

Positive outlook amid global growth

China's focus on innovation, supply-side reform and more open markets points to favorable economic environment in 2018

By LOUIS KUIJS

China should face a relatively favorable external economic environment next year as global GDP growth is expected to increase to 3.2 percent in 2018, according to our (Oxford Economics) estimate. While global import growth is likely to slow next year, it should remain higher than in 2015-16, supporting export growth.

Domestically, policymakers are expected to remain focused on reducing financial risks and deleveraging parts of the financial system.

But China's leadership is likely to remain committed to doubling GDP between 2010 and 2020. As a result, China's GDP growth target for 2018 is likely to be "around 6.5 percent" and policymakers may make efforts to gradually, rather than suddenly, slow down credit growth in the coming years.

Reflecting the gradual tightening of monetary and financial policy, China's domestic demand is expected to cool down next year, especially in real estate and infrastructure investment. With consumption momentum remaining solid and outpacing investment, real GDP growth should ease from

6.8 percent this year to 6.4 percent next year.

While consumer price inflation is expected to rise in 2018, it should remain below the People's Bank of China's likely 3 percent target, and thus may not have major policy implications.

And the sharp rise in output prices in heavy industry — boosted by recent production cuts to reduce pollution — is likely to moderate significantly in 2018. But, after having remained very limited, we expect spillover into output prices in other parts of the economy to increase somewhat, adding to inflation.

Assuming the US dollar remains broadly unchanged against other major currencies next year, the yuan should hold its own against the greenback. But China is not likely to swiftly relax its policy on outflows because net financial outflows remain sizeable.

And if the foreign exchange market faces renewed pressure, policymakers are likely to more forcefully clamp down on outflows instead of allowing significant currency depreciation.

Other key risks are the faster slowdown in the real estate sector and trade friction with the United States. The Donald Trump-led US

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administration remains unhappy with US-China trade relations and is exploring ways to take policy actions that it believes will force change, including creating more barriers against Chinese exports.

While addressing the 19th National Congress of the Communist Party of China (CPC) in October, General Secretary Xi Jinping called for “more emphasis on quality and equality as opposed to quantity” in the decades ahead. The quality and equality aspects will influence China's economic policy in the next 10 years.

One area of focus is on innovation, Made in China 2025 — an initiative to transform China's manufacturing sector — and moving up the value chain. Policymakers are also expected to make greater efforts to further increase people's access to healthcare, education and pension, as well as to better protect the environment and ecology.

Xi also said China will further open up its economy and markets. The recent move to remove foreign ownership limits on banks and raising those on other financial institutions to 51 percent underscores this commitment.

That Xi also vowed to strengthen socialism with Chinese characteristics in the country means a greater

role for State-owned enterprises (SOEs) in the economy and their adherence to the CPC leadership.

China's pursuit of an economic model with a tight link between the State and businesses could complicate its further integration in the global economy in the coming decades, as the rules that govern the current international trading and investment system are based on a separation between states and the corporate sector.

China's leadership also seems committed to continuing “supply-side reform”, including cutting capacity and production in heavy industry, partly in order to reduce pollution. While this will weigh on growth of industrial output and corporate investment, it should continue to support profit margins.

The supply-side reform overlaps with the SOE reform, with efforts to improve profitability and close down “zombie enterprises” leading to capacity consolidation, closure and mergers and acquisitions among SOEs.

But SOE reform will remain guided by objectives such as ensuring that the SOEs remain pillars of the economy.

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Japan rightists distort history

Beijing-Tokyo ties cannot improve amid Abe's nationalist 'dream' and denial of war crimes

By WANG PING

Politicians and bureaucrats have the historical responsibility to lead their people toward a new future. This year marks the 80th anniversary of the Nanjing Massacre.

The National Memorial Day of the Nanjing Massacre — committed by Japanese troops during the War of Resistance against Japanese Aggression — was observed on Dec 13. The Chinese people hope Japanese right-wing politicians would accept history and be cautious with their words and deeds at this sensitive time.

Japanese right-wing politicians' comments and activities are mostly responsible for the setbacks in Sino-Japanese relations. These politicians do not have any sense of history or strategic vision.

Of late, when China-Japan ties were showing signs of improvement, about 60 Japanese lawmakers chose to visit the Yasukuni Shrine, which

honors among others 14 Class-A war criminals, casting yet another shadow on bilateral relations.

Japanese politics and diplomacy display two weird phenomena: Right-wing politicians holding on to their warped view of history and the government turning a blind eye toward their activities while pursuing an equally biased form of diplomacy.

The problem with Japanese right-wingers is not limited to their frequent visits to the Yasukuni Shrine; they refuse to acknowledge Japan's war past and the atrocities Japanese troops committed in many Asian countries, including China, before and during World War II.

Japan still refers to those military aggressions as “that war”, which means it refuses to repent for its past actions that made life hell for people in China, Korea and many other Asian countries and regions.

The Japanese government deliberately blurs the fundamentals, such

as “the cognition to history” and “the responsibility for the war”. Due to changed amnesty rules for imprisoned war criminals in the 1950s — which reduced the period required for eligibility for parole of those serving sentences from 15 years to 10 years and “pardoned” those dead — almost all the Class-A, Class-B and Class-C war criminals were rehabilitated by the end of 1958.

Japanese Prime Minister Shinzo Abe once said it is ridiculous to consider the A-Class criminals as such if they were not honored in the Yasukuni Shrine. And if the Japanese prime minister says so, why would not right-wing politicians follow him?

Abe has focused the most on education and security during his two terms in office, in an effort to revise Japan's pacifist constitution and build a country with great “national pride”. But since Abe's “dream” runs counter to history and Japan's pacifist constitution, the road to achieve

his Japanese dream is doomed to be bumpy.

Moreover, Japan's right-wing forces have no idea how to bridge the social gaps and maintain ties with other countries, especially in Asia. And given the right-wingers' biased historical view, it is impossible for Japan to maintain good relations with its neighbors.

As for Japanese diplomacy, some scholars say it lacks “philosophy” and “direction”, which reflects badly on Japanese politicians.

Looking back at Sino-Japanese relations during the past 20 years, Japanese right-wing forces have always thwarted China's attempts to deepen relations with Japan.

From September 2009 to June 2010, when Democratic Party leader Yukio Hatoyama was the Japanese prime minister, Japan greatly improved its relations with Asian countries, including China. But on Sept 11, 2012, when Yoshihiko Noda, another Democratic Party leader,

was the prime minister, the Japanese government “nationalized” China's Diaoyu Islands, dealing a massive blow to Beijing-Tokyo ties.

Japan considers China a potential rival and follows the United States' strategy to curb China's peaceful rise. If Japan persists with this distorted policy, Sino-Japanese relations will never improve.

Japan has vowed to give shape to the US-led “Indo-Pacific” diplomatic strategy from next year to challenge the China-proposed Belt and Road Initiative to revive the ancient Silk Road routes. India is also on board the so-called Indo-Pacific plan, in order to form a quadrilateral “alliance” with the US, Japan and Australia, which puts a question mark on whether Asia's three powers, China, Japan and India, will work together to revitalize the region.

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