

CHINA'S ECONOMY AFTER THE 19TH CONGRESS...

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1 Xi Thought on SWCC for a New Era

Joins Mao, and Deng (posthumously)

Continuity

'The Chinese nation has stood up...' (Mao)

...' grown rich and become strong...' (Deng)

...'and it now embraces the brilliant prospects of rejuvenation ... It will be an era that sees China moving closer to centre-stage and making greater contributions to mankind' ... (Xi)

Purity and dominance of the Party: XJP > Party>State> China> World

What does this mean for policy-making and policy outcomes? For China's institutions?

Will politics now turn from tailwind to headwind?

2 No more hiding and biding

XJP on China: stand proudly among the nations of the world; become a leading global power; build a world-class military than can fight and win wars

How the US/West sees China: 1990s 'strategic partner'; 2000s 'responsible stakeholder'; now, economic rival and competitor, and adversary in struggle for global power in Eurasia?

Working more with global institutions eg AIB, but mostly Belt and Road Intitative: XJP-sponsored strategy in 2013, now also enshrined in constitution as a mission to pursue

East wind prevailing over the West wind.....

3 Change in principal contradiction

Since 1981, btw 'ever growing material and cultural needs of the people, and backwards social production' – *put emphasis on high, persistent growth, almost at any cost*

Now, btw 'unbalanced and inadequate development, and the people's ever growing needs for a better quality of life' – *suggests emphasis shifting, at margin if not more deeply, from quantity to quality of growth*

Key questions:

Will growth target be abandoned/phased out?

Will economy play 2nd fiddle to social and environmental programmes, income inequality, rural—urban divide?

Does government intend to build institutions of social inclusion?

Bottom line: As China's economy has matured, grown and become more globally integrated, its politics have become increasingly illiberal. Isn't this the central contradiction? And where does this end?

China's 5 traps

2018-2020:

The debt trap

- can you have a harmless deleveraging?

The renminbi trap

- can you promote your own currency behind capital and fx controls, and keep a semi-peg when banking assets > fx reserves?

2020's:

The demographic (aka rapid ageing) trap

- how to compensate for a falling WAP, and provide social welfare for rapidly ageing population

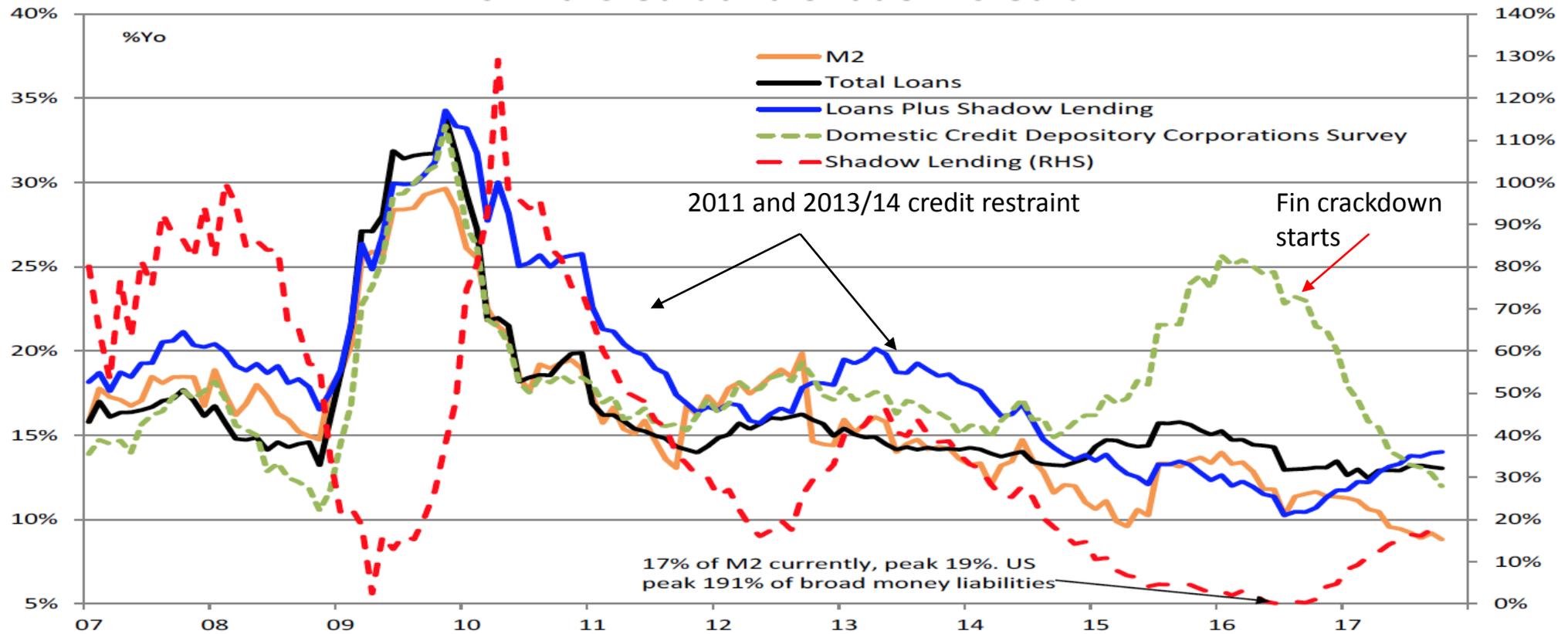
The middle income trap

- innovation, productivity and smarter growth – but also about governance and inclusive institutions

The Belt and Road trap

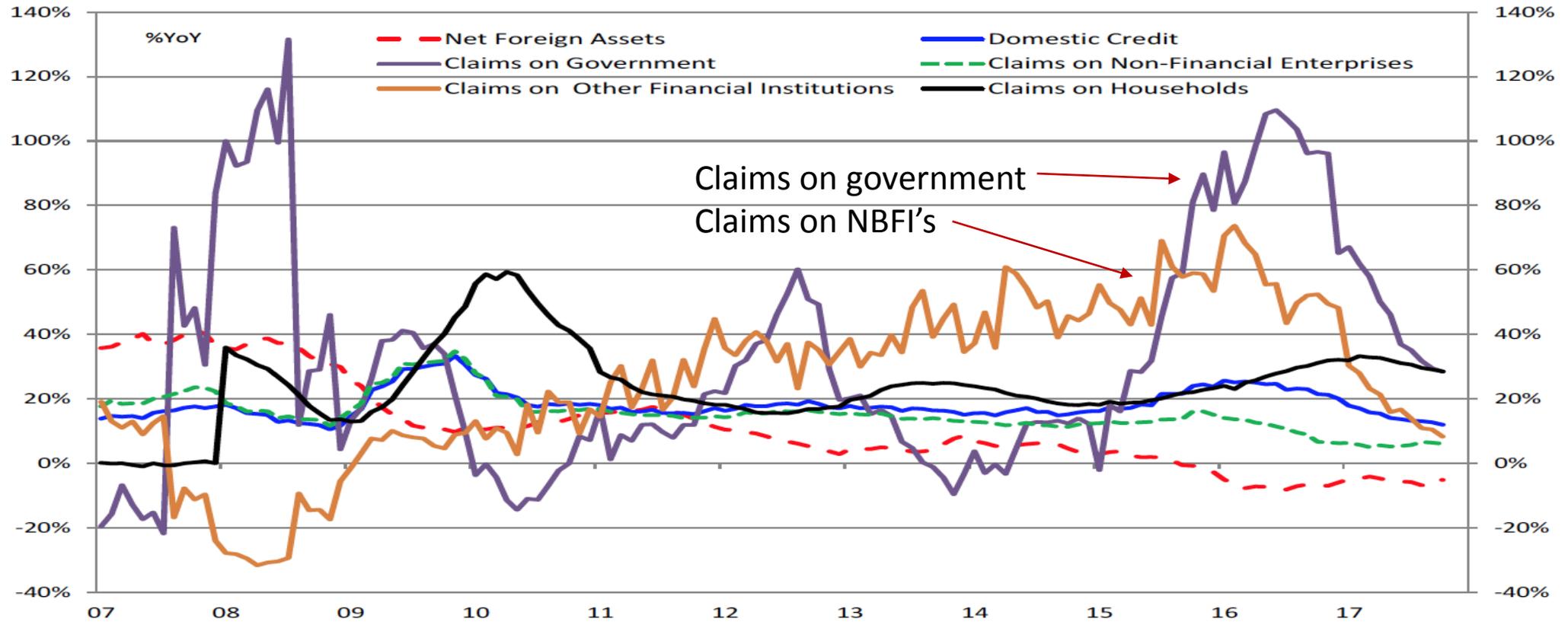
- geopol and econ drivers, mainly w/countries with weak governance structures, commercial risks/political resistance – where will this leave banks and SOEs?

China credit expansion, slowing not really deleveraging

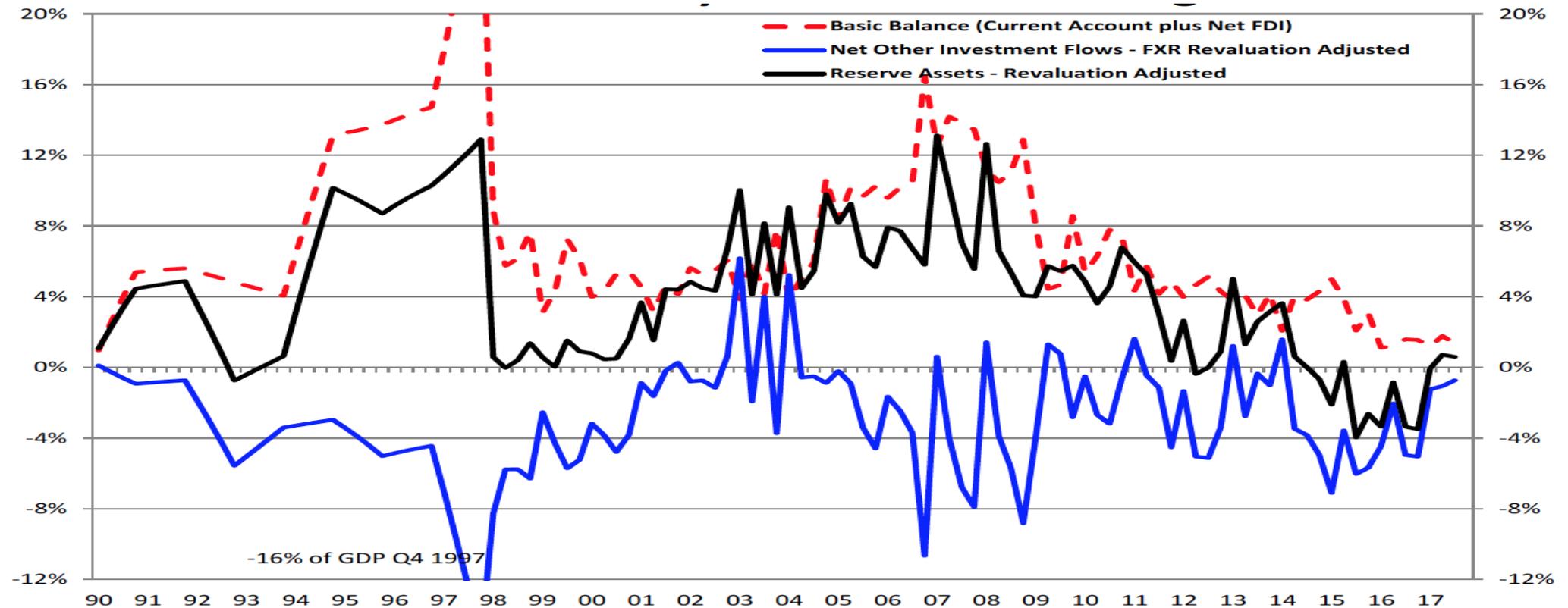


Source: DSG Asia

Domestic credit depositary institutions claims



China BoP position not what it used to be – and the resvs barely recovered ‘cos of....



Source: DSG Asia

Rising lending from overseas (BIS x-border claims)

