China

No Longer the Global Growth Engine?

Do China's faltering export and consumption figures signal worse things to come?

China's industrial output grew 9.8% in April from a year ago, slower than the 14.1 % surge in March. Retail sales rose 17.7 % year-on-year in April, down from the 34.2% jump seen in March. Fixed asset investment increased 19.9% in the first four months from the same period a year earlier, slowing from January-March's 25.6% increase. What do these faltering numbers mean? Would global supply chain bottlenecks resulting from anti-China US sanctions, barriers against China's ability to produce high-end semiconductor chips, rising anti-China sentiments across the globe, hiking commodity prices, continuing local government debt and aging demographics, all starting to come home to roost?

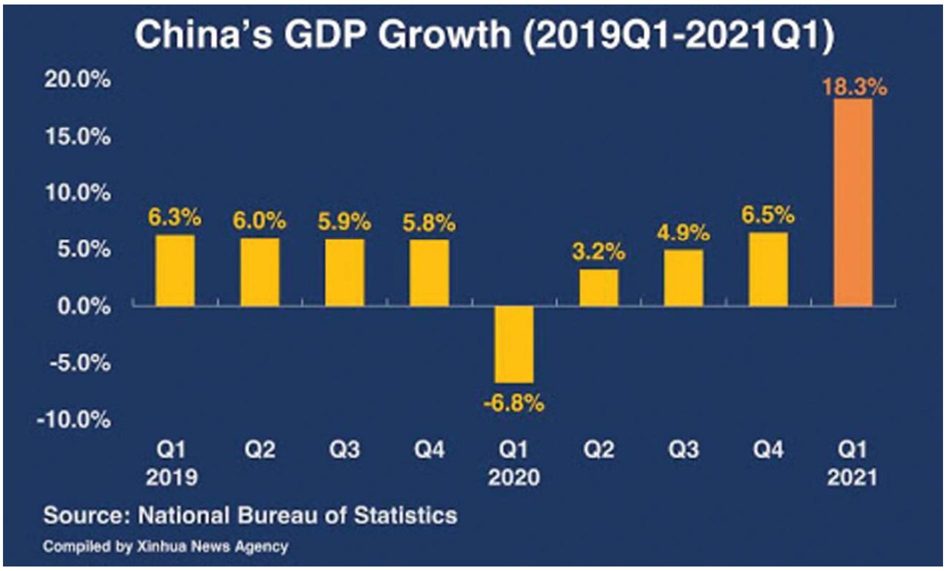
Would China ever become the world's largest economy as predicted by some? Would the so-called China Dream of national renaissance be forlorn? Would these halting numbers be the canary in the coalmine?

Well, not so fast. These "faltering" numbers are still quite substantial. They are largely affected by a higher statistical base in the same month last year.

Pundits tend to be fixated on high growth numbers without putting them in context. As I pointed out in my April, 2021 think-piece in these columns, 10% growth on a 10-dollar economy is nothing. But for massive economies like the US and China, anything over 5% would be respectable, if not enviable.

Reference to commodity prices could be misleading. To upgrade competitiveness, China has been shifting rapidly towards a less energy-intensive economy, particularly services and consumption. Manufacturing accounted for 40% of its GDP in 2015. By 2019, it fell to only 27%.

True, global supply chains have been disrupted, not least by Covid-19 pandemics. With US sanctions, there have been some decoupling from China. Some productions have been shifting to South East Asia and further afield. But few locations, even collectively, can match the cost-effectiveness of China's intricately-linked manufacturing network in scale, expertise, readiness, capacity for compliance with end-user standards, and efficient global logistics. Moreover, many foreign production facilities in China are for the massive domestic Chinese market. Immediately before the pandemics, Nataxis, a French bank, showed that China has been achieving a high level of vertical manufacturing integration with South East Asian economies becoming more dependent on China for intermediate technology compo-



nents. China remains the central economic hub of the Regional Comprehensive Economic Partnership (RCEP), the world's largest trading bloc (even with India opting out). This accounts for 30% of global GDP and is expected to reach half of global GDP by 2050.

Private spending has remained cautious due to pandemic uncertainties. Nevertheless, China's jobless rate is at its lowest since November 2019. The relatively tight labor market supports optimism for consumption recovery. A far important factor is China's vastly expanding middle class, who are embracing e-commerce and e-shopping with a vengeance. Overall, retail sales are expected to increase by 14.4% in 2021.

Debt is truly a problem. Expected economic recovery will improve corporate revenue and ease some debt pressure. Local government debt is being reined in. Much of it is held by state-owned or state-controlled financial institutions. Private household debt, albeit rising, is by no means reaching Western levels. Credit cards are still struggling to overcome conservative spending habits, while individual housing debts remain moderate due to regulatory caution on required equity levels and banking oversight. Moreover, China is wary of bubble effects of stimulus measures, which are applied more sparingly.

Within China, men currently can retire at 60, and female factory workers as early as 50. Female public-sector and white-collar workers can retire at 55. Easing the retirement age is on the cards. However, while the 'One Child Policy' has been virtually abandoned, young Chinese remain wary of the uncertain financial burden of going beyond the first child. The *hukou* household registration system is being relaxed to turn more migrant workers into full-fledged citizens. To overcome worsening demographics, China's technological upgrading is timely. Robotic manufacturing and automation are commonplace. To grow its economy of the future, China is betting on productivity increases, not on labor supply.

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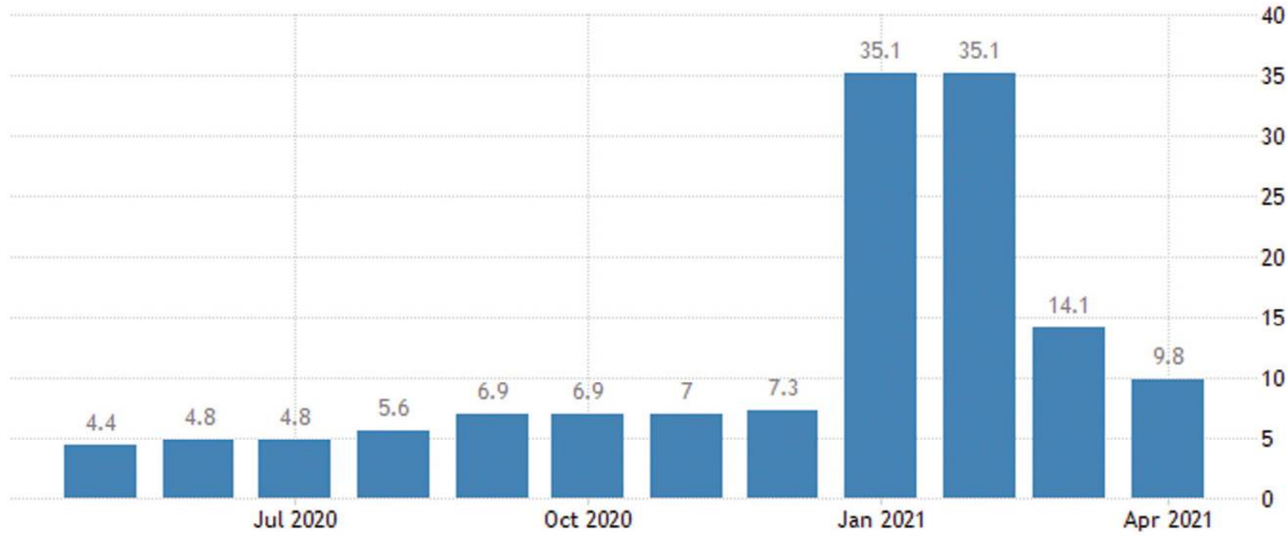
To propel productivity, China's innovation is driven by its massive technological manpower. As of 2018, there were 45 million university graduates. 8-9 million more are added every year, more than the US and India combined. More than 40% of them are in Science, Technology, Engineering and Mathematics (STEM). China ranks second only to the US in scientific publications. Its universities are climbing up global ratings. While still struggling to catch up on high-end semiconductor chips, China is leapfrogging in 5G, Artificial Intelligence (AI). Big Data, Internet of Things (IoT), quantum computing, biotechnology, and space exploration. China has successfully landed a robotic probe on mars, the second country to do so.

The last thing to worry about is China's fixed asset investment. Under a "2035 Vision", China will nearly double its impressive 36,000-km high-speed rail network, accounting for two-thirds of the global total, to 70,000 km over the next 15 years. This is designed to link up all cities over half a million people, while an additional 200,000 km of modern railway would connect all towns of 200,000 people and above. Even the remotest parts of the country are to be connected. As a result, the urbanization rate is expected to be increased from 60.6% in 2019 to 65%, doubling China's consumer middle class to 800 million by 2035.

Part and parcel of the China Dream is a fairer, greener, and more "democratic" nation by 2050. Under the tutelage of the Chinese Communist Party (CCP), China has lifted 800 million of its people out of poverty representing more than 60% of global poverty reduction. Recently, a last-ditch campaign lifted the remainder out of poverty, us-

The China Shift
The Transition Towards Less Energy-Intensive Economy



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ing the guiding poverty line of $2.30 a day, more generous than the World Bank's threshold of $1.90. Universal compulsory schooling is now matching average high-income countries. There is almost universal access to electricity and safe drinking water. Child mortality rate has plummeted, according to the United Nations.

According to a Harvard Kennedy School Ash Center Report of July, 2020, thanks to its remarkable track record of dramatically improving people's lives over the years, the CCP government has been enjoying an extremely high level of support by its people, multiple ranks above the US. Indeed, if democracy is to deliver the greatest good for most of the people, China doesn't have to stick to "America's one-taste-fits-all Coca Cola formula", as China's Foreign Minister Wang Yi has quipped.

China is not exporting communism or bent on changing other countries' regimes. While aware of its out-sized gravitas, China does not possess the US' global heft of military dominance and global reach, dollar supremacy, technological leadership, and soft power appeal. Indeed, even when China becomes the largest economy in the world, its GDP per capita will remain a fraction of the US'. China is unable to and doesn't seek hegemony but is vigorously promoting multilateralism and a global "Community of Common Destiny".

China is the largest trading partner of 124 nations worldwide, compared with 54 for the US. Despite headwinds and negative blow-back, China's 'Belt and Road Initiative' has embraced 160 countries and international organizations, filling a yawning gap for much-needed infrastructural connectivity and capacity building investments.

The old hat of 'allies' no long works for a much interconnected and interdependent world. While many have become warier of a rising China, most of America's so-called anti-China allies are at best hedging their bets, if not downright divergent from its sinophobic rhetoric.

The UK-based Centre for Economics and Business Research (CEBR) forecasts that following earlier recovery from the pandemics, the Chinese economy would grow by 5.7% annually until 2025, and 4.5% annually from 2026-2030. While its GDP per capita would still remain a fraction of the US', with four times the population, China's economy would become the world's largest by 2028, five years earlier than formerly expected.

The Center also predicts that India would overtake Japan to become the third largest economy by 2030. If so, the world is going back to the future, an 'Asian Future', according to Parag Khanna, as both China and India had been the world's largest economies for millennia until the 1800s. ■

Reference # 20M-2021-06-17-01