

China's Macro-economy and Policies under the Sino-US Trade Disputes

Wang Yuanhong

Deputy Director

Economic Forecast Department of State Information Center

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I. External economic environment clearly tightening

The world today is undergoing major changes unseen in a century. The intensification of the game among major powers, the spread of protectionism and the suppression on and containment of China by the U.S. have brought about impacts on China's economy in various aspects.

The suppression and containment by the U.S. is the biggest external uncertainty affecting China's economic development, which not only has a direct impact on China's foreign trade, foreign investment and financial market, but also brings a wider shock on China's supply chain, industrial chain and innovation chain.

I. External economic environment clearly tightening

1. Global economic and trade has continued to recover on the whole, but the momentum of recovery has weakened and the pace of growth has slowed down
2. Short-term economic sentiment indicators in major economies have continued to decline, the inner drive for growth is insufficient, and monetary policy has begun to shift
3. The global multilateral system is facing challenges, and the status and role of the WTO have been seriously weakened

I. External economic environment clearly tightening

4. Geopolitical uncertainties are on the rise

5. Risk aversion in the global financial market has increased with major stock markets, bond markets, commodity markets and financial derivatives markets experiencing sharp fluctuations

Main reasons for Sino-US economic and trade friction

- The difference in statistical caliber leads to the overestimation of the U.S. trade deficit
- An inevitable result from insufficient investment in the U.S. domestic savings
- An objective reflection of the complementation of advantages between Chinese and American industries
- China takes in trade surplus due to the shift in international division of labor
- Export control against China has exacerbated the bilateral trade imbalance
- An inevitable consequence due to dollar being an international reserve currency

The difference in statistical caliber leads to the overestimation of the U.S. trade deficit

- According to the US statistical method, the added value incurred during the export of goods from China to the United States through transit economies is calculated as the Chinese surplus. For the processing trade export to the US, Chinese companies are usually only responsible for production, and do not control the design, transportation, sales and other links. The US import declaration price is higher than the Chinese export declaration price, which in turn pushes up the Chinese surplus. If calculated by allocating the added value of trade through the global value chain, the US-China trade deficit will be much lower.
- The US statistical method relatively overestimates the trade deficit between China and the United States. The statistical difference between China and the United States have existed for a long time, and the difference is large. In 2017, China's statistics showed a surplus with US of US\$275.8 billion while the US statistics showed a deficit with China of almost US\$395.8 billion, a difference around US\$100 billion. A statistical working group composed of relevant experts from the China Ministry of Commerce and the US Department of Commerce conducts a comparative study on the difference in trade statistics between China and the United States every year. According to the calculation of the working group, the US trade deficit calculated by the country with China is overestimated by about 20% every year. The reasons for the difference include the difference between the import price and the export price, the value-adding of transit trade, the direct trade mark-up, the geographical jurisdiction, the transportation time lag, etc.

An inevitable result from insufficient investment in the U.S. domestic savings

- From the perspective of national economic accounting, whether a country's current account is in surplus or deficit depends on the relationship between savings and investment in the country. The typical characteristics of the US economy are low savings and high consumption with savings below investment on a long-time basis. In the first quarter of 2018, the US net national savings rate was only 1.8%. In order to balance the domestic economy, the United States has to make extensive use of foreign savings through trade deficit. This is the root cause of the long-standing existence of the US trade deficit. The United States has generally gone in trade deficit since 1971, and it had trade deficit with 102 countries in 2017. The US trade deficit is an endogenous, structural, and sustained economic phenomenon. The current US trade deficit with China is only a staged and country-specific reflection of the US's global trade deficit.

An objective reflection of the complementation of advantages between Chinese and American industries

- From the perspective of bilateral trade structure, China's trade surplus mainly comes from labor-intensive products and finished products, while having deficit in the fields of capital and technology-intensive products such as airplanes, integrated circuits and automobiles as well as agricultural products. In 2017, China's trade deficit with the United States in agricultural products was US\$16.4 billion, accounting for 33% of China's total trade deficit in agricultural products; our aircraft trade deficit was US\$12.75 billion, accounting for 60% of China's total aircraft trade deficit; and the automobile trade deficit was US\$11.7 billion. Therefore, the imbalance of Sino-US trade in goods is the result of independent market choices in the context of the two countries giving full play to their respective industrial advantages.

China takes in trade surplus due to the shift in international division of labor

- With the further development of global value chain and international division of labor, multinational companies have taken advantage of China's low production costs, strong production supporting capacity and good infrastructure conditions to invest and open factories in China. They manufacture and assemble products in China and sell to global markets including the United States. From the perspective of traders, according to China Customs statistics, 59% of China's trade surplus with US in goods in 2017 came from foreign-invested enterprises. As China takes in international industrial transfer and integrates into the Asia-Pacific production network, China has largely taken over the trade surplus that used to be taken by other East Asian economies such as Japan and South Korea. According to the statistics from the US Department of Commerce's Bureau of Economic Analysis, the proportion contributed by East Asian economies such as Japan and South Korea in the total US deficit decreased from 53.3% in 1990 to 11% in 2017 while the proportion of China's trade surplus with the US increased from 9.4% to 46.3% during the same period.

Export control against China has exacerbated the bilateral trade imbalance

- The United States has a huge competitive advantage in the trade of high-tech products. However, the US government has imposed strict export controls on China based on the Cold War mentality and suppressed the export potential of US superior products to China, causing US companies to lose a large number of export opportunities to China and increasing the deficit in trade of goods. According to the April 2017 report by the Carnegie Endowment for International Peace, if the United States export control on China is relaxed to the level on Brazil, the US trade deficit with China can be reduced by 24%; if relaxed to the level on France, the US trade deficit with China can be reduced by 35%. It is thus clear that the potential of US export of high-tech products to China is far from being fully realized. It's not that the US cannot reduce its trade deficit with China, the US just has closed the door to more export to China.

美元作为国际储备货币必然的结果

- After the end of the Second World War, the Bretton Woods system centered on the US dollar was established. On the one hand, the United States used the "arbitrary privilege" of the US dollar to impose a "coinage tax" on countries around the world. The cost of printing a hundred dollar bill in the United States is just a few cents. But other countries must provide tangible goods and services worth \$100 to get this bill. On the other hand, the US dollar as a major international currency needs to assume the ability to provide liquidity for international trade, and the United States constantly outpours dollars through deficits. Behind the US trade deficit are its profound interest and the fact of the international monetary system.

II. Maintain domestic economy in a reasonable range

- Keep the economy running within a proper range
- Employment situation generally stable
- **Price level below the expected target**
- Slowdown in import and export growth

II. Increased downward pressure on the domestic economy

- Continued progress made in structural adjustment
- Innovation, entrepreneurship and creation been deepened
- The effect of tax cuts and fee reductions gradually becoming apparent
- Steady growth of monetary credit

III. Outlook of the direction of macro-economic policies

- Performing economic tasks well in the second half is of great significance. We must adhere to the general tone of making steady progress, resolutely carry out the supply-side structural reform, firmly follow the new development concept, promote high-quality development, and persist in promoting reform and opening up. We must adhere to overall principle that macro policies should be stable, micro policies should be flexible and social policies should help maintain a solid foundation for social development. We must keep in mind both the domestic and international situations and coordinate various tasks including stabilizing growth, promoting reform, restructuring, benefiting the people, preventing risks, and ensuring stability to promote sustained and healthy economic development. We must implement a proactive fiscal policy and a prudent monetary policy. The fiscal policy should be strengthened to improve efficiency and policy of reducing tax and fee should be further implemented. The monetary policy should be moderate to maintain reasonable and sufficient liquidity.

III. Outlook of the macro-economic policies

- We must abide by the policy of "consolidation, enhancement, promotion, and unclogging" to deepen the supply-side structural reform and upgrade the industrial base business capacity and industrial chain level. We need to release the potential of domestic demand, expand and widen the final demand, effectively activate the rural market, and apply reforms to expand consumption. we need to stabilize manufacturing investment, implement projects to improve weak links such as renovating old urban areas, building urban parking lots, developing urban and rural cold chain logistics facilities, and accelerate the development of new infrastructure such as information networks. We will deepen institutional reforms, stimulate the vitality and momentum of economic development, accelerate the implementation of major strategies, and enhance the functions of city clusters. We will take concrete measures to support the development of private enterprises and establish a long-term mechanism to solve the problem of delinquency. We will also speed up to shut down "zombie enterprise".

III. Outlook of the macro-economic policies

- Effectively deal with economic and trade frictions and perform the "six stables" well. We must open up further and expedite the implementation of major opening-up initiatives. We will promote financial supply-side structural reform, guide financial institutions to increase medium- and long-term financing for manufacturing and private enterprises, manage risk disposition at a proper pace and with appropriate intensity, and make sure that financial institutions, local governments, and financial regulatory authorities fulfill their responsibilities. The Sci-tech innovation board market should stand fast to its position and implement a registration system with information disclosure as its core to improve the quality of listed companies. We must stick to the principle that houses are for living, not for speculation, to put in place a long-term management mechanism for real estate market, instead of using real estate to stimulate the economy in the short term. We will consolidate and expand the accomplishments of poverty alleviation. We will implement the priority employment policy to help secure jobs for the priority group including college graduates, migrant workers, and ex-service men and women. We need to make sure that market supply and prices are basically stable. We need to attach great importance to safe production and strengthen the prevention and control of natural disasters.

III. Outlook of the macro-economic policies

- First, macroeconomic policies should strengthen counter-cyclical adjustments to ensure that economy runs within a reasonable interval range.
- Strengthen and improve the active fiscal policy, and continue to implement the policy of reducing tax and fee
- Appropriately increase the deficit rate when necessary
- Moderately increase the scale of special bonds at the proper time
- Put in place special bonds to supplement the capital of major projects and appropriately reduce the proportion of capital
- Revitalize the government's stock assets and continue to clear the carryover funds
- Vigorously reduce general expenditures while securing key expenditures such as those for the “three guarantees”
- Strengthen the accountability of local governments for illegal borrowing to prevent and defuse local governments' debt risks
- Further coordinate policies in fiscal, monetary, planning, industrial, regional, social and other areas

III. Outlook of the macro-economic policies

Moderately prudent monetary policy to ensure reasonable and sufficient liquidity

Maintain a reasonable growth in the broad money M2, credit and social financing

Increase the proportion of direct financing, especially equity financing

Unblocking the channel for monetary policy to cascade

Make good use of policies such as differentiated reserve and loan market quoted rate

Increase support for small and medium-sized financial institutions

Keep interest rate and exchange rate basically stable

Make solid progress in financial reform and opening up

Win the uphill battle of preventing and dissolving major financial risks

III. Outlook of the macro-economic policies

Second, social policies should be strengthened to guarantee basic supply

Further implement the priority employment policy to help secure jobs for the priority group including college graduates, migrant workers, and ex-service men and women, and alleviate the structural employment conflicts

The social security policy should be able to provide timely help, improve the overall planning of social insurance and guarantee people's basic needs

Strengthen the development of social security mechanism in an innovative way

III. Outlook of the macro-economic policies

Third, the supply-side structural reform should focus on “consolidation, enhancement, improvement, and unclogging”

Consolidate the achievements made in cutting overcapacity, reducing excess inventory, deleveraging, lowering costs and strengthening areas of weakness

Enhance the vitality of micro entities

Improve the level of industrial chain

Unclog the economic cycle

III. Outlook of the macro-economic policies

Fourth, facilitate to build a strong domestic market

Vigorously and orderly introduce a number of consumption promotion measures

Reasonably expand effective investment

III. Outlook of the macro-economic policies

Fifth, promote coordinated regional development

Implement the overall strategy for regional development

Explore primary drives for high-quality development

Promote development of Yangtze river economic belt

Enhance urbanization

IV. Analysis and outlook of economic situation

Economic growth continues to slow down

Employment pressure becoming more acute

Investment growth remains slow and stable

consumption growth steady but speeding down

IV. Analysis and outlook of economic situation

Export growth slowing down significantly

Industrial recovery lacking momentum

Tertiary industry growth falling back slightly

Modest increase in commodity prices

Thank you

