ECONOMIC ANALYSIS

The third National Economic Census shows that Chinese economy is undertaking important changes

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Summary

- The National Bureau of Statistics (NBS) last week announced the results of the third National Economic Census (NEC). The National Economic Census (NEC) is a comprehensive industry survey towards all enterprises of China's secondary and tertiary sectors. It has been conducted three times, focusing on enterprises information in 2004, 2008 and 2013 respectively.
- China's 2013 GDP level has been revised up by 3.4% based on the third NEC. The share of tertiary sector was amended up as well, while the shares of primary and secondary sectors were modified downward. The government stated that 2014 GDP figure should not be affected by the adjustment of last year's GDP level.
- Based on some results contained in the third NEC, we infer that China's share of manufacturing employment peaked in 2008, when China's per capita GDP reached around 7,000 dollar (1990 international dollar). Although China outperformed several emerging markets in terms of its relatively higher per capita GDP by the time of reaching its peak of manufacturing employment, it is still uncertain whether China can replicate its own success in the era of service-oriented economy.
- The good news is that small and medium enterprises (SMEs) as well as high-tech companies have developed rapidly during the period of 2009-2013, with the ownership structure skewing towards private capital. In future, these private-owned SMEs and high-tech enterprises will become the new growth engine of China's economy.

China's 2013 GDP has been revised up

On December 16, 2014, National Bureau of Statistics (NBS) released the third National Economic Census (NEC) results on its website, which surveyed a comprehensive industry data by December 31, 2013, especially, all enterprises in the secondary and tertiary industries. Actually, Chinese government did two NECs previously, in 2004 and 2008, aiming to obtain more comprehensive and accurate statistic for policy-making.

One important result of the third NEC is that 2013 GDP level has been revised up by 3.4%, from RMB 56.9 trillion previously to RMB 58.8 trillion. In the meantime, the share of tertiary sector was revised up as well, reaching 46.9% from 46.1%, while the shares of primary and secondary sectors were modified downward. Indeed, the past two NECs lead to large-scale upward revisions of GDP, i.e. 16.8% for 2004 and 4.4% for 2008. The NBS ascribed the smaller adjustment of 2013 GDP to the accuracy and reliability of existing GDP calculation methods.

Moreover, the NBS announced that the adjustments of 2013 GDP should not have visible impact on the GDP growth rate in 2014, which seems to miss this year's target of 7.5%. The NBS said that they will publish the historical series of GDP in future.

Other major findings of the Third NEC

Other major findings of the census can be summarized as follows:

- Number of enterprises: At end-2013, there were 10.9 million enterprises (legal persons) engaged in the secondary and tertiary industries, increasing by 52.9% from that at the end of 2008 reported in the second NEC. Moreover, the number of self-employed units increased to 32.8 million, growing by 14.1% compared to the level of 2008.
- Employment: At the end-2013, 356.0 million employees worked for enterprises (legal persons) in the secondary and tertiary industries, rising by 30.4% compared with that at the end of 2008. Among the employment, female employees amounted to 125.8 million, or 35.3%. In addition, there were 90.1 million people were self-employed, growing by 10% compared with that at the end of 2008.
- Total Assets: The total assets of enterprises in the secondary and tertiary industries grew to RMB 466.8 trillion at end-2013 from RMB 259 trillion at end-2008, up by 124.6%.
- Service Sector: There were 8.1 million enterprises engaged in the tertiary industry, which accounted for 74.7% of all the enterprises in the second and tertiary industry, which increased by 5.7 percentages from that of 2008. The total number of employees (including self-employed) in the tertiary industries was 242.1 million, accounting for 54.3% of total employees in the second and tertiary industries.

China's share of employment in manufacturing could have peaked

As before, the NEC reported that the number of employees in the manufacturing sector, 134.5 million as of end-2013, accounting for 66% of total employees in the second industry which also include construction, mining and utility sectors. However, we can not use the reported 134.5 million as the total number of employees in manufacturing because the census could neglect some enterprises. Fortunately, the NBS reported the total numbers of employees in primary, secondary and tertiary industries every year (but not manufacturing). Therefore, we can assume the figure 66% is fixed and then infer that the employment share of manufacturing stood at 20.68% of total employment. By the same token, we infer that the employment share of manufacturing were 20.9% and 22.9% in 2004 and 2008 (Figure 1).

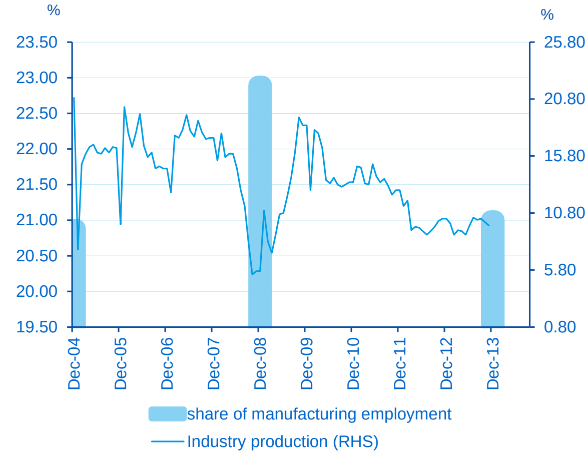
Although we can not extrapolate the entire series of manufacturing employment, the evolution of China's industrial production (Figure 1) makes us suspect that the share of manufacturing employment might peaked in 2008. For one thing, in the aftermath of the 2008-2009 Global Financial Crisis (GFC), the growth rate of industrial production is significantly lower than the pre-GFC levels.

Such a pattern of manufacturing employment could have some interesting implications. First, according to Eichengreen, Park and Shin (2011), based on the empirical methodologies, they found that a country's economic growth tends to slow down after its share of manufacturing employment approaches 23%, which is very close to China's level in 2008. To some degree, it confirms that China's growth slowdown is more likely to be structural rather than cyclical.

Second, Rodrik (2014) raised his concern that if a country's share of manufacturing employment peaked too early (the so-called "premature deindustrialization"), in terms of its per capita GDP level, it is more difficult for the country to overcome the middle income trap, a phenomenon that a country gets stuck at a certain income level (Figure 2). Rodrik's (2014) points are straightforward: it is easier for an emerging economy to achieve productivity gain in the manufacturing sector and thereby narrow its gap with the global technical frontier. Comparatively, the productivity gain is harder to be obtained in the service sector. More importantly, Rodrik (2014) believed that there exists a certain policy mix which has been proved to be successful in generating sectorial "winners" in manufacturing. However, these policies can not have any significant impact on the service sector.

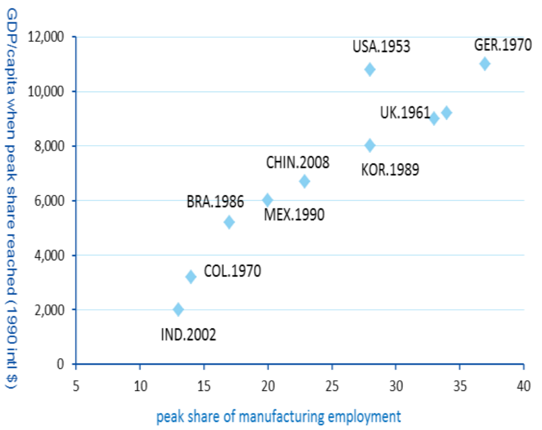
If China's share of manufacturing employment peaked in 2008, its per capita GDP (measured in terms of 1990 international dollar) reached 6,700 dollar. Such a level out-performed Mexico and Brazil as shown in Figure 2, but it is still below the 8,000 dollar of South Korea at its peak time in 1989. Indeed, South Korea is one of few countries which successfully circumvented "middle income trap". Interestingly, this indicator might not be able to provide us additional information about whether China can successfully overcome middle income trap", given that the peak employment of China's manufacturing didn't come too early or too late.

Figure 1
In China, manufacturing employment share has peaked in 2008



Source: CEIC and BBVA Research

Figure 2
Peak share of manufacturing employment and corresponding GDP/capital of typical countries



Source: Rodrik (2014) and BBVA Research

The ongoing economic rebalancing conceives new growth engine

The census suggests that China's economy has further tilted toward the service sector since 2008. A couple of other changes are also noteworthy to the extent that they could conceive some new growth engine.

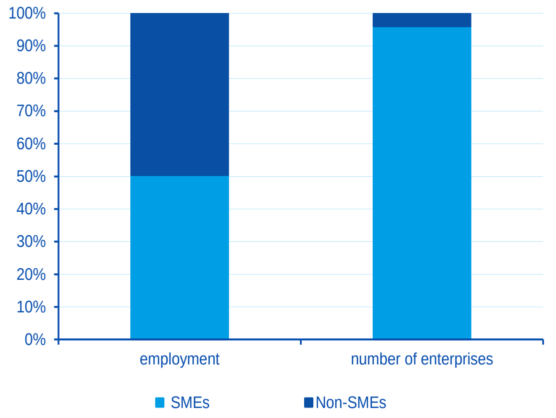
First, small and medium enterprises (SMEs) have been forging ahead. According to the census, at the end of 2013, there were 7.85 million SMEs in the industrial and service sectors, accounting for 95.6% of all enterprises. About 147.3 million people were employed by small businesses during the same period and accounted for 50.4 % of the total. The development of SMEs, mainly driven by private capital, indicates that China is gradually moving towards an economy in which market plays a significant role in resource allocation. (Figure 3)

Second, enterprises relating to scientific research and high-technology have enjoyed a prosperous development, while R&D has been thriving through the past five years. Until the end-2013, there were 345 thousand units of scientific research and high-tech service companies and 6.03 million employees in this sector, increasing by 154.8% and 97.4% from end-2009, respectively. Moreover, the total asset of this sector expanded by 110.9% from end-2009. (Figure 4) The figures indicate that science and technology progress could ultimately become the new engine of China's economic growth.

Although the census shows that the structural change of Chinese economy is right on the track, we could also find that there are some room to improve, mainly focusing on regional imbalance and domestic-foreign imbalance. For instance, in terms of corporate locations, the eastern area accounts for 55.4%, increasing by 2.9% from end-2008; however, the central region takes up 17%, decreasing by 0.2% from end-2008;

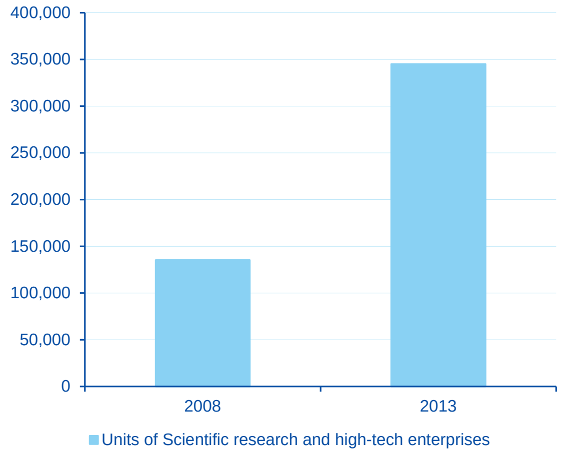
western region is 18.2% while northeastern area is only 6.7%. It seems that although the authorities has been promoting "West Development Strategy", the eastern region still dominates China's economy due to its superiors geographic location, favourable policies and historically long-lasting business tradition. Moreover, in terms of domestic and foreign capitals, we find that domestic capital accounts for 97.5% while foreign capital investment (including investment from Hong Kong, Macau and Taiwan) only counts 2.5%, suggesting that the authorities might need to implement deregulation in more sectors to attract foreign investors to China.

Figure 3
Small and medium enterprises have been developing over time



Source: CEIC and BBVA Research

Figure 4
Scientific research and high-tech related enterprises enjoyed a prosperous development



Source: CEIC and BBVA Research

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