Macro Roundup Artcile

Headline: How China Can Avoid the Japan Trap

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Tweet: Martin Wolf argues that while the risk of a true financial crisis in China is low, China will not be able to generate growth through an export boom or consistent current account surpluses. The choice is rebalancing or slow growth.

Summary: China is in fact hyper-capitalist. An enormous proportion of national income goes to the controllers of capital and is being saved by them. During the earlier hypergrowth period, this worked well. But now the savings are far greater than can be productively used. Income now needs to accrue to those who will spend it. The danger is not one of a huge financial crisis: China is a creditor country; its debts are overwhelmingly in its own currency; and its government owns all the important banks. A policy of financial repression would work quite well. The danger is rather one of chronically weak demand. It will be impossible, in today’s global environment, to generate either a huge export boom or consistent current account surpluses. The investment rate is already spectacularly high, while growth is slowing. Still higher non-property investment cannot be justified. Related: An Economic Hail Mary for China and Can China’s Long-Term Growth Rate Exceed 2–3 Percent? and The Neoclassical Growth of China

Primary Topic: China

Topics: China, GDP, Growth, Op-Ed/Blog Post, Savings Glut/Trade Deficit

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