THE CHINESE ECONOMY IN 2019/2020: A ROCKY ROAD AHEAD

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Executive Summary

1. China's economy has decelerated for 10 years since 2010. Annual growth in gross domestic product (GDP) decreased from 10.6% in 2010 to 6.1% for 2019. The outbreak of the "COVID-19" virus will without doubt impact negatively on China's economy in 2020.

2. China's slow investment and consumption growth in 2019 was a result of weak business and consumer confidence amid rising uncertainties due largely to the China-US trade war. China's trade performance was mixed. Net export expanded, thanks to a decline in import. However, overall trade volume declined, putting negative pressure on employment.

3. From a sectoral perspective, while output growth in primary, secondary and tertiary sectors continued to slide since the beginning of the decade, the decline was most evident in the tertiary sector. A bright spot is the services sector, such as Information, Computer and Technology (ICT) services that expanded by nearly 20% in 2019.

4. Various factors underlined China's growth deceleration in the last decade. While technological gap is narrowing, there remain potential gains from productivity improvement. There is also a lack of commitment to push for necessary reforms, such as for the state-owned enterprises.

5. The Chinese government has accepted lower growth and adopted policies to facilitate structural changes and productivity gains. China has diversified its development objectives and stressed efforts in improving the business environment, innovation and mass entrepreneurship as drivers of growth.

6. The Chinese economy continues to face challenges, including contradictions in government's objectives and policy measures such as continued reliance on the state sector and state-directed allocation of financial resources. This reliance discourages the development of its more innovative private sector.

7. The year 2020 will be a more challenging year for China's economy. The weak 2019 economic outcome means less profit for businesses and slower income growth for households, worsening confidence. New negative shock such as the on-going coronavirus outbreak is creating new risks for the economy as the severity and length of the outbreak remain unknown.

8. A positive development in early 2020 was the Phase 1 trade deal between China and the United States which helps to reduce uncertainties in trade. BREXIT also works to reduce policy uncertainties for the world economy.