

## What China's reopening means for the world economy

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Suppose a couple have two kids, both of whom are similar in height. All of a sudden, their daughter enjoys a growth spurt, adding 8cm. While that is happening, their son grows by only 2cm. The average height of the four-person household has gone up by 2.5cm. How much has their daughter contributed to that growth? The answer is 80%.

Now ask a different question. How much has their daughter contributed to the rest of the household's growth? The answer, obviously, is 0%.

The difference between these two questions seems clear and trivial. But a similar distinction often gets lost when people talk about the world's economic prospects this year. Many people ask how much China will contribute to global growth in 2023. But what they really want to know is how much the country will contribute to the rest of the world's growth.

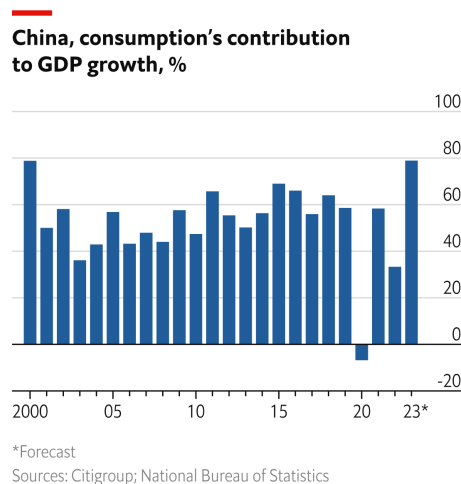
The answer to the first question is "a lot". The rough answer to the second question is "surprisingly little".

Just as a daughter is a big part of any household, China is a big part of the global economy. It produced almost a fifth of the world's goods and services last year. When a large component of the world economy grows quickly, it makes a hefty contribution to global growth. That is simple arithmetic. It would be true even if China had no economic dealings with the rest of the world at all.

In its latest forecasts, the IMF thinks global GDP will grow by 2.4% this year. China, which is [recovering earlier than expected](#) after the end of its zero-covid regime, will contribute about 40% of that. America and the euro area together will pitch in less than 20%—less than the slow-growing son contributes to his household's increase in stature.

But the spillovers from China to the rest of the world may be disappointing. Unlike previous recoveries, the [post-zero-covid rebound will be led by consumption](#). It will draw strength in particular from the release of pent-up demand for in-person services, as Ting Lu of Nomura, a bank, has pointed out. Movies have found eager audiences. And Beijing's karaoke operators did roaring business during the Lunar New Year holiday from January 21st to 27th. But karaoke does not have wide ripple effects on global supply chains. With the important exception of travel and tourism, many of these services are not easily traded across borders.

In addition, there is not much slack in the world economy and central banks are still keeping a wary eye on inflation. If China does boost economies elsewhere in the world, central banks may try to offset the impact, keeping interest rates higher than they otherwise would. So yes, China's economy will find its voice this year. But few other countries will sing along..



→ **We calculate that** consumption will contribute more to China's growth this year than investment, for the eighth time in ten years.