



THE UNIVERSITY OF HONG KONG  
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# New Era of the Chinese Economy

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## Foreign Observers Are Pessimistic

- May 24, 2017 -- Moody's downgraded China's long-term local currency and foreign currency issuer ratings to A1 from AA3.
- Sept. 21, 2017, S&P Global Ratings lowered the long-term sovereign credit ratings on China to 'A+' from 'AA-' and the short-term rating to 'A-1' from 'A-1+'.





# Main Concerns

- **Slower Growth:** Moody's expects that China's growth potential to decline to close to 5% over the next five years.
- Growth is driven by credit expansion and debt build-up, which ultimately leads to collapse.
- **Rising leverage:** the government's direct debt burden may rise gradually towards 40% of GDP by 2018 and closer to 45% by the end of the decade. The government's indirect and contingent liabilities is also likely to increase.





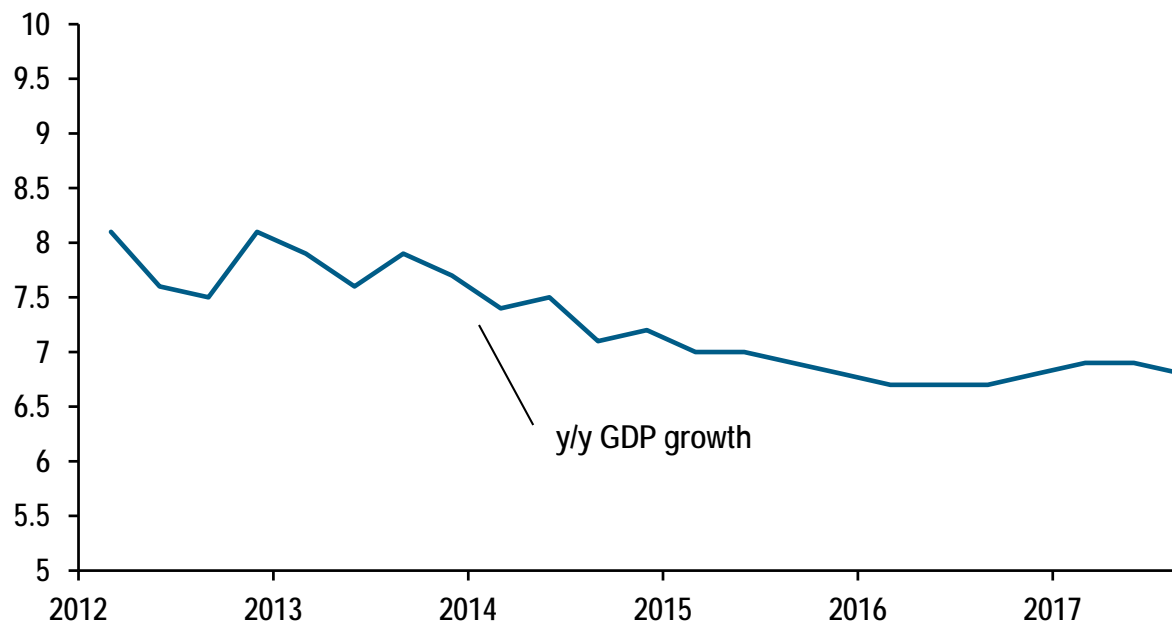
# But They Are Wrong Again

- Most major economic indicators show that the Chinese Economy has been stabilizing or improving since last year.
- Risk control is effective:
  - The recent efforts by the Chinese government in tightening regulations on the financial markets and encouraging deleveraging begin to show effects.
  - Housing market begins to cool off.





# Growth Rate stabilizes



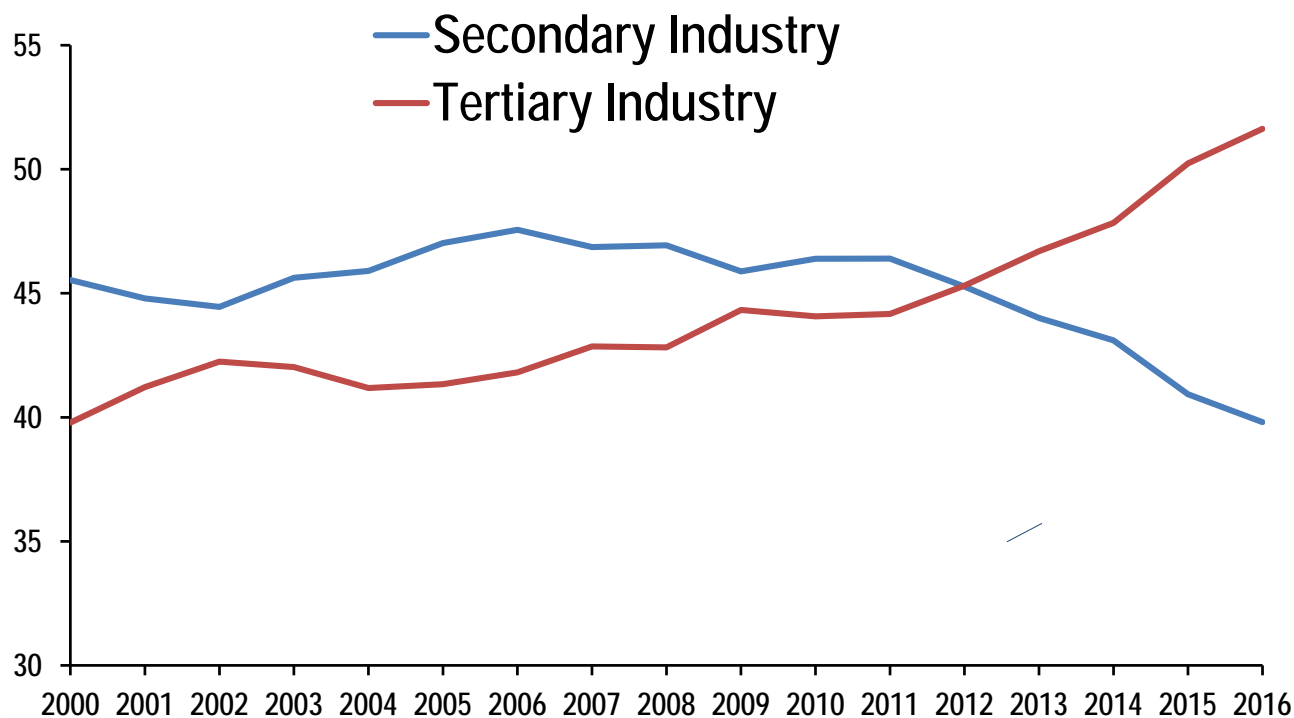
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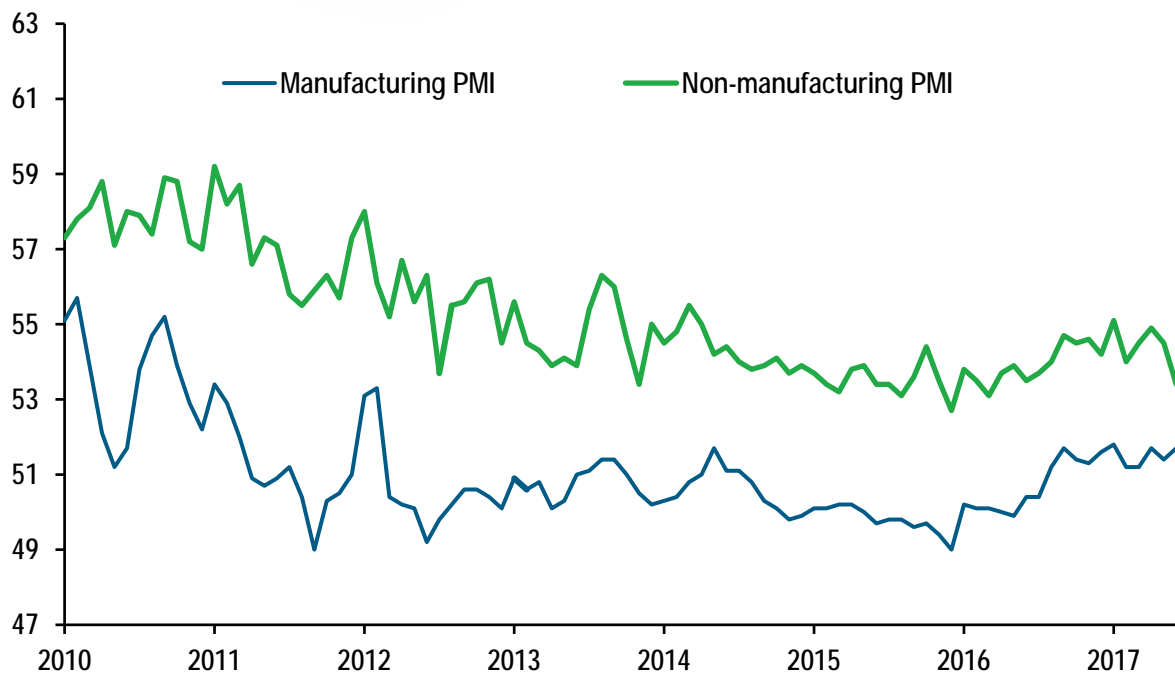
# Structural Change Speeds up

*Share of GDP, %*



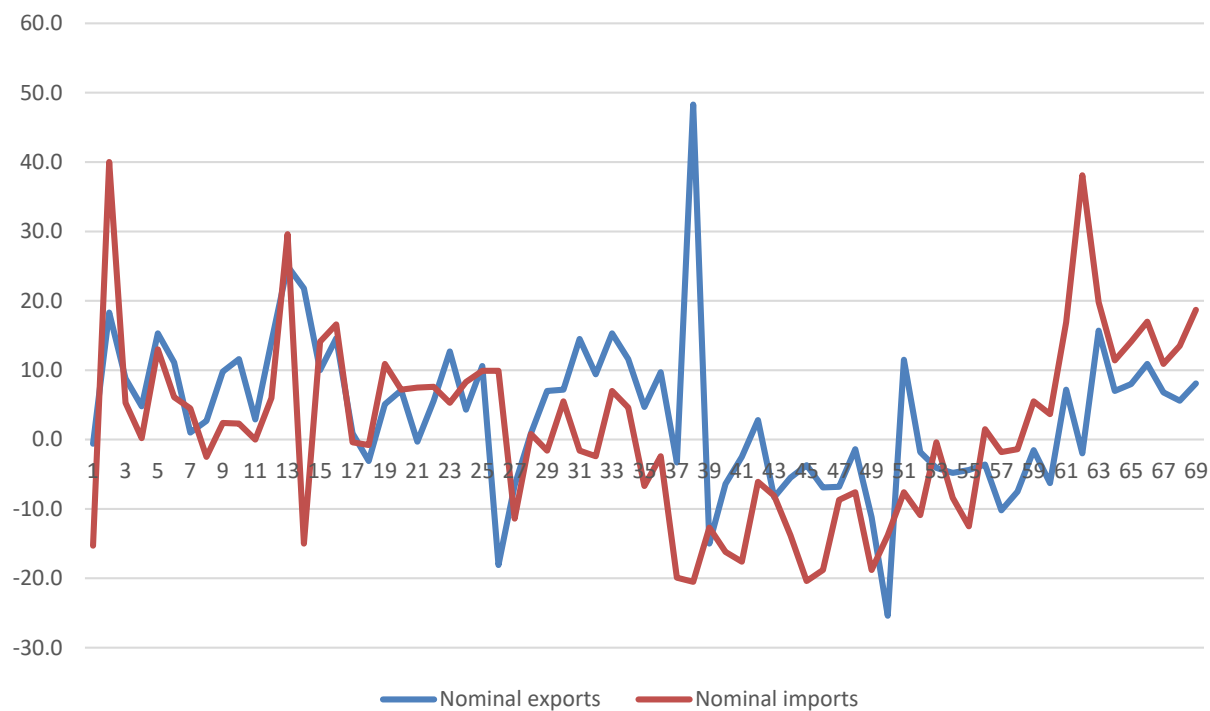


# PMI (Purchasing Manager Index) Goes up





# Trade picked up substantially this year







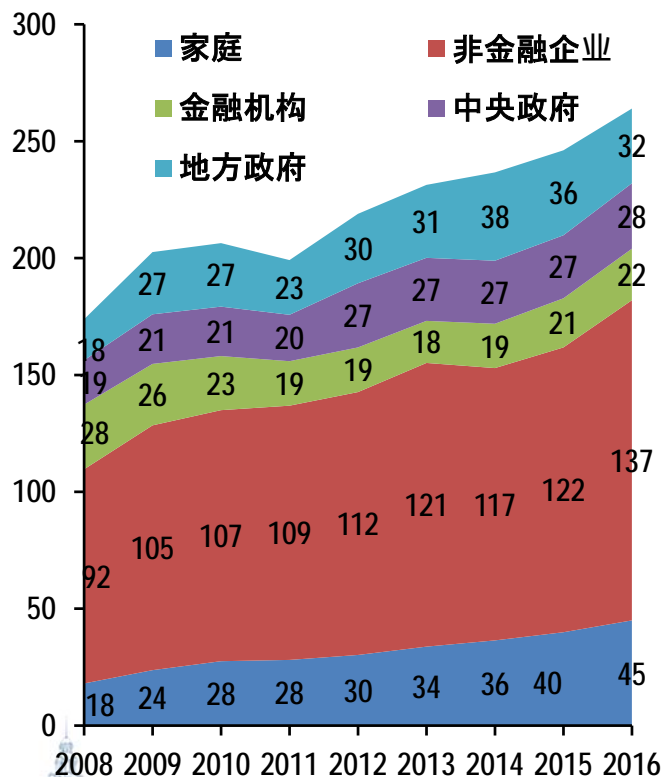
# Foreign Reserve Stabilizes and Recovers



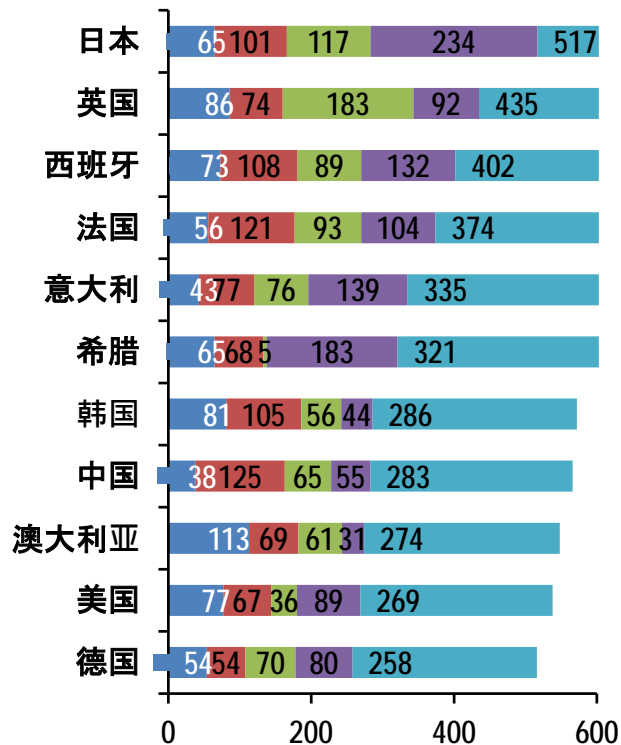


# Leverage is high, but still manageable

Debt/GDP, 2008-16



Debt/GDP: international comparison, 2014 Q2





# Why They Are Wrong Again

- China's *Global Times*: China should have collapsed many times if Western professional agencies were correct.
  - They are always wrong because of their ideological prejudice.
  - They focus on China's negative issues, but ignore the positive factors (secretly wishing China to fail?).
- China is different
- China changes so fast





# Grand Plan For the Next Thirty Years

- Xi Jinping's Grand Plan: Make China Great Again by 2050
  - First half (2020-35): middle-income to high-income, decent living standard ("xiaokang"), p. c. GDP from currently USD 8,000 to USD 20,000
  - Second half (2035-2050): high-income to advanced economy, high living standard, p. c. GDP to USD 40,000
  - China Dream: well-off people, strong country
- Deng Xiaoping's Grand Plan: modernization, from poverty to middle-income.
- Thanks to the incredible success of the last 40 years, now enters "New Era of Socialism with Chinese Characteristics".





# Main Theme of the New Era

- To satisfy people's increasing demand for good quality life by addressing the issues of unbalanced and unfulfilled development
- Increasing demand for good quality life
  - As income goes up, people do not just demand more goods, but better stuff
  - People also demand different stuff: services, culture, etc.
  - People are increasingly concerned with environment, health, fairness, justice, etc.





# Main Theme of the New Era

- Unbalanced and unfulfilled development
  - Serious income and wealth inequality
  - Regional inequality
  - Environmental problems
  - Inefficient health system
  - Inadequate social security
  - .....
  - So many things to balance, but still need to fulfil the growth potentials!





# Mission Possible?





# Main Theme of the New Era

- The main theme of Deng Xiaoping's Era is growth
- The main theme of Xi Jinping's New Era is balanced development with strong growth
- This is very ambitious, and very challenging.







# Policy Programs of the New Era

- Continue in the direction of “reform and open up”
- Continue to emphasize the decisive roles of markets
- More emphasis on socialistic features of the economy
  - War against poverty
  - Improving Social Security system
  - Reducing income inequality
  - Improving growth prospects in less developed regions
- More emphasis on stability
  - Prudent macro policies
  - Control financial risks by tighter and more effective regulations
  - Keep director control of key financial sectors and SOE sectors





## Serious Challenge: Balanced Development

- Balanced development is hard to achieve for many developing countries
- Inequality seems to worsen with globalization and technological progress around the world
- China is a large country with 1.4 billion people, with huge regional disparity.
- Trying to achieve balanced development at the same time maintaining high growth rate is very challenging





## Serious Challenge: Changing Growth Model

- From high speed growth to high quality growth
- Yet the ambitious Grand Plan requires a quite high speed growth rate
- Driving force of growth needs to change from resources, infrastructure, investments to R&D, innovation, technological progress, etc., which is certainly not easy
- High quality growth requires more investments in human capital than traditional capital investment
- And demographic trends, aging, etc.





## Serious Challenge: Market and Government

- The success of the Deng Xiaoping's Grand Plan is to adopt the market economy and to release the potentials of entrepreneurship of Chinese people.
- The transformation to the market economy is not complete: “decisive roles of market”
- Yet, balanced development needs the government very smartly and actively making adjustments to achieve more desirable market outcome.







# Concluding Remarks

- In the short run, the Chinese economy will be fine, unless.....
- With the conclusion of the Party Congress and new government term, the economy is likely to see strong performance.
- In the long run, hopeful and Cautiously optimistic





# Welcome to Hong Kong

