

Summary: The role of Chinese economy in the world economy and its implications for emerging markets: evidence from global VAR model

Over the last decades China has become the main engine of the world economic growth. The rapid growth in China was possible due to joining the World Trade Organization (WTO) in 2001, trade liberalization and high growth of investment in the domestic economy. Currently, China's export-led growth model is maturing and the growth of real GDP is slowing. The Chinese economy is rebalancing, meaning that the share of consumption to real GDP is increasing and the share of investment to real GDP is decreasing. The aim of the project is to evaluate the impact of shocks emanating from the Chinese economy on other economies, particularly on emerging market economies. Both advanced emerging market economies, such as Poland, and less advanced emerging market economies, such as Southeastern Asian countries, will be investigated.

In the project we plan to build and estimate a GVAR model. GVAR model is a concise model of the whole global economy that captures economic and financial linkages between countries. The estimation of the GVAR model is a two-step procedure. Firstly, one estimates small VARX models for each country that are conditional on the rest of world. The country specific models comprise domestic, foreign and optionally global variables or dominant unit variables. The foreign variables are variables that are constructed as cross-country weighted averages. Secondly, using the spillover matrix, one links individual countries' models into one global VAR model.

In the first part of the project, we will analyse which structural characteristics of each economy make it more sensitive to the negative output shock in China. In the second part of the project, we will evaluate the impact of the Chinese economy on emerging market economies, especially on Poland. To the best of authors knowledge, up till now no research for China that concerns these two issues has been carried out.