China’s Economic Challenges and Reform Perspectives

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Challenges Facing China’s Economy

1. Debts Problem (Local Government)
   In 2016, China’s overall government debts were USD 3.96T, 37.6% of GDP (compared to 40% in 2015), yet the local governments’ debts increased by USD 58B. (Moody and S&P downgraded China in May and September 2017, respectively)
Challenges Facing China’s Economy

2. Real Estate Bubble
   around 20% in 1st- and 2nd-tier cities. More than 35% of the new loans were located to real estate mkt, and this mkt accounts for 29% of tax revenue.

3. Divergence in Balanced Sheets:
   Expansion in SOEs and Recession in PIEs in 2016, resource misallocation and another source of debts.
Challenges Facing China’s Economy

2. Weak Stock Market: direct financing is still difficult in 2016, Shanghai was down by 12.3%, Shenzhen by 19.64% (growth enterprise board by 27.7%). The worst in global major stock mkts

3. Financial Liberalization is ceased:
   RMB depreciated by 6.7% against USD, accompanied with a decrease of foreign reserve by USD 0.7T during 2015-2016.
6. Fragile global value chain and disappointed China’s Exports
   protectionism and unstable economic recovery dampen global demand whereas surging labor and environmental costs undermine China’s competitiveness
7. Inbound FDI is stagnant, whilst outbound is still surging
   Inbound increase by 0.2% compared to 40% increment in outbound. Is China not attractive to foreign investors any more? Is outbound investment rational?
What to do?

✓ Expansionary fiscal policy but not too much about monetary policy
✓ Public investments/subsidies focus more on urban infrastructures, industrial upgrading, and high tech industry
✓ Reforms on government administration and SOEs
What to do?

✓ Promoting globalization/anti-protectionism: OBOR, RCEP, etc.
✓ Accelerating Policy Pilots in FTZs:
  * More Financial Reforms: Capital Account Liberalization
  * 2017 Negative List
  * Reform on Taxation Policies (VA Tax System)
  * Improving Filing System (for registration)
THANKS 谢谢

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