



Four New Trends of China's Economic Developments in 2017

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China's economy has been growing steadily since 2016, with an emerging "L-shaped" pattern. Although considerable headwinds remain, structural upgrade has become a major growth driver. While China's economy is likely to largely maintain the current trajectory, there will be a number of new features.

Consolidation of the "L-shaped" pattern

Recently, stabilization has been the most eye-catching feature of China's economy. Growth for last year came in at 6.7%, lower than the 6.9% pace in 2015. Nevertheless, GDP had grown at 6.7 for three quarters in a row before expanding by 6.8% in the fourth quarter, reversing the downward trend since 2010. This emerging "L-shaped" pattern is an important threshold. After three decades of breakneck pace of growth and following a few years of adjustment, China's economy has entered a new phase where growth stabilizes at a medium-to-high level.

In contrast to the outsized role of an investment surge in driving growth immediately following the financial crisis, the key to "L-shaped" growth has been structural reform and upgrade. Structural upgrade includes supply and demand, both of which have made significant progress in recent years.

On the demand side, strong consumption has been a key driver of "L-shaped" growth. Last year, quarterly nominal growth of retail sales gradually strengthened. As services consumption also impressed and new consumption patterns emerged, the contribution of final consumption to economic growth reached 64.6%, 4.9 percentage points than that in 2015 and far higher than the average of 51.1% between 2008 and 2014. The stabilization of consumption is estimated to have resulted in a 0.3 percentage-point acceleration in China's GDP growth. The strong performance of over 1.3 billion consumers has become a main engine of economic growth and a bright spot of China's economic prospects.

Looking ahead, the "L-shaped" pattern will further consolidate in 2017 largely due to the contribution of consumption to growth stabilization. The consumer goods market is firmly trending upwards. According to the National Bureau of Statistics, retail sales grew 10.8% in November and

10.9% in December, reaching new heights in the year for two consecutive months. As online sales continued to expand by over 25%, traditional retail outlets such as supermarkets and department stores have also bottomed and begun to rebound. Growth of consumption of higher-end goods such as telecommunications, sporting goods, SUV's, and new energy ranged from 12% to 84%. These tailwinds will continue to propel the growth of the consumer goods market.

In the meantime, the potential of services consumption is being unleashed. The “five happiness industries” of tourism, culture, sports, health, and elderly care are fast becoming new consumption hot spots. In particular, nation-wide income from tourism surged 13.6% to 4.7 trillion Yuan, faster than the 11% growth in 2015. According to the World Tourism Organization, in 2016, the contribution of the tourism industry to the Chinese economy reached 11%, while its contribution to employment came in at over 10.3%. During the Chinese New Year of 2017, the number of tourists totaled 344 million, as income rose 15.9% from the same period a year ago. This year, the contribution of tourism to the Chinese economy will probably be even greater.

It should be noted that China's household income is also firmly on the rise. Last year, disposable household income increased 8.4% in nominal terms and 6.3% after adjusted for inflation, largely in line with GDP growth. Rising income lays a strong foundation for growth stabilization, consolidating the “L-shaped” pattern. Retail sales will likely grow by over 10.5% in 2017, while the contribution of final sales to economic growth will be about 65%. GDP growth will come in between 6.5% and 7.0%, within the target range of the thirteenth five-year plan.

Faster growth of the new economy

On the supply side, the rapid rise of the new economy has driven structural transition and upgrade, providing “L-shaped” growth with key momentum. The rapid growth of new industries has become a hallmark of the rise of the new economy. In particular, high-tech industries and equipment manufacturing are accelerating, growing at 10.8% and 9.5% in 2016, 0.6 and 2.7 percentage points faster than in 2015, respectively. The output of these industries already accounts for 45% of industrial production. Meanwhile, strategic emerging industries are also growing strongly, rising 10.5% in 2016, 45% faster than overall industrial production and accounting for over 20% of its growth.

In the meantime, online sales kept soaring. The emergence of new business models such as ride sharing, online education, online healthcare, bike sharing have penetrated into the areas of transport, logistics, and housekeeping. Innovation in the services industry has helped ensure its outperformance over agriculture and manufacturing. In 2016, the tertiary industry accounted for 58.2% of GDP growth, 5.3 percentage points greater than its contribution in 2015. The share of services as a percentage of GDP reached 51.6%, 1.4 percentage points greater than the level in 2015, consolidating

the structure of a services-led economy.

The robust growth of China's new economy is not only thanks to innovation and technological advances but is also a result of deepening supply side reforms. China has launched a series of measures to support the new economy. The thirteenth five-year plan prioritized a number of strategic emerging industries including new-generation information technology, high-end manufacturing, biotechnology, low carbon, and digital creative. The market size of these five new pillars can amount to tens of trillions of Yuan each. With abundant funding, new clusters of strategic emerging industries will be established to achieve breakthroughs in innovation capabilities. The growth of the new economy will likely accelerate in 2017 and account for more than half of China's growth momentum in the next five years.

Improvement of sluggish investment

Current economic headwinds mainly come from sluggish investment. Last year, nominal fixed asset investment grew 8.1%, 1.9 percentage points slower than the pace in 2015. Private investment, accounting for 60% of total investment, grew only 3.2%, 7.5 percentage points weaker than in 2015. Meanwhile, growth of manufacturing investment also slowed to 4.2%, 3.9 percentage points lower than in 2015. By contrast, infrastructure investment maintained strong growth and accounted for almost 40% of increases in total investment. Moreover, real estate development also accelerated as sales picked up pace. These mitigating factors helped ease the pressure of slowing investment, which, nonetheless, still dragged down GDP growth by 0.5 percentage points.

However, investment has stabilized since September. Growth of private investment rose from 2.1% from January to August to 5.4% from September to December. Manufacturing investment also ended a 15-month slowdown, with its growth accelerating from 2.8% in the January to August period to about 7% from September to December. The momentum of investment growth has strengthened, while the structure of investment is being further optimized.

In 2017, sluggish investment will keep improving. On the national level, infrastructure investment growth will continue to speed up, rising from 19.9% in 2016 to about 21% in 2017. The rapid development of the new economy will also stimulate investment, especially in high tech industries and services. On the provincial level, so far, 23 provinces have announced their investment targets for 2017, summing up to 45 trillion Yuan in spending. Investment is likely to grow above 8% this year.

Mounting challenges of trade barriers

Weak international trade has been another source of headwinds in recent years. In 2016, exports

declined by 2% in RMB terms and 7.7% in dollar terms due to a lack of demand, prevalent trade protectionism, and the ongoing transition of China's trade sector. For instance, on the matter of trade protectionism, according to the UK's Centre for Economic Policy Research, the number of trade protectionism measures rose 50% in 2015. This trend only worsened in 2016, erecting barriers to Chinese exports.

The biggest risk in 2017 is possibility of U.S President Trump actively pursuing protectionist policies, which will create a lot of uncertainties even if carried out under the current multilateral framework. In recent years, the U.S. filed a large number of cases against China for alleged trade subsidies. According to the WTO, from 2008 to 2016, non-tariff barriers initiated by the U.S. amounted to 2259 items, 2067 of which impacted China and 99 of which targeted China specifically. Even though Trump may refrain from imposing a 45% tariff against Chinese goods, trade disputes may continue to increase and could even lead to some form of trade war. For the time being, the U.S. is China's largest export destination with a share of 18.4%. Including re-exports via Hong Kong, the share of the U.S. exceeds 20%. Therefore, Trump's protectionist inclination will be the biggest risk factor for China's international trade sector. Meanwhile, Brexit and the uncertain prospects of the EU may also undermine Chinese trade.

However, the global economy is slowly recovering, and external demand is gradually firming. In the fourth quarter of last year, China's leading indicator of exports rose for three consecutive months, signaling improving performance in the first quarter of this year. China's external trade started the year with a bang, surging 15.9% in January compared with the same period last year. In the meantime, the positive impact of the one belt one road strategy has begun to emerge, as China's exports to Pakistan, Russia, Poland, Bangladesh, and India rising between 6.5% and 14.1%. Therefore, although Chinese exports are unlikely to improve dramatically in 2017, a rebound to positive growth is well within reach.

While the stabilization of the Chinese economy has formed an L-shaped pattern, it should be noted that there are still a lot of uncertainties. Externally, the global recovery remains rather tepid, and international trade continues to lag behind global GDP. Domestically, the Chinese economy is in a critical juncture of structural upgrade, and traditional industries may have to undergo painful adjustments. The real economy remains under pressure, as debt burden and financial risks must be addressed. In order to ensure steady growth, the government will likely pursue active fiscal policy to support infrastructure investment and strategic emerging industries, while neutral yet prudent monetary policy will maintain market liquidity. With this policy combination, GDP growth will meet the target of the thirteenth five-year plan.

主要經濟指標 (Key Economic Indicators)

	2015	2016	2016/Q3	2016/Q4
一. 本地生產總值 GDP				
總量 (億元) GDP(\$100 Million)	22,464	23,586	6,359	6,769
升幅 (%) Change(%)	2.4	1.9	2.0	3.1
二. 對外貿易 External Trade			2017/1	2017/1
外貿總值 (億元) Total trade(\$100 Million)				
港產品出口 Domestic exports	469	429	32	32
轉口 Re-exports	35,584	35,454	2,931	2,931
總出口 Total exports	36,053	35,882	2,963	2,963
進口 Total imports	40,464	40,084	3,086	3,086
貿易差額 Trade balance	-4,411	-4,201	-123	-123
年增長率 (%) YOY Growth(%)				
港產品出口 Domestic exports	-15.2	-8.5	-5.3	-5.3
轉口 Re-exports	-1.6	-0.4	-1.1	-1.1
總出口 Total exports	-1.8	-0.5	-1.2	-1.2
進口 Imports	-4.1	-0.9	-2.7	-2.7
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	3	2.4	1.3	1.3
四. 樓宇買賣 Sale & Purchase of Building Units			2017/2	2017/1-2
合約宗數 (宗) No. of agreements	76,159	73,004	5,615	10,835
年升幅 (%) Change(%)	-6.5	-4.1	117.4	89.9
五. 勞動就業 Employment			2016/10-2016/12	2016/11-2017/1
失業人數 (萬人) Unemployed(ten thousands)	12.2	12.2	12.2	11.9
失業率 (%) Unemployment rate(%)	3.3	3.3	3.3	3.3
就業不足率 (%) Underemployment rate(%)	1.4	1.4	1.4	1.3
六. 零售市場 Retail Market			2017/1	2017/1
零售額升幅 (%) Change in value of total sales(%)	-3.7	-8.1	-0.9	-0.9
零售量升幅 (%) Change in volume of total sales(%)	-0.3	-7.1	-1.4	-1.4
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	5,931	5,665	548.0	548.0
年升幅 (%) Change(%)	-2.5	-4.5	4.8	4.8
八. 金融市場 Financial Market			2016/12	2017/1
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	775.1	775.6	775.6	775.9
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	15.4	12.3	12.3	8.1
M2	5.5	7.7	7.7	7.9
M3	5.5	7.7	7.7	8
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	6.7	9.1	9.1	8.8
港元存款 In HK\$	10.7	9.4	9.4	12
外幣存款 In foreign currency	3.1	8.8	8.8	6
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.5	6.5	6.5	8.6
當地放款 use in HK	3.5	7.4	7.4	8.8
海外放款 use outside HK	3.6	4.5	4.5	4.5
貿易有關放款 Trade financing	-16.3	0.2	0.2	0
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	21,914	22,000	22,000	23,361