

## Concerns of a prolonged China-US conflict and China's economic growth model

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China's real GDP growth rate was 6.4% YoY in the January-March quarter and has stopped falling for the first time in a year. A breakdown of monthly economic indicators reveals growth of investment, production, PMI and sales all improved, accelerating slightly (Table 1). China is considering cautious policies and will avoid excessive economic stimulus so as not to cause a rise in the huge level of outstanding debt, which is considered a risk inherent to China both inside and outside the country. As a result, China is not expected to make a swift recovery as it did following the global financial crisis. Nevertheless, the economy appears to be making up for the lull, helped by the effects of the economic policies which were imposed from the latter half of last year.

There has been a series of statements from both Chinese and US government ministers saying they are close to an agreement in the trade negotiations taking place between the two countries, which have garnered a great deal of attention. Some sort of agreement would be considered sufficient as prolonged or ruptured negotiations would harm China, which is highly dependent on exports, and could lead to a fall in stock prices in the US. In addition, it is something the Trump administration wishes to avoid, considering the presidential election is next year.

That being said, there is general consensus that the battle for supremacy between the US and China will not end with one agreement and this source of conflict which threatens the global supply chain will remain. In this case, the question of how much China's economic growth model will be affected will become a point of great interest. This is because the main drivers of growth up until have clearly been cheap labour, technology transfers due to foreign direct investment and an increase in exports, especially to developed countries, yet China's advantage of its cost of labour has been fading for a while and the friction between China and the US is causing a rise in uncertainty related to technology transfers and exports. However, the fact that when it comes to domestic demand, large-scale urbanisation is still taking place in a large country of 1.4 billion people should not be overlooked. Japan and South Korea are leading examples of East Asian countries with a similar urban landscape. It appears that their periods of strong economic growth continued until urbanisation had reached saturation point, which for Japan was in the mid-1970s, and for South Korea was the mid-1990s. Population numbers show China is in the latter phase of its urbanisation process; however, taking into consideration that it is still a few decades from saturation point and that its technology is

advancing to levels which threaten the US, China's growth potential should not be disregarded, not just in the short term under its economic policies, but also in the medium and long term.

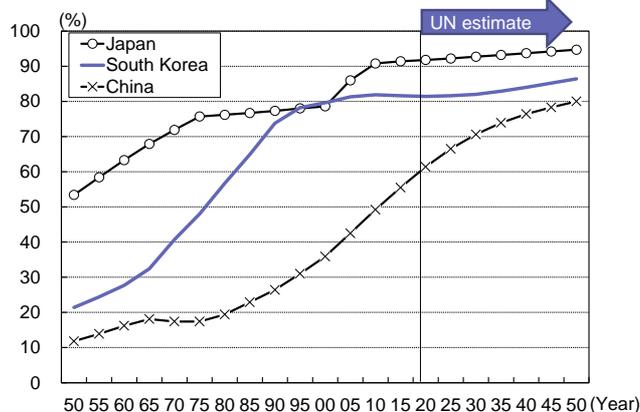
Table 1: Main Economic Indicators (China)

	2018		2019		
	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY, %)	6.4		6.4		
Exports (YoY, %)	3.9	-4.6	-4.6		14.2
Imports (YoY, %)	2.9	-7.6	-3.2		-7.6
Fixed Assets Investment (YTD, YoY, %)	5.9	5.9	6.1		6.3
Retail Sales (YoY, %)	8.1	8.2	8.2		8.7
Industrial Production (YoY, %)	5.4	5.7	5.3		8.5
Manufacturing PMI	50.0	49.4	49.5	49.2	50.5
Non-manufacturing PMI	53.4	53.8	54.7	54.3	54.8
CPI (YoY, %)	2.2	1.9	1.7	1.5	2.3
PPI (YoY, %)	2.7	0.9	0.1	0.1	0.4

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National  
 2) Shadowed portion indicates lower growth rates or decline in indicators from previous months.

Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Chart 1: Rate of Urbanisation in Asia



Note: The rise in Japan since 2000 reflects the merging of municipalities in the statistics  
 Source: United Nations, MUFG Bank Economic Research Office

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