China’s slowdown and global growth

Stock market plunges around the world were fuelled by fears surrounding the strength of the Chinese economy. These worries are exacerbated because China is now largely seen as one of the main drivers of global economic growth. It is true that China’s share of global GDP is considerable. Using data from the World Bank, adjusted for purchasing power parity, China’s weight in the global economy is around 16%. Only the United States, at 18.5%, has a higher weight. In 2000, the weight of China’s real GDP was only 7.6%, moving to 10% in 2005 and close to 14% in 2010. This advance means that each fluctuation in China’s real GDP is increasingly more impactful on the global economy.

China’s growth rate has not been stable over the last 15 years. It crescended through the 2000s only to slow down during the financial crisis. After a modest rebound, it then started to slow due to controlled (and desired) rebalancing by the government. However, it is interesting to note that despite this decline in pace, which lowered growth from over 10% to around 7%, China’s contribution to global growth was fairly constant thanks to its higher weight. As such, in 2015, the Chinese economy should contribute 1.1 basis points to expected global growth of 3.3%. In 2005, the contribution was also 1.1 points, while China’s real GDP was chugging along nicely at 10.3%. This is less than the two peaks of 2007 and 2010, but the fact remains that, despite this highly-publicized weakness, China still contributes around one third of global real GDP growth.

Implications: Even though China’s real GDP growth continues to lose steam and is falling below official targets, nearing annual growth of 5% by the end of the decade, its growing weight will mean it will continue to contribute around one percentage point to global real GDP. The Chinese economy is clearly not slowing in a vacuum, and it is negatively impacting resource-producing countries and, to a lesser extent, more developed markets. However, other countries could also take up the slack from China’s less dynamic growth, as is the case with India, where real GDP (and a weight of 6.7% and growing) should grow faster than in China this year.

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