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China's shift towards a consumption-led economy presents threats and opportunities for Asian economies

In a September 2016 report the World Trade Organization (WTO) said world trade will likely grow by 1.7 percent for 2016, a downgrade from earlier estimates of 2.8 percent. Not only is it the slowest trade growth since the 2009 global financial crisis, it is also the first time since China joined the WTO in 2001 that trade growth is less than expected global GDP growth, which is forecast at 2.2 percent.

Indeed, a rebalancing China has much to do with the trade slowdown. While economic weakness in much of developed Western economies has curbed appetite for trade-intensive investment, the Chinese shift away from investment and towards consumption has hit global trade especially hard.

"Investment is more import-intensive involving things such as steel, metals and other things that Asian economies produce as exports," explains **Santitarn Sathirathai**, Head of Emerging Asia Economics at Credit Suisse. "Consumption, on the other hand, is more service-oriented. The booming sectors in China now are online gaming and movie box offices, neither of which is import-intensive. That's issue number one.

"Secondly, China and Chinese exports are moving up the value chain. For every unit of export that China is sending out to the world, it is importing less. China need not import as much as it did before from the likes of Singapore, Malaysia, Thailand, or South Korea and Japan."

EXPORTING CONSUMER GOODS AND SERVICES TO CHINA

Sathirathai made those remarks at the recent SMU China Forum where he asked the question: Are Asian economies ready for the Chinese economic rebalancing?

The International Monetary Fund (IMF) expects New Zealand to be the only economy that will benefit, mainly because of the nature of its exports to China i.e. high end foods. According to Sathirathai, for every one percent drop in investment that China experiences it gains one percent in consumption. Nett-nett, China's GDP roughly stays the same but Asian economies that fail to adjust to the revised makeup of its economy stand to lose out.

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"In the past, China was the factory of the world and Asia, it's a downstream player," Sathirathai elaborates. "Singapore, Malaysia, and South Korea produce the parts that get assembled in China, which then sends it to developed markets such as Europe and China. That has changed over time.

"The share of products that go into China and stays in China – meaning they go towards fulfilling demand within the country – has increased over time. The issue is, most of these goods and merchandise trade goes to fulfill most of the investment demand rather than consumption demand."

Sathirathai concludes: "Most economies are still geared towards the old China of heavy industries and manufacturing. If China shifts towards consumption right now, most Asian economies would lose out and experience a slowdown in exports."

One quick way to generate economic growth from China's shift is tourism, which Sathirathai describes as a 'service import'. With the exception of Thailand where tourism contributes to 10 percent of GDP, no other Southeast Asian country besides Cambodia relies on tourism as much. Yet, these countries need to cater to the demands of the average Chinese tourist, which one senior Chinese government likened to China's plaza dancers –广场舞大妈.

"When I go travel, I am the plaza dancer," says **Lin Dajian**, former Deputy Director-General, Department of International Cooperation, National Development and Reform Commission of China. "My tour guide tells me it's people like us who are traveling across Asia," referring to the legions of middle aged and elderly folks who while their time away dancing in plazas across China.

"I'm thinking: 'How can Asian countries cater to people like us?' Our spending power is enormous. People like us are all thinking about how to have fun and spend money. However, there aren't too many activities that are catered to us. Countries in the region are very attractive to plaza dancers as a travel destination."

COMPETING WITH AND FOR CHINA'S CASH

While it is crucial for Asian economies to adapt their export strategies to meet China's consumption demand, Sathirathai highlights the country's increased profile as a competitor as it moves up the global value chain.

“China in the past imported a lot for its exports – about 40 percent; now that’s only about 20 percent,” he says. “A lot of Asian economies’ industrial strategy involves going into the same space that China is pushing for. I often ask these governments: ‘Do you know China is also doing this? What is your position? Are you going to compete against China? How are you positioning yourself?’”

He adds: “If China has become more important as a final consumer market, and China is also a competitor to the region, everytime the RMB depreciates – and it has – that would have big ramifications. Most Asian economies have responded likewise with their currencies. The influence of China’s monetary policy over the region will be significant.”