“Nice Rebound” of China’s Economy

Wednesday 11 December, 2013

Last year, economists from many countries reached a sort of consensus on many things. But they failed to do that on China’s economy. The predictions on the future of the world’s second largest economy varied, as usual. Three debates have been held during the last six months. The debates were exceptionally heated between the pessimists who were bearish in their views about China and the optimists who were bullish in their views. It appeared that there was no conclusion yet.

In November, Li Keqiang, the Chinese Premier, has launched a whirlwind visit to the Central and the Eastern Europe. The statistics on China’s economy that the Premier would release at meetings during his visit would have given confidence to the most pessimistic bearish viewers. Earlier in March this year, shortly after Premier Li came into the office, the Chinese economy reached a temporary low in the second quarter. It quickly rebounded in the third quarter. In a speech he made a few days before the visit the Premier said: “China’s economy has pulled through a difficult period. The government believes that the benefits of reforms should be shared by all; a fairer environment has been created for all enterprises, especially for those in the private sectors; the market is stimulated by the release of the inherent forces of economic development; the economic structure has been adjusted; supplies have been increased to meet the demands from the expanding domestic markets. China’s economy has been growing at a healthy steady rate with prospect for future acceleration. There will be more than 12 million new jobs to be created in the year, the average price will remain stable, scientific research and development will be continuously supported by the government, and further changes will be taking place to improve the economic structure. We can safely and proudly conclude today that we have achieved our target of a full scale economical and social development. Those who doubted about the China’s economy can now have a peace of mind.’

If you know how the table was turned, you will have a better idea of where the confident message of this statement has come from. In the second quarter of this year, China’s economic growth fell to a new two-year low. Though compared to United States’1.7% and Japan’s 2.6% of the same period, China’s performance however, is quite stunning. Even compared to some of the "BRICS" countries, like Brazil’s 2.5%, and India’s 4.9% of the same time, China’s data are still impressive. But in the eyes of many economic analysts, China’s economy, which had been growing at the double-digit rate for decades, seemed to have come to a turning point of downward spiralling.

In June and July this year, “China bears” has become the most favourite catchword for economic analysts in the world. International Monetary Fund, Citibank, Credit Suisse Bank and a number of other institutions lowered their economic forecast figures. Morgan Stanley issued a scenario forecast of “Super bear”. It predicted that China’s economic growth would fall to 5.5% at the end of 2013, and there might be the risk of a “hard landing”.

Now the new statistics have proved that these institutions’ forecasts are not correct. The data deduced crisis did not happen and it is time for them to check and modify their models. In the third quarter of this year, China’s economy has rebounded with a growth rate of 7.8% and there are signs showing the rate will not stop at that. Citibank, UBS, Deutsche Bank, HSBC and other institutes raised their forecast figures one after another. Following the release of the statistics on Chinese export trade in October, the Wall Street Journal said there was “a new encouraging sign”. Lu Ting, the economist from the finance Management Department of Merrill Lynch, commented: “This is a nice rebound.”

Li Keqiang, the Chinese Premier is perhaps the best person to ask for the reasons behind the panics of those economic analysts. Barclays Capital once summed up the theory of China’s economy as that being “Keqiang’s economics”. In a recent public speech, the Chinese Premier, who holds a doctorate in economics, said: “The Chinese government is exploring an innovative approach of macro-control”.

Li Keqiang said that in spite of the pressure of the economic downturn, the current Chinese government was committed to carrying out policies to oversee that there would be no enlarged deficits, no over issuance of currency, no short-term investments to stimulate the economic growth. The Chinese government would not simply follow and apply Keynes's guidelines to leverage the monetary levers with quantitative easing.

Here is another example. China’s banks experienced “a shortage of money” in June this year. The State Council did not request the Central Bank to help with funding. All the banks had to “solve the problems on their own”.
At the same time, the Chinese Government has turned to the renewed inherent driving forces of

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economy released from further reforms, as the guideline of macro control. In the past six months, under Li Keqiang's leadership, the Chinese government has historically carried out a series of policies to "decentralize" the administrative power of the State Council. 334 government approval procedures have been either abolished or delegated to lower administrative levels in the hope of releasing the market's vitality.

These "combination boxing blows" seemed to be working. Statistics from various sources showed that while the economy of the emerging countries has generally slowed down, China's economy began to show a sign of potential acceleration following a period of steady growth. The economic growth rate, social electricity consumption figures, volumes of freight traffic, industrial added value, PPI index and other indicators all point to a shining performance. We are assured that more reform plans will be in place following the close of the third Session of the Eighteenth Central Committee of the CPC. The future of China's economy again takes on a bright look.

On the 11th November, Wang Zhihao (Stephen Green), director of research of the greater China region at Standard Chartered Bank, claimed that "All data indicate that China's economy has been in a mild recovery." On the 12th, Jim Yong Kim, the World Bank President, said in Washington that "China is still pushing forward their reforms. We have all the reason to expect a higher-quality economic growth from China."

The recovery of the world's second largest economy is also good news for the global economy. Unexpected to most of economists, China did not apply the traditional macro-control approach of money pump and deficit enlargement. This means that China did not try to transfer the crisis to other countries and regions for short-term economic data dressing up. This sense of responsibility is especially significant for the European countries.

For a long time in the past, economists in many countries, especially those in the developed countries, have always been eager to express their opinions and to draw conclusions, but it must be admitted that they may lack deep understandings about China. China seemed to be always 'on the brink of collapse", according to some of them. It was declared so at the end of the last century, and the same tune was played again following the global financial crisis earlier this century. But China always managed to pull through and these pessimistic predictions were always proved to be wrong. The gap in their knowledge about China perhaps corresponds to the geographical distance between China and Europe.

At this time, it seems to be increasingly important for those analysts to spend a little more time trying to see and to understand what are taking place in China. In March this year, Steven Roach, the Yale University Professor, former non-Executive Chairman at Morgan Stanley Asia, who holds bullish views on China, recommended a book called 'China in 2030' to Jim Chanos, the Hedge Fund Manager and a bearish view holder, at a debate held at USA Asia Society. Roach said: "I believe that you've not read any books about China."

Now, the Chinese Premier has brought a report about "China in 2013" to Europe. He has provided an excellent case study as to how to turn around a huge economy by a new approach of macro control. He has shown to the rest of the world how to read China this huge book.

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