An acceleration of growth for the first time in 7 years, yet trade friction with the US will cause disruption going forwards

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During October-December 2017, the real GDP growth rate was 6.8% YoY, exceeding the market's projections and remaining at the same level as the previous quarter. As a result, the growth rate for the entire year was 6.9% YoY, which surpassed the government's target (6.5% YoY) and was higher than the previous year for the first time in seven years, albeit only slightly (Chart 1). China was unable to avoid a deceleration in investment as an increase of investment in infrastructure could not offset the decline of investment in heavy industry, which was brought about by environmental regulations and a reduction of excess production capacity. However, consumption remained robust and exports increased for the first time in two years due to growth of the global economy, which meant that the contribution by net exports to growth entered positive territory and net exports became a driver of growth.

That being said, it appears that an urgent reining in of corporate debt by President Xi Jinping, now in his second term, will put further downward pressure on investment in 2018. In fact, there is growing uneasiness among Chinese authorities that financial systemic risks will be increased by debt, which has risen along with economic growth. Following the party congress, there has been a string of regulations announced related to shadow banking and internet banking.

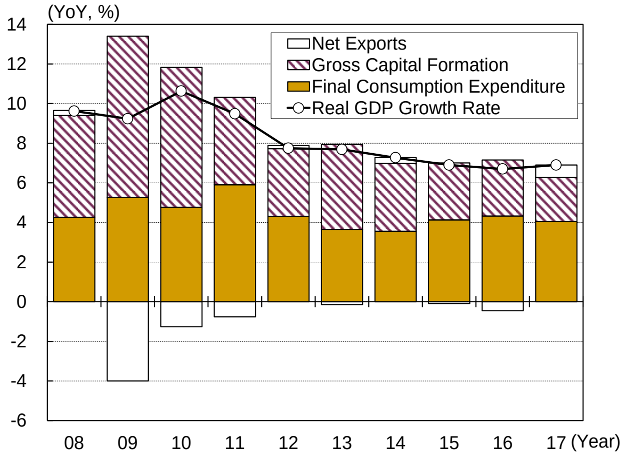
Nevertheless, the authorities at the same time also wish to avoid financial market turmoil, such as sudden appreciation of interest rates and lack of liquidity, and thus the stall of the real economy.

At the same time, however, it seems that financial authorities intend to not only avoid disruption in financial markets, such as a rapid rise in interest rates or a lack of liquidity, but to also avoid a slowdown of the real economy. For example, the People's Bank of China (PBoC) announced that it would lower the reserve requirement ratio in 2018 for banks who met their lending requirements to small businesses at the end of September 2017 (to be implemented from 25th January – announced on 17th January). In addition, the PBoC revealed it will lower the reserve requirement ratio in real terms for large and medium-sized banks just around the Lunar New Year (announced at the end of 2017).

Bearing in mind these complicated policy targets by authorities, it is widely thought that the real GDP growth rate for 2018 is likely to fall slightly to 6.5% YoY, and that the policy target will also be set within that vicinity. However, it is also worth noting that US trade policies by the Trump administration will also greatly affect the Chinese economy. There were deep concerns at the start of the Trump administration in 2017 that he would enforce strict trade regulations, but these have not yet been implemented. There was strong growth of exports to the US in

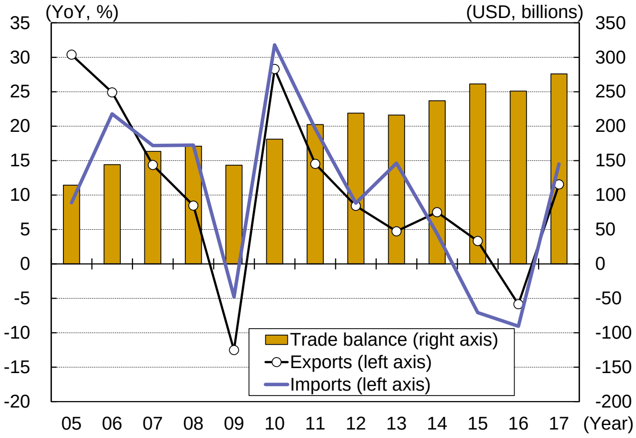
2017: 11.5% YoY (Chart 2). Consequently, the surplus increased to USD27.58 billion from USD25.08 billion the previous year, which irritated the US government further. President Trump has already mentioned he is considering a large fine for China's intellectual property theft and authorised immediate import restrictions on solar panels and washing machines. It appears that the friction in trade with the US will be a significant source of disturbance for the Chinese economy going forward.

Chart 1: China's Real GDP Growth Rate



Source: China National Bureau of Statistics, BTMU Economic Research Office

Chart 2: China's Trade with the US



Source: Chinese General Administration of Customs, BTMU Economic Research Office

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