



2016.8.8

## The Back Side of China's Stable GDP Data

### —Slowing Economy and Expected Structural Reforms on the Supply Side—

Naoki Umehara, Senior Economist  
Institute for International Monetary Affairs

#### Chinese Economy: Stable growth in the first half of 2016

The financial market in China has kept an even keel recently. The exchange rate of the RMB has been stable and stability of the currency basket has also been achieved as the government had wished. Also the real GDP recorded a 6.7% growth both in the first and second quarters of this year, reasonably within the scope of its annual target of between 6.5-7%.

However, a closer look into economic data reveals not so good reality. The trade balance shrank by 8% in 2015, and the trend is continuing this year. Fixed asset investment is losing its momentum, and private investment has almost stalled. The economy supported only by government expenditures and private consumption is not a well-balanced one, and poses a question on its sustainability. After all, the Chinese economy has been managed relying on fiscal and monetary props since the beginning of this year.

#### Reforms deferred by a political calendar?

At the end of last year the Xi Jinping government announced its policy of structural reforms focused on the supply side. Reformist economists have been debating the possible contents of reforms and desirable ways to promote them, expecting the serious reforms they had longed for since the Third Plenary Session of 2013<sup>1</sup> would be finally implemented. However, up to now in the second half of the year, there is no sign that the full-fledged reforms will start<sup>2</sup>. Rather, as is pointed above, the economic management is running counter to reforms in China. What has caused such a situation? We may have to consider the possibility that some different powers are working on the Chinese economic management.

<sup>1</sup> The Third Plenary Session of the 18<sup>th</sup> Chinese Communist Party of China (CPC) Central Committee held in fall 2013. The Sixth Plenary Session seen below refers to the Sixth Plenary Session of the 18<sup>th</sup> CPC Central Committee, which will be held in fall 2016.

<sup>2</sup> Mergers of several large SOEs have already been promoted, but there have been no media reports so far that they have contributed to the reduction of excess capacities.

In September, the G20 Summit Meeting is to be held in Hangzhou, Zhejiang Province in China. President Xi, who took up the post of the top of the Communist Party under the banner of “Chinese Dream”, attaches a special importance on the success of this international meeting that he will organize as a chairman. China now places a great emphasis on enhancing its presence in the world economy and strengthening its voice in the international fora. The G20 offers a golden opportunity for it. Furthermore, the success of the coming G20 will provide significant meaning domestically. In October, the Xi government is going to hold the Sixth Plenary Session, the results of which will give much impact on the 19<sup>th</sup> CPC Congress to be held in autumn 2017. The Xi government that marks the 5<sup>th</sup> year in its governing this autumn is now facing a critical time to solidify its governing structure for the coming 5 years.

If they are conscious of this political stream, they will need to remove all the possibilities that might block the success of G20. If they rushed in making reforms of the domestic economy that would result in an increase of jobless people from the state owned companies, and if those job losers stood up in a big protest demonstration to be defended in the forum of G20, the authority of the Xi government would collapse from the bottom. That kind of situation should be avoided by all means. Therefore, it would be a reasonable option for the time being that they refrain from making risky reforms and try to produce stability in the economy using the measures of finance and monetary policies.

### **Decelerated economy in Liaoning Province**

In early July, a monetary policy analysis team of Monetary Policy Department of the People’s Bank of China published a regular report named “China regional financial operation report”<sup>3</sup> This report consists of 32 regional reports from the Bank’s branch offices and a summary article, and is separated into three categories of management of monetary policy, economic management, and forecast and outlook. It is easy to understand with many tables and charts provided. Let us pick up the report of Liaoning Province<sup>4</sup>. It tells us that the real GDP growth rate stayed at 3% in 2015 while bank loans increased by 9.8%. The secondary industry recorded negative growth while fixed asset investment decreased by a daunting 27.8% yoy.

The economy in Liaoning Province has no sign of picking up in 2016. Its real GDP registered a negative growth (-1.3%) in the first quarter of this year, making the province the first one among the regions that experienced the negative growth. The debt ratio against GDP of the Liaoning provincial government amounted to 69% at the end of 2012, doubling to 158% at the end of 2015<sup>5</sup>. In March, a corporate bond issued by a large company based in Dalian

---

<sup>3</sup> China regional financial operation report of 2015 (only in Chinese)  
<http://www.pbc.gov.cn/zhengcehuobisi/125207/125227/125960/126049/3098979/3098854/index.html>

<sup>4</sup> Financial operation report for Liaoning Province in 2015 (only in Chinese)  
<http://www.pbc.gov.cn/zhengcehuobisi/125207/125227/125960/126049/3098979/3098854/2016070819133896219.pdf>

<sup>5</sup> “Liaoning fell into a negative growth quagmire: debt ratio have doubled in three years”, The 21st Century Economic News, July 11, 2016 (only in Chinese)  
[http://news.21so.com/2016/hongguan\\_711/1419847.html](http://news.21so.com/2016/hongguan_711/1419847.html)

defaulted. Looking ahead, therefore, restructuring of their debts in some form or another would be needed.

### **Difficulties in implementing structural reforms**

According to an “authoritative person” who appeared on the People’s Daily News on May 9, the Chinese economy will undergo neither a u-shaped nor v-shaped recovery but follow an L type recovery. He says this period will continue beyond 1-2 years. The case of Liaoning Province may be the severest example in China, but it gives us a glimpse of difficulty in actually promoting structural reforms. The time will surely come when we see the reforms to be done, although it may not be now.