In Case You Missed It: CSOP's Weekly China Wrap Up

China's sees 6.9% GDP growth in the first quarter of 2017[1]

China's GDP growth accelerated in first quarter of 2017, boosted by strong domestic consumption, property market expansion, infrastructure investment, credit growth, and exports. The economy kicked off 2017 with the strongest performance since mid-2015; China's GDP grew 6.9% year-over-year (YoY), beating government guidance of ~6.5%. Nominal GDP also surged 11.8% YoY, which onlookers worry might herald coming inflation.

The growth, disaggregated

Consumer:
Disposable income grew 7.0% in the quarter, contributing to 10.9% YoY retail sales growth. As compensation for lagging auto sales growth, property-related consumption (i.e. furniture) exhibited strong momentum, helping drive the retail figure.

Infrastructure and real estate:
Fixed asset investment grew 9.2% YoY. Despite ongoing efforts to cool China's property market, real estate investment also grew 9.1%. Of particular note, Beijing's housing market experienced 24% YoY growth while Shanghai saw a 25% YoY increase.

Credit:
No GDP analysis would be complete without mention of credit. China's March aggregate financing rose RMB 2.12 trillion (USD 300 billion).[2, 3]

A rosy road ahead

The strong performance is anticipated to continue for the next several months due to several factors: outperforming Q1 export figures; the diminished prospect of a Sino-US trade war; a weakening RMB (anticipated); successful supply side reforms; and a mild CPI figure, which allows the PBOC to continue its accommodative monetary stance. Additional stimulus looms near in the newly-announced Special Economic Zone in Xiong County, which is expected to draw infrastructure investments up to RMB 2.4 trillion, more than 8 times of the total investment in 2008 Beijing Olympics, according to Morgan Stanley.

…but some roadblocks remain

Some analysts believe that China should seek to underperform the Q1 figures for the remainder of 2017, arguing this quarter's results are reliant on debt rather than real economic growth. The Financial Times reports that China's credit is growing at twice the rate of the underlying economy, leading skeptics to charge that Beijing is leaning too heavily on old growth drivers like infrastructure, steel, and property as vehicles for stimulus.

RMB 380 billion tax cut package announced for startups and small business owners

China's State Council announced a tax reduction package of RMB 380 billion (USD 55 billion) for small business owners and start-up companies. Among the measures, the number of value-added tax brackets will be cut from four to three, and the minimum taxable income threshold for small businesses will increase to RMB 500,000 (USD 72,000) from RMB 300,000 (USD 43,000).

Why tax reform?

Premier Li vows that the reforms will improve the domestic business environment, encourage innovation, and help retain business. China's notoriously high business tax rate has long drawn criticism from both domestic and overseas business owners. Evidencing the issue, one outspoken entrepreneur has calculated China's comprehensive tax rate to be 35% higher than the United States'.

The excessive tax burden is not a new problem. China's tax income has grown 10% YoY since the early 1990s. Even after a comprehensive RMB 570 billion (USD 83 billion) tax reduction package was announced amid last year's slowing economy, China's income tax was nonetheless raised 4.6% in 2016.

A signal of a wider policy shift?

President Xi emphasized reduction of the tax burden as a key pillar in China's ongoing supply-side reforms. The measures evidence the gradual shift from monetary to fiscal stimulus, an attempt to rein in the country's abundant liquidity. Although China's first quarter saw strong GDP growth of 6.9%, it remains unclear whether the growth can continue at such a rate. An accommodative fiscal package will be one measure, among a wider array of structure reforms, to ensure the economy continues its impressive trajectory.

Anti-Corruption vice minister under investigation for graft

The Central Commission for Discipline Inspection (CCDI) announced that its vice-minister Zhang Huawei was under investigation for "severe disciplinary violation," a common euphemism for graft. Zhang is the most senior anti-graft official probed this year.

Who is Zhang Huawei?

As a CCDI veteran, Zhang audited several high-profile cases including Hunan Province, Liaoning Province, Renmin University of China, General Administration of Sports, and major state-owned power-generation firms like China Huadian Corporation, China Datang Corporation, and China Guodian Corporation. In the Liaoning Province vote-buying scandal alone, 45 national lawmakers and 523 provincial lawmakers received punishment.

Caixin reported that Zhang's investigation may be related to the recent crackdown involving the Chairman of China Insurance Regulatory Commission (CIRC) and Assistant to the Chairman of China Banking Regulatory Commission (CBRC). Some onlookers believe that Zhang abused his power and leaked confidential information in exchange for favors. Wang Qishan, the commander-in-chief of the ongoing anti-corruption campaign, has vowed to uncover the leakers. So far, 38 anti-corruption agents have been disciplined since 2012, according to Wang's speech last December.

Longer-term implications

CCDI's ongoing efforts to "clean one's own doorstep" could manifest in creation of a National Supervision Commission, a behemoth tasked with consolidating China's disparate corruption-fighting bodies into a single entity. Creation of the new structure could also be used to justify retaining famed graftbuster Wang Qishan past the traditional retirement age when the party meets for its leadership reshuffle this November.

New regulations require public officials to disclose personal information and report assets

China's central government issued new rules requiring officials at the deputy county level and above to disclose personal information about their marital status, overseas travel history, criminal records, family income and financial assets such as properties, stocks, funds and insurance. Officials will be subject to random audits; failure to comply with the regulations will jeopardize promotions and subject violators to disciplinary action.

Why are the rules needed?

The new rules are the latest effort to tackle the rampant corruption plaguing the public sector, a scourge viewed as an urgent and existential threat to China's continued development. At present, China's officials are not required to publically disclose assets. However, much of China's corruption involves officials using friends' and relatives' names to purchase property and register new businesses, allowing them to leverage their status to amass wealth while avoiding detection for improprietous behavior.

Onlookers generally support the new rules. They acknowledge that the presence of family assets in drastic excess of individual salary are usually a warning signal for corruption, and are pleased that high-profile senior officials and junior staff alike will be targeted.

Some critics remain wary, however, alleging that corrupt officials will deliberately conceal implicating information, rendering the proposed rules ineffectual.

One Belt, One Road summit to convene in May, bringing 28 state leaders to Beijing

A China-initiated One Belt, One Road (OBOR) Summit will be held from May 14 to May 15, bringing 28 state leaders and 110+ country delegates to the Beijing-based conference. The star-studded attendee list includes the Presidents of Russia, Malaysia, Indonesia, Vietnam, as well as the Prime Minister of Malaysia. Italy's Prime Minister is the only attendee representing a G7 state, while leaders from the United States, Canada, United Kingdom, Australia, Japan, Germany and France are likely to abstain.[4]

Reasons for the absence of Western powers

The event's supporters primarily hail from Asian and African nations. Several factors contribute to the absence of Western leaders.

1. As infrastructure initiative aims to recreate historical Silk Road trading routes, OBOR's biggest beneficiaries are naturally the countries surrounding China's border as well as African nations in need of Chinese investment.
2. The past year has produced a backlash against global cooperation and trend toward and nationalist policies in many Western nations, resulting in a concerted focus on the domestic political scene.
3. The attendance of controversial leaders from Russia and Turkey has deterred Western participation at the highest levels; leaders have expressed unwillingness to appear on the same stage with political adversaries.

In response to the West's apprehension, China's Foreign Minister has rebranded the summit as a forum for global economic cooperation rather than a referendum forcing nations to choose sides. To save face, also reiterated that cabinet members from Western countries will attend despite the absence of Presidents and Prime Minster-level figures.

Notes:

1. GDP: Gross Domestic Product
2. RMB: Renminbi, the national currency of China
3. USD: US Dollar, the national currency of the United States
4. G7: Group of 7, an informal bloc of industrialized democracies comprised of the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom