China’s Economic Outlook and the China-US Trade Disputes

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China’s Economy in the first half of 2018
I. China’s Economy in the first half of 2018

• The first half of the year has witnessed a steady economic momentum of China.

- China achieves the growth rate of 6.8%, beyond the official expectation of 6.5%.
- Total GDP reached 41.9 trillion yuan, roughly 6 trillion USD.
- Quarterly GDP growth rate has remained above 6.7 for 12 consecutive quarters.
Firstly, the firm transformation in industrial structure has helped guarantee the high-quality growth and sound development.

- The service sector expanded 7.6 percent, outpacing the first and secondary industry.
- Final consumption expenditure accounting for 78.5% of total GDP.
I. China’s Economy in the first half of 2018

Secondly, the industrial sector has experienced a strong recovery.

- General value-added output of industrial enterprises expanded by 6.7%.
- State-owned enterprises led the growth with a rate of 7.6%.
- Significant progress has been achieved in the process of decapacity, destocking and deleveraging.
- Emerging industrial sectors have experienced an 8.7% growth.
I. China’s Economy in the first half of 2018

Thirdly, labour market and inflation have remained stable in the last 6 months.

- The urban registered unemployment in June was 4.8%.
- Average residential income has grown by 6.6%.
- Inflation rate remains modest. CPI rises by 2.0% in the first half of the year, while PPI increases by 3.9%.
I. China’s Economy in the first half of 2018

We can see that a more promising economic structure with a growing number of favourable factors for robust and sustainable development is emerging in China. A more resilient and high-quality pattern is also emerging. In the future, with the promotion of critical policies of reforms in supply side, China's economic robustness will be both further enhanced, which will assure long-term growth potential.
I. China’s Economy in the first half of 2018

- However, we're highly aware of the potential economic uncertainties arising from both domestic conditions and international shocks.
  - local government debts
  - challenges in the real economy
  - protectionism of the U.S

- China will more closely monitor the operation of the economy and will maintain proactive fiscal policy and prudent monetary policy. In addition, we will firmly deepen the opening-up policy.
02 Major Macroeconomic Policies
II. Major Macroeconomic Policies

Firstly, a proactive fiscal policy has been taken.

**Tax cuts**
- After major VAT reforms in 2017, VAT rates for manufacturing, transportation service and agricultural produces have been further cut down,
- Generated more than one trillion yuan tax saving for companies,
- Another 800 billion yuan tax cuts will be undertaken.

**Deficit Ratio**
The deficit-to-GDP ratio has been kept around 3 percent for some years.
The increase in the fiscal deficit is used mainly to cover tax and fee cuts and improve people’s livelihood in particular.

**Fiscal risks**
*Especially risk of local government debts, are well under control.*
A more integrated system has been established for the issue and management of public debt.
II. Major Macroeconomic Policies

- Secondly, prudent and neutral monetary policy continues.

  The total amount of currency and social credit are now under a reasonable track of expansion.

  Financial supports for SMEs has been specially underlined to help them get easier access to loans and other means of financing.

  The central bank is devoted to precautions against systematic financial risk.
II. Major Macroeconomic Policies

- Thirdly, China is firmly and actively fulfilling the promises of deregulation raised in the 19th National Congress of CPC held this March.
  - 17 administrative permits have been removed
    - e.g. approvals for establishing elderly nursing houses
    - project approval for foreign investments in road transportation
  - Custom inspection and quarantine, as well as import tax procedures, will be further integrated.
  - Redundant restrictions will be replaced by well-designed negative lists for business activities, which will eliminate adverse administrative factors impeding the market mechanism.
II. Major Macroeconomic Policies

- Fourthly, more opening-up measures will be taken to cope with increasingly complicated international trade condition. In April, China announced a series of opening-up measures.

  - **Financial Market**
    - Restrictions of foreign equity in financial market will be further released, for example, foreign institutions will be allowed to set up business in China with larger scale and in wider scope.

  - **IPR Protection**
    - The re-organised State Intellectual Property Office will play a vital role in enforcing relevant legislations against IPR offenses.
    - China will enhance compliance with international economic and trade rules by increasing transparency, enhancing property right protection, improving law enforcement and promoting market competition against monopoly.

  - **Expand Imports**
    - The first China International Import Expo, or CIIE, will be held in November 2018 in Shanghai to further optimize the country’s trade structure with rest of the world.
    - We promise to substantially cut down tariffs on a wide range of goods.
II. Major Macroeconomic Policies

- China has succeeded in developing a comprehensive series of reasonable and effective policies to maintain the robust growing momentum, as well as pushing forward the progress of structural transition.
China-US Trade War
III. China-US Trade War

US impose 25% tariff on $50 billion of Chinese exports
July 6 and Aug 7

China took reciprocal response

U.S declared additional list of 10% to 25% tariffs on other $200 billion Chinese goods
July 11 and Aug 2

Aug 3

China announces a list of $60 billion of U.S. goods, with various tariff rates from 5 to 25%.
First of all, the U.S accusation of trade surplus against China is illiterate.

- America’s trade deficit against China is absolutely not the consequences derived from intended policy target of the latter, but an outcome of redistribution of global value chain.
- It’s the structural transformation in the U.S that generates strong demand for Chinese merchandise under pure market mechanism.
- The reciprocal trade, instead of deteriorating welfare of American people, virtually benefits them by significantly reducing general prices of commodities in the U.S.
III. China-US Trade War

✧ Secondly, up to now the impacts of the trade war upon China is far from being significant, and we are fully capable to handle the potential risks arising from the trade conflicts.

✧ However, in the mid- and long-run, the trade war will inevitably generate severe damages upon the economy of China, and the whole world as well.

✧ OECD predicts that with the increase of tariffs, global economic growth rate will fall by 1.4 percentage point. The model of IMF suggests if current trade policy threats are realized and business confidence will fall sharply. WTO recently warns that if the global multilateral trading system of settling trade disputes was undermined, worldwide trade flows would be squeezed by 60%, causing a 2.4% shrink in global growth rate.
Thirdly, China has been devoted to more opening-up policies and expanding imports, especially in this year after proactive deduction in tariff and investment barriers.

- Tariffs on 1,500 types of consumer goods have been lowered considerably.
- The import tariff on automobiles has been cut from 25 percent to 15 percent.
- The revised negative list for foreign investment released late last month substantially eased market access restrictions for foreign investors.
III. China-US Trade War

✧ Last but not least, merely by constructive negotiation can lead to ultimate settlement of current disputes with mutual respect and trust.

✧ Chinese government firmly believes that the trade war was not, is not, and will never be the solution to trade issues, but can only lead to unnecessary severe economic damages upon both sides, even the prosperity of global economy.
THANK YOU!