



3 STRUCTURAL RISKS OF CHINA'S ECONOMY

* Presented at the 14th Jeju Forum for Peace and Prosperity, Jeju, South Korea, May 29-31, 2019, http://www.jejuforum.or.kr/m21_program.php?year=2019

3 Structural Risks of China's Economy

① As intellectual property balance deficit increases, TFP declines

- China's intellectual property balance maintains chronic deficit.
 - ※ Intellectual property export to import ratio is lower than 0.2%.
- Also, TFP continues negative growth for seven consecutive years since 2012.

② Reaching the Limit of Quantitative Growth by Capital Injection

- After global financial crisis saving-investment gap declined, but it has increased since 2014.
 - ※ The recent rise in the S-I gap is probably due to the faster pace of investment decline than savings.
- With decrease of investment, ICOR is on an upward trend since 2010.

③ As working-age population shrinks, labor productivity grows slowly

- Working-age population to total population ratio has fall since 2010 and labor force participation rate has declined since 2000.
 - ※ Working-age population growth rate(average) : 1995~1999 1.5% → 2000~2009 1.5% → 2010~2017 0.2%
- China's labor productivity is improving, but it's still 21.6% of USA.

①

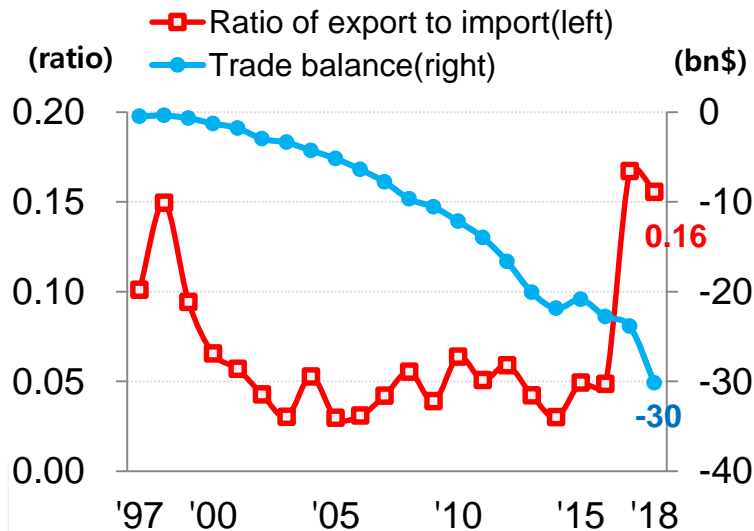
Total Factor Productivity(TFP) Slowdown



As intellectual property balance deficit increases, TFP declines

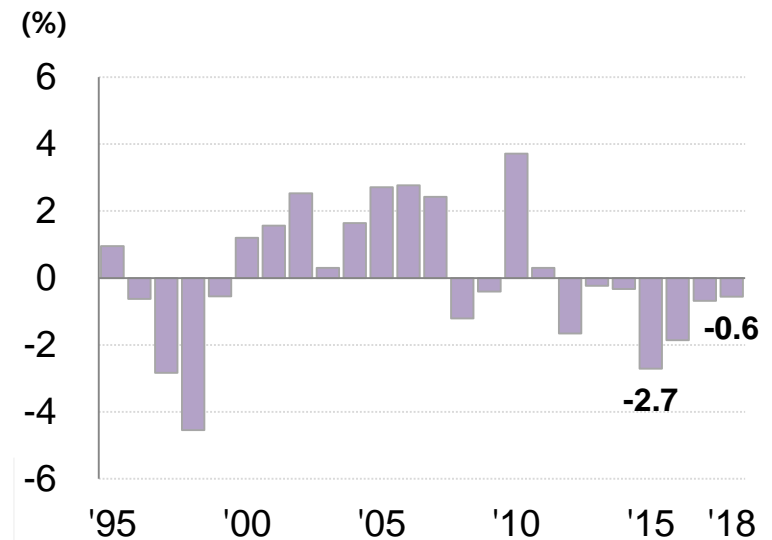
- China's intellectual property balance maintains chronic deficit.
※ Intellectual property export to import ratio is lower than 0.2%.
- Also, TFP continues negative growth for seven consecutive years since 2012.

China's Intellectual Property Export to Import(BoP)



Source : State Administration of Foreign Exchange.

China's TFP Growth Rate



Source : The Conference Board.

②

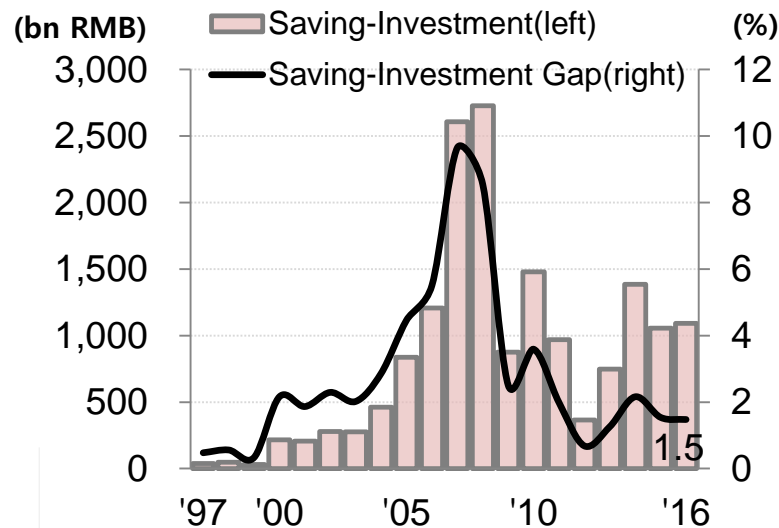
Inefficient Investment



Reaching the Limit of Quantitative Growth by Capital Injection

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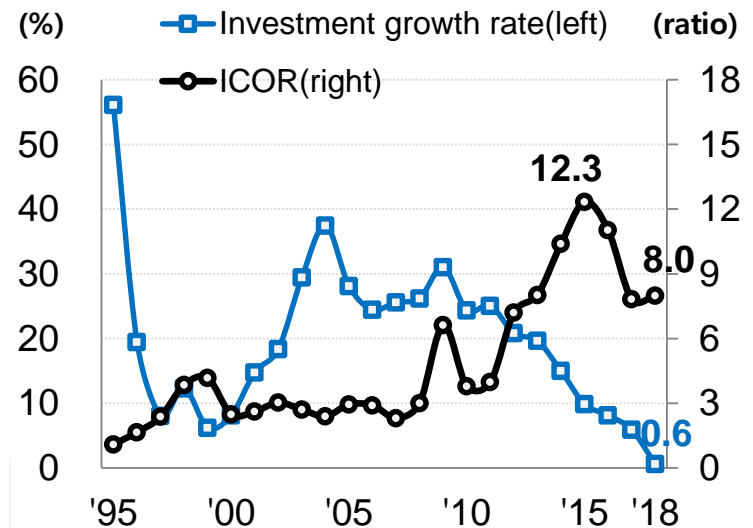
China's Saving-Investment Gap*



Source : HRI calculated the data from 'Flow of Funds'.

* Saving-Investment Gap = (Saving-Investment)/GDP.

China's Incremental Capital-Output Ratio(ICOR)*



Source : HRI calculated the data provided by National Bureau of Statistics of China.

* ICOR = $I/\Delta GDP = I_t/(GDP_t - GDP_{t-1})$. Incremental capital output ratio means additional unit of capital to produce an additional unit of output. Higher ICOR indicates the entity's production is inefficient.

* Presented at the 14th Jeju Forum for Peace and Prosperity, Jeju, South Korea, March 11, 2019.

③

Population structure change



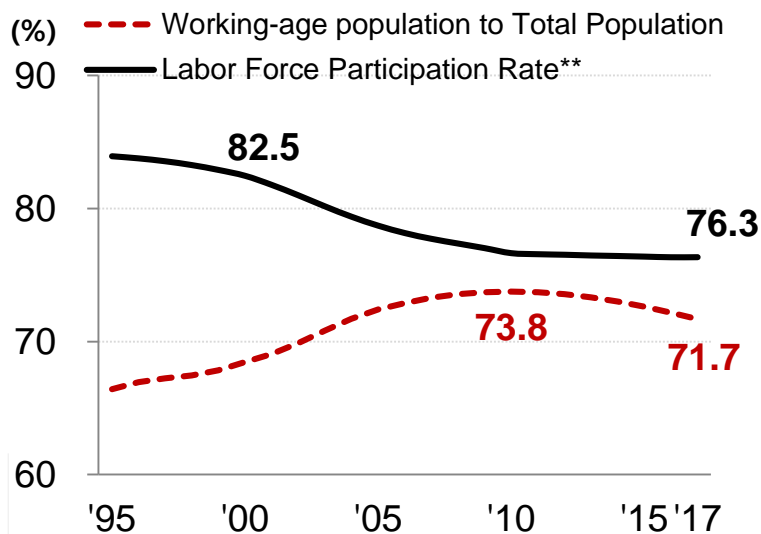
As working-age population shrinks, labor productivity grows slowly

- Working-age population to total population ratio has fall since 2010 and labor force participation rate has declined since 2000.

※ Working-age population growth rate(average) : 1995~1999 1.5% → 2000~2009 1.5% → 2010~2017 0.2%

- China's labor productivity is improving, but it's still 21.6% of USA.

China's Working Age Population*

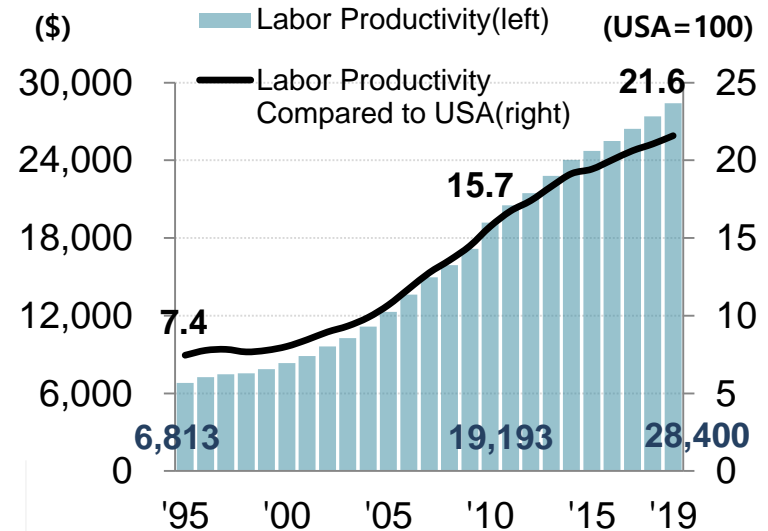


Source : World Bank.

* Working-age population = Population ages 15-64.

** Labor force participation rate is defined as the section of working-age population in the economy currently employed or seeking employment.

China's Labor Productivity



Source : The Conference Board.