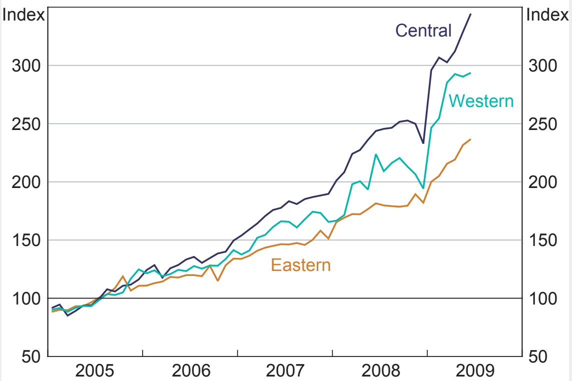
Box B: Some Aspects of China's Recent Growth

Graph B1

China – Regional Fixed Asset Investment*

2005 = 100



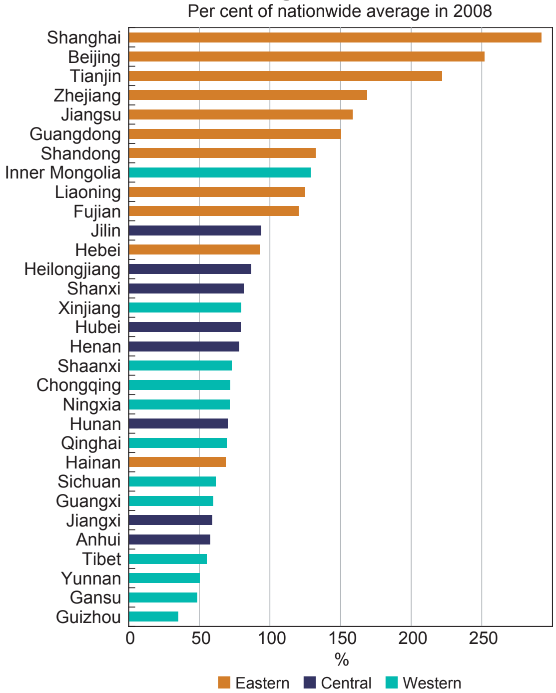
* RBA estimates

Sources: CEIC; RBA

Graph B2

China – Regional Income Levels

Per cent of nationwide average in 2008



Source: CEIC

After a sharp slowing in the second half of 2008, Chinese economic growth has rebounded strongly, underpinned by stimulatory fiscal and monetary measures. On the fiscal front, the stimulus has focused on infrastructure and investment spending, with fixed asset investment increasing by over 30 per cent since November. Investment has been particularly strong in the non-coastal provinces – partly reflecting heavy spending in Sichuan (which was severely damaged by a major earthquake in May 2008) – where incomes are significantly lower than average (Graphs B1 and B2).[1] The strong investment growth in these areas reflects efforts by the authorities to improve transportation and other infrastructure in the less-developed regions.

Industrial production has also rebounded strongly, and is now well above previous peaks. While the pick-up has been broad-based, those components specifically targeted by stimulus measures have recovered particularly strongly (Graph B3). The most striking example is automobile production, which has risen by around 75 per cent since December as sales surged following the halving of the sales tax on most automobiles. Steel and cement production have also rebounded strongly, consistent with the emphasis placed by the authorities on building

1 *The categories eastern, central and western are Chinese National Bureau of Statistics classifications. 'Eastern' broadly corresponds to coastal provinces, but excludes Guangxi, which touches the coast but is classified as western.*

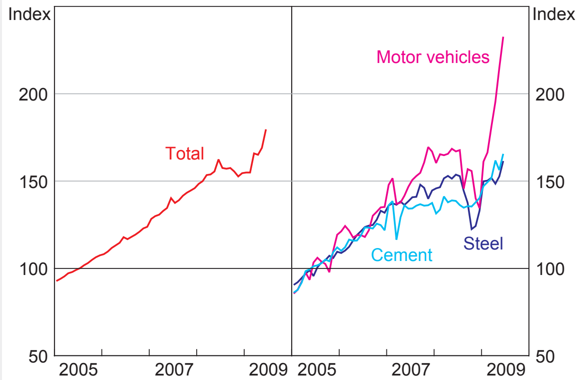
infrastructure and earthquake reconstruction spending.

Construction spending is also being boosted by a recovery in the housing market. In the first half of last year policy was actively restraining housing demand, with fears that the sector was overheating. These policies were subsequently reversed, with the authorities now encouraging activity in the sector. Credit restrictions on developers have been lessened and there has been a range of measures to boost housing demand. These include: an increase in the interest rate discount allowed for first-home buyers; a lowering of the downpayment required by most first-home buyers; and a cut in deed taxes on home sales and purchases. In addition, there have been various changes to business taxes on property sales by individuals. These measures have contributed to the very strong credit growth of recent months and the recovery of the housing market – both the number of home sales and housing prices have increased, with the recovery broadly based across the regions (Graph B4). The pick-up in Chinese growth, and its concentration in sectors involving a high demand for steel, have had a major impact on demand for Australia's commodity exports (see the 'Domestic Economic Conditions' chapter).

Graph B3

China – Industrial Production

2005 = 100

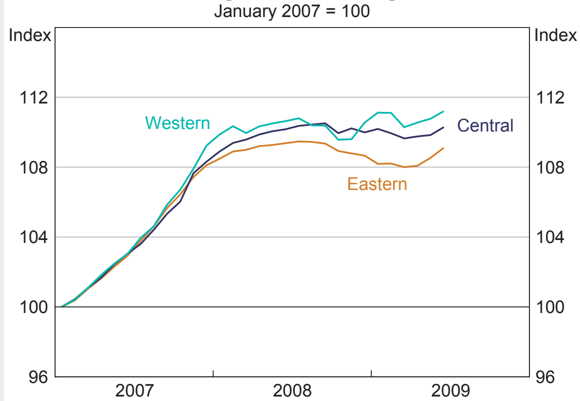


Sources: CEIC; RBA

Graph B4

China – Regional Housing Prices*

January 2007 = 100



* RBA estimates based on official data for year-ended growth in housing prices in 70 medium to large cities

Sources: Bloomberg; RBA

In the near term, the central authorities have considerable scope to continue to support aggregate demand through fiscal measures. While the central government deficit is projected to be between 3 and 5 per cent of GDP in 2009, central government debt is currently relatively low, at around 20 per cent of GDP. Over a longer period, the historical experience of other Asian economies is that at some point in the industrialisation phase the consumption share of GDP rises, with the investment share – currently over 40 per cent in China – falling back to more sustainable levels. In China, the government has recently taken some steps to encourage a move in this direction, including the announcement of a three-year target to establish a national basic health insurance plan. Over time, it is likely that further steps will be taken to increase the scale and scope of the social safety net and to encourage a shift towards stronger domestic consumption. ✠