

Keep it steady

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With a doctorate degree in economics from Peking University, Premier Li Keqiang has already had a strong impact on thinking about the progress of China's economy.

Back in 2007, when Li was secretary of the Communist Party of China Liaoning Provincial Committee, he proposed using power consumption, railway freight and volume of credit as the three key indexes to gauge local economic development.

In 2010, the Economist magazine described this as the "Li Keqiang index" and said it could also offer a more accurate reflection of the overall Chinese economy than GDP growth figures.

Now economists have come up with a new term to define Li's economic strategy - Likonomics - which has become a new buzzword in China.

Different from Japanese Prime Minister Shinzo Abe's "Abenomics", which aims at ending deflation and restarting economic growth, the key idea of Likonomics is pursuing structural economic reform without putting so much emphasis on GDP growth as China did in the past.

Tolerance test

The term Likonomics was coined by economists at investment bank Barclays Capital at the end of June. They said it consisted of three main pillars: no stimulus, deleveraging and structural reform.

There is already evidence to support the bank's theory.

Li said in May that economic growth can not rely too much on government investment and stimulus policies, and that market mechanisms should be more important.

In June, China's interbank lending market was hit by a liquidity crunch, which saw the overnight money-market rate rise to 12.85 percent on June 20.

But the central bank did not choose to inject money into the market, which was interpreted by many economists as a sign of the central government's determination to deal with concerns about a growing credit bubble.

"Based on an increasingly likely downside scenario, we think Chinese growth could experience a temporary 'hard landing' which we would define as quarterly growth dropping to 3 percent or below, within the next three years," Barclays Capital said in a research note last month.

China's economy has shown further signs of slowing down recently. In the second quarter of this year, GDP growth slowed to 7.5 percent, down from 7.7 percent in the first quarter. Financial revenue, trade growth and other major economic indexes are also slowing down.

There has been a growing view over the past few months that the Chinese government is prepared to tolerate slower growth, and that structural reform is a higher priority. Many investment banks, as well as the IMF, have lowered their forecasts for China's GDP growth this year.

However, the central government's recent moves and remarks by some officials have offered a counterbalance to this theory, indicating that stable economic growth is still a key objective, even amid the long-term pursuit of structural reform.

Stability still valued

Some economists have noted that it is too early to define Likonomics. And despite the new economic direction, it appears that the government is still eager to avoid a "hard landing" during Li's tenure.

In a meeting held by the State Council on July 16, Premier Li Keqiang noted that the main target of macroeconomic regulation is to ensure that economic growth remains in a reasonable range and to avoid radical fluctuations.

Li said that the "upper limit" of macroeconomic regulation is to avoid triggering severe inflation and the "lower limit" is to ensure stability in growth and the employment rate.

Li did not offer data to illustrate the limits, but Xinhua said in a report Monday that the lower limit for GDP growth could be around 7.5 percent, with a bottom line of 7 percent.

"The government has already launched a series of policies to boost consumption and trade and the process of policy fine-tuning has already begun," Li Daxiao, director of

research at Yingda Securities, told the Global Times Thursday.

China's Finance Minister Lou Jiwei noted last week said that the government will not roll out a massive fiscal stimulus plan this year, but further policy fine-tuning is expected.

Xu Hongcai, director of the Department of Information under the China Center for International Economic Exchanges, told the Global Times Thursday that Barclays Capital's view of Likonomics is not entirely accurate, and that the main idea of Li's economic path is to "build an updated version of the Chinese economy."

Li's comments on economic growth show that the government prefers a more gradual approach rather than reckless "shock therapy" for solving many of China's problems, investment bank Merrill Lynch said in a research note sent to the Global Times Thursday.

The 4 trillion yuan (\$652 billion) stimulus plan launched in 2008 was much needed amid the global economic crisis, but it has had some side effects for the economy, economists said.

Merrill Lynch said in the research note that there should be a "loose fiscal, tight monetary" approach in the second half, involving leveraging by the central government and deleveraging by local governments.

Lu Ting, chief China economist at Merrill Lynch, said that central government spending in the second half would focus on sectors such as urban infrastructure, telecommunications and environmental protection-related sectors, which is needed by the Chinese economy at present and will not cause side effects like severe overcapacity.

Li from Yingda Securities noted that although the government is aiming to build an economy that is less reliant on investment, some local projects such as Shanghai's free trade zone and development in the Shenzhen Qianhai experimental zone will still serve as a strong boost for the Chinese economy.

Long-term effort

Richard Harris, CEO at UK-based consultancy Port Shelter Investment Management,

came up with the term "Lionomics" to describe Li's policy path in April. He said one major pillar for Li's economic policy has been reform.

The new government leaders have generally been seen as reformers. Harris said in an e-mail sent to the Global Times Monday that more reform measures in fields such as interest rates, the yuan exchange rate and the private sector are needed to build a more balanced economy.

The central bank announced Friday it would remove the lower limit for the bank lending rate, which was set at 0.7 times the benchmark lending rate. This has been seen as the latest move toward interest rate liberalization.

Experts have said that long-term efforts will be needed to build a more balanced economy with more vitality in the private sector and a greater focus on domestic consumption.

For China, the era of hyper growth may be coming to an end, but Xu noted that China's economy could still grow at 7.5 percent to 8.5 percent over the next five to 10 years.

"Economic growth below 7 percent will cause negative effects and will cost us social stability," said Xu, who noted that without stable growth, it will be harder to achieve structural reform.