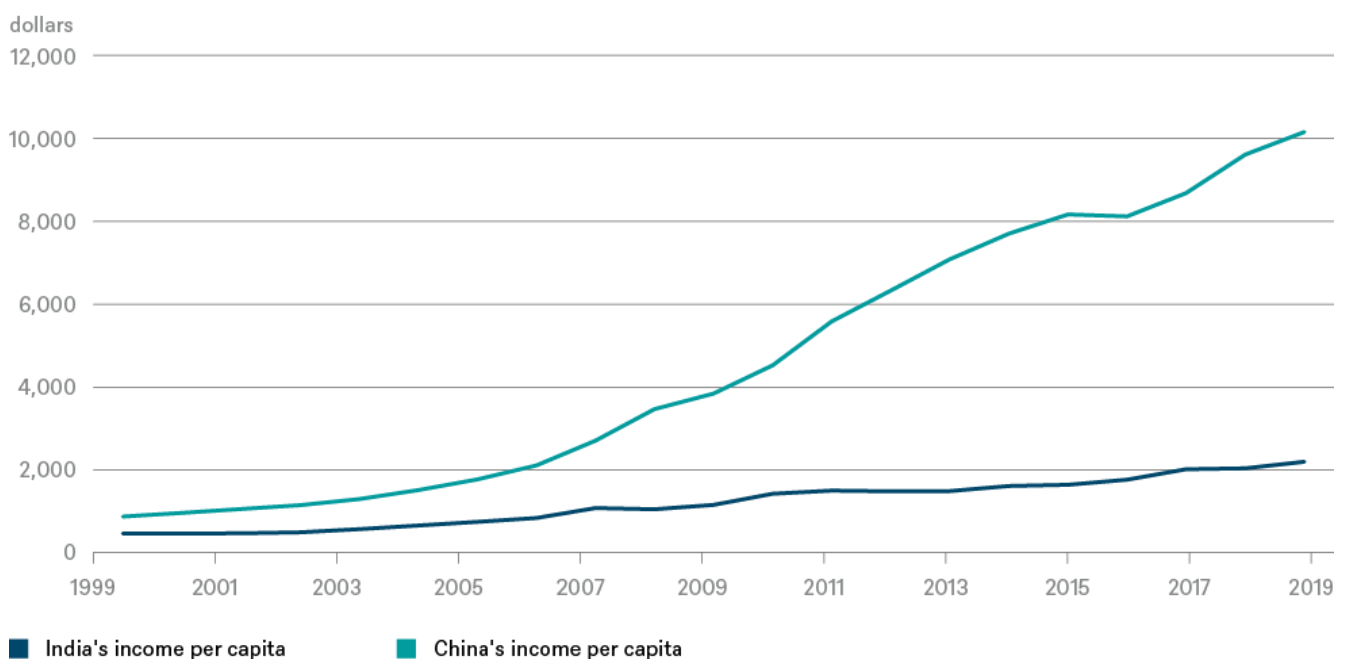


CHINA TURNS 70: NO TIME TO REST FOR THE SILVER AGER

China's development is impressive, as its income per capita shows. To keep it that way, things have to change. The United States could help indirectly.

China will celebrate its 70th birthday as a People's Republic on October 1. Rightly so, from an economic perspective, as a large part of the population has made great progress in the Republic's lifetime. The World Bank estimates that nearly 800 million people have escaped poverty in the past 30 years. Definitions and the absolute number can be debated but other data support the idea that the Republic has been an economic success story. Our "Chart of the Week" shows how China has outpaced India in one particularly important statistic: income per capita. While it has only doubled over the past ten years in India, it has increased almost threefold in China (and even tenfold over the past 20 years). This is likely to be in Beijing's interest, as fast rising incomes could help to distract people from political affairs. At the same time, China should beware of falling into the so-called "middle-income trap". This is what the World Bank calls the danger to emerging countries of getting stuck in the middle-income sector (roughly, an annual income of less than 15,000 dollars). This means being no longer cheap enough to have a significant competitive advantage in labor-intensive exports and at the same time not attractive

enough to entice (or retain) the kind of people whose expertise and innovation skills could create new competitive advantages. We believe that Beijing is aware of this danger. And there are good reasons to believe that the country will be able to escape the potential trap better than other countries. The "Made in China 2025" strategy aims to turn China from a cheap workbench into a producer of higher-value goods and services. Xueming Song, China economist at DWS, comments: "Against this backdrop, the trade dispute with the U.S. is a double-edged sword. On the one hand, it forces China to accelerate its efforts to become technologically more self-sufficient. On the other hand, there is the danger that China will first have to accept setbacks if it is cut off from required Western high-tech intermediate products." Before China follows South Korea's successful path to becoming a technology leader, however, there is the risk that it could be held back by another impressive dynamic: total debt as a percentage of gross domestic product (GDP) has risen from 162% to 276% in the past ten years.



Sources: IMF, DWS Investment GmbH as of 9/25/19

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Source: DWS Investment GmbH

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GLOSSARY

Emerging markets (EM)

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Gross domestic product (GDP)

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

World Bank

The **World Bank** is an international financial institution that provides loans and grants to the governments of emerging countries for the purpose of pursuing capital projects. The World Bank is a component of the World Bank Group.

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