

Xi outlines vision for a high-tech, middle class economy

Xi's plans could mean China maintains its current 6.5% growth path for longer



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At the 19th Congress, Xi laid out his economic vision for 2035 to achieve a nationwide middle-income class, and to grow technology to a level that would be considered advanced among other economies.

We believe China has the ability to achieve this plan. But there's a risk that wages could stagnate outside of the high-tech sector, potentially delaying the resulting growth. Though the economy is set to be more consumption-based, workers in the service sector are usually among the lower paid. A more complete social security system across the whole nation could be one answer to this issue, but it would be very challenging given the current taxation sharing between the central and local governments.

In other words, the challenge is to improve rural living conditions and this echoes to Zhou's comment over the weekend on his worry of local government debt.

The focus of local government officials is usually on pro-infrastructure investments, and if they need to take care of an additional mission to improve rural living conditions, then local government debts among rural cities would increase. This would challenge the implicit contingent liability on the central government.

In terms of politics, Xi spent around an hour on emphasizing that the Party needs to become less corrupt. He signalled that there is zero tolerance towards corruption within the Party, and there will be new laws to penalise corrupt behaviour.

To us, this suggests Xi is sure that he now has the power to fight against even officials higher up the hierarchy if they have been involved in corrupt activities. It also suggests that Xi has already consolidated his power in the Party.

In short, China's annual economic growth could maintain the current path of around 6.5% for a longer time (maybe even for the next 5 years), albeit with high risks of rising local government debt, and would become more sustainable if corruption is reduced.

Author

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com