

CHINA

PRESENTATION TO THE INTERNATIONAL
CONFERENCE OF COMMERCIAL BANK ECONOMISTS

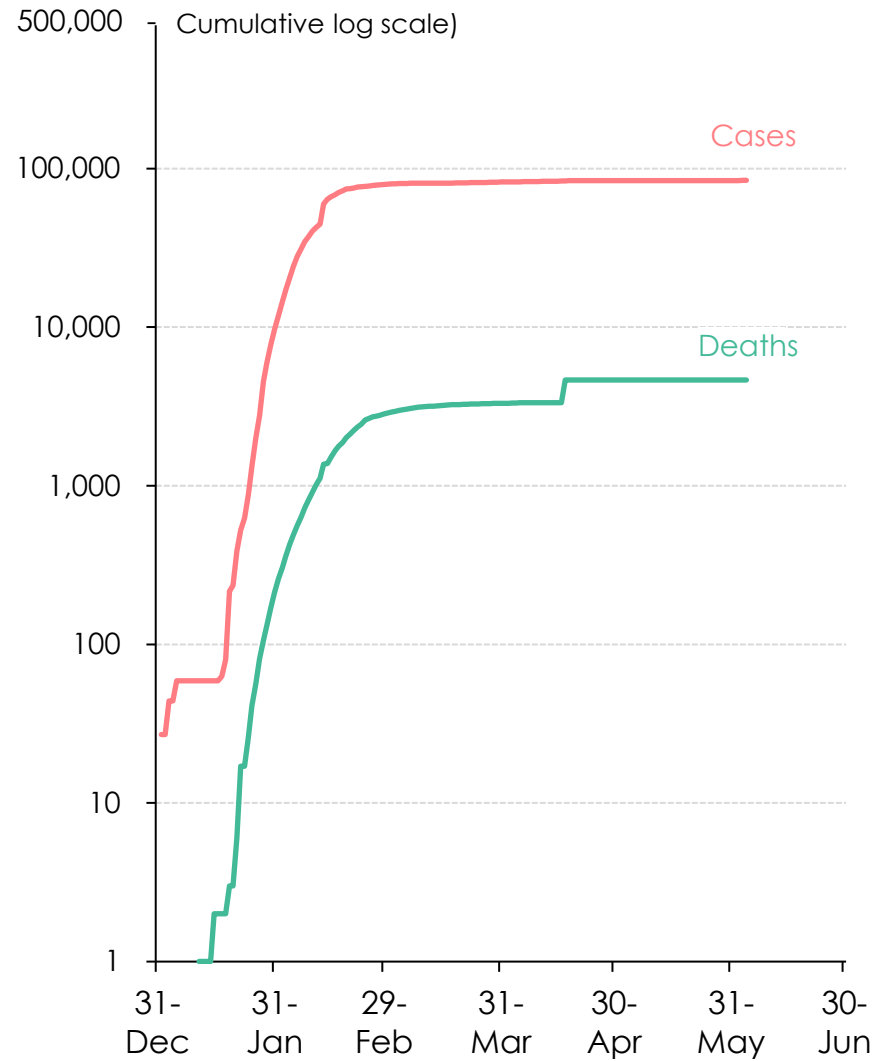
9TH JUNE 2020

SAUL ESLAKE

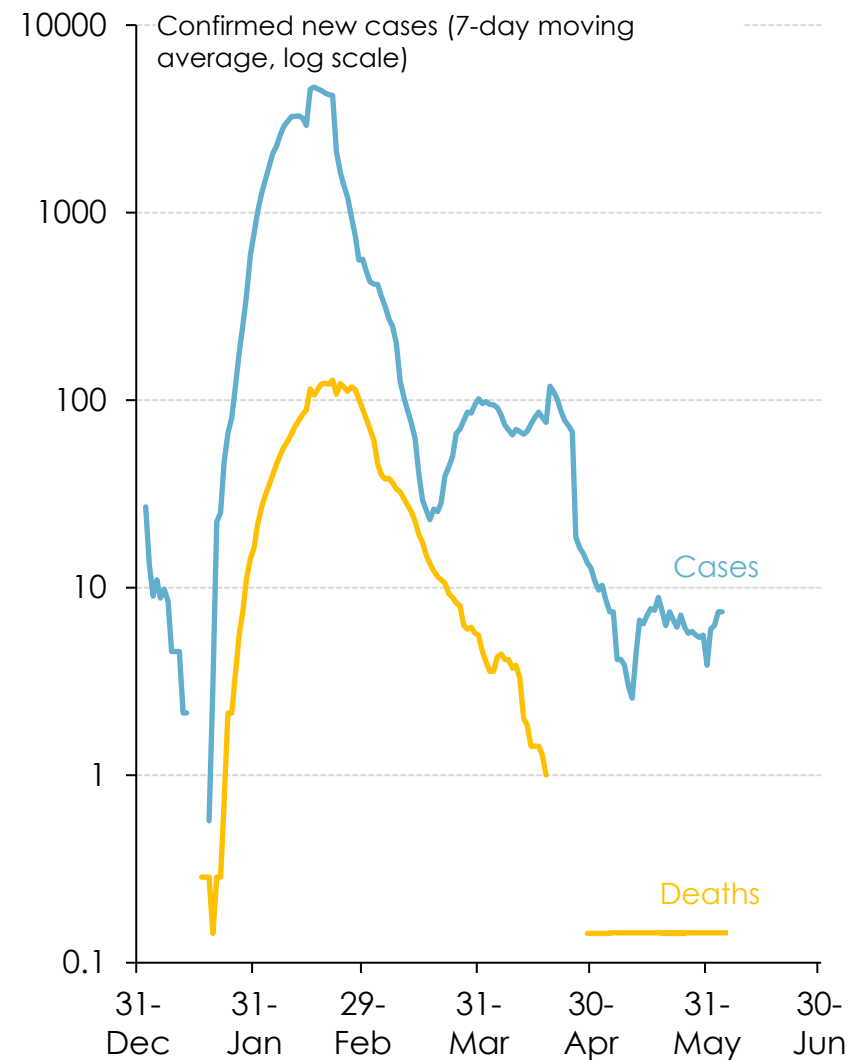
CORINNA ECONOMIC ADVISORY PTY LTD

China claims to have stopped the spread of Covid-19 from mid-March onwards, although it has experienced isolated outbreaks since then

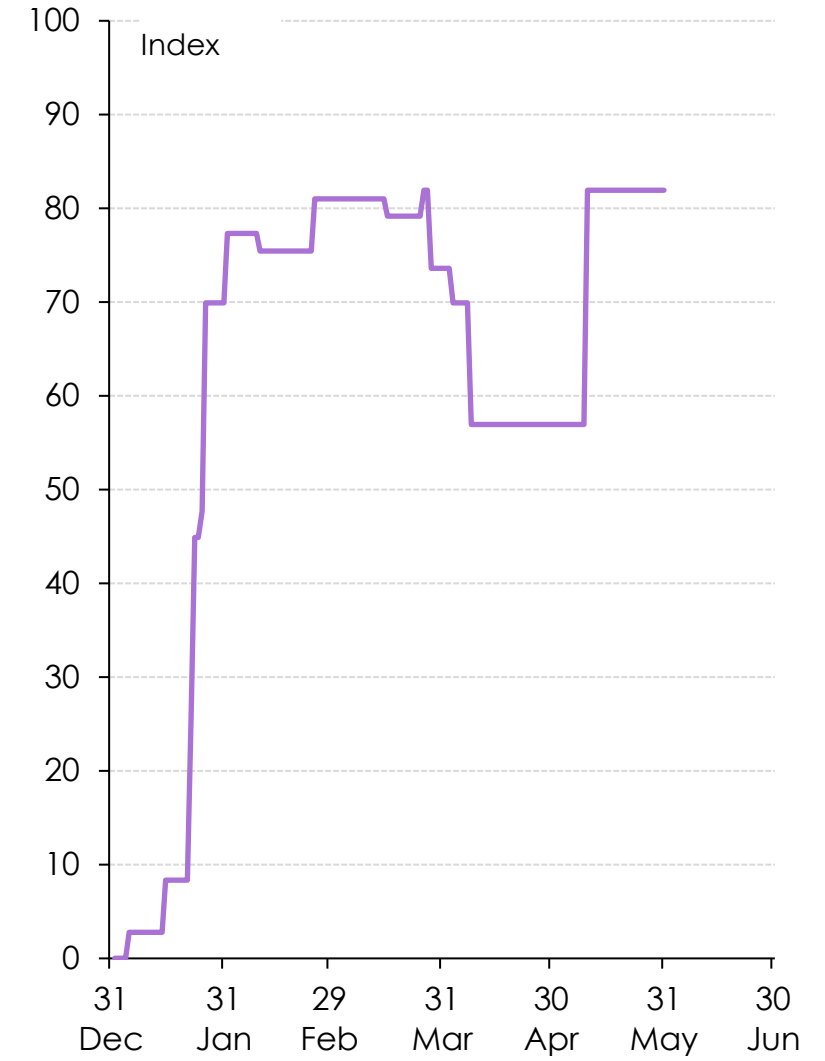
Cumulative cases and deaths



New cases and deaths

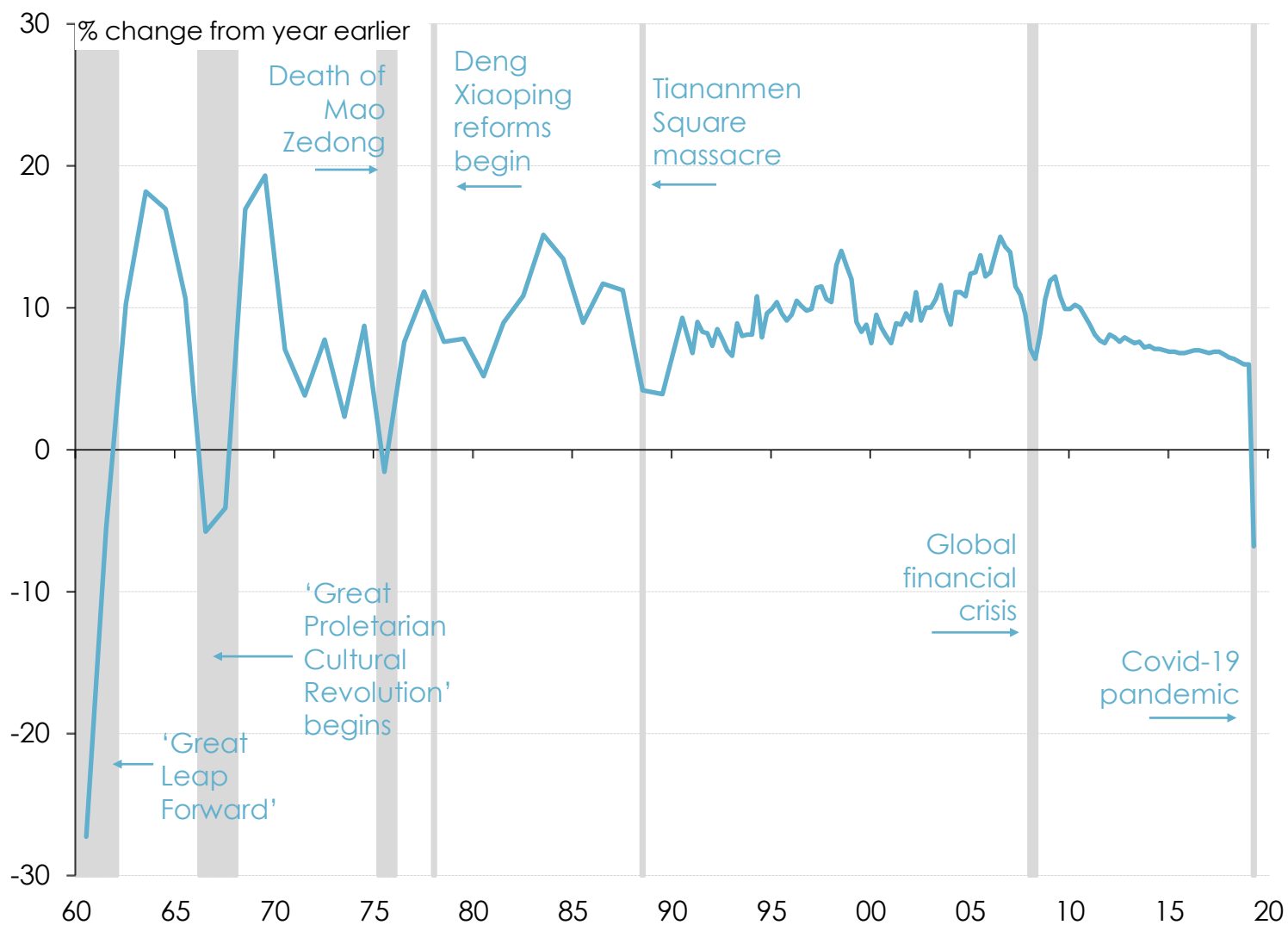


Severity of restrictions

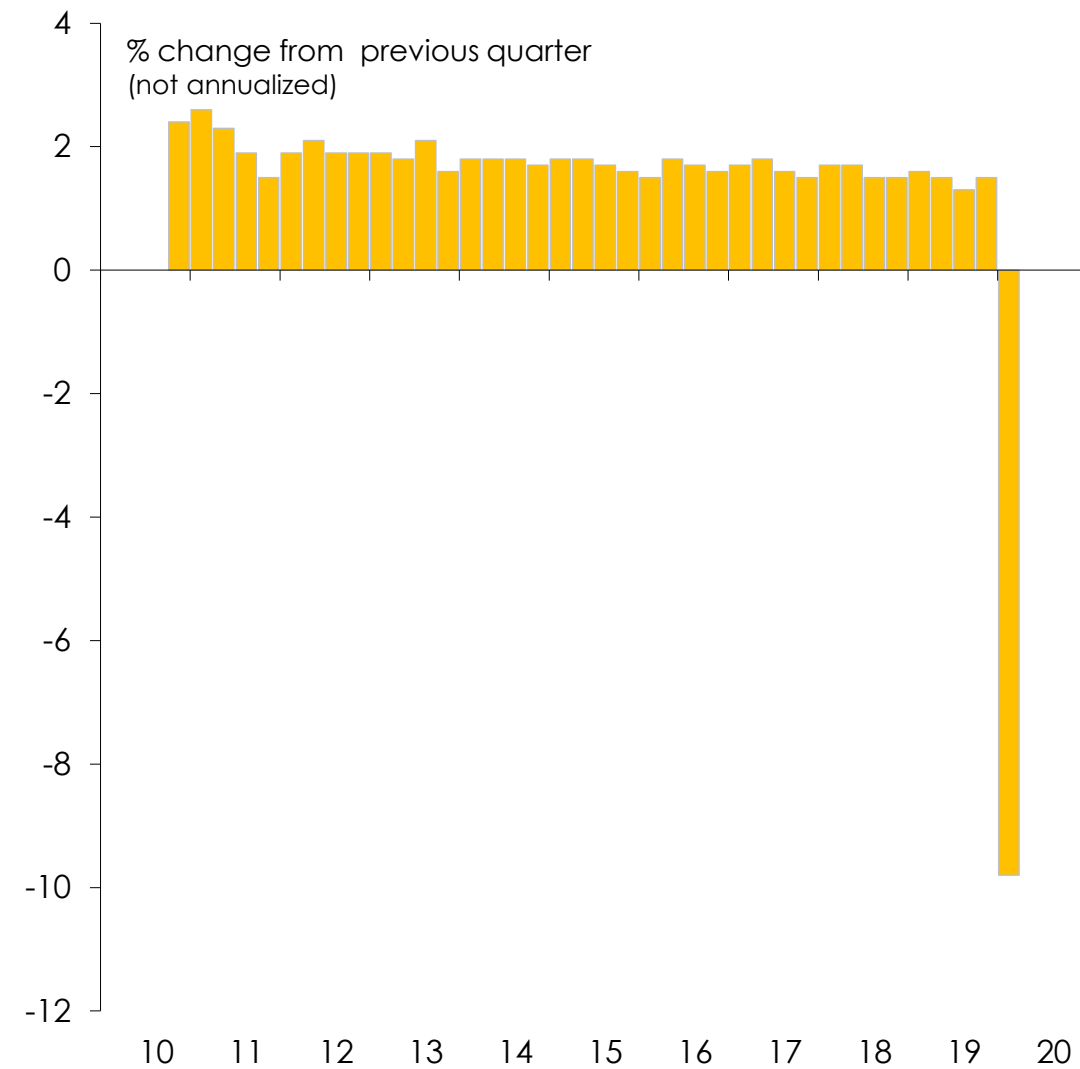


China experienced its sharpest economic downturn in the first quarter of this year since the beginning of the 'Cultural Revolution'

Real GDP growth, from year earlier, 1961-2020



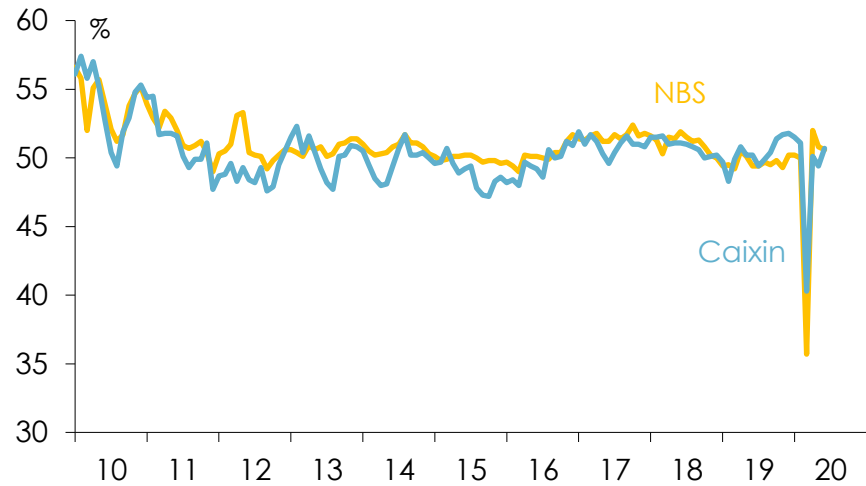
Quarterly real GDP growth, 2010-2020



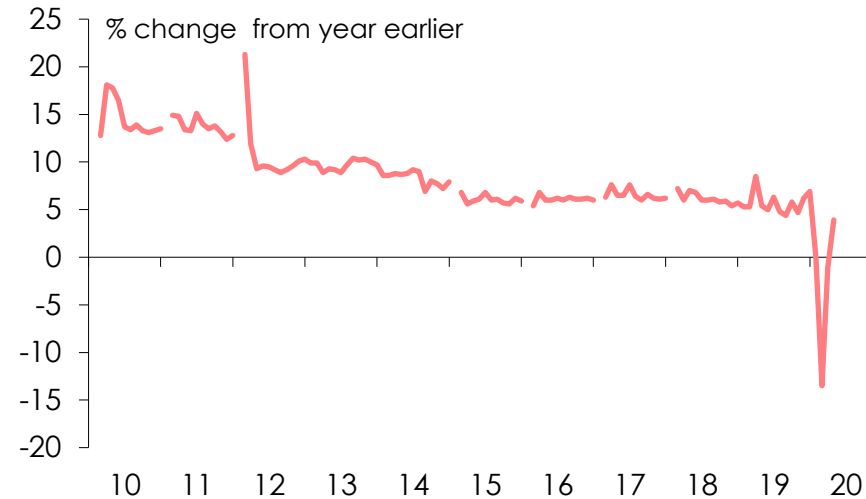
Note: In the left hand chart, GDP growth rates are annual averages up to the December quarter of 1991, and then quarter-on-corresponding-quarter-of-previous-year thereafter. Source: China National Bureau of Statistics.

Production has rebounded in the current quarter, although not yet to pre-pandemic levels

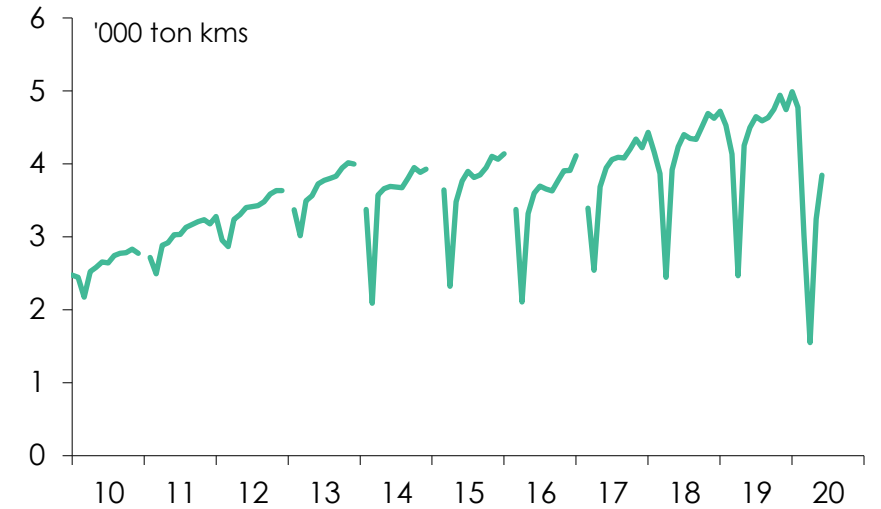
Manufacturing PMIs



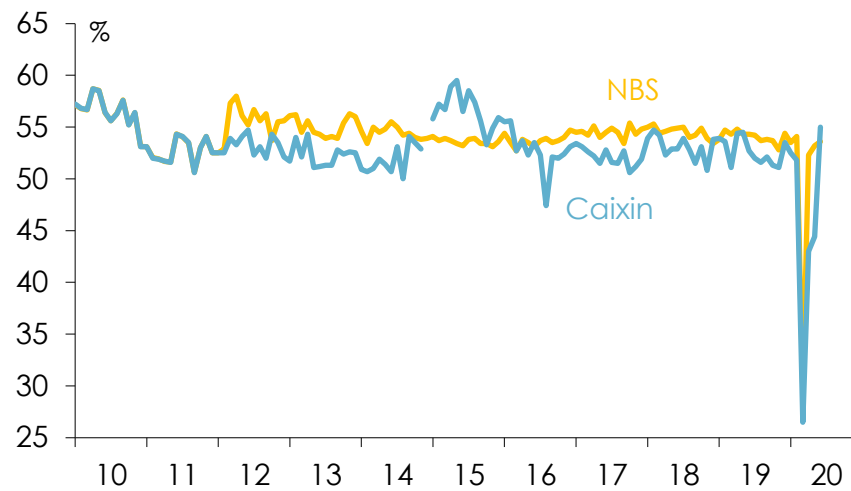
Industrial production



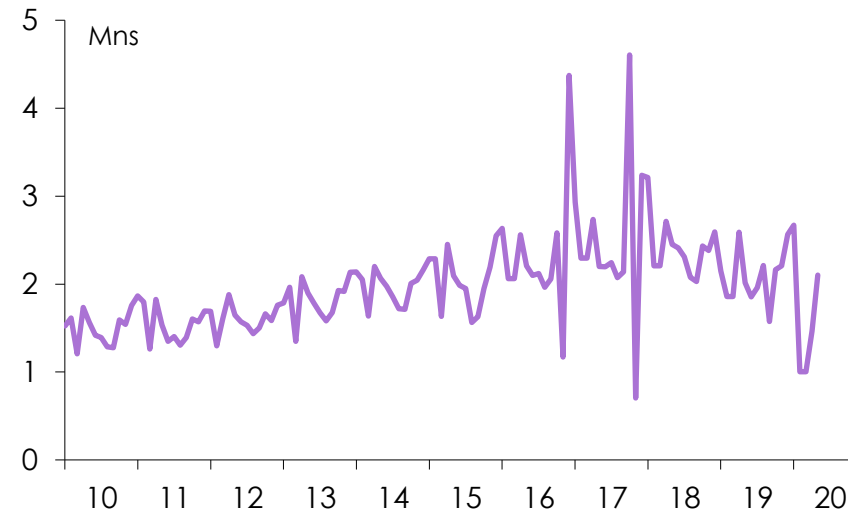
Freight traffic



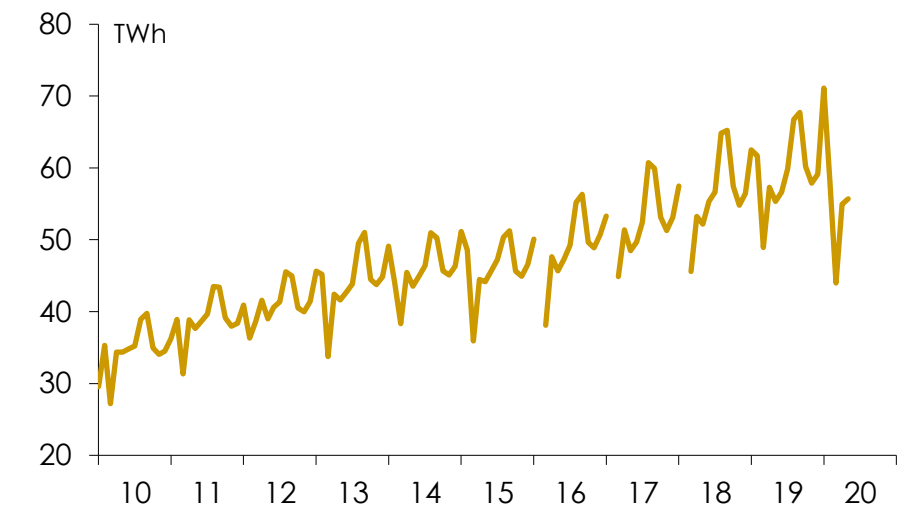
Non-manufacturing PMIs



Motor vehicle production



Primary electricity production



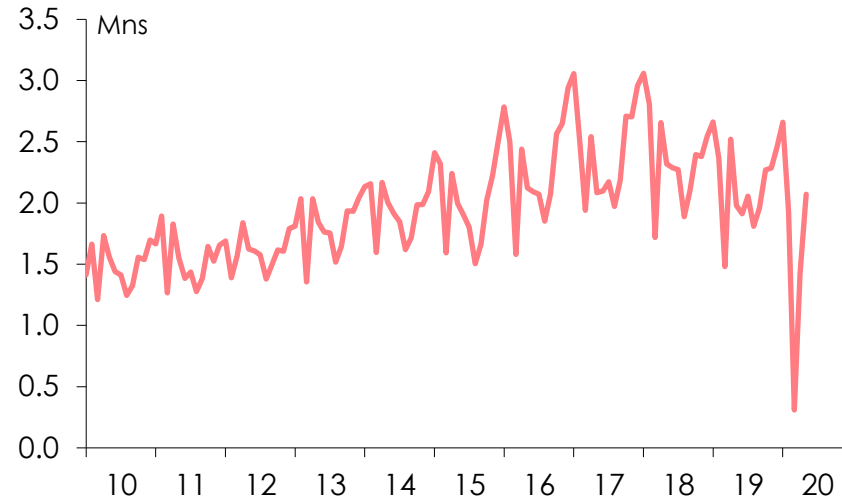
Sources: China National Bureau of Statistics; Caixin; China Association of Automobile Manufacturers.

However the 'demand' side of the Chinese economy – both household and business – still looks soft

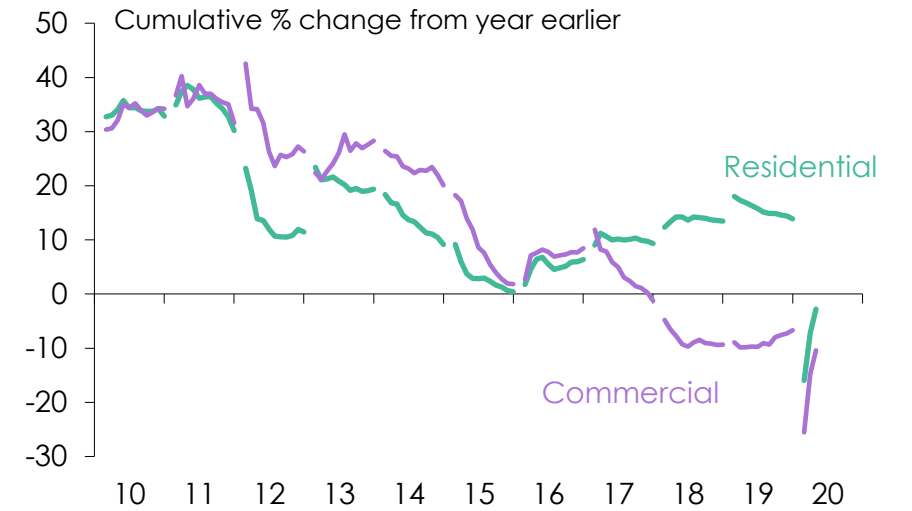
Consumer sentiment



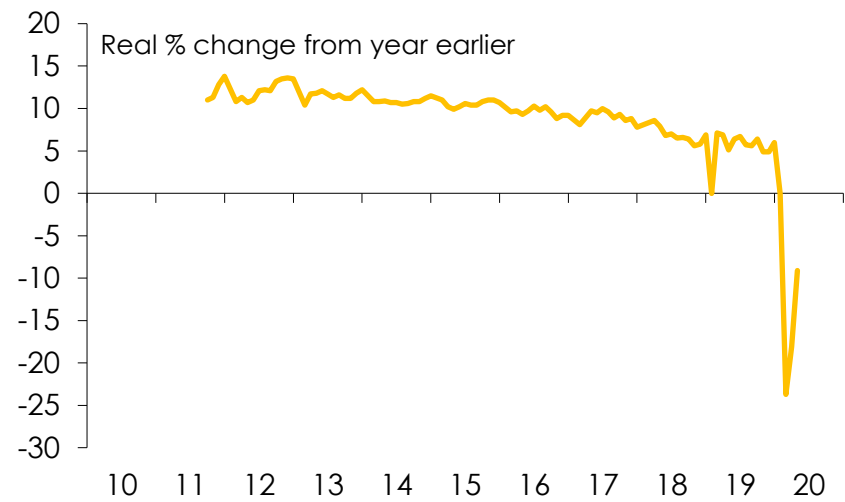
Motor vehicle sales



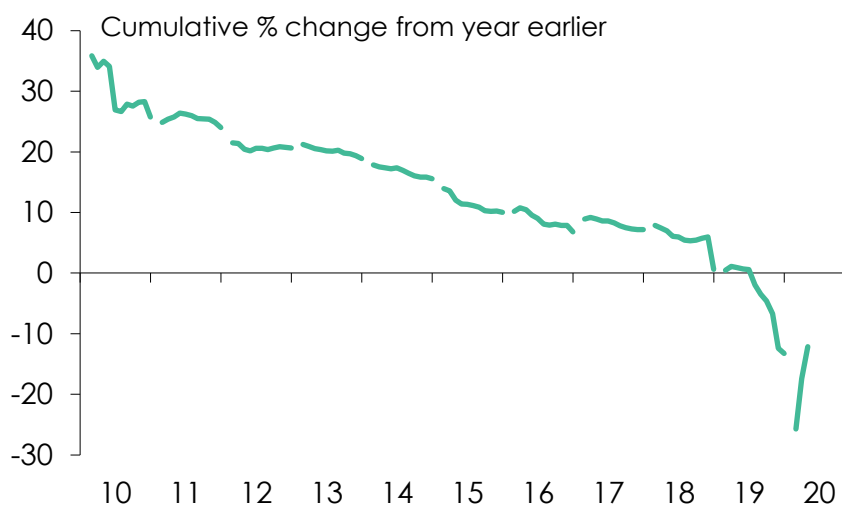
Real estate investment



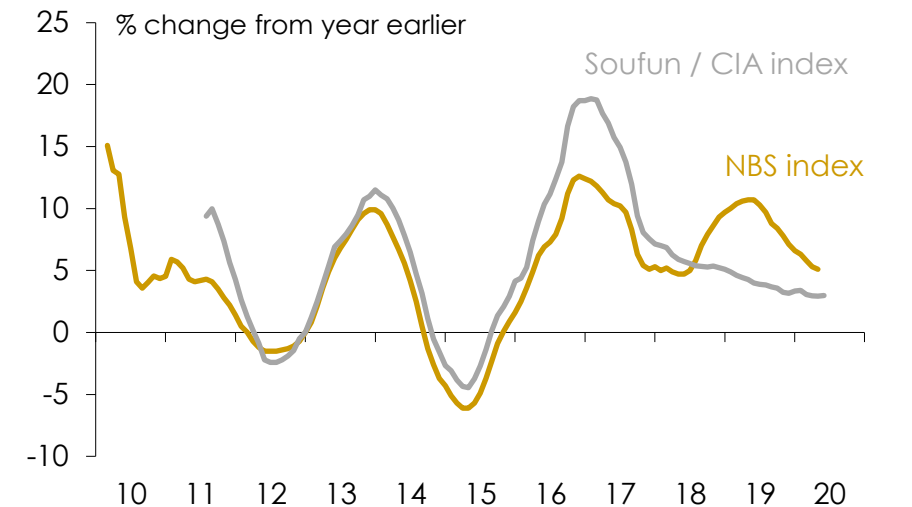
Retail sales volume



Fixed asset investment



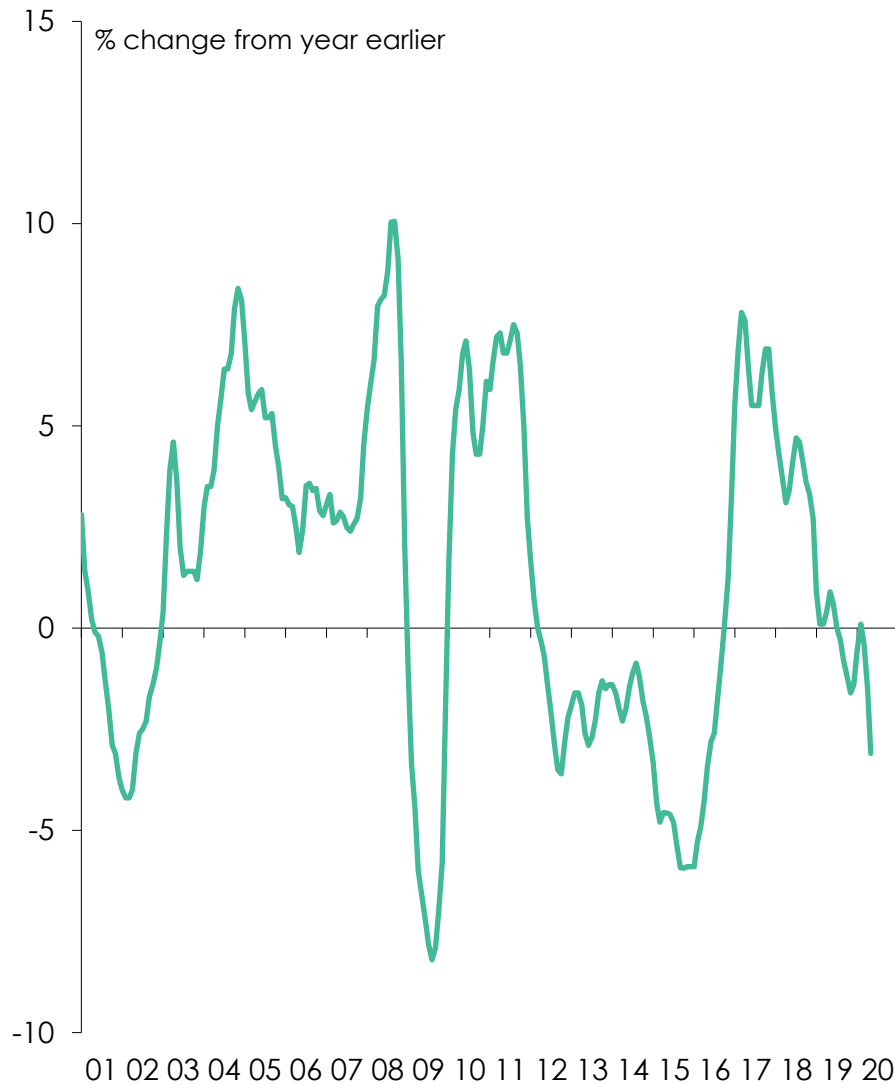
Residential real estate prices



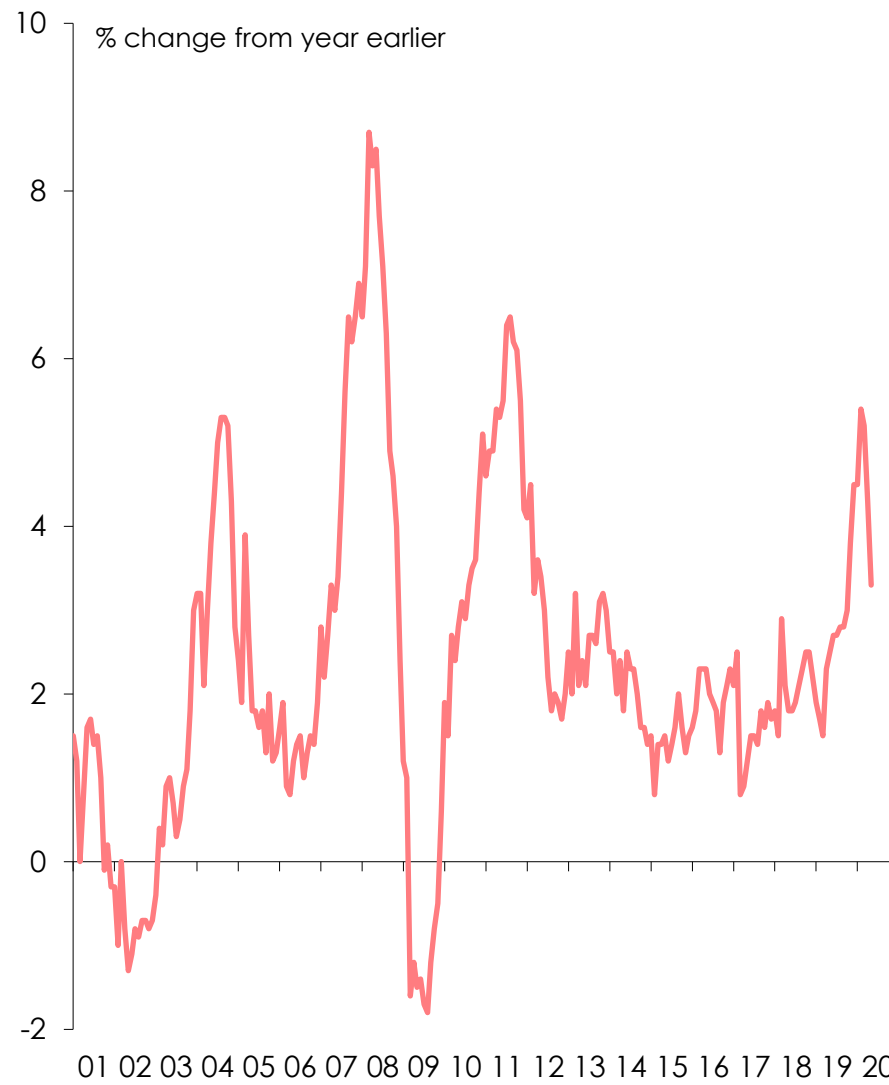
Sources: China National Bureau of Statistics; China Association of Automobile Manufacturers; China Index Academy.

Inflation rose sharply last year, largely because of a surge in pork prices, but has receded this year, with non-food inflation at a 10-year low

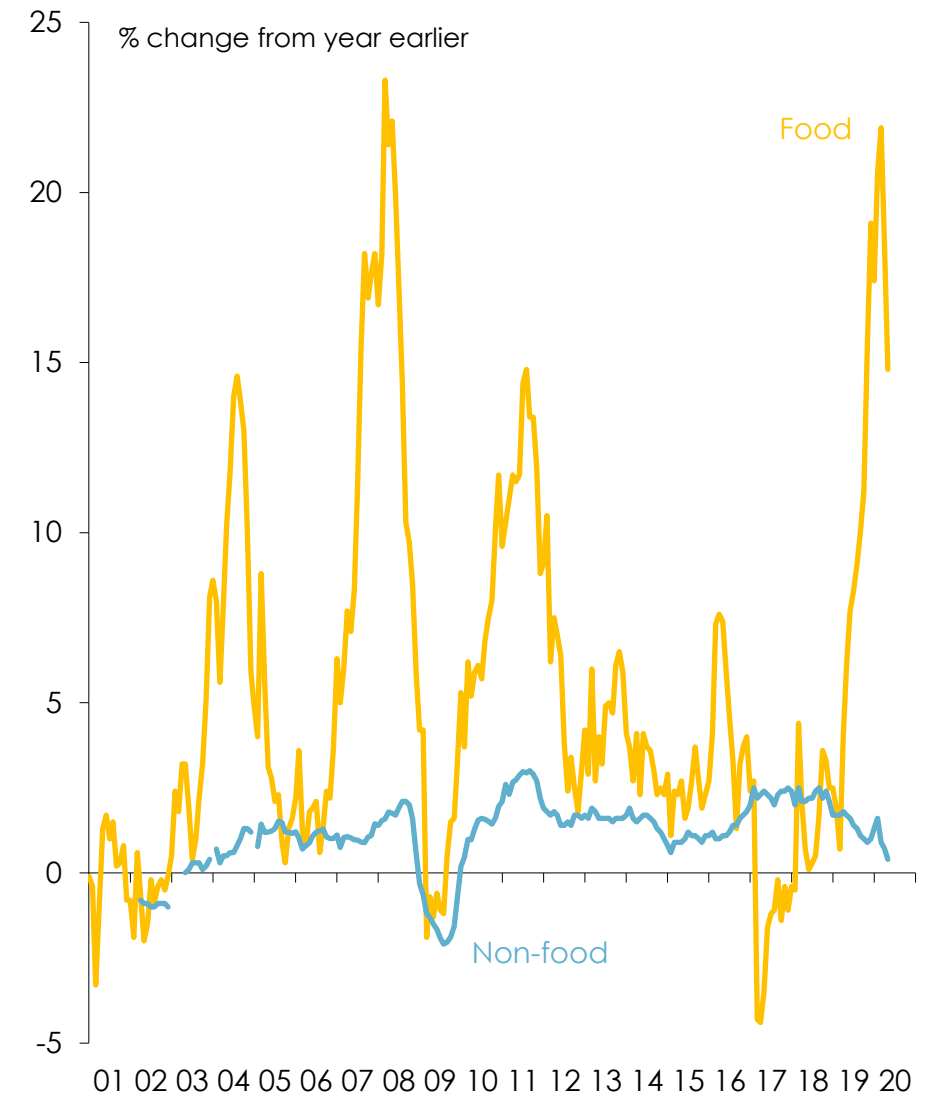
Producer prices



Consumer prices



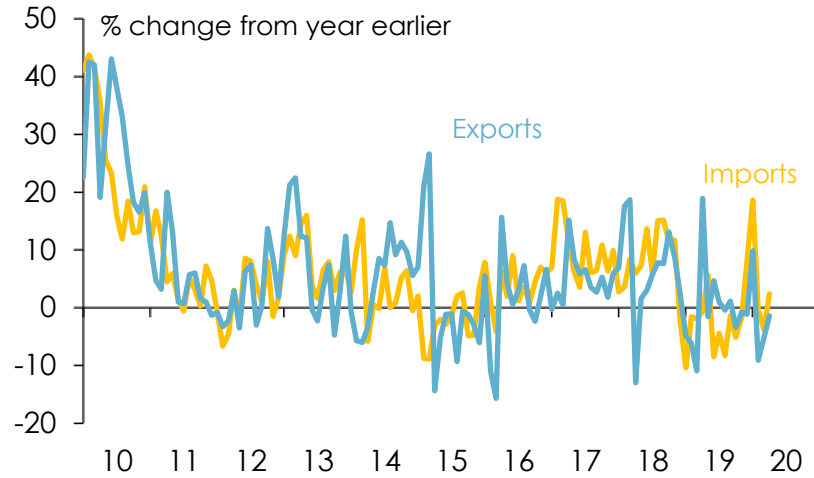
Consumer prices – food vs non-food



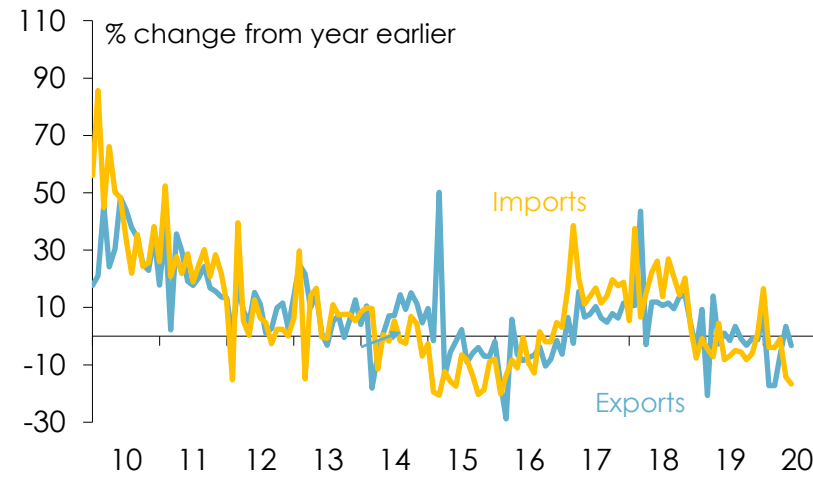
Source: China National Bureau of Statistics.

China's trade slowed during 2019, but doesn't (yet) appear to have deteriorated further in the first half of this year

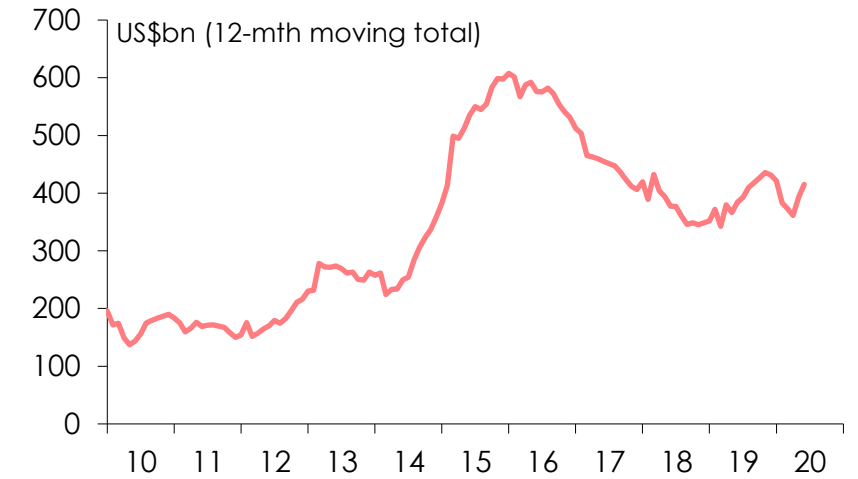
Merchandise trade volumes



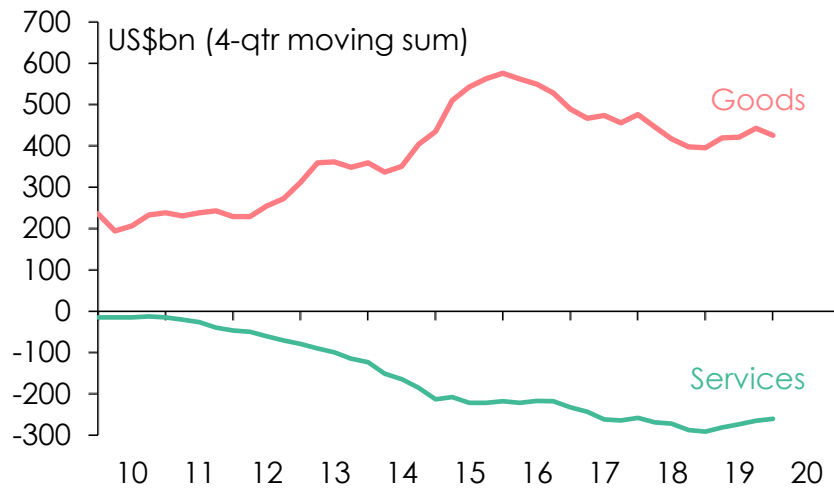
Merchandise trade values



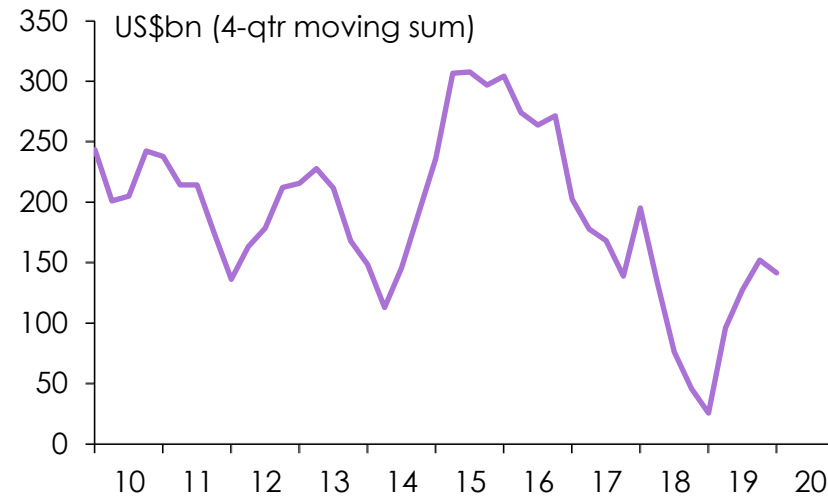
Merchandise trade balance



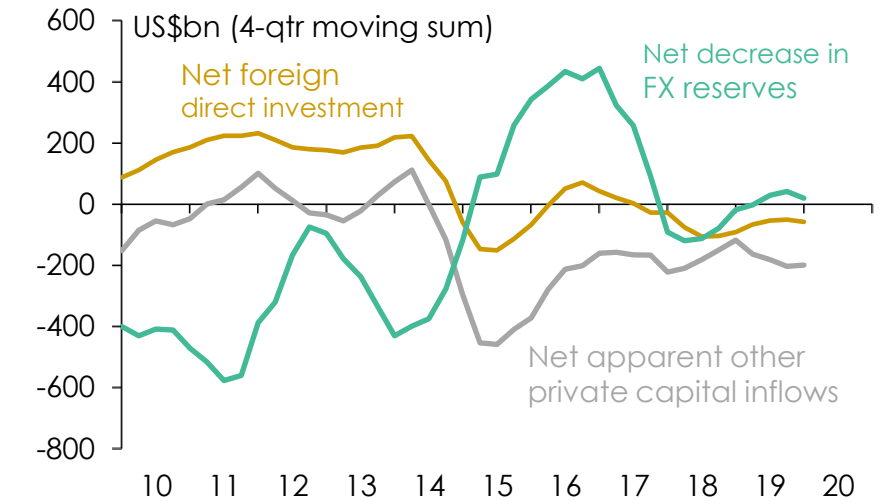
Goods and services balances



Current account balance



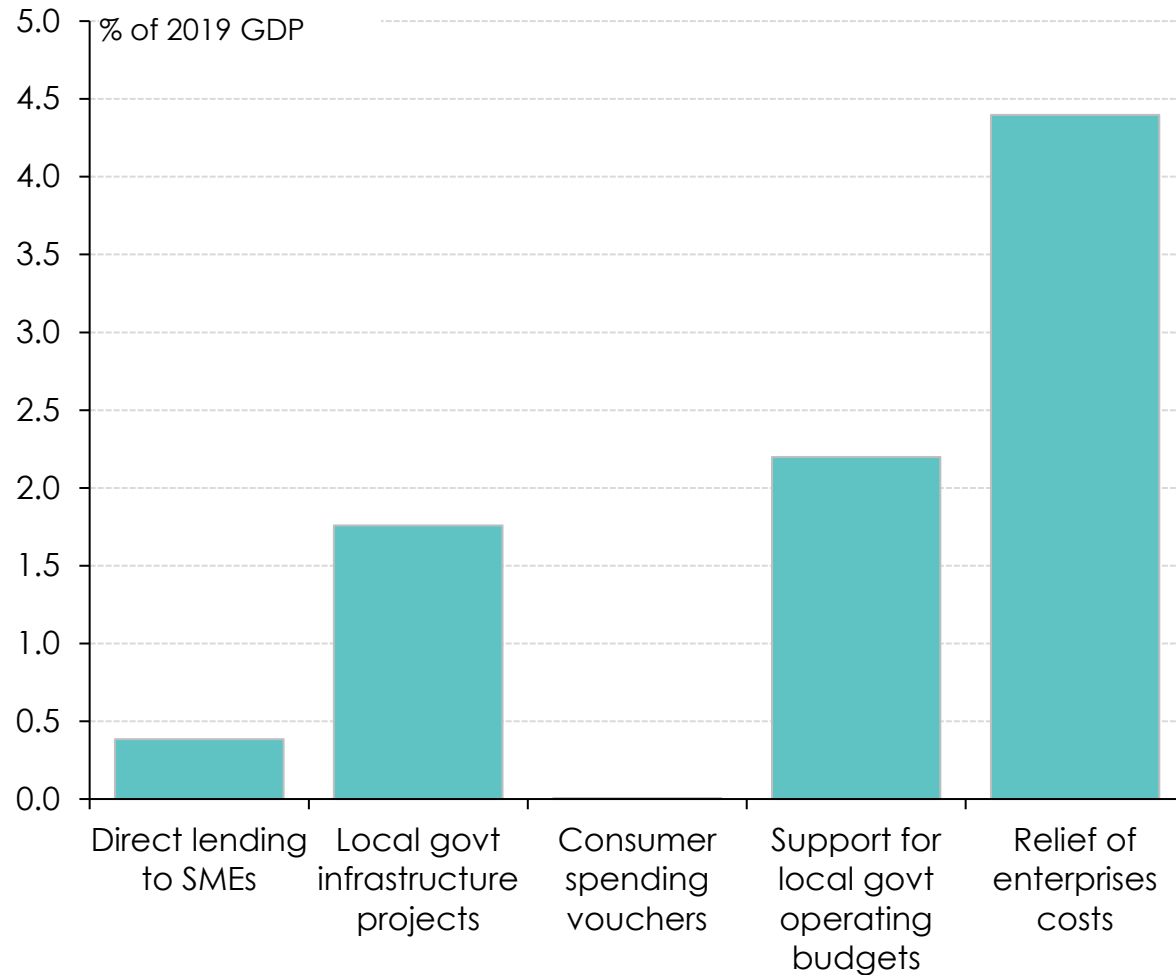
FDI and other capital flows



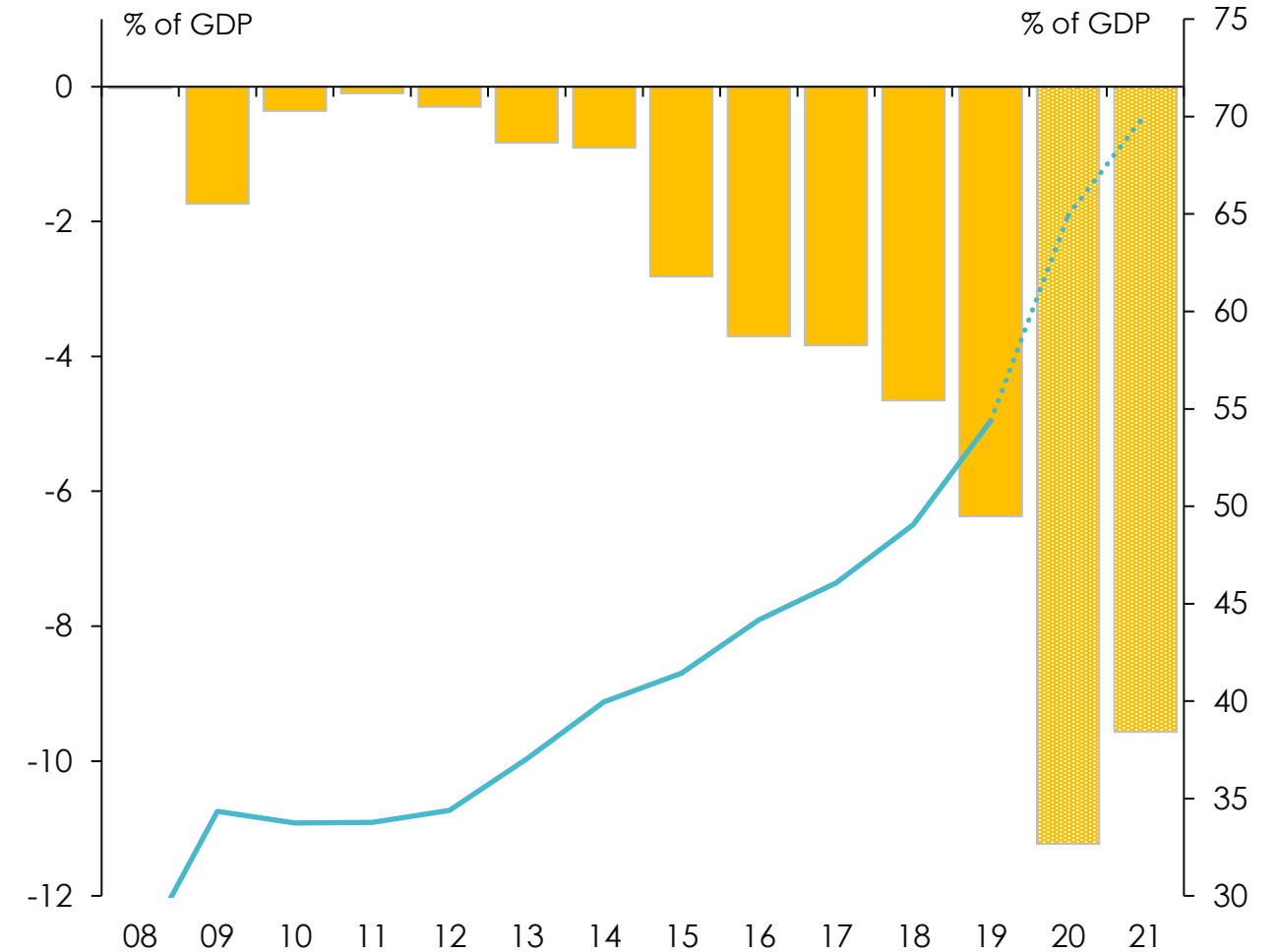
Sources: Netherlands Economic Planning Bureau (CPB); China National Bureau of Statistics.

China's fiscal policy measures in response to Covid-19 appear to be larger than those taken during the global financial crisis

Fiscal measures announced by the Chinese Government in response to Covid-19



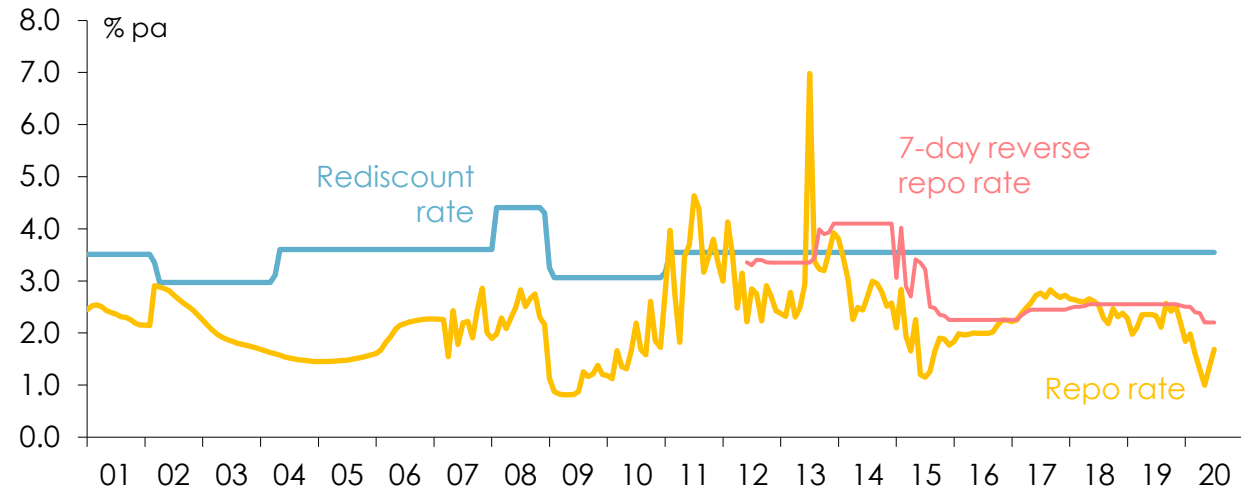
Chinese general government fiscal balance and gross debt



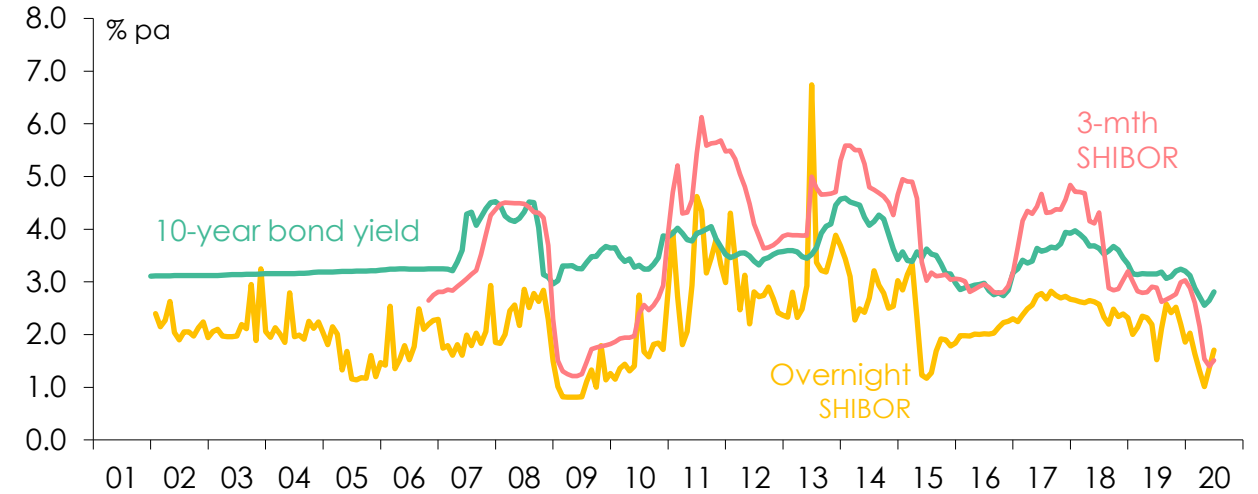
Sources: Asian Development Bank, ADB Covid-19 Policy Database; IMF, Fiscal Monitor, April 2020.

Conversely, the People's Bank of China has been much more cautious about monetary policy stimulus than it was during the financial crisis ...

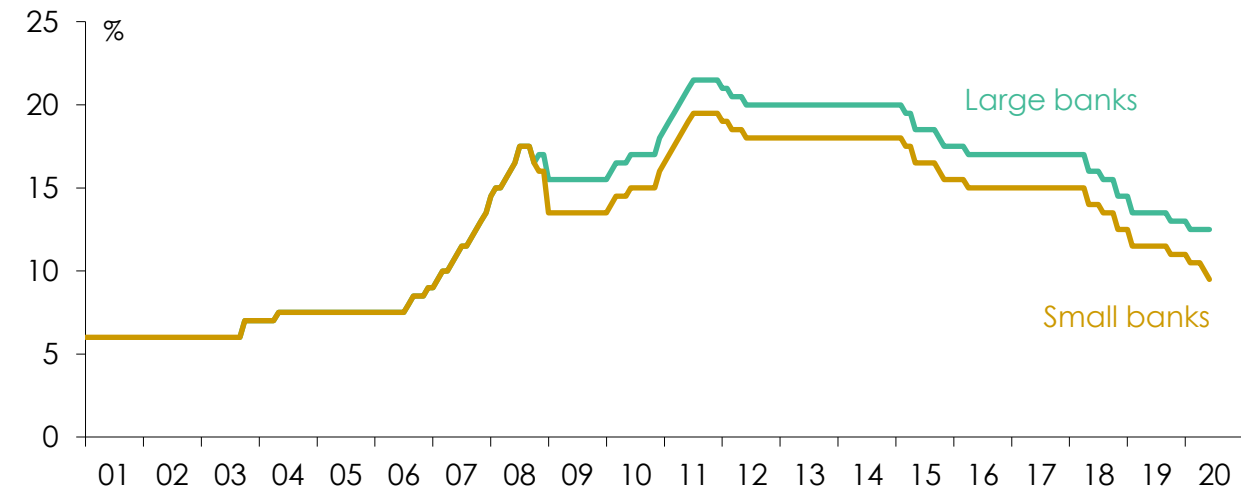
PBoC policy interest rates



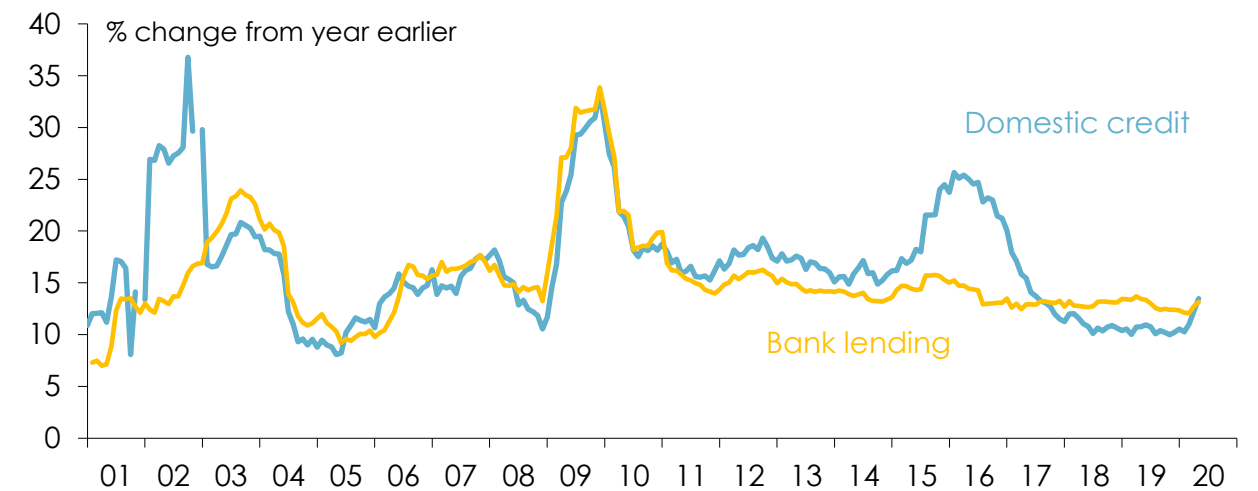
Market interest rates



Bank reserve requirement ratios



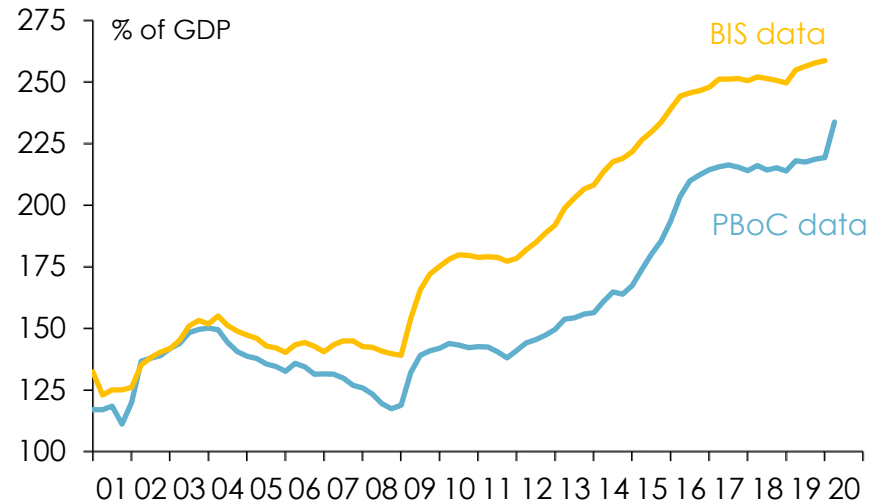
Credit growth



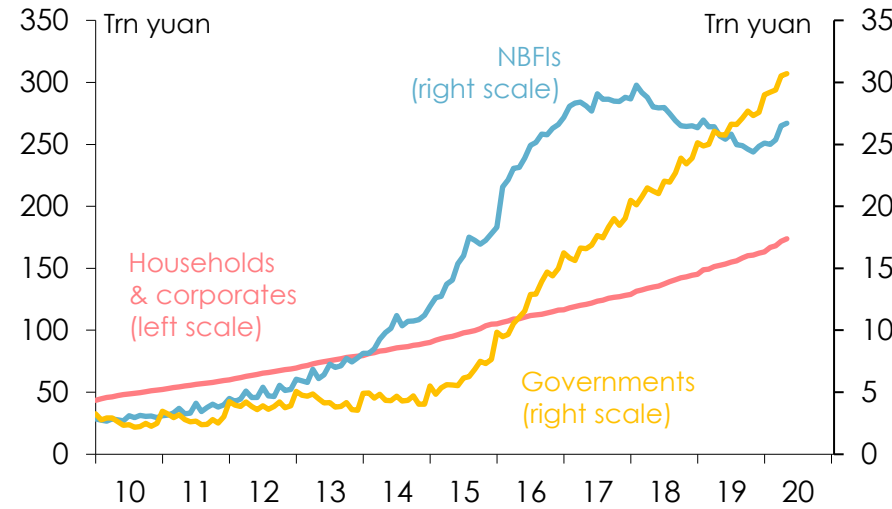
Sources: Refintiv Datastream; People's Bank of China.

... perhaps because their primary focus for the past four years has been on improving financial stability

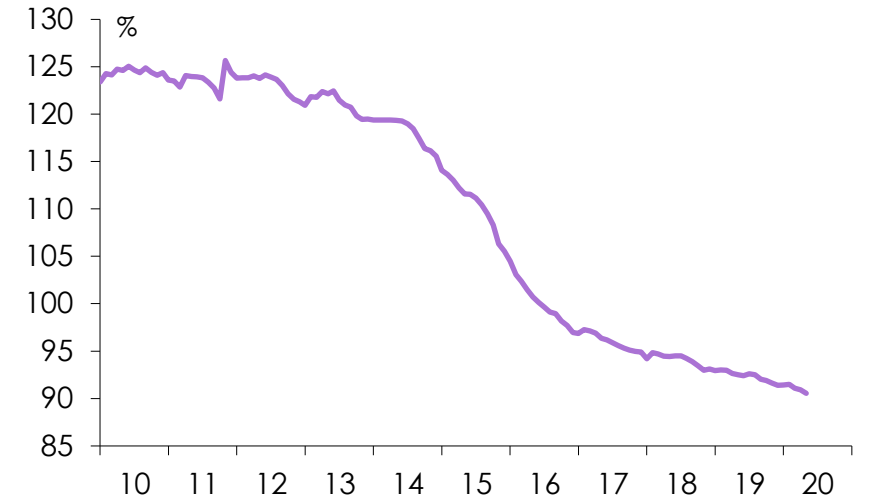
Total non-financial sector credit



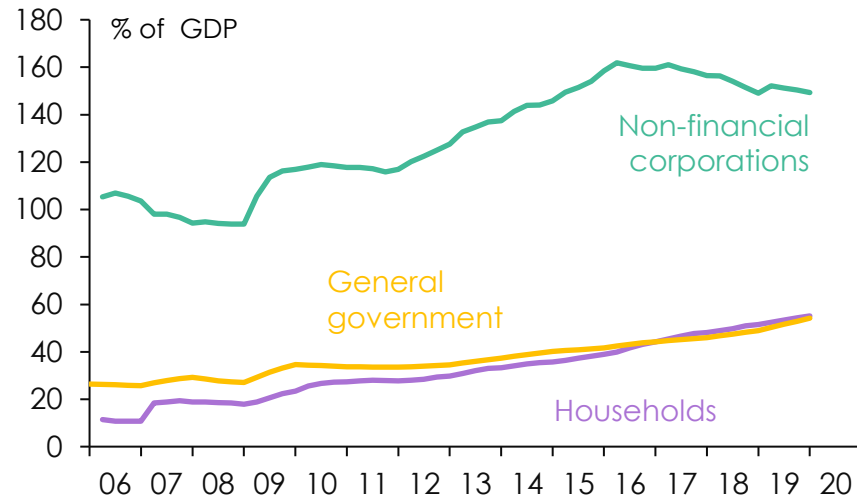
Bank credit



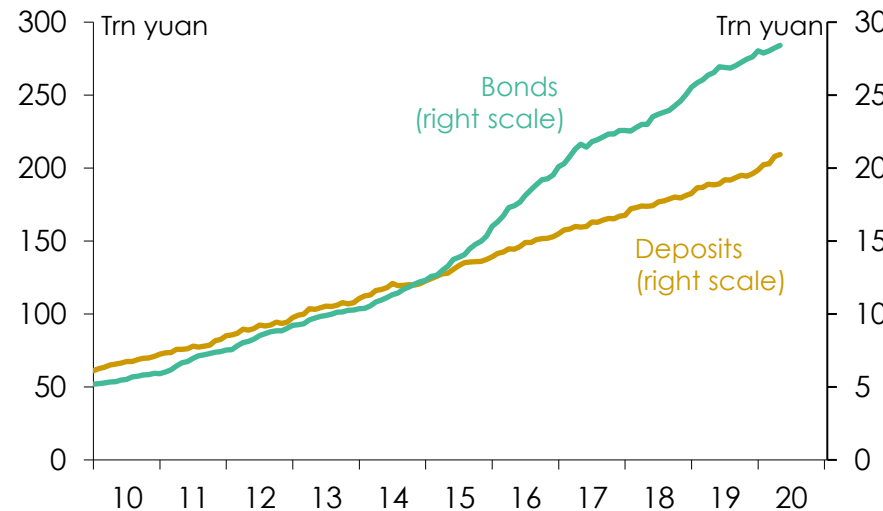
Banks deposits-to-loans ratio



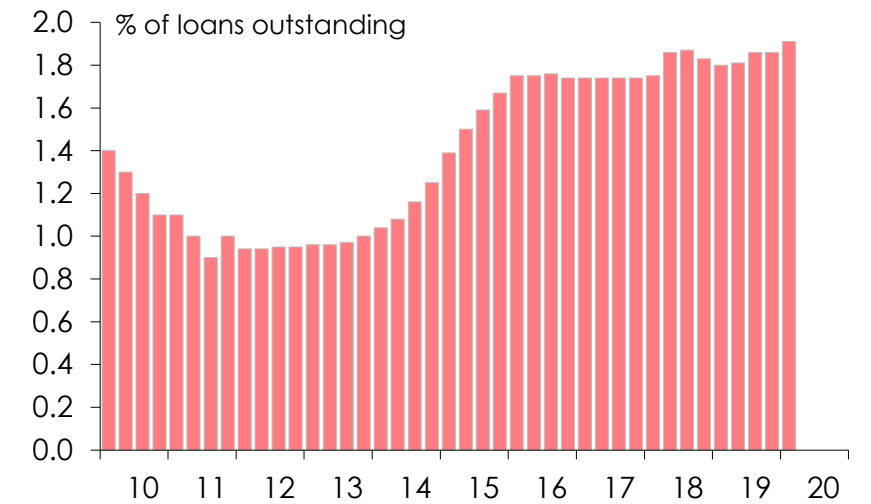
Credit outstanding by sector



Bank liabilities



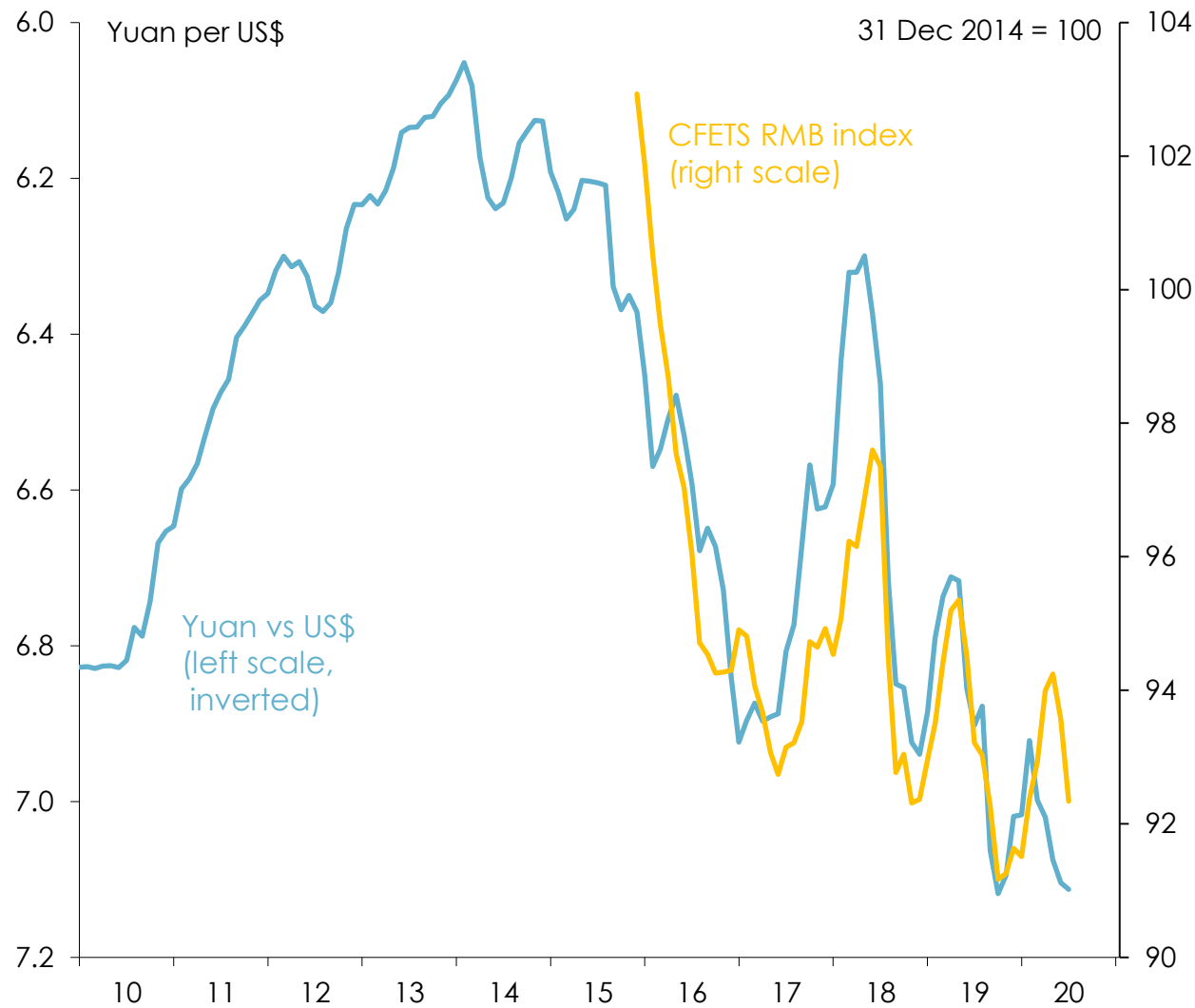
Commercial banks' NPL ratios



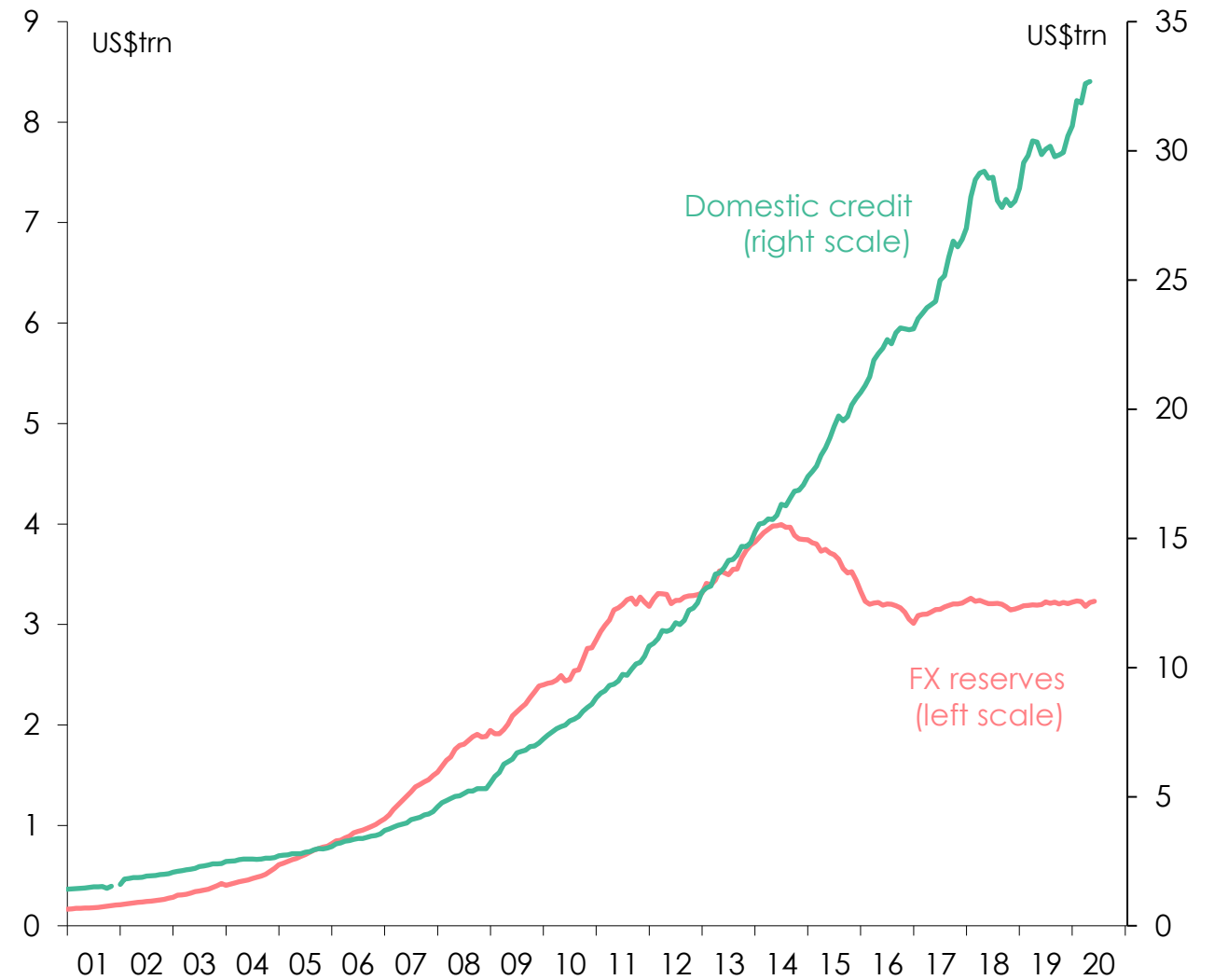
Sources: Bank for International Settlements; People's Bank of China; China Banking & Insurance Regulatory Commission.

China has allowed the yuan to depreciate against the US\$ and in trade-weighted terms – but is the FX regime sustainable in the long term?

Chinese yuan vs US\$ and trade-weighted index



FX reserves and domestic credit

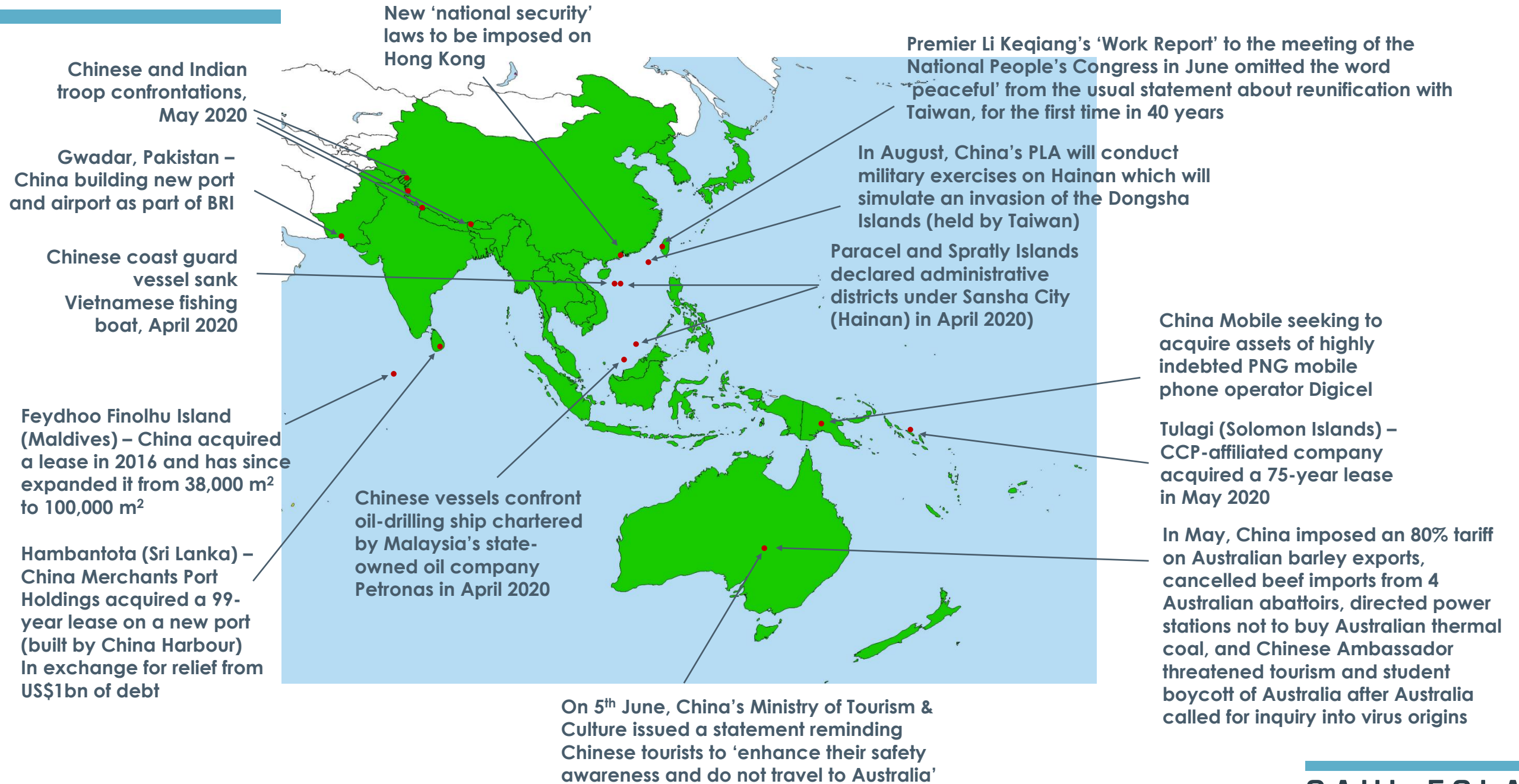


Sources: Refinitiv Datastream; China Foreign Exchange Trading System; People's Bank of China.

China has been adopting an increasingly belligerent approach in its dealings with its neighbours

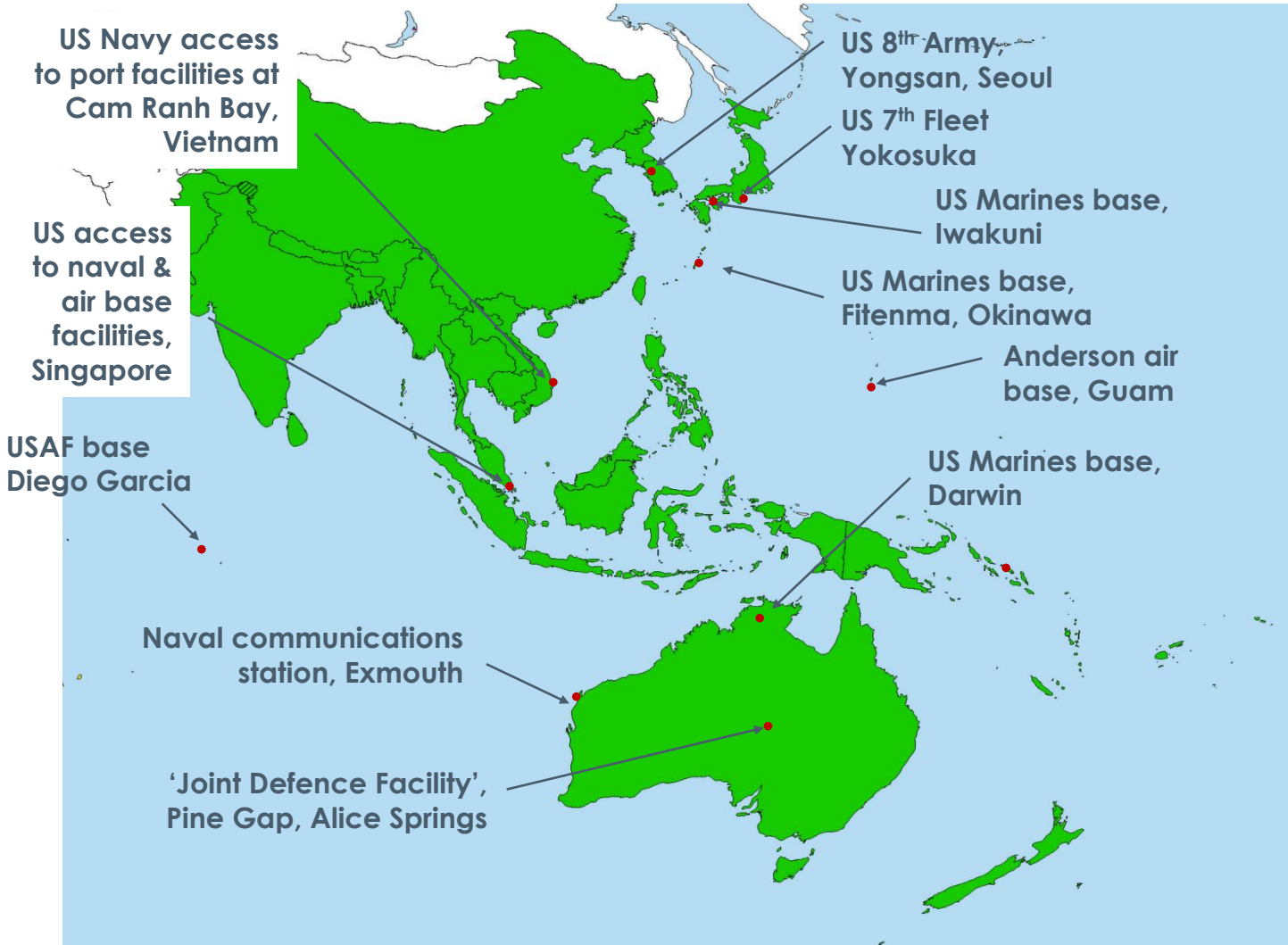
- ❑ **China appears to be becoming increasingly bellicose and belligerent**
 - it believes other countries aren't paying it the respect (or deference) that it believes its growing economic heft deserves
 - and sees an opportunity in the erosion of American moral authority under the Trump Administration
- ❑ **China's approach to Hong Kong and Taiwan is becoming more assertive and authoritarian**
 - last month's National People's Congress authorized the imposition of 'national security' law on Hong Kong, which would allow 'relevant national security organs' of the Chinese Government to 'set up agencies in Hong Kong to fulfil relevant duties to safeguard national security in accordance with the law'
 - Premier Li Keqiang's 'Work Report' to the NPC pointedly omitted the word 'peaceful' from the regular statement of intent for 'reunification' with Taiwan (for the first time in 40 years)
 - General Li Zuocheng (Chief of the Joint Staff and member of the CMC) said on 29th May 'if the possibility of peaceful reunification is lost, the people's armed forces will ... take all necessary steps to resolutely smash any separatist plots or actions'
- ❑ **China is continuing with its militarization of the South China Sea**
 - in April this year China proclaimed two new municipal districts to govern the disputed Paracel and Spratly Islands
 - on 3rd April a Chinese patrol boat rammed and sank a Vietnamese fishing vessel near the Paracel Islands,
 - in the latter part of April, a Chinese survey ship accompanied by two navy destroyers confronted a drillship chartered by Petronas operating in Malaysia's exclusive economic zone north of Sarawak
 - In response the US has stepped up its naval presence in the region, increasing the risk of an 'incident'
- ❑ **Chinese and Indian troops have been confronting each other along their Himalayan border**
 - Chinese and Indian troops confronted each other (with rocks) at several places along their border during May
- ❑ **China has been acquiring islands in the Indian and Pacific Oceans**
 - China has been artificially enlarging Feydhoo Finolhu Island in the Maldives, 600kms from India, which a Chinese company leased for 50 years for US\$4mn in 2016
 - while in May this year China Sam Enterprise Group acquired 75-year lease of Tulagi in the Solomon Islands (which served as an HQ for Allied naval operations during World War II)

Recent Chinese activity in the Indo-Pacific region

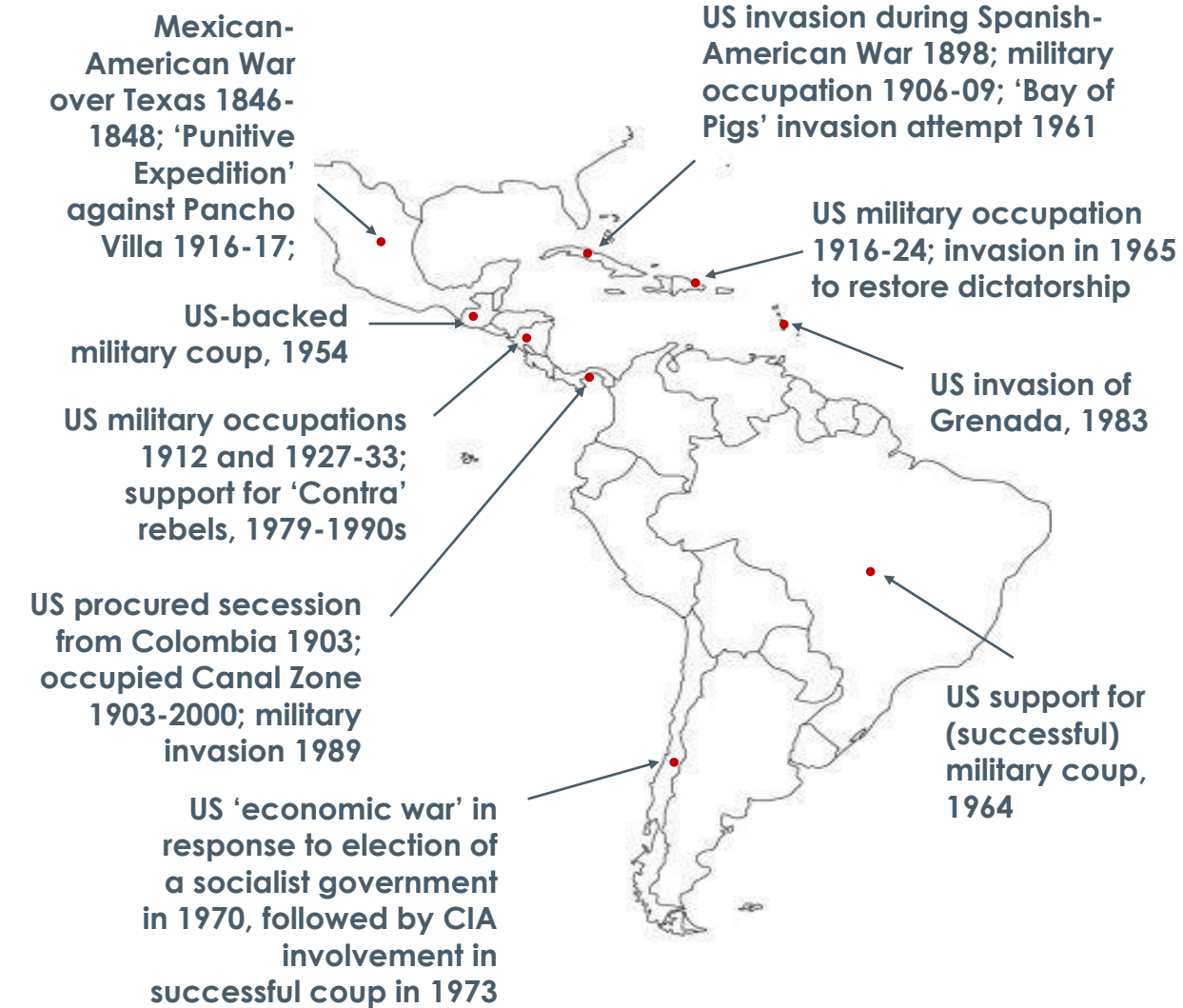


Of course the Chinese would say they're not doing anything the US hasn't, either in the Indo-Pacific or in the Americas

US military presence in the 'Indo-Pacific' region



US involvement in Latin America and Caribbean



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