

How will the 19th Congress change China?

China will become more wealthy but before that, there will have to be more investment in technology which means more debt



Source: Shutterstock

The 19th Congress has envisioned the broad use of technology from production to consumption. That means investment in technology will increase and would probably be classified as infrastructure investment, e.g. extending telecommunication networks into the rural region.

However, this is not without its risks. This echoes the People's Bank of China Governor Zhou's sentiments that local governments are spending more than they can repay in the future. Government debt is now under the radar.

Retail sales shows a promising consumption story. Catering continues to grow steadily at around ten percent year-on-year, which hints that the middle-income class has spare cash for dining out. But this is just today. In the coming years, consumption is expected to grow tremendously if the 19th Congress's plan to narrow the urban-rural difference continues. Spending from rural consumers was only 14 percent of total retail sales in the first three quarters of 2017 which means there is a lot of room to grow.

The 19th Congress blueprint

2018-2020

The blueprint

- Build a middle-income class
- Coordinate economic growth with education, talent, innovation, the rural economy, regional growth and environmental sustainability.
- **Avoid systemic risks**

What we expect

- Deleveraging in the corporate & financial sectors to continue, in turn pushing up interest rates
- Anti-corruption will continue
- This would likely lead to changes in the management of State Owned Enterprises (SOEs)

2020-2035

The blueprint

- Increase **technological** ability, aiming to become one of the most innovative countries
- Raise the proportion of middle class citizens
- Narrow the difference between urban and rural development
- Improve environmental sustainability

What we expect

- Household robots would be more common
- But we worry there would be overcapacity in the technology sectors

2035-2050

The blueprint

- Establish a modern society
- Become an influential country in terms of economic power and role on the international stage

What we expect

- To be an influential country, the Yuan would have been internationalised with few capital controls. Before then, interest rates would become market driven.

Source: ING

There are three main hurdles to overcome

We think the blueprint could potential be achieved earlier than 2050 given that Xi has consolidated power to execute his plan. But there are risks, and we see three main hurdles that will need to be overcome:

1 Hurdle 1: A build-up of central and local government debts

Technology needs more infrastructure investments but the preparation stage requires the government to spend a lot of money. This will put pressure on gross government debt.

2 Hurdle 2: Narrowing the wide urban-rural living standards gap

Given the gap between urban and rural livings standards is already wide, this will be a challenge.

Incomes are rising slightly faster in rural areas (8.7% vs. 8.3% in urban centres), but the level of urban disposable income is still 2.8 times that of rural. Likewise, consumption is 2.3x higher, albeit as with incomes, spending is growing more rapidly in rural areas (8.6% annual growth vs. 6.2%)

Hurdle 3: Beware of trade and geopolitical conflicts

Other countries would feel the threat in terms of economy size, development of technology, and beefing up military power