Benedict Bingham, country director for China, Asian Development Bank.

Liu Chang, China economist, Capital Economics.

Patrick Cooke, regional editor for Asia, Oxford Business Group.

Rajiv Biswas, Asia-Pacific chief economist, IHS Markit.

ECONOMY:

China to remain the world's most important growth engine in 2019

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China's steady growth is the culmination of the four decades of reforms that saw the country transformed into the world's second-biggest economy. It is also fitting that China is observing the 40th anniversary of reforms and opening-up by formulating policies that can keep the economy on an even keel as it surges forward to a more advanced economy, according to analysts interviewed by *China Daily Asia Weekly*.

Benedict Bingham, the ADB's country director for China, said the importance of both household consumption and the services sector as drivers of growth underlines China's rebalancing from an investment- and export-led economy. This is because of the country's transition from a 'high-growth' economy toward a 'high-quality growth' economy.

Private consumption accounted for nearly 80 percent of the country's GDP, while the services sector contributed 60.8 percent to GDP growth in the first three quarters of the year, according to China's National Bureau of Statistics.

For Patrick Cooke, regional editor for Asia with London-based research firm Oxford Business Group (OBG), China's move to develop advanced industries and highly skilled human resources means that "long-term, sustainable growth is well underway".

"The goal of shifting from fast-paced to high-quality growth makes sense for China at its current stage of development and has profound implications for the global economy," Cooke said. This is because China now accounts for 30 percent of the world's GDP growth.

China will "remain the most important growth engine for the world economy in 2019 as well as over the medium-term outlook" given its significant contribution to global GDP, according to Rajiv Biswas, Asia-Pacific chief economist with IHS Markit, a London-based global information provider.

China launched economic reforms in 1978, and in the next four decades implemented key policies that bolstered foreign investment, encouraged entrepreneurship, and lifted more than 700 million people out of poverty.

But it is not only China that has benefited from its years of rapid growth. As President Xi Jinping noted during the grand gathering that marked the 40th anniversary of China's reform and opening-up, the nation's development has provided successful experience and offered bright prospects for other developing countries.

"The practice of reform and opening-up over the past 40 years has shown that openness brings progress, while seclusion leads to backwardness," Xi said in his Dec 18 speech delivered at the Great Hall of the People in Beijing.

More openness

Xi, also general secretary of the Communist Party of China Central Committee, reaffirmed China's commitment to opening up even more, and pledged to support the building of an open, transparent, inclusive and nondiscriminatory multilateral trading system, facilitate trade and investment, and promote more openness amid ongoing economic globalization.

Xi also chaired the Dec 13 meeting of the Political Bureau of the CPC Central Committee. According to the statement issued after the meeting, Chinese leaders vowed to stabilize employment, the financial sector, foreign trade and investment to sustain economic growth.

Analysts expect that a trade deal with the US, combined with more expansionary fiscal and monetary policies, will be in line with China's pursuit of high-quality growth in 2019.

"Chinese policymakers will continue to seek a delicate balance between supporting the Chinese economy and maintaining financial stability, even at a time when it faces rising external challenges due to US-China trade tensions," Fitch Solutions Macro Research said in its latest report on China's economic reforms.

Fiscal and monetary policies were tightened in the first quarter of the year as the Chinese government stepped up efforts to tackle financial risks. This resulted in a crackdown on shadow banking, lower infrastructure investments, and reduced monetary subsidies for shantytown renovation.

Mid-year the government calibrated macro policies which are expected to remain in place in 2019.

One of the most crucial fiscal policies is the reduction in personal income taxes as this is seen to boost China's consumption-driven economy.

The personal income tax reform increased the tax threshold from 3,500 yuan ($508) to 5,000 yuan starting Oct 1. Japanese investment bank Nomura estimates that these tax cuts will help Chinese taxpayers save 436 billion yuan annually and consequently boost economic growth.

"Taking into account a 55 percent marginal propensity to consume, the individual income tax cut could boost consumption by 240 billion yuan, which could raise GDP growth by 0.3 percentage points in 2019," Nomura said in its annual outlook report for Asia.

A senior official from the State Administration of Taxation told *China Daily* that individual income tax reduction will be on top of the government's task list next year. The upcoming policies will also include tax exemptions for small and medium-sized companies and high-tech enterprises.

Zhang Lianqi, a member of the Standing Committee of the Chinese People's Political Consultative Conference, the nation's top political advisory body, told *China Daily* that a "more proactive fiscal policy, especially more aggressive tax cuts" will encourage investments in manufacturing and fixed assets.

UK-based banking group HSBC said in its *China in 2019* report that China is likely to use tax cuts "as a policy tool to cushion growth".

"There is room for a meaningful tax cut, particularly with regard to value-added tax (VAT)," HSBC said, noting that improvement in tax administration gives China more room to reduce tax rates.

"In addition to VAT cuts, we believe corporate income tax and social security tax cuts would also be helpful," Nomura said.

China's central bank, the People's Bank of China (PBOC), which this year slashed the level of cash reserves that banks must hold, is seen to make further cuts next year to encourage lending and inject more liquidity into the market.

As of early December, the PBOC has cut banks' reserve requirement ratio (RRR) four times, for a total of 250 basis points.

Zhu Haibin, chief China economist and head of China equity strategy at New York-based investment bank JP Morgan, sees the PBOC reducing RRR by 100 basis points and allowing a modest depreciation in the yuan.

Nomura expects the PBOC to cut RRR by 250 basis points by the end of 2019 and to increase commercial bank loan quotas to stimulate private lending.

China-US hopes

Infrastructure investments will be rising next year following the National Development and Reform Commission's approval of big-ticket projects in the latter part of this year.

Analysts are also hopeful that these policies will be complemented by a favorable outcome in the ongoing trade negotiations between China and the US.

In September, the administration of US President Donald Trump decided to slap tariffs on $250 billion worth of Chinese goods. China retaliated by imposing tariffs on $60 billion in US goods.

The trade tension was earlier expected to dampen Chinese exports as the US is China's biggest export market. But official data showed that exports continued to grow despite the conflict.

The General Administration of Customs said exports rose 8.2 percent year-on-year to 14.92 trillion yuan in the January-November period, according to Xinhua News Agency.

"The trade conflict between the US and China is a headwind, though a small one at present," said Liu Chang, China economist of the London-based research consultancy firm Capital Economics.

Liu told *China Daily Asia Weekly* that the $250 billion worth of Chinese goods that were slapped with US import tariffs only account for "a little over 1 percent" of China's GDP.

Zhu of JP Morgan said in his research notes that China's "export sector growth had held up relatively well", thanks to sustained global demand, possible front-loading of shipments to the US and the weakness of the yuan that made Chinese exports more globally competitive.

Despite the minimal effect of the trade conflict, analysts still welcomed the 90-day truce that Xi and Trump reached during their meeting in Argentina on Dec 1.

"Looking ahead, the temporary truce in the tariff war following the Trump-Xi G20 meeting (in Argentina) suggests the expected slowing in export activity going into (the first quarter of next year) could be postponed somewhat," Zhu said.

"The diffusion of trade tensions between the US and China would impact Chinese economic growth in 2019 in a positive way," said OBG's Cooke.

Biswas of IHS Markit said a breakdown in the US-China trade truce is a "key downside risk" for China's growth next year.