Looking to a promising future

By Xu Hongcai , China Daily, 2014-03-15

Chinese economy faces potential risks but strong fundamentals will ensure that it sails unscathed through troubled waters

Contrary to some foreign experts' views that the Chinese economy may encounter "big trouble" in 2014, it is likely to register a 7.5 percent growth. One of the main reasons for that is the rapidly changing demand structure in China in which consumption plays a much greater part.

China's economic growth used to be driven by investment and exports. But that no longer is the case. For example, last year consumption contributed 50.4 percent to the country's GDP, while the net exports contributed minus 4.4 percent, according to the National Bureau of Statistics. With the increase in people's income this year, the contribution of consumption will continue to rise. External demand is also expected to increase with the economic recovery in the United States and the European Union.

China's economic supply structure, too, has undergone change. The transformation of the industrial structure has boosted economic growth, with the service sector's expansion offsetting the weakening of the manufacturing industry. In 2013, the value-added of the service sector accounted for 46.1 percent of China's GDP, exceeding the proportion of value-added products of the manufacturing industry for the first time.

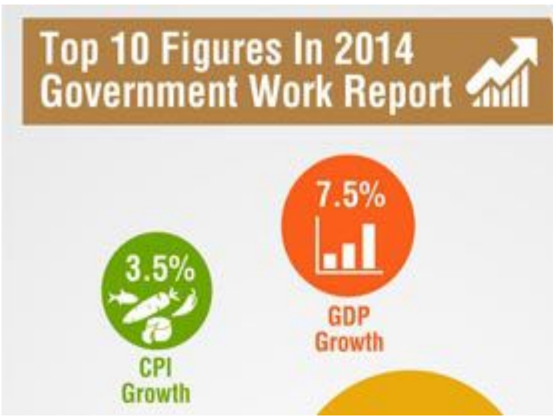
With the gradual decline in household savings rate, the economic contribution of capital and labor to GDP will decrease, while technical progress and human capital will contribute more to the economy. So the development of the service sector, especially producer services, can help increase its contribution to economic growth.

Moreover, the new urbanization plan offers China new opportunities. An increasing number of farmers are turning into urban residents, prompting local governments to increase investment in infrastructure.This will strengthen the public transport system, including railways, and other public facilities, which, in turn, will improve the lifestyle and consumption of the farmers-turned-urban residents.

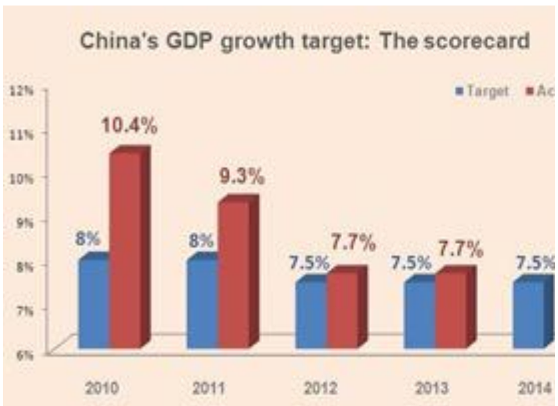
Besides, the regional economic disparity in China can extend its rapid economic growth cycle. With the labor and production costs rising in eastern China, some industries are gradually shifting to the central and western regions. In particular, the development of cross-regional economic belts linked by the big rivers and traffic arteries, like the modern Silk Road and the Yangtze River Economic Zone, have expanded China's economic development space.

Also, the bonus of the reform and opening-up will continue to benefit the economy. In fact, as 2014 is the first year of deepening reform, the country's leadership will take various measures to achieve steady progress, create new development opportunities and stave off potential risks.

It is generally regarded that the Chinese economy faces four potential risks-local government debt, real estate bubble, shadow banking and the repercussions of tapering of quantitative easing (QE)by the US Federal Reserve. But since the overall risk facing the economy is not high, there is little possibility of China encountering a financial crisis.



Top 10 figures in 2014 govt work report



Experts: GDP growth target reasonable

China's total debt includes the government debt, household debt and enterprises' debt, which add up to 220 percent of its GDP. The government debt is about 30 trillion yuan ($4.89 trillion), or 60 percent of GDP; the household debt, 16 trillion yuan (or 31 percent of GDP); and the enterprise debt, about 60 trillion yuan (or 120 percent of GDP). But compared with other countries, China's debt level is low. Also, the Chinese economy has its advantages, including high savings and rapid economic growth rates, a low financial deficit level, trade surplus, large foreign exchange reserves and a low inflation rate, which strengthen its debt paying ability.

A further break-up shows local government debt is about 20 trillion yuan, which is moderate compared with other countries. Capital raised by the local governments' financing vehicles are mainly invested in infrastructure, which is essential to support their economies. Although such an investment has low return in the short term, it is good for economic development in the long run. And innovative policies and financial measures, like issuing long-term municipal bonds or extending their repayment periods, can be applied to resolve the local governments' short-term liquidity issue.

The second potential risk, the property bubble, can be overcome with some effort. Housing prices are high in first-tier cities such as Beijing and Shanghai mainly because of shortage of land supply. So once land supply is increased, the cost of land and thus property will drop, deflating the real estate bubble without causing much harm to the economy. And the property markets in third- and fourth-tier cities need to be dealt with according to the nature of their problems.

Shadow banking, despite posing a risk, can be transformed, through corrective and innovative measures, to act as the "supplement" of China's financial system. Financial regulators are already using limiting and guiding measures to strengthen supervision over the 20-trillion-yuan shadow banking, especially off-balance sheet activities and online financial transactions.

The tapering of QE poses a risk mainly because of the flight of capital from emerging economies to the US. But the flight of capital from China has not been on a large scale. The slight depreciation of the yuan is normal, so is the withdrawal of some money from the Chinese market. China's banking system and capital market are strong enough to resist external shocks and, more importantly, its huge foreign exchange reserves will ensure that it does not face a currency or financial crisis.

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