# Morgan Stanley Changes its View: China’s Economy is Climbing out of a Shallow Economic Trough

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In the past six months, the expectations of international research institutions on the economy of China have been on a roller coaster ride. During June and July of this year, many institutes held a bearish attitude toward China’s economy. Morgan Stanley believed that China’s economic growth would experience a “super bear”, and projected that there may even be a risk of an economic “hard landing”. But now, just a few months later, their expectations for China’s economy have become much sunnier, and their view on the current economic data is encouraging.

Under these circumstances, Chinese Premier Li Keqiang’s Eastern European tour became extremely beneficial. He led the new government to cope with the situation calmly and led China’s economy to bounce back amid difficult circumstances. This left many an analyst with bearish views on China overwhelmed, and changed their perceptions of Premier Li completely.

Barclays Capital in the UK has summed up Li’s ideas for developing China’s economy under the moniker “Keqiang’s Economics”. In a recent public address, the Chinese Premier, who holds a doctorate in economics, said, “The concept that the new Chinese government uses to cope with crisis is called ‘the innovative approach of macro-level control’.”

In March of this year, Chinese Premier Li Keqiang came to office facing the plight of the global economic downturn. The United States’ economic growth rate was only 1.3%, and Japan’s was only 0.3% for one quarter. Among Brazil, Russia, and India, China’s compatriots in the group known as “BRIC”, the growth rate of Brazil and Russia each was less than 2%, while India’s was only 4.8%.

In fact, China’s economy appeared to have hit rock bottom. In the second quarter, growth fell to a new two-year low.
In a public address, Li Keqiang concluded that under the pressure of the economic downturn, the Chinese government “stayed in power and stabilized policies” and insisted on keeping the deficit from growing. They also avoided increasing spending and stimulating economic growth without implementing a short-term investment policy. Instead, the Chinese government stimulated market vitality and promoted economic transformation, pushing the idea of upgrading through steady growth, adjusting economic structure, and reforming.

This showed that this economic recovery was not the result of macro-level control by moving the monetary levers through quantitative easing. Even China’s banking system appeared to have a shortage of money in June of this year. Following the order of the State Council, the central back took no action as always and refused to release liquidity, instead requiring banks to “solve the problems on their own.”

At the same time, China is also actively seeking ways to promote economic development and transformation, including boosting exports, expanding domestic demand, and expanding the core power which comes from the deepening of reform.

In the past six months, under Li Keqiang’s leadership, the Chinese government has been committed to “decentralization”. Public data showed that since the establishment of the new Central Government, 334 administrative examinations and approvals have been eliminated and weakened by the State Council in order to delegate the power to lower-level governments. The direct result brought by this reform was the liberation of the market. In the third quarter of this year, China’s new markets have increased 18%, within which the proportion of private enterprise development was as much as 31%.

According to the facts, it’s no doubt that the above measures have brought about obvious effects. China’s economy managed to achieve steady development even in a situation in which the emerging economies remained unsteady. In the third quarter of this year, China’s economy has rebounded with a growth rate of 7.8%, and it has presented a trend of recovery. In addition, economic growth, electricity consumption, volume of freight traffic, industrial added value, the PPI index, and other indicators all demonstrate sterling performance.

Some agencies have also changed their attitudes quickly, including some international economic research institutions which just six months ago held bearish attitudes toward China’s economy. Citibank, Credite Suisse, Deutsche Bank, HSBC, and other agencies began to show positive attitudes toward China’s economy. Markus Rodlauer, Deputy Director of the Asia-Pacific branch of the IMF and head of

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the Working Party on China said, “Although the international environment remains perilous, the IMF still expects that China’s economy will maintain sustainable growth.”

Even Morgan Stanley, which once pessimistically estimated that China might experience a “hard landing”, said in a September report that the condition of China’s economic growth is such that a sharp decline can be avoided. They mentioned that after reaching the bottom of a U-shaped economic curve, China’s economy will rebound.

The above-mentioned changes demonstrate that the international community needed to better develop their understanding when conducting economic research on China. Over the past 20 years, they made constant dire predictions, and time and time again their predictions fell short. It showed that the researchers’ observations on China’s economy lacked familiarity with the realities. Much like the vast geographic distance between China and Europe, their analyses were also made from a distance.

A few days ago, Chinese Premier Li Keqiang, who planned to visit Romania to attend the Central and Eastern European Economic Forum, said, “It can be said that the goal of economic and social development has been a foregone conclusion.”

Just a mere ten days ago, China’s economy got a new round of favorable news. In the Third Session of the Eighteenth Central Committee of the CPC, the Chinese government emphasized comprehensive reform to further free market forces with unprecedented determination, which raised optimistic attitudes among the international community regarding China’s economy. World Bank President Jim Yong Kim said in Washington on the 12th that, “China is still moving forward on the path of reform, and is expected to see higher-quality economic growth.” Director of the OECD Economic Research and Strategy Department Carl Dahlman believed that if China continues to grow rapidly through reform, they will continue to act as an engine of global economic growth.

At this important juncture, the information that the Chinese Premier released in the Central and Eastern European Economic Forum will provide a new window through which to analyze the subsequent development of China’s economy.

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