

This newsletter is translated from the Japanese edition distributed on September 22nd.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

The Chinese economy at risk of facing several structural challenges, etc.

Global Risk Watch Vol.30
29 September 2017

=====

《index》

1. # The Chinese economy at risk of facing several structural challenges (Tsuyoshi Oyama)
 2. # Dilemma between transparency and liquidity (Shiro Katsufuji)
 3. # Deferring the debt ceiling issue to end of year (Toshikazu Kumagai)
 4. Seminars, Conference & Publications
- =====

1. Overview Macroeconomic and Financial Risks (Trends & Topics)

The Chinese economy at risk of facing several structural challenges (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy (CRMS) at Deloitte Touche Tohmatsu LLC/Deloitte Asia Pacific Risk and Capital Management Leader)

Personal consumption indices have shown some weakness lately in the US economy, but some price indicators have finally begun to show signs of strength and increase. The political arena is still in “turmoil” conditions. Nonetheless, the Federal Reserve Bank (FRB) will likely begin changing its monetary policy stance (shrinking the B/S from October, possible rate hike in December). Thanks to these changes, Europe and Japan are also in favorable economic conditions. While the president Draghi from the European Central Bank (ECB) expressed his concerns on the appreciation of the euro against the US dollar, a possible rate hike by the FRB will facilitate the ECB to get the monetary policies into normalization through tapering from January. Japan, of which economy is at its best condition except for a weak inflation trend, will also see more inflationary pressures caused by the yen’s depreciation rate as well as raising wages, and thereby enable the Bank of Japan (BOJ) to count on a more reliable course to its price targets.

Besides current conditions in developed economies, emerging economies are also generally strong and some countries growth rates are actually somewhat accelerated. Although the movements of crude oil prices are limited in the “box” range, other resource prices are moving at high levels. In addition, the decline in US interest rates that facilitate them to ease monetary policy, as well as favorable external demand are main factors behind their good economic condition.

Meanwhile, the temporary sharp increase in economic growth for China that occurred in June, is gradually slowing down in the aftermath, and the authorities are rather strengthening the current tightening policy to contain overheated asset markets. Consequently, most economists believe that the Chinese economy's growth will continue to decelerate gradually but not significantly until the Chinese Communist Party Congress in mid-October. A more important issue at this moment is how the Xi's government that further entrenches his position in the party, will try to address possible imbalances facing its economy from next year and how this will affect its economy.

The Chinese working age population has been at its peak for the last few years and this has currently placed the Chinese economy in a situation similar to what Japanese economy experienced in the early 1990s-- that is a reversal of "demographic dividend". Based on the experience from Japan, it is difficult for major players in the economy to abandon the ideas assuming the constant increase in working age population which continued for past several generations. However, at some point, the gap between the great expectations for the future economy along with continued demographic dividends and the reality is becoming hard to be ignored. This gap led to the creation and collapse of financial asset bubbles and also improper policy reactions to them, which then entailed the "lost 2 decades" of Japanese economy. It seems that China is right now trying to contend with the reversal of demographic dividends by causing "mini financial bubbles" with expansionary fiscal policies. Whether China could learn from the Japan's experience to possibly address its imbalances from next year is surely an issue that matters.

Unfortunately, "Japan's ordeal" seems to not be the only challenge facing Chinese economy . According to "**Why nations fail**" (2012) written by D. Acemoglu and J. Robinson, nations prosper when they develop "**inclusive**" political and economic institutions, and they fail when those institutions become "**extractive**" and power is held by a dominant few. At the same time, the book mentions that "for a while the state may be able to create rapid economic growth by allocating resources and people by fiat, but the process is intrinsically limited. When the limits are hit, growth stops as it did in the Soviet Union in the 1970s."

The world is now holding their breath watching how China will overcome "Soviet Union's ordeal" as well as "Japan's ordeal".

[Home](#) | [Security](#) | [Legal](#) | [Privacy](#)

Deloitte Tohmatsu Group (Deloitte Japan) is a collective term that refers to Deloitte Tohmatsu LLC, which is the Japan member firm of Deloitte Touche Tohmatsu Limited (DTTL), a UK private company limited by guarantee, and firms affiliated with Deloitte Tohmatsu LLC that include Deloitte Touche Tohmatsu LLC, Deloitte Tohmatsu Consulting LLC, Deloitte Tohmatsu Financial Advisory LLC, Deloitte Tohmatsu Tax Co., DT Legal Japan, and Deloitte Tohmatsu Corporate Solutions LLC. Deloitte Tohmatsu Group is known as one of the largest professional services groups in Japan. Through the firms in the Group, Deloitte Tohmatsu Group provides audit & assurance, risk advisory, consulting, financial advisory, tax, legal and related services in accordance with applicable laws and regulations. With about 11,000 professionals in nearly 40 cities throughout Japan, Deloitte Tohmatsu Group serves a number of clients including multinational enterprises and major Japanese businesses. For more information, please visit the Group's website at www.deloitte.com/jp/en.

Deloitte provides audit & assurance, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017. For information, contact Deloitte Touche Tohmatsu LLC.