chinese consume more?  
65% of GDP to private consumption in the 1980s  
Only 54 % in 2003
- People feel insecure and save
  - One-child policy
    - Save for education of child
    - Save for own old age
  - 100 mill. workers stripped for social security in SOEs
  - Banks are broke,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

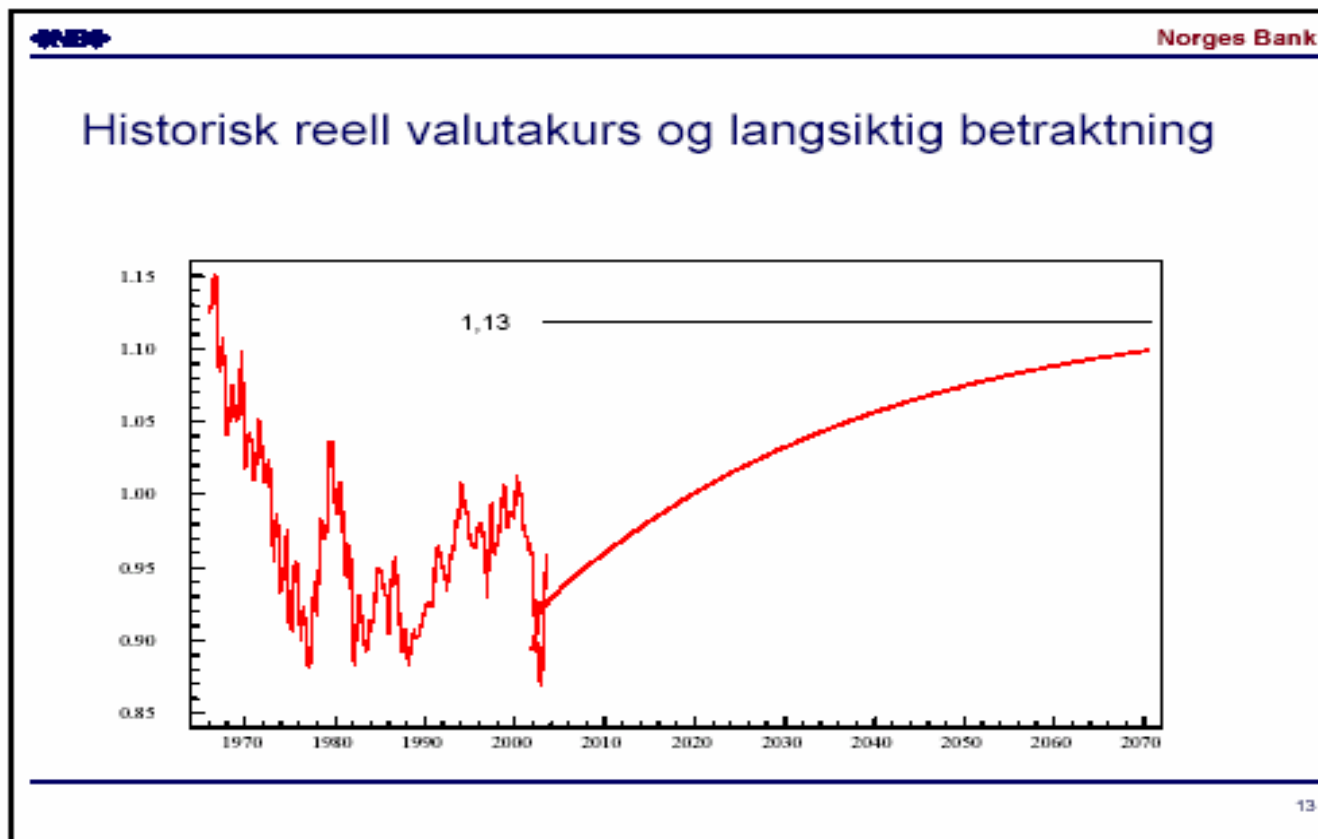
- Renten
- Intervensjoner i valutamarkedet
- Historiene som fortelles

## 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)