

Focus: A Snapshot of the Chinese Economy

For many years, Chinese Economy has drawn attention across the world, especially for its unmatched growth, its products flooding the international markets, its huge population and its unique economic model. The snapshot brings forth the key features of the Chinese Political & Economic context, with special focus on its Energy Sector.

POLITICAL

Since 1949, Communist party of China (CPC) has been ruling China.

From its founding in 1949 to late 1978, the China was a Soviet-style centrally planned economy. Private businesses and capitalism did not exist.

Liberalization was adopted in **1978**. Foreign trade was focused upon as a major vehicle of growth, which led to the creation of Special Economic Zones (SEZs) first in Shenzhen (near Hong Kong) Inefficient state-owned enterprises (SOEs) were restructured.

Regional autonomy given in early 1990s has fostered reforms and unleashed economic expansion.

ECONOMY

In China, since 1980 GDP growth has averaged at 10% per annum. It has been the fastest growing large economy for more than a decade.

It is the world's 2nd Largest Economy in Purchasing Power Parity terms (7909.3 billion International Dollars).

Key features of Chinese growth are:

Manufacturing Led Growth

- Sectoral Composition of Production:

Industry 49%, Services, 39% &

Agriculture 12%

Investment & Exports account for 80% of GDP

- Role of Domestic Consumption limited

Globalization

- 3rd largest trading country (\$1.8 tn, 2006)

- Leading FDI destination (\$108 bn, 2006)

Key Drivers of Growth

- **Productivity gains** from labor and capital
- Relatively **free market forces** since late 70s
- **Rapid capital accumulation** through 'open door' policy for FDI
- **Inbound FDI** associated with world-class management skill and technology
- **Reforms of state enterprises** in mid 1990s through listing in domestic and overseas stock markets
- **Legal amendments** to protect private rights to property
- Systemic **shift of surplus agriculture labor** to industry
- **Fixed Exchange Rate Policy**, to keep exports competitive, which has resulted in a build up of huge forex reserves.

ENERGY SECTOR

World's 2nd largest & fastest growing energy consumer

- To account for 39% of global energy increase during 2007-2030. (International Energy Agency(IEA))
- 2007-2030 energy demand projected to grow at 2.9% p.a. (IEA)

Coal: Backbone

- Coal is the backbone meeting 70% of energy needs.
- Coal use has recently been growing faster than oil or gas use.

- One of the major coal producers of the world, accounting for 14% of world coal reserves. Importer of steam coal.
- Reserve/Production (R/P) ratio - 41 years

Oil & Gas: Major Importer

- Oil meets 19% (376 MMT) of energy demand
- Oil import dependency 52%
- Oil R/P ratio- 11 years
- Accounts for 1.2% of world oil reserves
- Refining Capacity: 7.7 mn barrels per day
- 2007-2030: oil demand growth 3.3% p.a. (IEA)
- Gas meets only around 4% of energy demand, LNG imports began in 2006
- Accounts for 1.3% of world gas reserves
- Gas R/P ratio- 32.3 years
- Gas Consumption 72.6 mtoe

Other Sources

Contribution of Nuclear Power is meager (2%)

- Recently embarked on large nuclear new-build programme. China's nuclear power is expected to grow at 7.6% p.a (2007-2030) compared to 1.2% p.a. for OECD countries. (OPEC World Oil Outlook 2009)

Renewables, high potential, high future growth expected

- As per OPEC's World Oil Outlook Between 2007 and 2030, fastest growth in hydropower will be witnessed in China, with an average growth rate of 4.4% p.a.

Other Issues

- Per capita energy used less than 30% of OECD average. Energy use per capita: 1484 kgoe
- Electricity use per capita: 2332KWH
- Energy subsidies prevalent, coal most heavily subsidized followed by oil.

CLIMATE CHANGE

Emissions

- China is the largest emitter in the world
- Accounts for 29% of world's emissions (more than North America, EU & Japan together)
- CO2 emissions per capita 4.6t > 4.4t world average
- 2007-2030 emissions projected to grow at 2.9% p.a. (IEA)

Clean Technology initiatives

- China has put in place a national climate plan:
 - » To reduce energy per unit of GDP by 20% between 2005-2010
 - » Increase share of renewables to 10%
- China accounts for 46% of Certified Emission Reduction (CERs) units issued in the CDM market.
- Investments are being made for RD&D of coal to liquid, clean coal & bio-fuel technologies
- China's revised 'Energy Conservation Law' of April 2008 is part of a long-term goal to encourage energy efficiency. The revised law aims to tighten regulation.

Week that was

- *Based on the new guidelines on disclosing the official wholesale price index, India's annual rate of inflation based for primary articles fell to 16.86 percent for the week ended 5th June 2010 from 17.21 in the previous week .With in the primary articles group, food price inflation rose to 16.12%.*
- *Fuel inflation fell to 13.18 percent for the week ended 5th June 2010 from 14 percent recorded in the previous week.*
- *International crude oil price (WTI) rose to US\$77.34 /bbl on 18th June 2010 from US\$71.46/bbl on 7th June 2010 and Indian Crude Basket price rose to US\$76.53 /bbl on 18th June 2010 from US\$ 70.91/bbl on 7th June 2010.*