# China, a balance between growth, risks and globalisation

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The National People's Congress, which is being held from 5 to 15 March, is without doubt one of the most important events in China’s political calendar. This year is especially important given that the 19th Congress of the Communist Party of China will take place in October, where we will oversee the most important leadership reshuffle since 2012, when Xi Jinping became president.

To obtain maximum support ahead of the October meeting, the Communist Party must seek a balance between the need to sustain growth and the need to reduce the risks associated with the excessive indebtedness of the economy. The authorities have therefore announced a growth target of around 6.5%, which is lower than last year, and an expansion of total social financing of 12%, limiting liquidity in the system which would have otherwise contributed to worsening existing asset bubbles. China also plans to cut steel production by 50 million tons and to implement layoffs of around half a million workers in industry versus the 726,000 of last year.

To offset the negative effects of these more restrictive policies, the authorities will have to resort to greater fiscal stimulus. According to finance minister Xiao Jie, although total indebtedness is high, public debt remains low and under control, so he envisages holding the fiscal deficit at 3.0% of GDP in 2017. The objective is the same as last year, but the measures combine investment in infrastructure, tax cuts for businesses and increased spending on social welfare. Resorting to fiscal stimulus to boost growth is not new. In fact, the government already overshot its fiscal budget by 0.8 % in 2016; and if we include all the expansion carried out off balance at the local level through LGVFs of via the network of state-owned enterprises, we could be looking at a bigger budget deficit than the one announced.

Moreover, China will have to face a less favourable external environment in 2017, brought about by higher interest rates in the US and the possibility of protectionist measures. For this reason, the authorities have announced that they will continue to pursue exchange rate liberalization, which will most likely result in moderate depreciation, reflecting existing pressures on the capital account and foreign exchange reserve fronts. Within the context of a less favourable external environment, the meetings have also stressed the need to continue promoting international trade, eschewing recent mercantilist or interventionist points of view in the developed world.

It may seem paradoxical that a country in which the market has only a minor role in allocating resources should appear to defend globalisation and liberalisation, but the logic of efficient allocation of resources prevails, and in this case, China should benefit from it.