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China’s economy seeks bottom amid downward pressure in 2019[1]

Proactive fiscal policy will be employed this year to meet the challenge of downward pressure

In 2019, the Chinese economy is expected to seek a bottom as a slowdown is inevitable. It is anticipated that it will stabilize at the end of the year or early next year at a growth rate of around 6.3 percent. With China's economy entering a new era, policymakers should focus more on the quality of growth in addition to maintaining a moderately high growth rate.

In 2018, the quality of China's economic development was further improved, as manifested in the following aspects: First, China's per capita GDP is approaching$10,000, and given its large population, this means China has become a huge single market; second, while the total export-import volume has reached $4.6 trillion, the balance of payments is becoming more balanced; third, the number of Chinese enterprises among the Fortune Global 500 has risen from 30 in 2007 to 120 in 2018, close to the 126 US enterprises

[1] Posted in *China Daily*, on Feb. 11st. http://www.chinadaily.com.cn/cndy/2019-02/11/content_37435490.htm

on the list; fourth, China's business environment has improved significantly; according to the World Bank's Ease of Doing Business Ranking, China moved up to 78 in 2017, and jumped to 46 in 2018.

However, it goes without saying that China's economy is also facing considerable downward pressure. On the one hand, forecasts for China's major trading partners were downgraded in 2019. The International Monetary Fund's World Economic Outlook, released in October last year, revised down the 2019 economic growth forecast for the United States by 0.4 percentage points, the eurozone by 0.1 and Japan by 0.2. Advanced economies, led by the United States, Japan and Europe, will see their growth rates fall across the board. It should be noted that after the release of the above-mentioned report, the financial markets in the United States and Europe experienced major fluctuations and adjustments, and the downward trend of the financial cycle may put more pressure on their growth. In addition, if we take into account the overdraft exports brought about by the trade conflicts in 2018, a drop in China's exports in 2019 will be even more obvious. China's exports in the first quarter will likely show negative year-on-year growth.

At the same time, China's economy is facing a lot of downward pressure domestically. First, confidence in the financial market needs to be restored. In 2018, China's financial market was hit many times; its stocks, bonds, funds and internet finance, for example, were all affected. In addition, at present, the widening credit spreads and the high degree of liquidity between banks cannot be converted into loans to enterprises and other market entities. Faced with rising market risks and faltering consumer confidence, investors prefer low-risk or risk-free asset allocations.

Second, investment in manufacturing is affected by external uncertainties, a tightening financial environment and rising costs, which has destabilized expectations and investment enthusiasm in this sector. In addition, China's real estate market is caught in a dilemma between various restrictive regulations.

Third, the growth rate of infrastructure investment slumped to 3.7 percent at the end of 2018, compared with 20 percent at one point in 2017. So this year, with shrinking external demand and faltering confidence in manufacturing, will infrastructure investment pick up and play the role of stabilizer?

We can grasp China's overall economic policy in 2019 by tracing the changes made during 2018 and by analyzing the latest statements from the Central Economic Work Conference held in late December 2018.

First of all, a more proactive fiscal policy will be adopted to stabilize manufacturing and infrastructure investment. For the manufacturing industry, larger tax cuts are necessary to make it more profitable. For infrastructure investment, the main source of financial support will be the issuing of special bonds by local governments. It's estimated that in 2019 incremental bonds of this kind may exceed 2 trillion yuan($295 billion).

By increasing the special bonds issuance of local governments, it will be helpful to close the "back door" (raising funds through illegal activities) at the local level, and open the "front door" (bond issuance) wider to ensure capital in infrastructure and manufacturing as well.

Second, the main mission of monetary policies in 2019 will be to maintain reasonable and sufficient liquidity in the banking system and to improve the monetary transmission mechanism.

As noted earlier, there's sufficient liquidity in China's interbank market. Still, risk assets have been abandoned and credit spreads remain high. This requires the concerted transmission mechanism of monetary policy.

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