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Future of the Chinese Economy & Impact of Sino-US Trade Dispute

By Zhu Tian

Any analysis of the future prospects of the Chinese economy has to include a discussion on the current Sino-US trade dispute. There have been a lot of reports on the issue and many different interpretations. I will avoid the verbosity here, and focus mainly on emphasising two points:

First, the US trade deficit is directly related to its low savings rate and has little to do with the trade policies of other countries. In fact, the economic growth of the United States is directly proportional to the trade deficit. When the economy is good, the investment rate is high, people's willingness to consume also rises, and the savings rate will fall. As a result, the trade deficit (equal to domestic savings minus domestic investment) will rise.

Therefore, even if the outcome of the Sino-US trade dispute reduces the US bilateral trade deficit with China, it will not change the overall US trade deficit.

Second, on the whole, in the short term, the impact of the Sino-US trade

dispute on the Chinese economy is relatively limited. Even if the United States imposes a 25% tariff on all Chinese exports starting from 2019, the total amount of tariffs is less than 1% of China's GDP, so the macro impact is limited — except for some industries and enterprises whose exports are US-oriented. For these, the impact will be bigger.

The biggest impact will be a rattling of market confidence, leading to a downward trend in capital markets and corporations' willingness to invest. Long-term trade disputes will affect the speed of China's technological progress, which is something more worthy of attention [than some of the other issues being raised].

So what should we do? In the short term, we need to change the fiscal and monetary policies that have been overly tightened in recent years, resulting in a more rigid regulatory environment. This is not meant to spoil companies but to alleviate their burden. At the same time, seizing the Sino-US trade dispute as an

opportunity, we should spare no effort in exercising our capabilities, focusing on our own interests, and continue to expand reform and opening up.

In the long run, investment, education and technological advancement will remain the main drivers of China's economic growth. China has a high savings rate, and the quality of basic education is good. There is still much room for improvement in technology. Therefore, the fundamentals of the Chinese economy are very good. Based on past experience of other countries and regions in East Asia, the Chinese economy is capable of maintaining a medium- to high-speed growth rate of 7% to 8% in the next decade.

However, to realise this potential, in the words of renowned economist Professor Wu Jinglian, it is necessary to return to the decision of the Third Plenary Session of the 18th CPC Central Committee to comprehensively build a market economy and a system of rule of law. If so, the prospects for the Chinese economy are still bright.