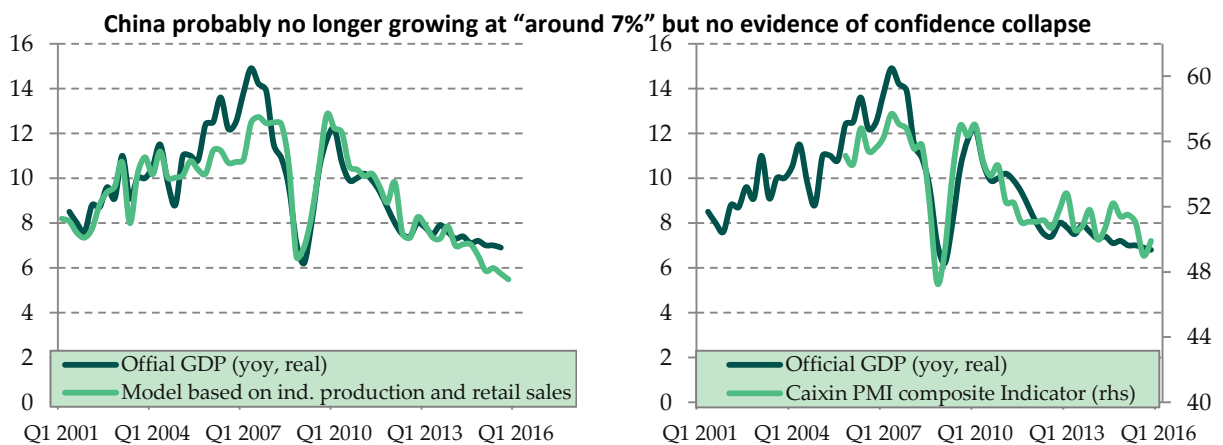


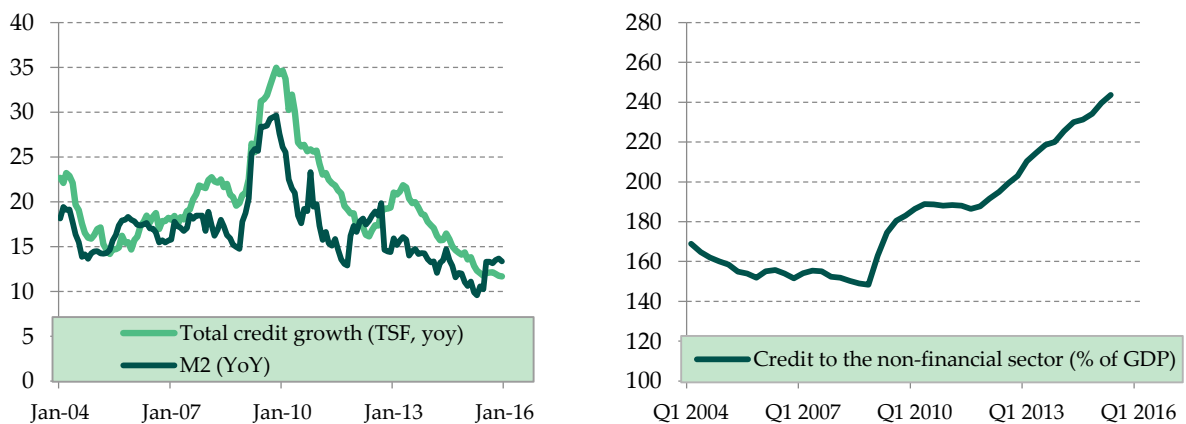
6 charts illustrating our current view on China's economy

Last August I attended an international summer school program about the sustainability of China's economy. The event took place in Beijing at the famous Peking University, the place where former Chairman Mao found inspiration in Marxism-Leninism and also an important driving force behind the Tiananmen Square protests of 1989. During one of several debate afternoons, we discussed how this gradual transition from a planned economy towards a more market-based economy could succeed without moving away from the one-party governance system. As Winston Churchill noted, democracy is the worst form of government except for all others that have been tried. It turned out there was absolutely no consensus on this. One student cited Henry Louis Mencken: "democracy is a pathetic belief in the collective wisdom of individual ignorance". I'm not sure whether that is true (or false for that matter) but he hinted at something important, namely that there is absolutely no evidence that a radical overhaul of Chinese politics would make China's economic rebalancing exercise less challenging going forward. Put differently, the statements that China faces an imminent collapse simply because there's no democracy in place, as some observers often put it, are not very convincing.

What then about most recent Chinese stock market jitters and recent RMB depreciation? Is that a sign of worse to come? We wrote about [this](#) two weeks ago and our view on this remains unchanged as illustrated by the 6 graphs below. That said, even though we don't expect an imminent hard landing, it's clear that the long-term growth trend is still very much down and that challenges loom large as explained [here](#) for example. It may be that investors are now (finally) coming to terms with this scenario which would actually be a good thing. At the same time, it's also safer to bet that hard landing fears will never completely disappear from the scene. Chinese policymakers, in turn, could arguably do a somewhat better job in communicating their strategy so as to avoid a significant amount of unnecessary uncertainty.



Signs of credit growth stabilization following looser monetary policy though still at unsustainably high levels



China's economy is in the midst of a difficult rebalancing process but not falling off a cliff

