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Headline: Can China Reduce Its Internal Balances Without Renewed External Imbalances?

Article Link: https://www.cfr.org/blog/can-china-reduce-its-internal-balances-without-renewed-external-imbalances

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Tweet: Noting China's trade surplus is already very large, @Brad_Setser worries that Chinese policymakers will seek to offset the property slump by doubling down on external balances.

Summary: China’s trade surplus is already very large. The headline goods surplus is about 5% of China's GDP, and the underlying surplus in manufacturers is close to 10% of GDP. I certainly worry that if China relied entirely on interest rate cuts, exchange rate liberalization, and a weak yuan to offset the property slump, China's external trade surplus could increase to record levels relative to the GDP of its trade partners. China, far more than other large economies, relied on net exports to sustain its economy during the pandemic. It would be placing a significant further burden on its trading partners if it ends up relying on an even bigger manufacturing surplus to offset the slack created by its property downturn over the next few years. Related: Can China’s Long-Term Growth Rate Exceed 2–3 Percent? and How China Can Avoid the Japan Trap and The Neoclassical Growth of China

Primary Topic: China

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

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