National Institute of Economic and Social Research

Press Release

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China leads the global recovery, but offers little support to Europe

China will probably become the world's second largest importer this year and the world's largest economy by the end of the decade. The World Economy report to be released by the National Institute this week argues that ***government spending in China was the driving force behind the rebound in the world economy*** and in world trade in particular. But the main beneficiary of this rebound was the rest of Asia, which supplies over half of Chinese imports. Emerging economies in Africa and South America have also benefitted from the rebound, but China imports a relatively small share of its goods from the UK and the rest of Europe.

China's rebound has been driven by domestic demand, supported by a bigger fiscal stimulus than in America or Europe. This has pulled imports into China, and NIESR estimates that the Chinese current account surplus declined from close to 12 per cent of GDP in 2007 to 8 per cent of GDP last year. However, the rest of Asia supplies over half of Chinese imports, with ***just 1 per cent of Chinese imports sourced from the UK*** and 7-8 per cent from the US. As such, a rise in domestic demand in China has little impact on exports from these countries. The OECD economies will grow by 1.9 and 2.3 per cent in 2010 and 2011, well behind global GDP growth. Indeed, the OECD area will not reach its pre-crisis level of output until the third quarter of 2011.

The report also compares ***global labour market responses to the downturn***, in a note by Dawn Holland, Simon Kirby and Rachel Whitworth. While the jobless rate has only edged up in Germany, it has soared in the US. However, average hours worked have fallen quite a lot in Germany and as a result it ceases to stand out when labour input (total hours worked) is compared. By contrast, the US also remains exceptional for its reduction in labour input. This seems to be linked to a much higher increase in real wages than elsewhere. The ***unemployment rate in the UK has not risen as sharply as in the US***, but this reflects a decline in real wages in 2008-2009. After taking account of the decline in output, the change in average hours worked and developments in real wages, the UK labour market has performed slightly worse than expected, and slightly worse than in the other G7 economies.

Contrasting demographic fortunes will affect the prospects for growth and sustainability of public finances over the next few years. Japan, whose trend rate of growth has already slowed because of a falling labour force, will experience the biggest rise in the ratio of non-working to working population, amounting to almost 10 percentage points between 2009 and 2017. That is a worry because its government debt is already approaching 200 per cent of GDP. By contrast, the dependency ratio will rise by only two percentage points in the US. ***The UK is the only major economy where we expect to see a decline in the dependency ratio by 2017***. This is partly due to the increase in the state pension age for women from 2010. Countries such as Japan, France and Italy, where dependency ratios are set to rise sharply, would do well to follow the UK's lead in introducing policies to extend working lives.

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Notes for editors:

The forecast for the World economy is published in the National Institute Economic Review, no. 211, January 2010

For a full copy of the World Economy forecast, please contact the NIESR Press Office: Goran Stankov on 020 7654 1931/ g.stankov@niesr.ac.uk

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