

The State of The Economy

With China's political season underway, how is the economy performing? By Wang Xiaosong



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As China's top lawmakers and political advisers convene their annual sessions in Beijing in March, the economy is at the top of their agenda. The events, officially known as the sessions of the National People's Congress and the National Committee of the Chinese People's Political Consultative Conference, are occasions when such issues of national importance are deliberated and decided upon. China's economic health has been

in the spotlight lately, and major concerns include a lack of growth impetus, the stability of growth and the future of economic development.

China's 2018 macroeconomic data helps put matters into perspective. It shows that China's economy has generally maintained tempered growth and made progress in transforming from a high-speed growth model to high-quality development. China has also deepened domestic reforms and further opened up to foreign investment and trade, taking bold steps to achieve the nation's long-term goals.

Growth and progress

In 2018, China's GDP was approximately 90 trillion yuan (\$13.3 trillion), an increase of 6.6 percent from 2017, achieving the set target of around 6.5 percent growth.



A bullet train travels through Duchang County in China's Jiangxi Province on October 6, 2018.

Although growth slowed slightly in 2018, intrinsic growth drivers were further strengthened, and consumption became a crucial pillar for economic development, accounting for 76.2 percent of China's GDP growth in 2018, up 18.6 percentage points over the previous year. The structure of consumption has been enhanced, and the trend of consumption upgrading continues.

In 2018, primary industry accounted for 7.2 percent of GDP, down 0.4 percentage points, while secondary and tertiary industries accounted for 40.7 percent and 52.2 percent of GDP, up 0.2 and 0.3 percentage points, respectively. This indicates a continuous optimization of China's economic structure.

Innovation-driven development played a key role in 2018. The value-added output of leading enterprises engaged in emerging and hi-tech industries increased by 8.9 percent and 11.7 percent respectively year on year—2.7 and 5.5 percentage points faster than the growth rate of leading industrial enterprises. Online retail sales also surged.

The nation's industrial structure is also being optimized as new growth drivers account for a bigger portion of China's economy. This, in turn, stimulates relevant industries. For example, the information technology, transmission and software industries, the leasing and business services industries and the transportation, storage and postal industries all expanded in 2018, helping drive the growth of GDP.

Aside from relatively stable economic development, China's consumer price index (CPI) increased by 2.1 percent last year, in line with the trend of moderate growth since 2012. The core CPI, which excludes food and energy prices, went up by 1.9 percent, down 0.3 percentage points from 2017. The producer price index went up by 3.5 percent, down from the previous year.

By the end of 2018, urban employment in China reached 434.19 million, 9.57 million higher than in 2017. The monthly surveyed urban unemployment rates remained between 4.8 percent and 5.1 percent, mostly on par with the previous year.

Residents' per-capita disposable income in 2018 was 28,228 yuan (\$4,176), a nominal growth of 8.7 percent, or a real increase of 6.5 percent after deducting price factors, year on year. The real growth of per-capita GDP reached 6.1 percent. This shows that income growth is essentially in sync with economic growth.

As proposed at the 19th National Congress of the Communist Party of China in 2017,

China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development. The country's economic performance in 2018 exemplified this transition, with stable growth and structural optimization.

Reform and opening up

China has achieved remarkable progress on the road to development since it launched its reform and opening up program in 1978. Its GDP has doubled every eight years, on average, and the country has evolved to become the world's second-largest economy, largest manufacturer, largest goods trader, second-largest consumer market and second-largest foreign direct investment destination.

At the same time, great challenges lie ahead for China. The huge dividend yielded at the beginning of reform and opening up has diminished. Manufacturing faces rising costs and difficulties in technological innovation, and anti-globalization and protectionist politics are causing external uncertainties for China's development. Mounting pressures on resources and the environment also restrain the growth of the Chinese economy.

In April 2018, President Xi Jinping delivered a keynote speech at the opening of the Boao Forum for Asia Annual Conference, where he said, "China's door will not be closed and will only open even wider." Against the backdrop of profound transformations in the international environment, China will continue to adhere to its fundamental national policy of opening up and pursue development.

The Belt and Road Initiative, launched by China in 2013 with the aim of enhancing connectivity along and beyond the routes of the ancient Silk Road, has unleashed new opportunities. China has since built closer economic and trade ties with participating countries, and has made steady progress in negotiating new free-trade agreements. Foreign trade has also developed in a more balanced way—a sign that China's doors are opening wider to the world.

China is also accelerating its domestic reforms—streamlining government administration and the delegation of powers, facilitating state-owned enterprise reform and strengthening intellectual property rights protection. In the current environment, China seeks to improve and adjust its economic policy, implement supply-side structural reform and tax reduction and hone macroeconomic regulation.

Further steps

As China celebrates the 70th anniversary of the founding of the People's Republic of China this year, the world is ushering in the brand new era of Globalization 4.0, defined by the World Economic Forum as being characterized by plurilateralism, multipolarity, ecological challenges and the fourth industrial revolution.

For China, there are tremendous opportunities and challenges, along with motivations and pressures. In order to achieve sustainable and healthy development and deal with the uncertain external environment with ease, the country will focus on improving quality and efficiency.

Looking at the history of world economic development, we know that high growth rates cannot last forever. Many economic powers have entered a period of long-term low growth after a truncated economic boom. However, a low growth rate does not necessarily indicate a deteriorating economy; instead, it often signifies high-quality, competitive growth. As long as employment rates remain stable, there is no need to obsessively focus on ever-increasing GDP figures.

The depth of China's opening up is of great importance. The foreign investment negative list (detailing the sectors where foreign investment is not permitted), released on June 28, 2018 by the Ministry of Commerce and the National Development and Reform Commission, provides a roadmap and a schedule of opening up the financial and automobile sectors—gradually widening the opening-up process and allowing the transition of relevant industries.

A new foreign investment law is expected to be adopted at this year's plenary session of the National People's Congress. The law will help attract more foreign investment, protect foreign investors' legitimate rights and interests and foster an environment favorable to doing business.

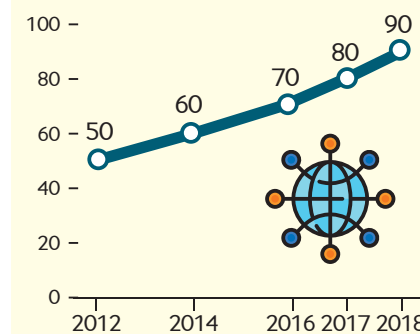
Independent innovation of key technologies also plays a crucial role. Since the U.S. has put the export of hi-tech products under increasingly severe scrutiny, indigenous innovation will become ever more important. China is converting pressures into driving forces, strengthening basic scientific research, promoting the shift from science to technology and creating a new engine for economic and social development. ■



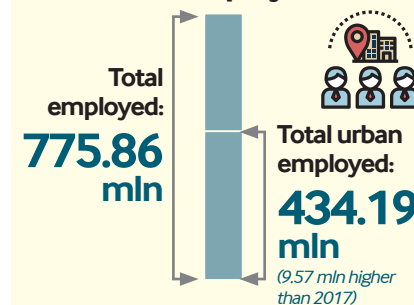
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China's 2018 Economic Performance

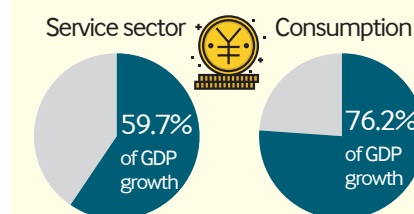
Rising GDP
(approximately, in trillion yuan, \$1=6.7 yuan)



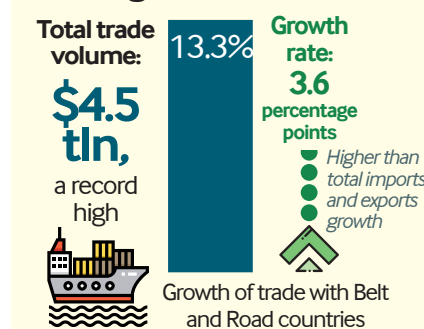
More Employment



Better Economic Structure



Larger Trade Volume



(Compiled by Beijing Review, designed by Pamela Tobey)