

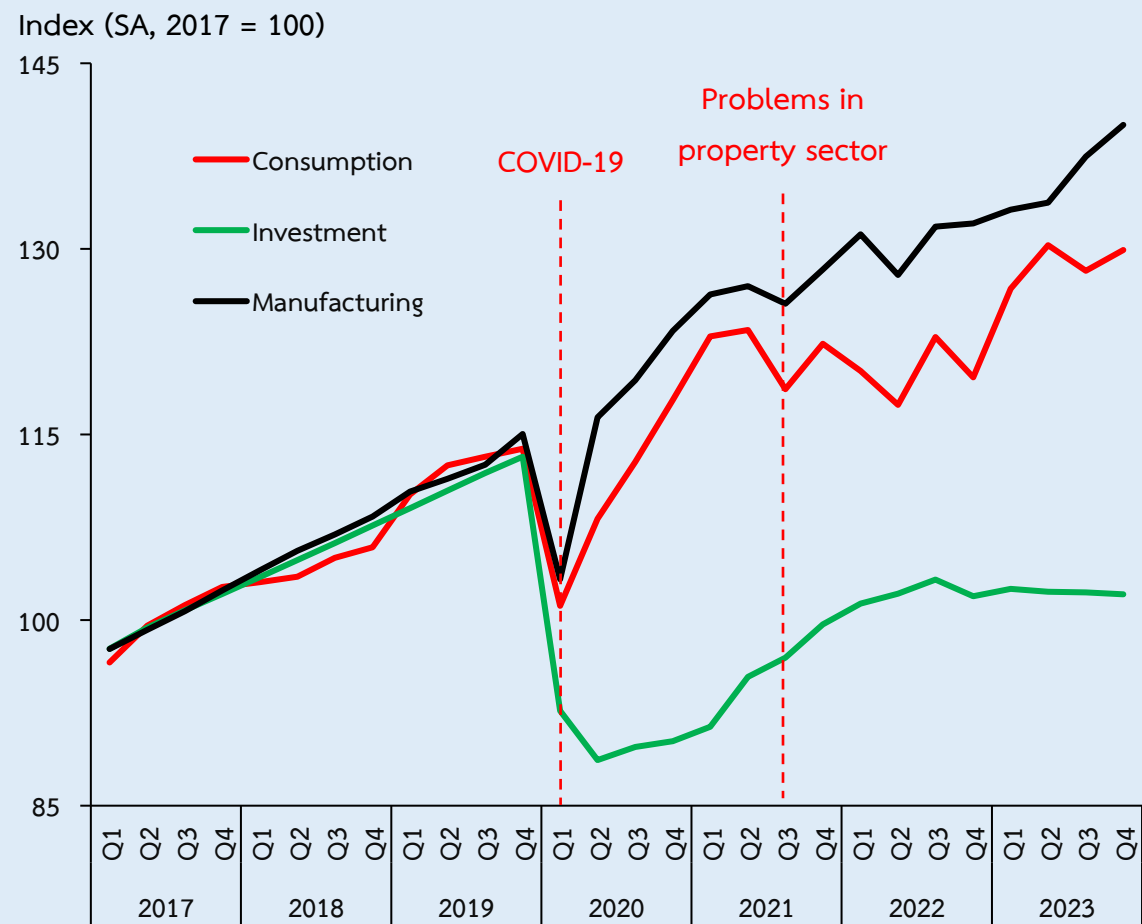
Box 1: China’s manufacturing overcapacity and excess supply in global markets

Since the start of the COVID-19 pandemic in early-2020 and the Chinese real estate sector crisis in mid-2021, domestic demand in China has been recovering slowly (Chart 1). Consumption has gradually recovered, in part due to improvements in domestic tourism supported by government measures. Meanwhile, investment has yet to recover in line with the subdued real estate sector. However, the Chinese manufacturing sector saw a strong recovery, in part due to the Chinese government’s policy to support domestic manufacturing such as (1) “Made in China 2025”^{1/} policy, which came into effect in 2015 to support the Chinese manufacturing sector and reduce reliance on imports (import substitution); and (2) “Dual Circulation” policy^{2/} which came into effect since 2020 to support domestic demand growth, although the policy would take time to fully realize and hinge on a recovery in consumer confidence. Both of these policies were geared towards improving China’s self-reliance.

During the aforementioned crisis period, the Chinese government tried to maintain growth momentum in the manufacturing sector through state-owned enterprises and companies with shares held by the government as reflected in the increase in market share of those group of companies from 28% in 2019 to 30% in 2020-2023. This was in part an effort to maintain employment levels as reflected in the average unemployment rate which was largely unchanged from 5.2% in 2019 to 5.3% in 2020-2023, remaining below the target rate of no more than 5.5%.

Note:
^{1/} The main objectives of Made in China 2025 are (1) upgrade China’s manufacturing technology and (2) reduce import dependency
^{2/} The objectives of Dual Circulation are (1) driving the economy from domestic demand and (2) maintaining China’s export shares whilst liberalizing international trade and investment

Chart 1: China’s economic indicators



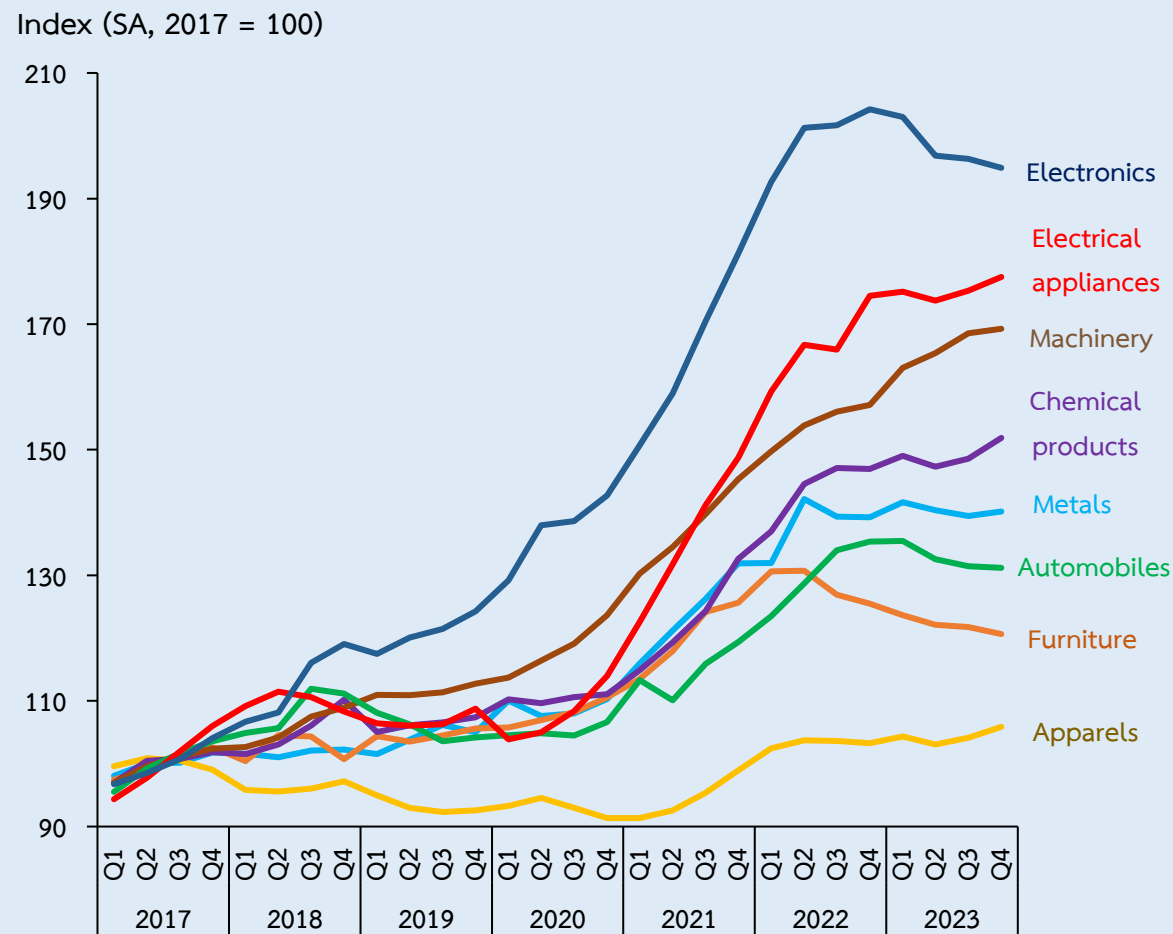
Source: CEIC, BOT calculation

Box 1: China's manufacturing overcapacity and excess supply in global markets

Driving economic growth through the manufacturing sector whilst domestic demand remains weak have led to large overcapacity in the economy as reflected in higher inventories across several products (Chart 2) such as electronics, electrical appliances, machinery, chemical products, metals, and automobiles. China's overcapacity prompted some businesses in China to either cut prices or keep prices low so that their goods could be sold. This is reflected in the producer price index, which declined in 2022 and turned negative in 2023, while consumer prices also follow suit. The renminbi's depreciation is also another factor that helped reduce China's export prices (Chart 3).

Businesses in China are still offloading their inventory through exports. China's trade surplus have grown in 2022 and 2023 (Chart 4) and most of the exported goods were in the same categories as those with high inventory levels. Countries that have a large share of imports from China also saw both their producer and consumer prices not increasing much compared to the past (Chart 5 and 6). However, merchandise imports from China is just one of many factors contributing to declining inflation globally. There are still other factors that have significant implications for inflations in each country such as the country's energy mix, tightness of labor market conditions, exchange rate movements, and domestic demand.

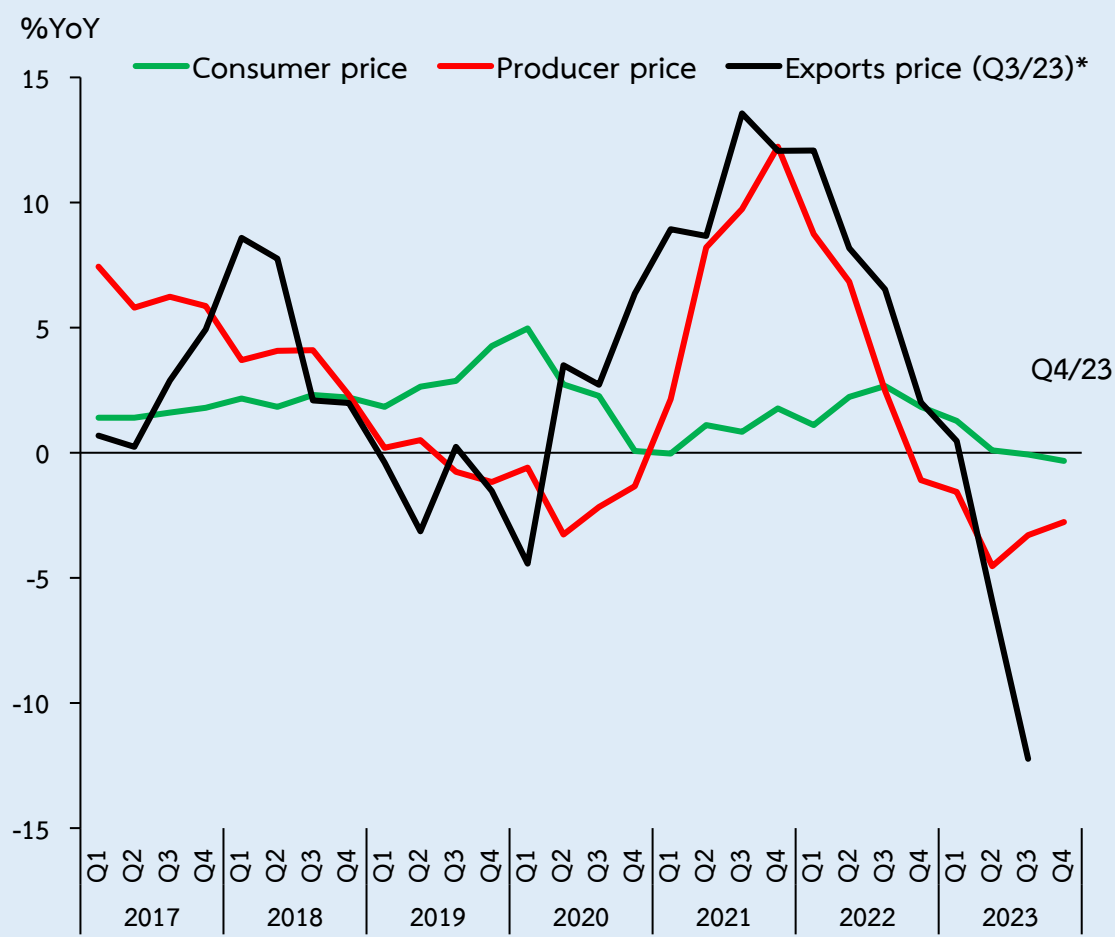
Chart 2: China's manufacturing inventory level



Source: CEIC, BOT calculations

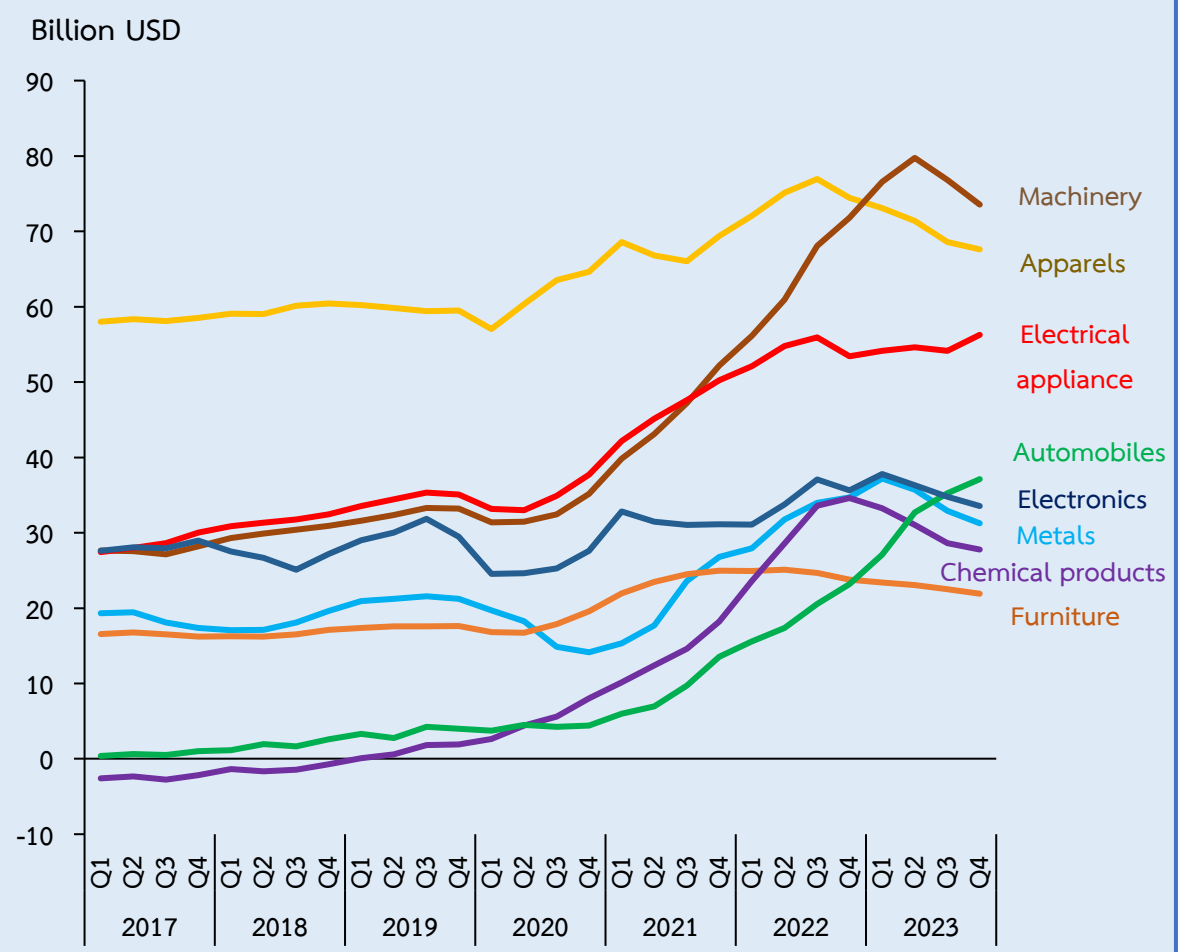
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Chart 3: Producer price, consumer price, and exports price in China



Note: * export prices in USD term
Source: CEIC, BOT calculations

Chart 4: China's trade balance (Top-8 China's trade-surplus product)

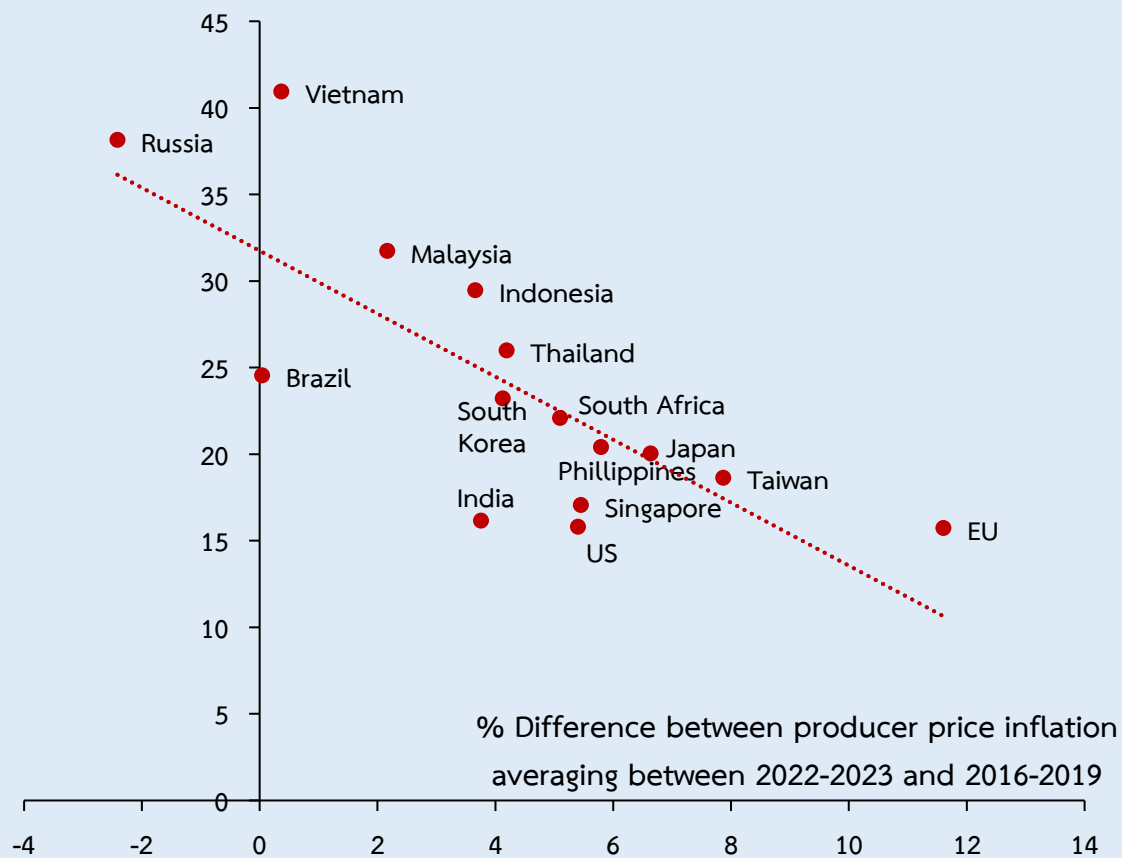


Source: CEIC, BOT calculation

Box 1: China's manufacturing overcapacity and excess supply in global markets

Chart 5: Relationship between share of imports from china and producer price inflation

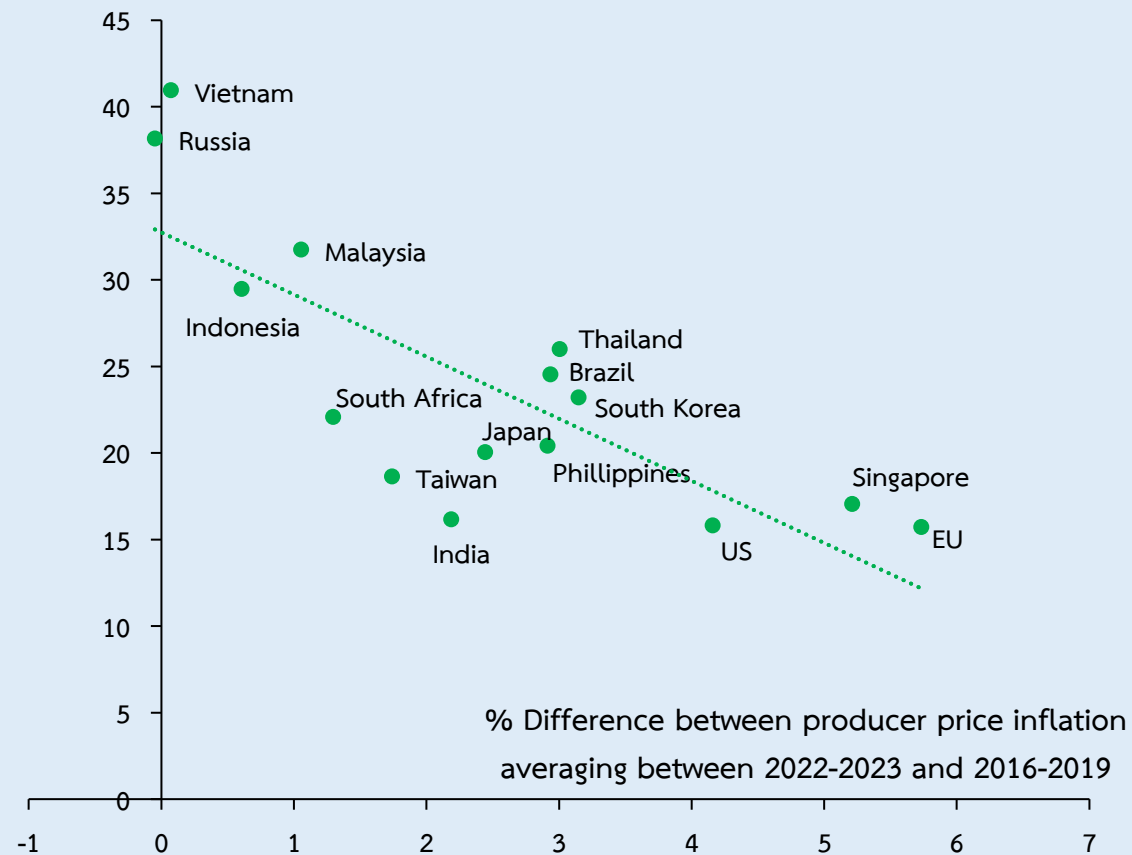
% Share of imports from China to total imports in 2023



Source: CEIC, BOT calculation

Chart 6: Relationship between share of imports from china and consumer price inflation

% Share of imports from China to total imports in 2023



Source: CEIC, BOT calculation