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ECONOMY

Trade deal could boost 2020 growth above 5.7pc

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The completion of a "phase one" trade deal with the United States could push China's growth next year above current expectations, global credit ratings agency Fitch said yesterday.

Fitch repeated its September forecast that growth would slow to 5.7 per cent from 6.1 per cent this year, assuming the US implemented all tariffs announced for Chinese imports, including a new 15 per cent tariff due to take effect on December 15.

But it said a de-escalation of US-China trade tensions could change that growth trajectory.

"Recent progress towards reaching a US-China 'phase one' trade deal suggests the possible postponement or eventual removal of some existing tariffs, which could pose an upside risk to our growth outlook," the ratings agency said.

Fitch is the latest private-sector organisation to see upside potential for China's outlook.

Earlier this week, economists from American investment bank Morgan Stanley predicted in their baseline scenario, which assumes China and the US sign their phase one trade deal and some tariffs are rolled back, that China's growth will bottom out at 5.9 per cent in the fourth quarter and experience a modest recovery next year, with a full-year average growth rate of 6 per cent.

However, in the worst-case scenario, where trade war tensions increase, China's growth rate could slip to as low as 5.3 per cent next year, according to the research led by Morgan Stanley's chief China economist Robin Xing. The best-case scenario, marked by further improvement in trade relations, could see growth rise to 6.4 per cent.

Most private-sector economists still project Chinese growth will slow next year below 6 per cent, the bottom end of the government's growth target range for this year. Moreover, completion of the phase-one trade deal is not assured, with US President Donald Trump warning on Tuesday for the second time in a week that he would raise tariffs "even higher" if a deal was not reached soon.

Even accounting for a modest slowdown in growth next year, Fitch affirmed China's long term foreign currency rating at A-plus with a stable outlook, saying it was supported by the nation's "robust" external finances, its strong macroeconomic performance, and the size of the economy.

But it warned that its rating was not higher because of "large structural vulnerabilities" in the financial sector, low per capita income and relatively weak governance standards.

Credit ratings agency Fitch said a de-escalation in the US-China trade war could improve China's economic trajectory. Photo: Reuters

It scored Chinese macroeconomic policy positively, given that Beijing has limited its credit easing and relied more on transparent fiscal support for the economy. However, it warned that "a reversion to the type of credit-led stimulus that would exacerbate China's medium-term financial vulnerabilities nevertheless remains a downside risk to the sovereign rating, given Fitch's expectations for growth to continue decelerating through 2020".

Fitch added that China had room at its existing rating level to accommodate a temporary rise in higher budget deficits while external pressures subsided.

The agency also said that other governments' credit ratings were expected to be affected by a global economic slowdown as most countries were exposed to the trade war.

As a result, a number of governments are likely to ease their fiscal and monetary policies further, which may lead to a rise in overall debt, according to Fitch.