Goals for a Global Economy

By Kerry Brown

The annual work conference on China's economy was convened in Beijing in mid-December 2016. The outcomes are important for two reasons: the huge unpredictability in the current global political and economic situation, and the preparations being made for the 19th National Congress of the Communist Party of China (CPC) in late 2017.

On the overall assessment of where China now stands, the economic front is deemed as being OK. Some aspects reflect slowing growth that was inevitable after so many years of double-digit success. Indeed, 6.5 percent GDP growth for an economy the size of China's is still a good result.

However, a lot of things have to come out of that 6.5 percent—10 million new jobs a year, for a start, and higher services output. Consumption by the middle classes in the cities has crept up, but still remains too low. The bottom line is that, despite all sorts of reforms and stimulants, Chinese consumers are not performing as they should in order for the country to have a balanced, mixed and more stable economic model in coming years.

This is partly because of the other issues to which the work conference alluded, such as the need for a more comprehensive social safety net.

China currently spends 5 percent of its GDP on healthcare—half the level of a country like the UK, and a third of the U.S. rate. Yet, it is suffering the same kinds of health issues seen in developed economies—rising chronic diseases associated with obesity, smoking and overall lifestyle patterns.

Mental healthcare is as much a challenge in China as anywhere else, but with very few resources committed to tackling it so far. As China advances toward the achievement of the goals set for 2021 (the centennial of the CPC's founding), these will need to be addressed somehow.

And while the state has a framework in place, mapped out in the current 13th Five-Year Plan (2016-20), it will need a number of associated changes, from reforms in the fiscal and tax system to attempts to set up a more efficient and potentially customer-based healthcare sector.

The 2016 conference placed stability as the key demand. However, one of the problems unforeseen even a few weeks ago is the rise in external uncertainty, making the work of policymakers even more challenging.

The appointment by U.S. President-elect Donald Trump of Peter Navarro as one of his chief economic advisors should give pause for thought. Navarro has been a consistent critic of China, and has demanded action on the Chinese currency's exchange rate and on the exports of a wide range of goods to America.

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Many of these ideas are hawkish. The likelihood is that when Trump becomes president proper in late January 2017, these ideas (some of the few about which he was consistent during his divisive and often chaotic campaign) will be among the first he attempts to implement.

For China, the rebuttal argument must be its principal role in the global economy as a source of growth, not just for itself, but for others. It has to demonstrate that the development of consumption and of a domestic services sector in China will be things that the outside world will be part of and from which all will be able to benefit.

In many areas, this should be an easy enough thing to do. Expertise from foreign services companies and brands is something perceived as having value in China. The problem, however, is that it will be a number of years before these things can really take off.

The 2016 Central Economic Work Conference alluded to some of the reasons for this—the need to set up a better legal system in the commercial area, the problems of addressing debt for state enterprises and local governments, and the need for more fiscal discipline.

China is now intrinsically a global actor, and its economy is a global one. Falls in growth and failures in China have ripple effects across the world. The tone of policymakers throughout this year has been cautious. Reform has to happen, they seem to be saying, but in a managed and controlled way.

They go into 2017 with even greater pressure, even more uncertainty and even more global prominence. These challenges are, of course, also opportunities. If China can navigate the issues outlined in December in a coherent, step by step manner, then its influence and global centrality will have never been more evident.

One thing is for sure: The other major economies will need to follow China very closely. China's problems and challenges are also theirs. On that, at least, no one disagrees. ■

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