Available online at www.sciencedirect.com

ScienceDirect

Journal of Policy Modeling 38 (2016) 96–102

Journal of Policy Modeling

www.elsevier.com/locate/jpm

Understanding Chinese consumption goods imports

Willem Thorbecke *

Research Institute of Economy, Trade and Industry, Japan

Received 22 October 2015; received in revised form 30 November 2015; accepted 3 December 2015
Available online 13 December 2015

Abstract

China's consumption imports per capita in 2012 equaled $36, much less than comparable countries' imports. This paper investigates the determinants of consumption imports. Evidence from panel dynamic ordinary least squares estimation and imports from 20 leading trading partners over the 1992–2012 period indicates that GDP growth and renminbi appreciation would cause large increases in China's consumption imports. Thus if policymakers continue fostering growth and development and continue allowing the renminbi to appreciate, they would enable Chinese consumers to purchase more medicine, food, and other goods from the rest of the world.

JEL classification: F32; F41

Keywords: Exchange rate elasticities; China

1. Introduction

Chinese policymakers understandably resist pressure on exchange rate policy. One concern is that a renminbi appreciation may harm Chinese firms by reducing labor-intensive exports (Ito, 2008). However, since the rest of the world produces many goods such as medicines and food that would benefit Chinese consumers, it is also important to consider how exchange rates affect imports. This is especially true because, as Table 1 documents, Chinese consumption imports per capita in 2012 equaled only $36, compared with $2000 for Germany and $1800 for France.

* Correspondence address: Research Institute of Economy, Trade and Industry, 1-3-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8901, Japan. Tel.: +81 3 3501 8248; fax: +81 3 3501 8414.
E-mail address: willem-thorbecke@rieti.go.jp

http://dx.doi.org/10.1016/j.jpolmod.2015.12.002

Table 1
Consumption imports per capita (U.S. dollars).

	ASEAN	China	France	Germany	Japan	Korea	Taiwan	US
1988	21.53521	4.274024	416.1525	487.0405	154.3155	50.18969	164.532	240.5015
1989	24.40411	4.356482	436.2005	490.5958	184.3784	59.91264	192.0793	247.7968
1990	29.20103	4.094013	549.4546	659.1937	192.25	68.8786	228.0856	258.0012
1991	32.24927	4.869921	566.236	742.9555	210.5554	84.24155	265.3338	261.2974
1992	38.67813	5.120008	614.6644	777.0726	236.5472	90.20205	254.4847	301.9575
1993	42.39626	5.60424	563.0475	734.2828	260.6579	101.4596	266.3793	318.8516
1994	55.46689	6.703647	614.6893	784.6918	317.4271	128.3167	294.703	348.2542
1995	65.105	7.641504	721.6223	896.9614	394.8606	164.5767	324.1663	376.4806
1996	67.97418	7.619845	732.7979	908.6424	405.3627	182.7747	316.2641	396.783
1997	67.38978	8.069354	733.5974	843.46	372.8436	179.5754	338.5688	444.8536
1998	47.38748	7.614591	773.2334	863.254	333.7851	97.1626	296.6144	491.7666
1999	54.18277	7.278989	787.6601	858.4729	370.8058	135.4139	323.1378	531.6398
2000	57.29611	7.831241	758.7075	802.035	424.5035	180.8261	351.0553	585.6597
2001	55.94623	7.5905	793.0824	848.6957	417.06	194.2117	310.1859	588.4485
2002	61.12984	8.591717	870.2699	943.0029	401.209	232.5821	325.6917	643.1572
2003	68.8518	10.46151	1045.846	1114.4	441.4336	256.944	372.9309	709.2664
2004	79.53442	12.74204	1204.279	1284.345	504.685	287.1634	442.2001	781.8602
2005	85.78442	14.29148	1271.352	1382.808	548.8058	320.0151	499.0905	844.0774
2006	97.88671	16.79468	1369.027	1515.264	573.5312	370.2706	532.705	919.8105
2007	115.8741	21.62254	1580.186	1749.325	591.3156	436.2248	564.7153	977.1243
2008	138.3565	23.27597	1774.715	1996.266	633.3177	463.0234	580.5399	981.1431
2009	124.8706	21.38687	1662.227	1912.712	645.0174	400.2682	535.0851	878.3147
2010	148.3952	27.05889	1722.396	1954.537	739.9008	498.6026	670.0565	967.5838
2011	176.5237	34.12271	1883.201	2213.184	887.3035	562.6747	758.4153	996.4086
2012	197.9626	35.67089	1754.716	2026.056	898.6971	568.1562	744.8356	996.028

Source: The CEPII-CHELEM database.
Note: Consumption goods include beverages, carpets, cereal products, cinematographic equipment, clocks, clothing, consumer electronics, domestic electrical appliances, knitwear, miscellaneous manufactured articles, pharmaceuticals, photographic equipment, preserved fruit and vegetable products, preserved meat and fish products, soaps and perfumes (including chemical preparations), sports equipment, toiletries, toys, and watches. ASEAN includes Malaysia, the Philippines, and Thailand.

In theory a stronger currency increases the purchasing power of Chinese consumers and allows them to buy more from abroad. Thus an appreciation of the RMB should increase imports.

Empirical evidence on the effects of exchange rates on Chinese imports has been mixed, however. The estimated coefficient on exchange rates frequently takes on the wrong sign. For instance, Cheung, Chinn, and Fujii (2010) and Garcia-Herrero and Koivu (2007) reported that an appreciation of the renminbi is often associated with a decrease in Chinese imports. One reason for this is that an RMB appreciation may reduce China's exports and thus reduce the demand for imported imports that are used to produce these exports.

Ahuja, Chalk, Nabar, N'Diaye, and Porter (2012), Cheung, Chinn, and Qian (2012), and others have thus included Chinese exports in Chinese import functions.[1] Ahuja et al. found that when China's exports are included in the import function, a 10% renminbi appreciation would increase imports by 4%. Cheung et al. reported that, without including exports in the import function, the coefficient on the exchange rate takes on the wrong sign and is statistically significant. Including

[1] Baak (2013) and Nishimura and Hirayama (2013) also employed this approach.