CHINESE ECONOMY FORECAST TO SLOW DESPITE CONSUMER MARKET GROWTH

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China’s annual economic growth will continue to slow over the next 15 years as its population ages and growth shifts from being driven by exports to a full-fledged consumer market.

China’s GDP, which will grow by 6.5 percent this year and 6.3 percent next year, will slow to 5 percent annual growth by 2030, said Rajiv Biswas senior director and chief Asia-Pacific economist for IHS Economics and Country Risk Group.

“An aging population and declining productivity is having an impact on its ability to grow,” Biswas told a JOC Webcast Thursday called “Asia Trade and Midyear Review and Outlook”.

But even with slower growth by 2030, “it is a much bigger economy by 2030 so a 5 percent growth for the world’s number two economy is still a pretty good growth.”

Biswas said major risks to near-term economic growth include the recent collapse in share prices on the Chinese stock markets, the declines in real estate prices across all regions, and the extraordinary bank debt that had fueled earlier booms in the prices of shares and real estate.

Chinese stock prices have declined by 30 percent since the middle of June, following a 150 percent run-up since November. “Chinese regulators have been acting frantically because they fear the consequences of margin calls on over-leveraged investors and the consequences that could have,” Biswas said.

“There’s still a lot of fragility in the economy, so although the slowdown we’ve seen recently seems to be stabilizing, we will need to see more stimulus measures by the government to really see it stabilize,” he said.

“China’s economy is transitioning to a slower, more balanced growth, but this still means that it is adding the equivalent of an economy the size of Switzerland every year,” said Ryan Ong, director of Business Advisory Services at the US-China Business Council.

Ong said exports, which accounted for almost half of China’s overall GDP growth after Beijing applied a huge stimulus in the wake of the 2008-2009 global financial crisis, have since fallen as a share of GDP. “That indicates part of the structural shift away from exports as the primary lead to domestic drivers like consumption.”

As more Chinese join the middle class, they are altering their consumption patterns. The Chinese middle class will triple from 2011 to 2020, after doubling in the period from 2006 to 2011 and is growing in an emerging set of urban clusters in the interior, not just along the coast, as in the past.

As a result companies that once invested in Chinese manufacturing with an eye toward exports are now planning investments aimed at China’s domestic consumer market. “Increasingly they are looking at being in China, for China,” Ong said.

More than 90 percent of the corporate members of the USCBC are looking at doing business in China to serve the Chinese market, while about a third still view it as a platform for exports to the U.S., and other markets.

Most USCBC member companies remain optimistic about the Chinese market and their ability to grow in it. Nevertheless, there are significant risks to investments in China, including, regulatory transparency, restrictions on investment and the ability to gain market access, protection of intellectual property and competition from Chinese firms.

“Intellectual property rights are a key issue for us,” Ong said. “A lot of the problems companies face is the ability to protect their IP in China and to work with central, provincial and local officials to ensure effective enforcement of IP.”

Foreign companies also face an increasing burden in complying with growing Chinese regulations. “We’ve seen this in the high-profile anti-corruption campaign launched by the government that came to power in 2013, the investigations in the competition/antitrust space, the increase in tax audits, environmental inspections as well as inspections in the human resources space,” Ong said. “All of these are manageable, but they present new areas of risk.”