

The impact of the China-US trade war on the Chinese economy

Conference on Sino-US economic and Trade Relations
in the Global Economy

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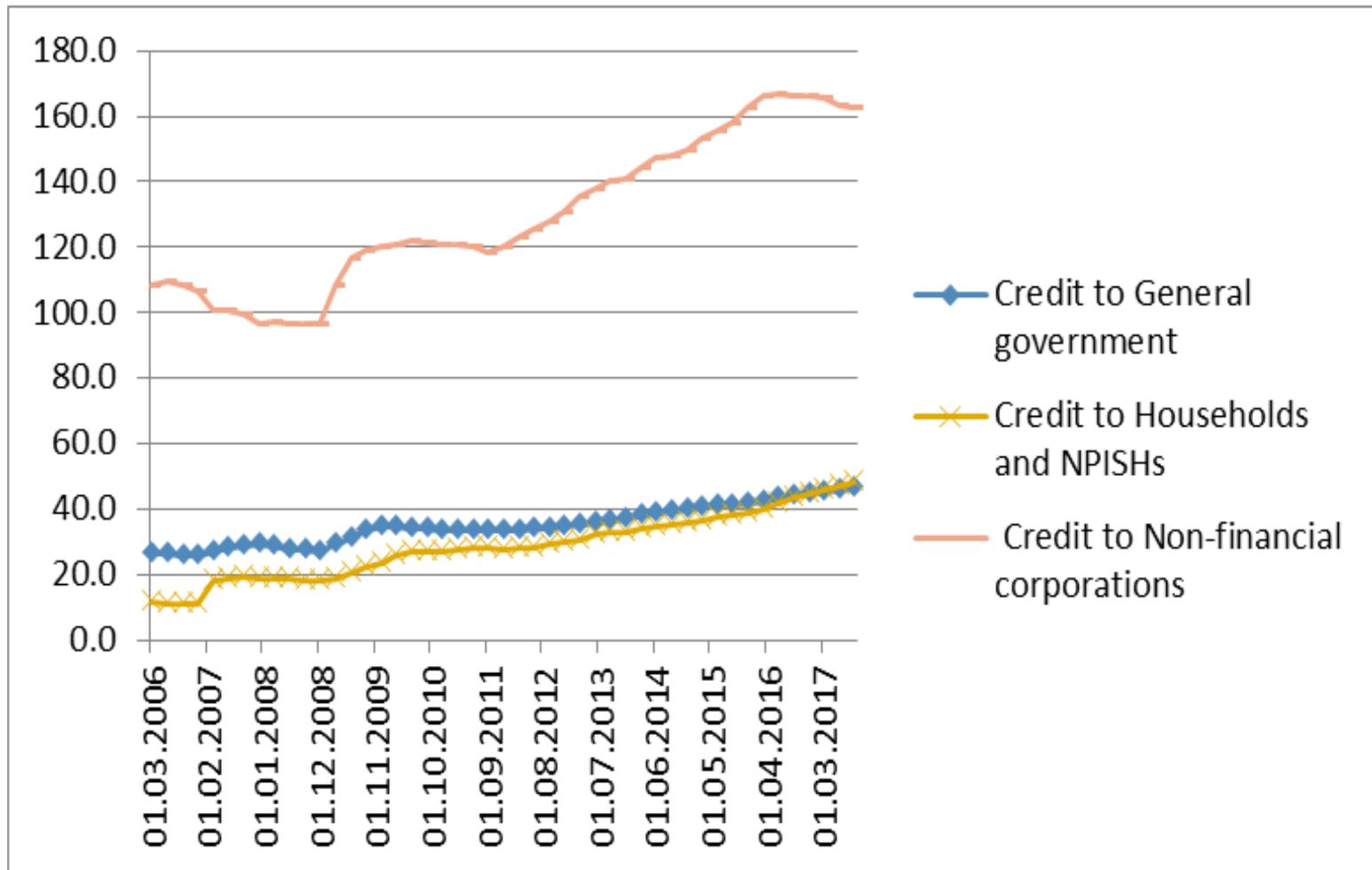
Chinese Academy of Social Sciences

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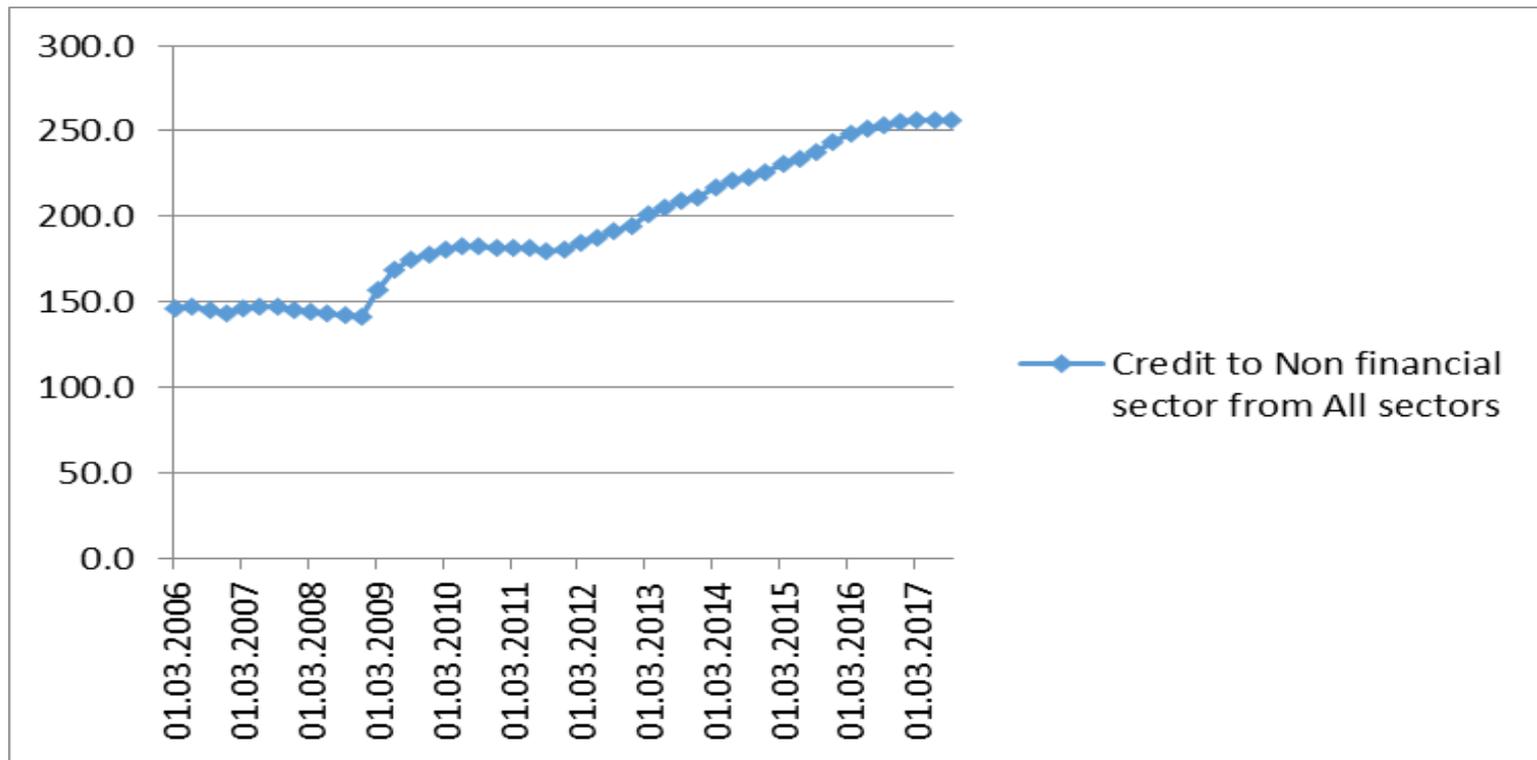
China's macroeconomic imbalances

- Since 2016, the policy priority is
 - to deleverage
 - to rein in shadow banking activities
- Hence since 2016
 - Fiscal policy (increase in tax revenue Jan-May 15.8%)
 - monetary policy less pro-active
 - Jun M2:8.3%, lowest since 1986,
 - Jun weighted average interest rate of interbank lending: 2.73%
 - The tightening of Supervision and Regulation on financial activities
- Since 2016, leverage ratios started to fall. Since 2017, shadow banking activities shrank rapidly

Leverage ratios for all sectors are either stabilized or falling

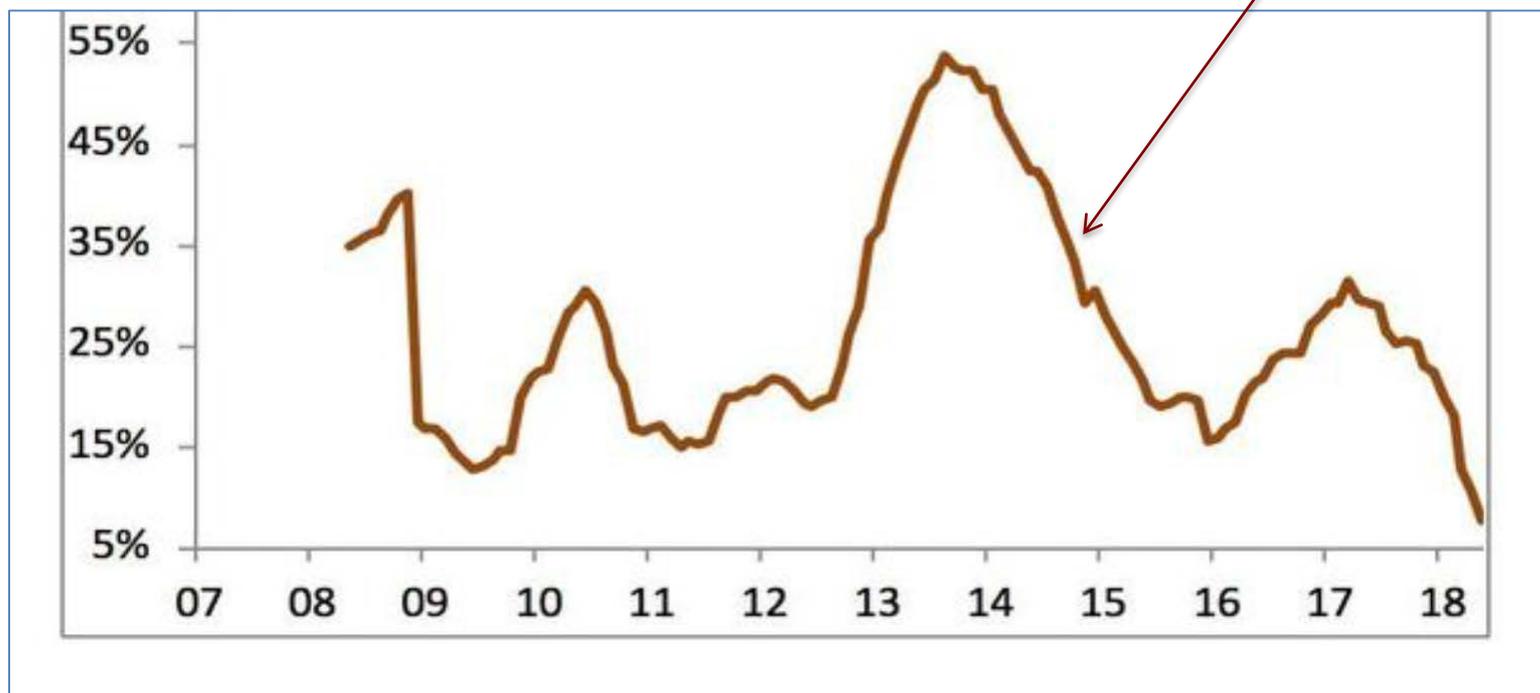


As a result, overall leverage ratio is falling



The role of shadow banking activities is shrinking

Δ shadow banking
finance/ Δ social finance



Shadow banking finance: entrusted loans, trust loans, undiscounted bills of banks

New problems

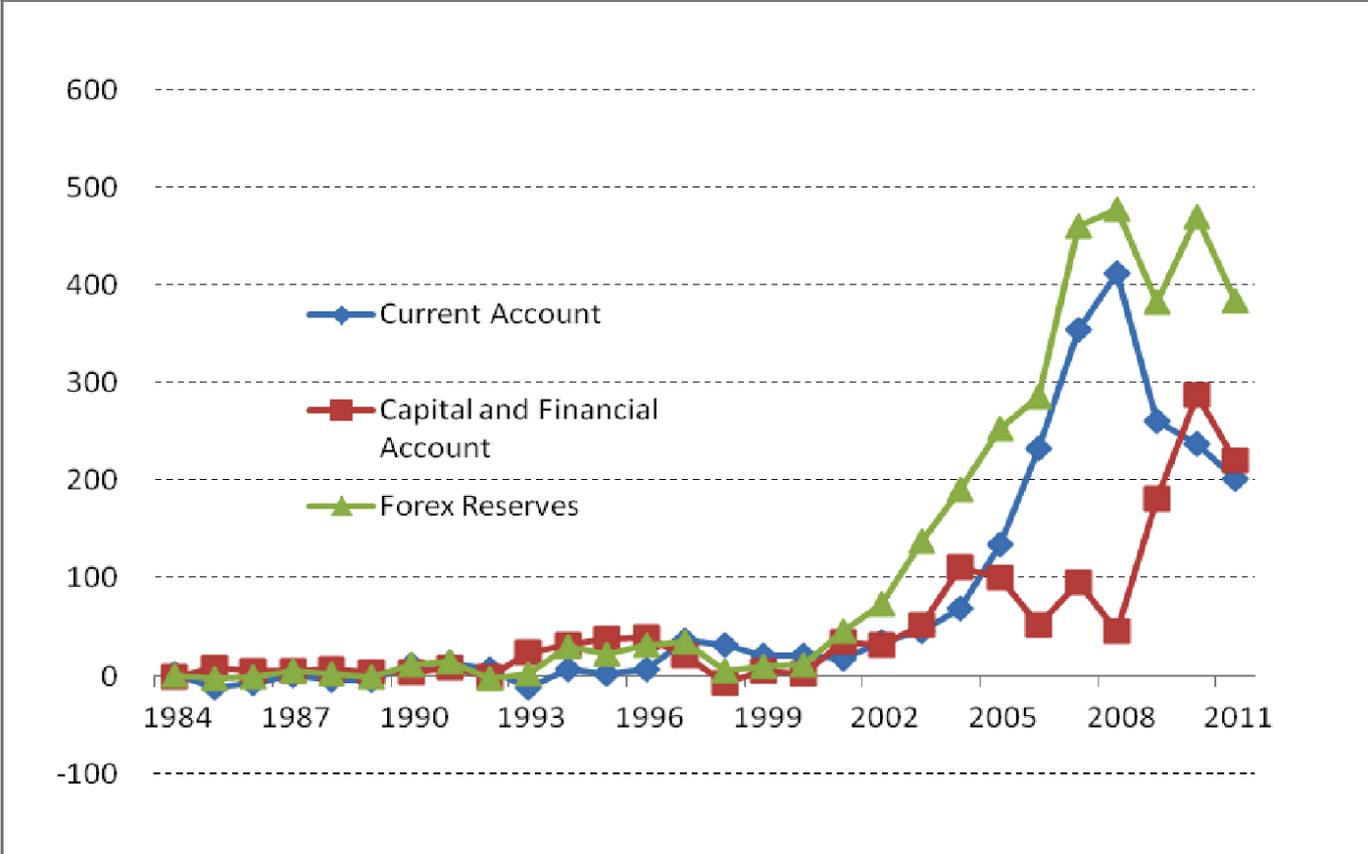
- credit crunch
- Liquidity shortage
- Burst bubbles (P to P platforms), interruption of financial flows
- Slowdown of growth

- Recently, the government decided to adjust macroeconomic policy and prudential policy
- What will be the result of the adjustment remains to be seen
- Talk to traders, my feeling is that the market sentiment is improving. The Share price is bottoming out

The long run impact of the trade war on the Chinese economy

- Trade war undoubtedly is a bad thing for China
- However, the trade war will inject new dynamism for China to speed up structural adjustment.

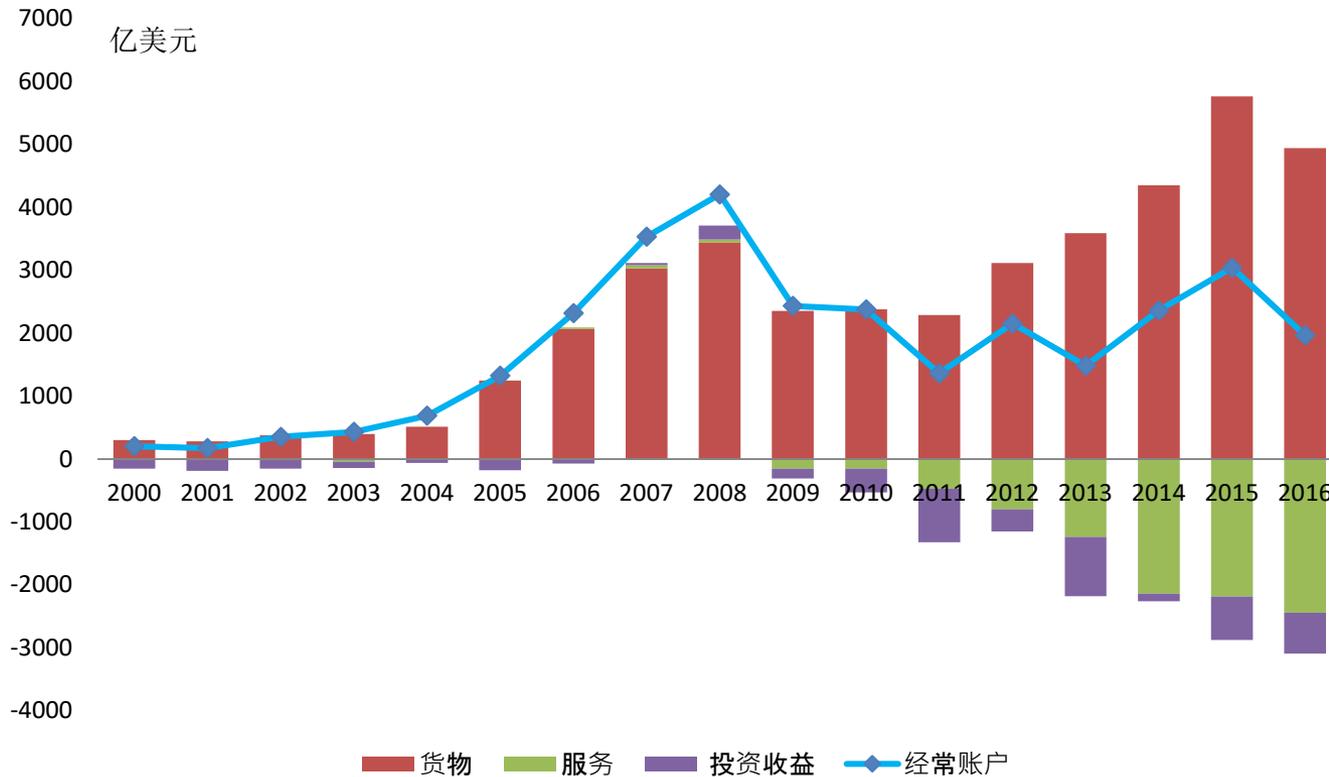
China's international imbalance: twin surplus and accumulation foreign exchange reserves



An old story

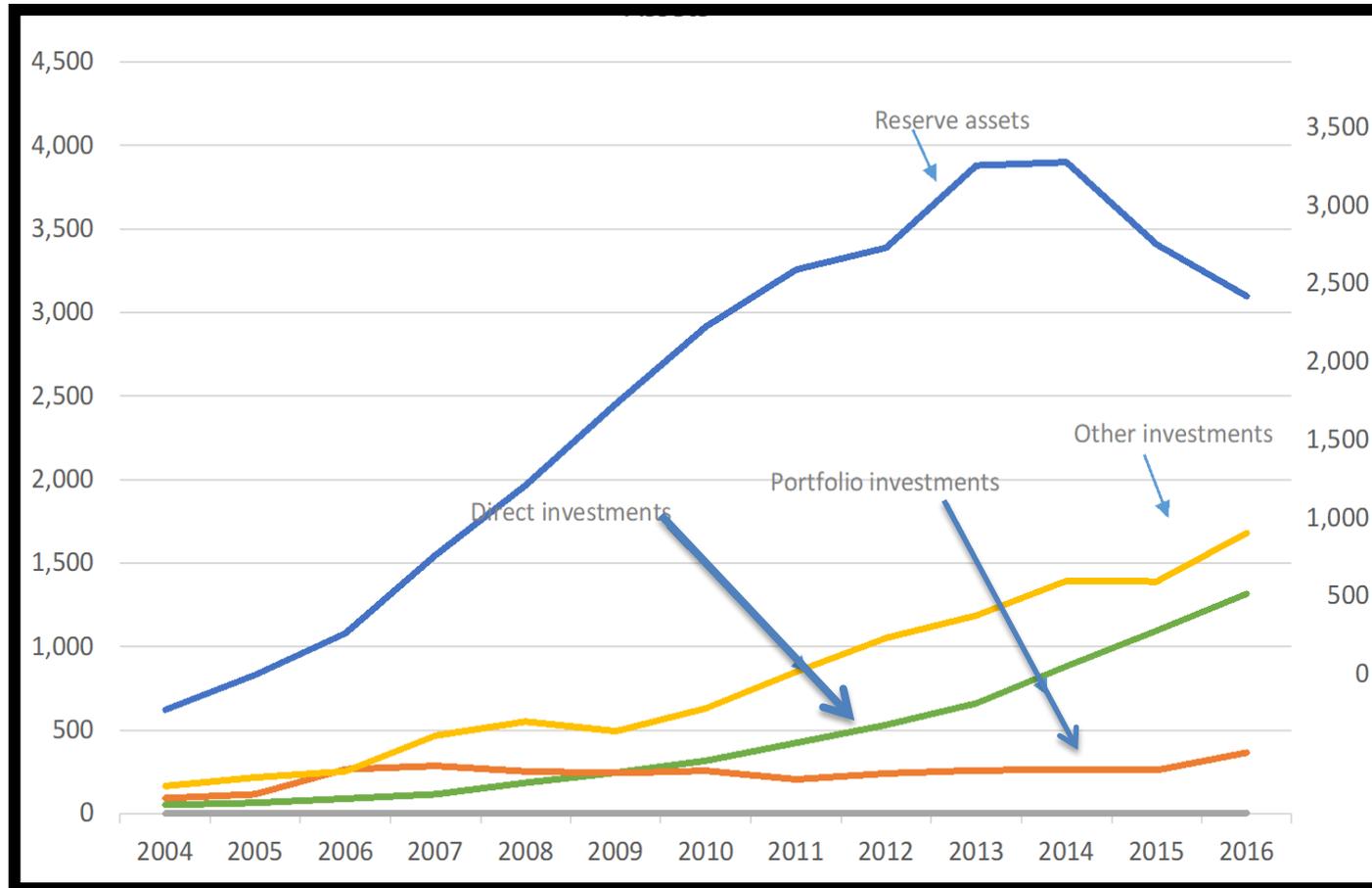
With net foreign assets of \$2-1.75 trillion, China runs investment income deficit for more than a decade

Very bad for an aging society



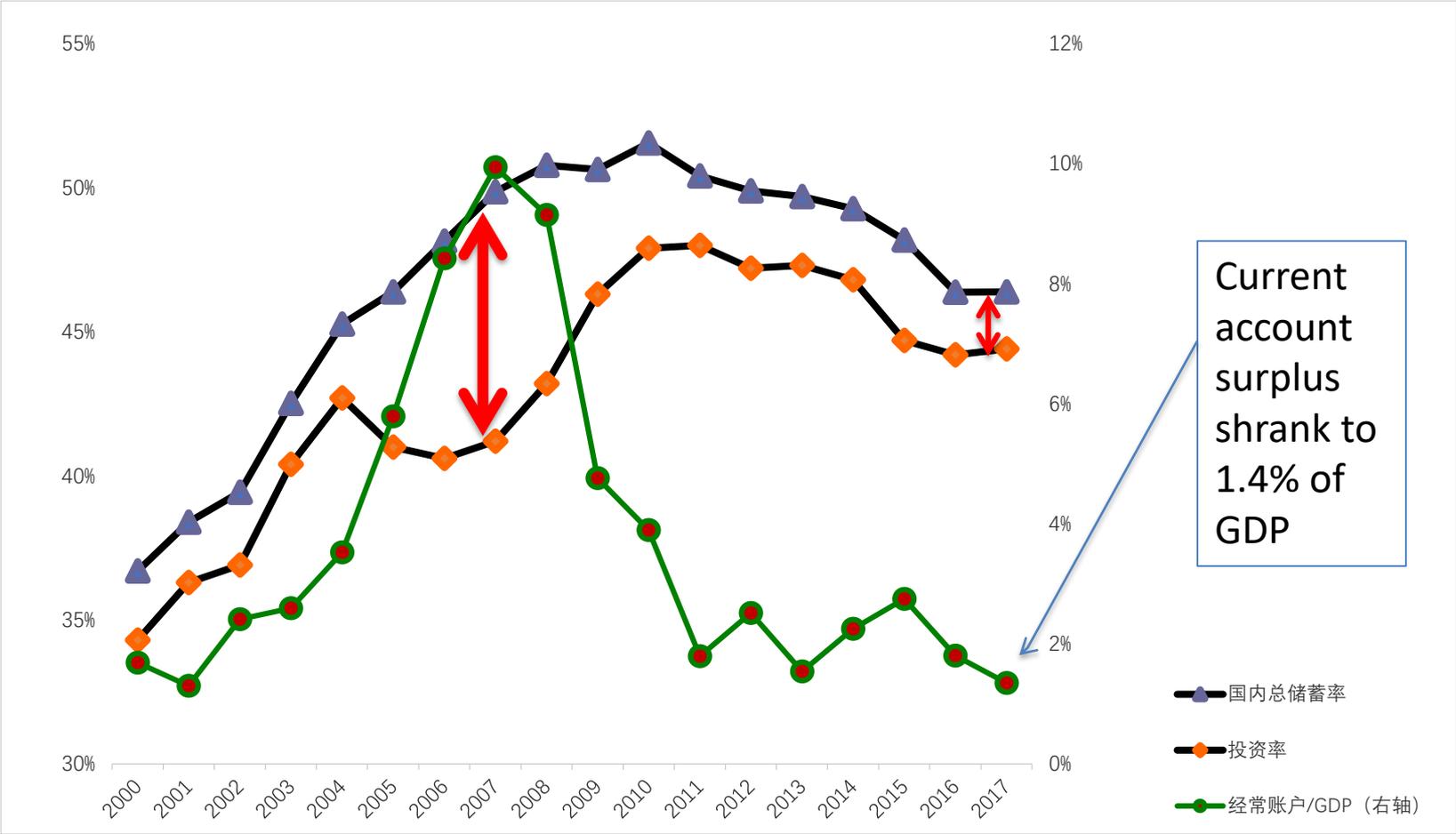
A problematic foreign assets structure

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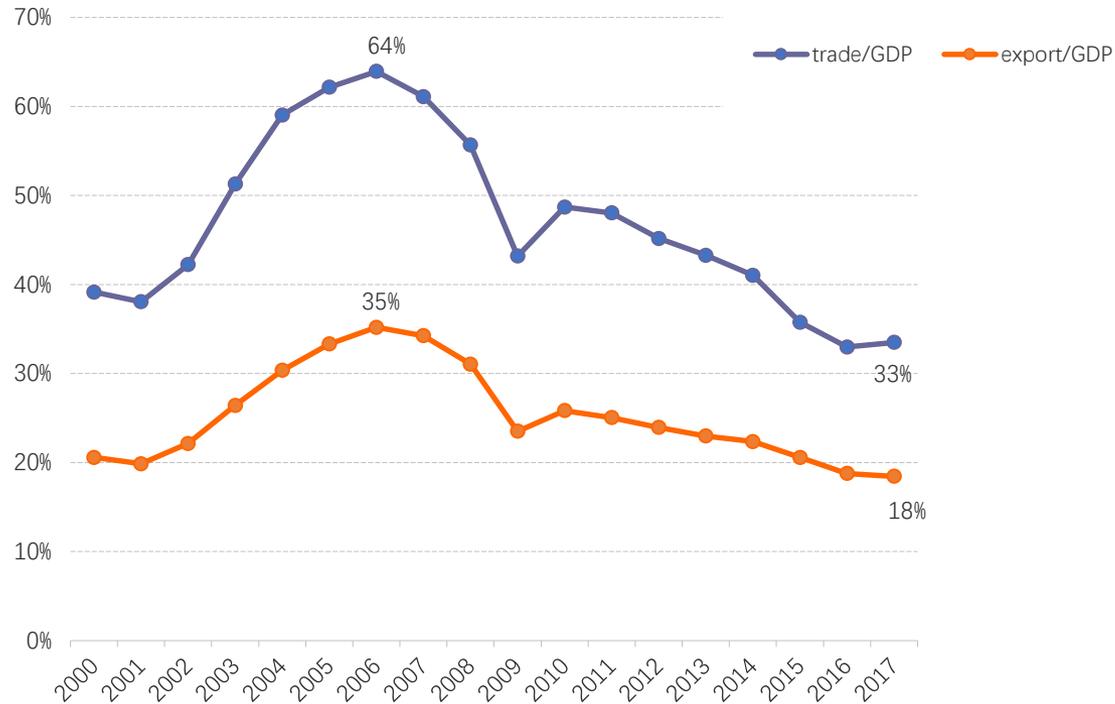
Despite all the problems, China's external economy has become more or less balanced now



How the rebalance was achieved?

- Expansionary monetary and fiscal policy-facilitated massive infrastructure Investment and real estate investment since 2009
- consumer behavior has changed
- RMB appreciation of some 48% from 2005 to 2015
- Trade policy is shifting to neutral
 - Export to GDP ratio falls from more than 30% of GDP to less than 20% of GDP

The declining trade dependence



Up to 2017