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The Status Quo and Development of China's Domestic Savings

Xueyao Tong

The Hong Kong University of Science and Technology, China

xtongae@connect.ust.hk

Abstract

China's domestic saving rate has always maintained a relatively high level, but it is now on a downward trend. This article summarised the current situation and evolution of domestic savings by comparing and analysing literature and data. Moreover, based on the hypothesis of insufficient domestic savings in China, put forward feasible policy methods. The results showed that whether China can improve the economic balance by following the example of the United States will depend on the price elasticity of demand for import and export trade at the stage.

Keywords

Saving; Import and Export; Marshall-lerner Condition; Elasticity.

1. Introduction

As a great number of young people find themselves living paycheck to paycheck, the domestic saving rate in China will inevitably begin to decline from the earlier high level gradually. Based on the flow-of-funds matrices, Ren Zhijun (2018) stated that between 2000 and 2008, the national saving rate increased rapidly. Between 2008 and 2015, the national saving rate dropped relatively slowly. And such changes are mainly caused by the changes in enterprises, governments and resident savings rates [1]. Regarding the reasons for the high savings rate in China, Li Yang and Yin Jianfeng (2007) emphasised that among many factors, the most significant factor is the increase in the saving rate of enterprises and the government [2]. Based on the life model cycle, Liu Shenglong, Hu Angang and Lang Xiaojuan (2012) introduced the concept of life expectancy and analysed that there is a positive correlation between the life expectancy of the population and the household saving rate in China [3]. In addition, there are also opinions that Chinese people have a preference and habit of saving, which may be caused by Chinese cultural factors. In view of the relationship between domestic savings and economic growth, Hooi Hooi Lean and Yingzhe Song (2009) indicated that domestic savings growth and economic growth in China are related to each other. Furthermore, Yingzhe Song (2009) concluded that China's economic growth has a long-term relationship with household savings and corporate savings. In the short term, there is a bilateral causal relationship between the variables, but in the long term, there is a one-way causal relationship [4]. Dennis Tao Yang (2012) also believed that the rise of the domestic saving rate is the main driving force of economic growth [5].

Regardless of the level of the saving rate, there is a certain negative impact on the country. According to the research of Riccardo Cristadoro and Daniela Marconi (2011), in the context of a high saving rate, in order to reduce the saving tendency of Chinese people, it is necessary to improve the provision of social services and promote access to credit [6]. Liu Hongyi and Li Wuhao (2001) believed that the introduction of foreign capital is beneficial and necessary for developing a country in the case of obvious insufficient domestic savings [7]. Cui Yuanmiao (2006) emphasized that in introducing foreign capital, more attention should be paid to the utilisation efficiency of foreign capital [8]. Yang Tianyu and Zhu Guang (2,021) research results

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showed that under the background of the decrease of national saving rate, China should gradually shift from relying on high saving rate and high investment rate to investment-driven and consumption-driven development in order to achieve high-quality development [9].

Assuming that China's domestic savings will be insufficient in the future, the feasibility of the import method for China will depend on the applicability of the Marshall-lerner condition to China. At the current stage, according to the analysis of Li Ke (2008); Fu Qiang, He Ruiying, and Fan Sha (2011), from 1986 to 2008, except for a few years, the sum of the demand elasticity of China's import and export commodities was greater than 1, and the establishment of Marshall-lerner condition in China was proved through empirical research [10]. However, Fan Jin, Zheng Qingwu, and Yuan Xiaohui (2006) studied the change rate of the impact of real effective exchange rate changes on the balance of payments and concluded that the devaluation of the renminbi might not help improve China's trade balance, that is, the Marshall-lerner condition cannot be proved in China.

2. Savings in China

2.1. The Status Quo of China's Domestic Savings

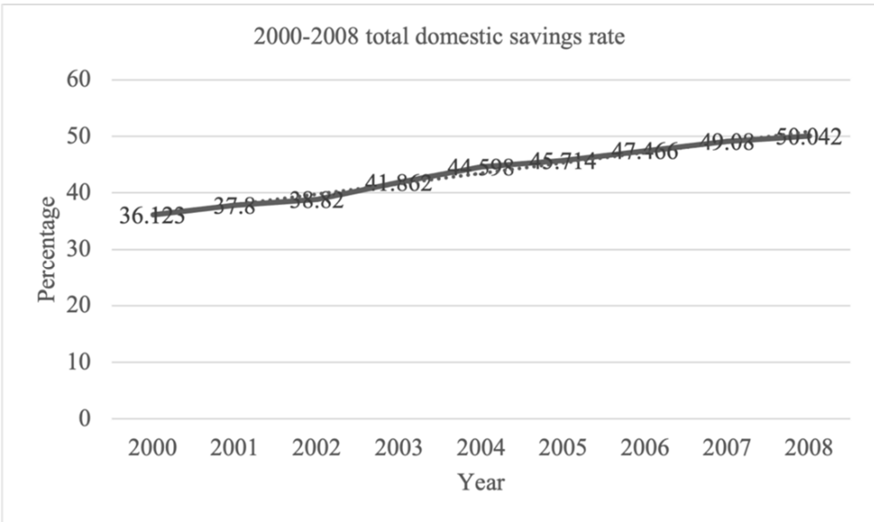

Figure 1. 2000-2008 total domestic savings rate

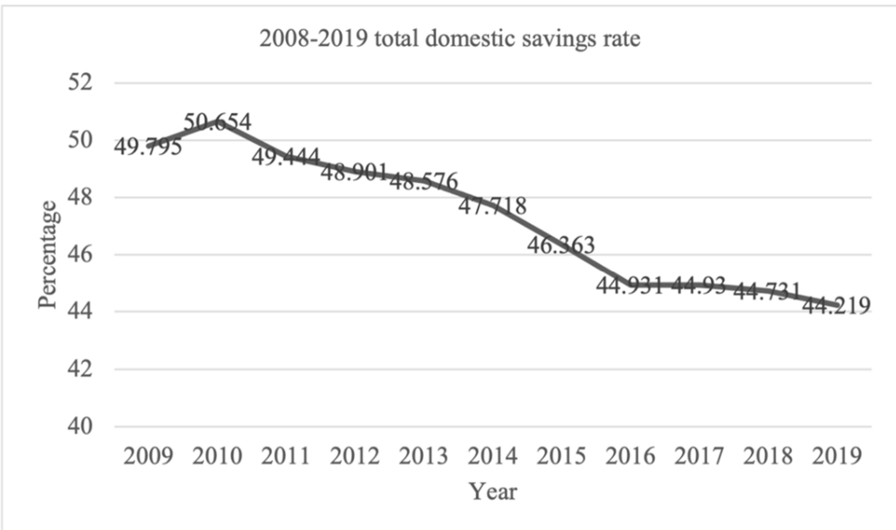

Figure 2. 2008-2019 total domestic savings rate

Source: CEIC Data

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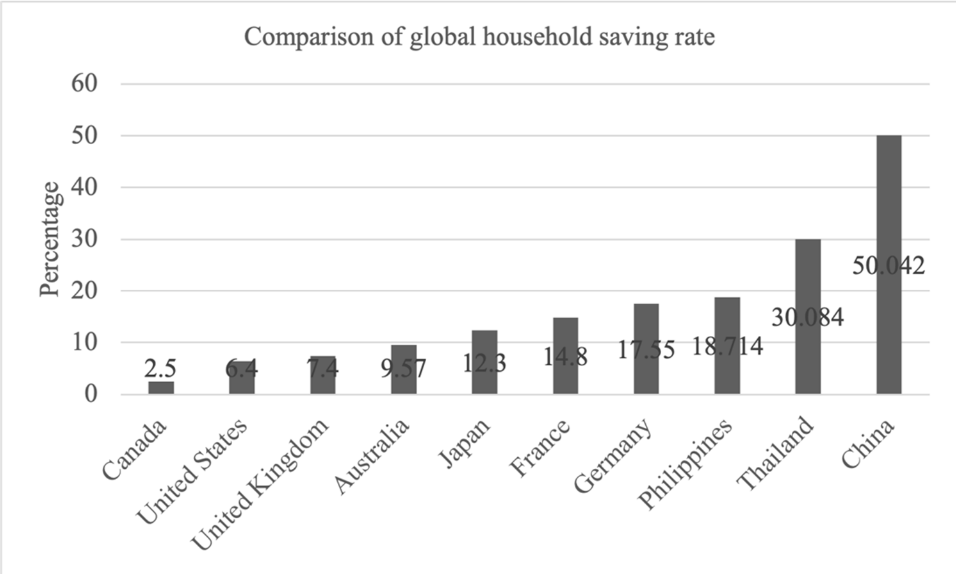

Figure 3. Comparison of global household saving rate
Source: better dwelling, ONS, Trading Economics, Statist, CEIC Data

With the continuous and rapid economic growth, the savings rate of enterprises, government, and residents has increased together, from 2000 to 2008, China's total domestic savings rate showed a steady upward trend as a whole, rising from 36.123% to 50.542%. However, in 2010, the overall saving rate began to fluctuate, and China's domestic saving rate gradually decreased from this, dropping to 44.219% in 2009. This drop is mainly due to the rise in per capita labour compensation, increasing the sensitivity of residents' consumption. Even if the national saving rate increases during the epidemic period, it may only fluctuate in the short term [9]. Compared with the historical peaks, even though China's saving rate has decreased in recent years, compared with developed countries and developing countries, China's saving rate is still at a high level in the global scope, far higher than the world average. This phenomenon is influenced to a certain extent by culture, that is, Chinese people have the preference and habit of saving.

2.2. Comparison of China-US National Conditions and the Currency Positions

Private savings in the United States are meager, and the government's fiscal deficit has remained high for a long time. The United States is a consumption-orientated economy. The government encourages national consumption to drive U.S. economic growth, contributing to the low domestic saving rate. If imports are not increased, excessive consumption may lead to a shortage of domestic resources and lead to inflation. In addition, the investment rate in the United States has been kept at a high level, which is in sharp contrast to the low saving rate. In summary, these factors have resulted in the United States' foreign trade deficit, which is the high trade deficit of the United States. However, the international currency position of the United States is conducive to the global allocation and introduction of resources, which enables it to maintain economic balance through imports when its domestic savings are severely insufficient. In terms of currencies, the status of the RMB and the U.S. dollar are pretty different.

3. Whether China can Improve the Economic Imbalance Caused by Insufficient Savings

For China, domestic savings are relatively abundant. However, when the reserves are insufficient, whether the country can rely on imports to solve the problem will depend on the price elasticity of demand for foreign trade. Considering the economy's fundamentals, when imports increase while exports remain unchanged, a more significant trade deficit or a smaller trade surplus will result, and total domestic demand and real GDP will decline accordingly. When a country's real GDP declines, its economic fundamentals will not be optimistic, resulting in a devaluation of its currency. From the foreign exchange market perspective, when imports increase, the amount of foreign exchange that needs to be paid increases, and more local currencies need to be converted into foreign currencies. In the foreign exchange market, the oversupply of domestic currency but the oversupply of foreign currency will decrease the exchange rate of the domestic currency. Whether the RMB exchange rate decline is conducive to maintaining China's economic balance and stability will depend on whether the sum of the price elasticity of import and export demand is greater than one.

3.1. Application of Marshall-lerner Condition

The Marshall-lerner condition indicates that the depreciation of the domestic currency will improve the trade deficit. However, the specific condition required is that the sum of the price elasticity of import and export demand must be greater than 1, that is, (Dx+Dm) >1 (Dx and Dm represent the demand elasticity of export and import respectively). When the Marshall-lerner condition was established in China, it indicates that the sum of the elasticity of China's import and export demand is greater than one. The depreciation of the domestic currency will improve the trade deficit, thereby alleviating the imbalance caused by currency devaluation to a certain extent. On the contrary, if the Marshall-lerner condition is not established in China, it indicates that the devaluation of the domestic currency cannot improve the trade deficit. As a result, resolving the economic imbalance caused by insufficient domestic savings through imports may lead to a greater degree of imbalance. Therefore, when domestic savings are insufficient, whether China can improve its economic balance through imports will depend on the price elasticity of import and export demand at the stage.

4. Conclusion

This article sorted out the relevant savings situation, proposed the feasible policy method from the import and export aspects, and analysed the feasibility of the trade deficit method by using the Marshall- Lerner condition. With the development of the Internet and big data, the data required for analysis can be collected on the official website of relevant departments, and the data is accurate, which provided good support for theoretical analysis. Secondly, there are a large number of relevant literature available for reading, and innovative theoretical summaries could be made based on previous studies. However, this article did not provide a positive conclusion. In addition, based on the analysis under ideal conditions, many factors in reality may affect the development of trends and policy decisions.

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