

## 6 XI'S VISIT

## Focus on China's role in global economy

**Editor's note:** The World Economic Forum will be held in Davos, Switzerland, from Jan 17 to 20. The prospects for the Chinese economy and how it will intertwine with the global economy against the backdrop of increasing uncertainties will be among the topics to be discussed at the forum. We interviewed international experts to share their outlook on China in 2017.

**1.** China's Central Economic Work Conference said the country will continue to push supply-side structural reform in 2017. How do you assess China's achievement in that aspect so far? What are the most urgent tasks that China must carry out this year in order to push forward its structural reform?

**2.** Based on IMF forecasts, it is calculated that China's contribution to global growth this year could be more than 30 percent, much higher than that of the United States. How do you look at China's role as a key driver of the world economy? Will its economic restructuring and expected growth slowdown this year affect that role?

**3.** The world economy is faced with uncertainties, such as expected trade frictions, interest rate hikes by the Fed, and elections in Europe. Against that backdrop, how do you foresee China's growth prospects next year? What are your policy suggestions for China maintaining stable growth while accelerating reform this year?



**Duncan Freeman**, research fellow of the EU-China Research Centre, College of Europe in Belgium

**A1** China has begun to lay the groundwork for tackling supply-side reform, and has made progress in major problem sectors like steel and coal by reducing capacity. Resolving the problem of supply is crucial not only for the domestic economy, but also for China's external economy. The key long-term task is not simply to remove overcapacity, but whether the structural factors underlying the creation of overcapacity can be resolved. This will require reform of the existing incentive system that encourages investment in sectors where

overcapacity exists. This will include the financial and also administrative incentives that have encouraged support for economic sectors with over-supply.

**A2** Following the crisis in the US and the European Union in 2008, China has been the largest single contributor to global growth, much bigger than any other major economy. Even with slower growth in China, it will continue to be the largest contributor to global growth and will thus be a major factor in maintaining economic stability. A somewhat slower

growth rate will be less important than structural changes. The restructuring of China's economy will change how its growth impacts the rest of the world. The reduction of investment in traditional key sectors will reduce demand for the inputs they require, while consumption growth will create new areas of demand. The increasing role of services in the economy is already having an impact on its external balances, as service imports are rising rapidly, including tourism.

**A3** Since the crisis, China's growth has been increas-

ingly dependent on internal rather than external factors, especially since the importance of exports for the Chinese economy has declined. The key to maintaining China's internal growth will be to ensure that domestic economic conditions are improved. This will require continued policy focus to deal with underlying structural problems in the Chinese economy. However, China will face major external interlinked economic and political challenges in the coming year as the global economic system increasingly comes into question. The

challenges in the major economies in the US and the EU, manifested in events such as the election of Donald Trump and Brexit, will raise questions about the sustainability of the existing economic order. For China, a key policy question will be its role in the global system. The challenge will require responses at the multilateral and bilateral level, but will also place demands on China's domestic policies, as the importance of the Chinese economy will make domestic policy decisions increasingly critical to the sustainability of the global system.



**Song Won Sohn**, a professor of economics at California State University Channel Islands in Camarillo, California

**A1** China has been making progress in structural reforms, but more needs to be done. First, the transition from investment and exports to domestic consumption must proceed at a faster pace. Second, China's corporate sector is too leveraged, presenting danger to the entire financial system. Third, the private sector should grow faster at the expense of State-owned enterprises. Last, the financial market reform, which has gone well so far, must continue.

**A2** As China contributes so much to global economic growth, how the Chinese economy performs in 2017 is of crucial importance to almost every country around the world. Most likely, China's economic growth in 2017 will slow to around 6 to 6.5 percent.

While economic growth is important, structural reforms are equally important. The government must balance the two objectives carefully.

**A3** Clearly, the risk is on the downside for China's economic growth in 2017. Both monetary and fiscal policies have been fairly stimulative, and further stimulus could lead to problems in the financial markets.

Many of China's SOEs have borrowed too much from State-owned banks. Higher debt means SOEs will have to spend more to pay the debt instead of investing in productive areas. The sources of economic growth are very important. The private sector should grow faster than SOEs.



**Fredrik Erixon**, director of the European Centre for International Political Economy in Brussels

ate a bit as some other large economies notch up their growth. The most important thing about China for the world economy is that its growth is sustained over a long period of time, and restructuring the economy will support that.

China's rates of economic growth have already come down substantially from the levels it had some years ago, and that decline affected, of course, the world economy. But it was possible for other countries to adjust, and that should work in the future as well, even if it means that some countries with strong exports to China will see growth declining further. Generally, every economy in the world will have to adjust to the decline of the global growth model of the past 30 years — driven predominantly by global trade and investment — and move into a new model based more on innovation.

**A3** China is in a structural growth slowdown and I expect that, even if it has stabilized in recent years, there is risk that it will decline further as China is confronted with strong economic headwinds, both domestically and from abroad. China has set out the right type of reform track in its past five-year plans, and they take aim at reforms that will help to propel more competition, a greater role for the private sector and an expansion of the services sector.

**A2** China's role for global growth will remain strong, even if it will moder-



**Rana Mitter**, professor of the history and politics of modern China at the University of Oxford

**A1** Statements made so far show that China's leadership is aware of the issues and the need for reform. This year, there will need to be more action in terms of reforming SOEs to operate under market conditions. In addition, there will need to be more attention paid to a graduated solution to China's corporate debt problems.

**A2** There will inevitably be a trade-off between managing to achieve a smooth but slower rate of growth in China and its role as a driver of the global economy. However, uncertainty will also be damaging, so China's economic leaders will need to make it clear what their intended short-term economic plans for reform are in practice.

**A3** There are likely to be new opportunities in the US market as the Trump administration switches to infrastructure promotion, even though this is likely to promote inflation. China will need to maintain strong growth in domestic consumption, but should be wary about simply pumping more cash into creating easy credit. A graduated policy of dealing with debt will, inevitably, lead to a slowdown, but it should be managed carefully.



**Robert Kagiri**, a leading economist at the Africa Policy Institute

**A1** China is on track with its reforms as it continues with its supply-side structural reform. In order to push forward in this direction, it will need to redefine and transform the role of the government in resource allocation. There is also a need to control and rein in debt levels and stabilize its currency.

**A2** China will continue to be a key driver of the world economy. However, its economic restructuring and economic slowdown will marginally reduce that role, though it shall continue to be the key driver of global growth for at least the next five years. Its economic restructuring and expected growth slowdown this year will therefore not shake that leadership role.

**A3** China's growth prospects will continue to be positive this year. For China to maintain stable growth while accelerating reform, it will need to improve quality standards and innovations that are responsive to market needs. This involves upgrading its traditional industries to the highest global standards and development of a modern competitive service sector.



**Nicholas Lardy**, Anthony M. Solomon senior fellow at the Peterson Institute for International Economics in Washington

ces. This has the added side benefit of slowing the growth of credit and reducing financial risks.

**A2** Yes, China is still contributing about 30 percent, more than it did when its growth was more than 10 percent in 2010. This is due to two factors: First, its economy is much larger, and, second, global growth has slowed quite a bit.

**A3** I am not expecting much of a slowdown next year, it should be in the 6 to 7 percent range. Maybe it would be less than this year's likely 6.7 percent, but a fall of a couple of tenths of a percentage point is not really much of a slowdown.

**A1** To me, supply-side structural reform is all about improving efficiency. The most urgent task is to slim down the money-losing firms by reducing their claim on fiscal and financial resour-



**Zhou Bajun**, a senior research fellow of Hong Kong-based China Everbright Holdings

**A1** The central government decided at its annual Economic Work Conference to deepen supply-side structural reform in 2017 and give priority to reducing bubbles in the real-estate market. This will help change the way it has boosted economic growth and steer the national economy onto a new track for sustained medium-to-high growth.

**A2** With the pace of economic recovery picking up next year, more interest rate hikes by the Fed will push the

exchange rate of the greenback higher, while that of the renminbi will fall further and negatively affect China's imports and overseas investment. Generally speaking, the US contribution to overall growth of the world economy will probably increase, while China's will likely decrease next year, both by 1 or 2 percentage points. But China will remain the top contributor.

**A3** I expect the adjustment of the global situation to deepen in 2017. The refusal by the US, the EU and

Japan to recognize China's market economy status according to Article 15 of the World Trade Organization agreement they signed 15 years ago means the profound readjustment of the global situation will be even deeper, and that the Doha Round of WTO talks is all but dead. Trade friction between China and the US, on the other hand, will intensify after Donald Trump takes over the White House.

China must respond to such challenges as best it can to ensure the 2017 growth goals set by the central gov-

ernment at the annual Economic Work Conference will be reached.

To do so, I suggest another round of domestic demand stimulation measures similar to those seen in 2009 be taken next year, while the supply-side structural reform should continue to greater depth. It is also necessary to quicken the pace of negotiations over the Regional Comprehensive Economic Partnership as well as advance more bilateral trade and investment talks aimed at enhancing friendly ties with other countries.