

The Structural Change of American Economy in the Sight of Relation between Investment and Import and the Response Mechanism of China

Extended abstract: Residential investment affected American import decidedly in the financial crisis. The paper analyzes the relationship of American GDP, personal consumption, private investment and import during 1950-2008. The result tells us that private investment has strong explanation to import, after getting over very high multicollinearity. This differs from the conclusion that import is determined by income and relative prices and reflects the structural change of American economy. Both Chinese macro-economy policy and micro-economy enterprises responded to the change. Chinese government instituted export-oriented policy and permitted foreign capital engaging production of processing trade. According to K/L personally, foreign enterprises produce intensively in use of Chinese abundant factor characteristically. In 1999-2007, their labor-intensity industries increased more and more, but capital-intensity industries decreased in their 15 main industries. Hong Kong, Taiwan and Macao enterprises in China Mainland dealt with processing trade production in light industry products, textile apparels, plastic products, furniture, etc. Otherwise, multi-national corporations engaged mainly in electronic and communication equipment manufacture. State-owned enterprises produce intensively in use of Chinese scarce factor. And in 1999-2007, their labor-intensity industries decreased, but capital-intensity industries increased more and more.

If the pace of economic globalization moves on, the effect of the efforts that the United States tries to reduce spending, while increasing savings to solve the deficit of net exports, is not exciting. Because private investment spending in the composition of national income accounts, when investment demand for capital goods, raw materials and other factors can only be fulfilled through the import, it means that even if the consumption part maintains a balance, the equation, which constitutes the open balance, $NX = SI$, is also difficult to achieve the equilibrium due to the change of imports from consumer goods to investment goods. On the other hand, the relationship between savings and investment, is just like two sides of a coin. High savings means high investment. Yet if high investment relies on imports, the trade balance does not exist. To really solve the U.S. deficit of current account, the best choice is to use all the factors from the United States increase investment. Thus, the United States is bound to be in accordance with Vernon's product life cycle theory, and continues to acquire new technological breakthrough in products, and constantly innovates new industries.

China's economic policies, by the unique way of reforming and opening up, guide the different types of enterprises to participate in international division of labor, to adapt to the U.S. economic structural changes, and obtained a large number of processing trade surplus. It shows the great successful response to the structure changes of the U.S. economy. But the variables of processing trade is significant, and cannot be controlled by China.

First, the processing trade, just like birds, is good at movement. When the flight time comes (now showing signs of movement), China's trade deficit will be followed one after another, because at that time, the export channel is closed, yet resources, energy imports will not be cut short; Second, the policies and measures of attracting foreign direct investment in China for technology solved the market access of foreign capital, particularly multinational corporations. But cooperational, joint ventures and sole proprietorship multinational companies based in China, showed weaker technology spillover effect. It strengthens rather than weakens China's low-end position in multinational corporations worldwide production chain.

Third, China's structure adjustment process to enhance the status of the global restructuring of production chains is delayed when facing the attacks of the U.S. financial crisis and world economic recession. In order to maintain economic growth, China's industrial structure adjustment of foreign investment by export tax rebate was interrupted.

Fourth, the reality and expectations of the RMB value against the U.S. dollar will bring about structural and non structural effect just like the "Plaza Agreement" in the mid-1980s. The former will show the phenomena that China's processing trade accelerates the pace of overseas transformation, and the latter will be manifested as hot money into China's capital and real estate market.

Since the impact of investment on imports reflected the characteristics of long-term structural changes in the U.S. financial crisis, it means that the response mechanisms we are taking should be based on long-term, rather than the reverse. In order to ensure that the export tax rebate policy measures make promotion such as restructuring and upgrading of processing trade and can not export products of the industry classified as standard, more scientific and operational approach, the standard we can set up should be the increase of value or value-added rate. So the product can be avoided the results of nominal limits of high-tech industry and the bad impact of the actual energy and environmental consumption.

Key words: American Economy, Import dependent on Investment, China Response

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