

# Beating Expectations

**Robust consumption leaves China confident on annual growth target despite trade war uncertainty** By Zhou Xiaoyan

As the escalating trade war between China and the United States casts a shadow over the world's two largest economies and the global economy itself, the much-anticipated Chinese economic figures for the first half of the year offer some indication of China's economic resilience and sustainability amid mounting instability worldwide.

The Chinese economy expanded 6.8 percent year on year in the first half of 2018, beating market expectations. The rate was 6.7 percent for the second quarter, achieving a growth rate within the 6.7–6.9 percent range for 12 consecutive quarters, according to data released by the National Bureau of Statistics (NBS) on July 16.

NBS spokesperson Mao Shengyong said at a press briefing that the data shows that the country's economic growth remains stable with good momentum.

"Positive factors underpinning high-quality growth are accumulating, laying a solid foundation for achieving the growth target for the whole year," Mao said. China has set its annual GDP growth target at around 6.5 percent for 2018.

However, external pressures are mounting, and domestic structural adjustments have

now reached a critical stage. China should actively boost domestic demand, invigorate the real economy, cope with external challenges and prevent and defuse risks, Mao said.

On July 16, the International Monetary Fund (IMF) predicted China's economy would grow 6.6 percent in 2018, unchanged from its April forecast. "China continues to grow in line with our earlier projections," the IMF stated.

Looking ahead, the Chinese economy will continue the trend of seeking progress amid stability. Xu Hongcai, Deputy Chief Economist of the China Center for International Economic Exchanges, told *Beijing Review* that the target of 6.5 percent for the whole year is certainly achievable.

"The growth rate is likely to come in around 6.7 percent for 2018, 6.6 percent for 2019 and 6.5 percent for 2020," Xu said, adding that at this rate, the goal of doubling China's economy and the per-capita income of its residents from 2010 to 2020 will be accomplished.

## Consumption-driven

According to Mao, during the first six months of 2018, an optimized economic structure has been reflected in a stronger service sector, the acceleration of industrial

upgrading, progress in innovation and green development and, most importantly, robust consumption.

The job market was generally stable, with the surveyed urban unemployment rate at 4.8 percent throughout May and June, the lowest since 2016. In the first five months of the year, some 6.13 million urban jobs were added, surpassing the figure for the same period in 2017 and making achievable this year's target of creating 13 million jobs.

In recent years, the upgrading of China's consumption has been accelerating. Growth in the retail sale of consumer goods has surpassed that of fixed assets investment for 26 consecutive months—evidence of the increasing role of consumption in the Chinese economy.

Domestic consumption has been the bal- last for growth, with its contribution to GDP growth as high as 78.5 percent in the first half of 2018, up 14.2 percentage points from a year ago, according to the NBS.

During this period, retail sales of consumer goods increased by 9.4 percent year on year, with online retail sales surging by more than 30 percent.

"Judging by major economic indicators, domestic demand has become a decisive force for growth in China," Mao said, predicting that the stable and sustained growth of consumption will continue into the second half of the year.

Several factors will support steady consumption growth in China. "Residential income has been increasing more quickly, and deeper pockets facilitate more spending," Mao said. "More importantly, the Chinese economy has developed to the stage that consumption upgrading will only speed up, not slow down."

In addition, China's cuts to import tariffs will spur more domestic consumption and better satisfy people's demand for a higher quality of life, he said.

Xu said that boosting domestic demand is a long-term objective for China.

"The first step is to add more jobs via, for example, the creation of a more favorable business environment for small and micro-sized businesses and those related to agriculture. With a stable income, people are more willing to spend," Xu told *Beijing Review*. "In addition, the social security system needs to be improved so that people are more willing to part with their money rather than constantly saving, and taxation policies should be further reformed to increase people's sense of gain."

## Trade uncertainties

China's trade spat with the United States has raised uncertainty about the country's economic outlook and roiled its financial markets in recent weeks.

The United States began imposing additional 25 percent tariffs on \$34 billion of Chinese products on July 6, igniting the largest trade war in economic history. China was forced to respond in kind, imposing the same tariffs on an equal amount of U.S. products. International observers warn that a trade war could deal a heavy blow to both countries as well as the global economy.

According to the World Economic Outlook, a report released by the IMF on July 16, a global growth rate of just 3.9 percent is predicted for this year and the next. "But the risk that current trade tensions escalate further, with adverse effects on confidence, asset prices and investment, is the greatest near-term threat to global growth," an IMF statement said.

"After nearly 10 years of adjustment, the world economy is finally starting to bottom out, entering a phase of recovery and robust growth," said Chen Wenling, Chief Economist

of the China Center for International Economic Exchanges. "However, escalating trade tensions could impede recovery, with U.S. unilateral action destroying international trading rules, global industrial and value chains, systems of global governance and Sino-U.S. relations."

NBS spokesperson Mao said that the impact of the trade war is not reflected in China's first-half data.

"We will have to wait to see the impact in coming months. But generally speaking, the war will have a negative effect on both economies. Moreover, the world economy today is so integrated that almost every industrial chain is global in layout. Many countries will be affected, as will global economic recovery and the sustained growth of trade," Mao said.

So far, prices in China are stable. "In addition, China is promoting high-level opening up, which will substantially increase imports this year and help expand supply to curtail price hikes," he added.

In response to a question on a potential downturn brought about by China-U.S. trade frictions, Yan Pengcheng, spokesperson for the National Development and Reform Commission, said that the Chinese economy is resilient enough to cope with the shock of uncertainty in the world economy.

"First, China's economic growth has shifted from an overreliance on investment and exports to relying primarily on consumption and services. Meanwhile, China has sufficient room for policy changes to cope with the fallout of events in the world economy; the fiscal deficit and government debt ratio are relatively low, the capital adequacy ratio at commercial banks is high and the corporate debt ratio is in decline. China also has rich experience in dealing with complicated situations," Yan said at a press briefing on July 17.

Experts say that the rapid growth of imports is set to continue amid the wider push to open up. The Chinese government has reiterated on many occasions that China does not intentionally pursue a trade surplus, and it has issued an array of policies to increase imports in an attempt to promote more balanced trade, satisfy consumer demand and facilitate economic structural upgrading.

In early July, the central authorities released guidelines on expanding imports and promoting the balanced development of trade, such as optimizing the composition of imports to promote the upgrading of consumption, diversifying the sources of imports, using multiple channels to promote imports and enhancing the liberalization and

facilitation of trade.

"China's foreign trade has evolved from focusing on quantity to the improvement of quality," said Bai Ming, a senior research fellow with the Chinese Academy of International Trade and Economic Cooperation.

Following China's push toward further reform and opening up, and to cut red tape, a growing number of foreign firms have decided to increase their presence in the Chinese market as a result of the improved business environment.

On July 10, Tesla signed an agreement with the Shanghai Municipal Government for its first overseas plant. The factory, with a planned annual production capacity of 500,000 electric cars, will be the largest foreign-invested manufacturing project in the city's history.

"The escalation of China-U.S. trade tensions is not in line with the interests of people in either country. Yet the impact should not be overstated because fundamentally, the Chinese economy is driven by domestic demand and its real economy," Xu said.

"From the middle- to long-term perspective, China will continue efforts toward further opening up, deepening reform, restructuring and upgrading."

Xu also warned that China must better control the pace of deleveraging to strike a balance between deleveraging and reducing costs for businesses.

"Macroeconomic control is an art. Relevant policies should be more flexible to avoid Chinese companies being hit by multiple factors, including credit tightening, stricter regulation, monetary supply control and external shocks," Xu said.

On June 24, the People's Bank of China announced a 0.5 percentage point cut to the reserve requirement ratio (RRR) of commercial banks, effective July 5, the third time this year that the central bank has taken measures to alleviate financing difficulties for small and micro-sized enterprises.

Xu praised the move, adding that there is plenty of room for further RRR cuts. "It helps reduce financing costs for businesses by unleashing long-term liquidity to support the real economy and mitigate fluctuations in the money markets," he said. ■



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## China's Economy in H1 2018

