AEJ Meeting at Regent's University, London, with China expert and author George Magnus on June 25 2019: a report by AEJ member Christopher Cragg

China's development is caught in four fundamental traps, according to the economist George Magnus, author of "Red Flags; Why Xi Jing Ping's China is in Jeopardy". These inter-related traps form a potential block on China's development, which may well slow down the country's widely assumed march towards global economic dominance. It is also significant that few people outside the country recognise these problems.

First and foremost, China is in a 'debt trap'. The country was as badly affected by the 2008 financial crash as the West. Since that time, the debt has risen from 120% of national income to 350%. However in contrast with the West, China's banks are state run and cannot be allowed to fail. The result has been that they now have a problem with liquidity and are under increasing risk of a default that cannot be allowed to happen. While the Bank of China has been pumping in money and allowing debts to be rolled over, this comes at a considerable cost to the financial system as a whole. How this problem is to be resolved remains unclear.

The second trap, which is related to the first, is the 'currency trap'. The Renminbi has long been pegged to the dollar, which is a source of stability prized by the Chinese. However it keeps down the liquidity that the economy needs. Magnus believes that this peg will go in the not too distant future.

Perhaps the third trap is the largest and most alarming. This is the 'ageing trap'. Although less well known than the problems of Japan, China is a rapidly ageing society. In fact that situation is worse than that of Japan. This is not just the result of the old 'one-child policy', which was in force from 1979 to 2015, but has also come from a preference for boys rather than girls. As a result, there are now 33 million more men than women in the population. Meanwhile the fertility rate has fallen to 1.6 children, far below the replacement rate.

This raises questions of social care and its considerable cost. Social welfare programs are not generous and there is also a conflict over whose responsibility it is to pay for them. Much of it is in the hands of local government rather the national one, reminding, those involved of the old proverb: "The Mountains are high and the Emperor is far away."

The demographic trap leads immediately to the 'income trap'. Nobody doubts China's ability in science and engineering. The whole Huawei affair testifies to that. The problem lies in the structure of the Chinese state and its control of the corporations that develop the new technologies. This is no Silicon Valley of entrepreneurial skill or marketing creativity. It relies on the state, where its expansion is likely to be stalemated by the increasing need for expensive social care.

Magnus, who has been travelling to China since 1992, has noticed a shift in Chinese attitudes, particularly since 2008. The Communist Party under Xi has greatly increased its oversight and tightened up on discipline. Back in the time of Deng Xiaoping trade relations were seen as complementary and pragmatic. Now they are perceived as adversarial and competitive. In practice, if it was only about tariffs, it would be relatively simple to solve. But now the Chinese think that the US wishes to codify everything, limit China's growth and control their development of new technology. Hence there is much more talk of self-dependency, and the current standoff. This is unlikely to change much before the US elections in 2020. While the Europeans quite like President Trump's general direction in trying to change the structure of trade with China, they do not like the means and thus sit on their hands.

One danger to the Chinese economy lies in reduced western investment. According to Magnus, at least a third of his contacts in the foreign Chambers of Commerce in China are talking of investing elsewhere in places like Vietnam and Malaysia. This puts a new light on the "Belt and Road" project, which the government has recently been downplaying, after its dramatic introduction as a means to promote a domestic model into a global one at huge cost. They now need Western investment to finance it.

All this provoked a widespread discussion about the potential for developing conflicts. The Hong Kong protests have undoubtedly produced one of the biggest climb-downs in Communist Party history, but it was not a signal for the future. The Party is, if anything, more antagonistic to protest organisers than it was 10 years ago. The Hong Kong protesters will undoubtedly pay a price at some stage, probably after the G20 conference in Osaka.

Other potential sources of friction include the situation in the Arabian Gulf. Here Chinese concern is not just about Iranian crude oil flowing freely out, but also about the Trump administration's use of the oil dollar to control the trade. In theory, the Chinese could inaugurate contractual relations in oil with Renminbi. In practice however, the Renminbi is in no position to start a battle with the dollar to be a world reserve currency, without terrible self-harm. The currency's role in international trade is currently miniscule.

In practice, much of the West's concern about China relates to the government's underlying precept that Beijing demands the loyalty of all people of Chinese ethnic origin. The relationship with Taiwan is an obvious case in point, although the key moment here will be the next Taiwanese presidential election in January 2020. The same attitude is apparent in the continuing activities of the recently reorganised United Work Front, which watches over Chinese expatriates in Australia, New Zealand and many other countries. This is not necessarily a threat to the countries concerned, but it is an uncomfortable threat to the overseas Chinese, perhaps reflected in the Hong Kong protests. Meanwhile such is the extent of repression of the Uighurs and Tibetans that they represent little threat to the Chinese state.

Overall, none of this implies that China will necessarily float effortlessly up to the position of the world's dominant economic power as America fades. A lot of such talk comes from the assumption that China has not really had a proper recession and somehow has conquered the problem of economic growth; an idea happily promoted by the Communist Party. In practice this is not really the case. In the years after 2008, millions of unemployed people were sent 'home' from the eastern coastal regions as the banking crisis took hold. Indeed Western perceptions of China are warped by our familiarity with these coastal regions and absence of knowledge of the poverty of the interior.

Our knowledge of China's economy is not helped by the useless GDP figures, although there is a great deal of detailed information about individual industries. Where the information trail gets most opaque is in the political sphere, where only insiders really know what is going on. What is apparent is that China has changed substantially in the past twenty years. It is more belligerent and its leadership is demanding an acceptance of its institutions, not merely in their activities at home, but globally.