

# China's Economic Challenges and Reform Perspectives

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A hand is shown holding a globe that is composed of binary code (0s and 1s). The background is a light blue gradient. A blue horizontal bar is positioned below the title. A thin orange horizontal line is at the bottom of the slide.

# Challenges Facing China's Economy

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## 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)

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## 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.

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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.
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## 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?

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## 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)

THAN

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