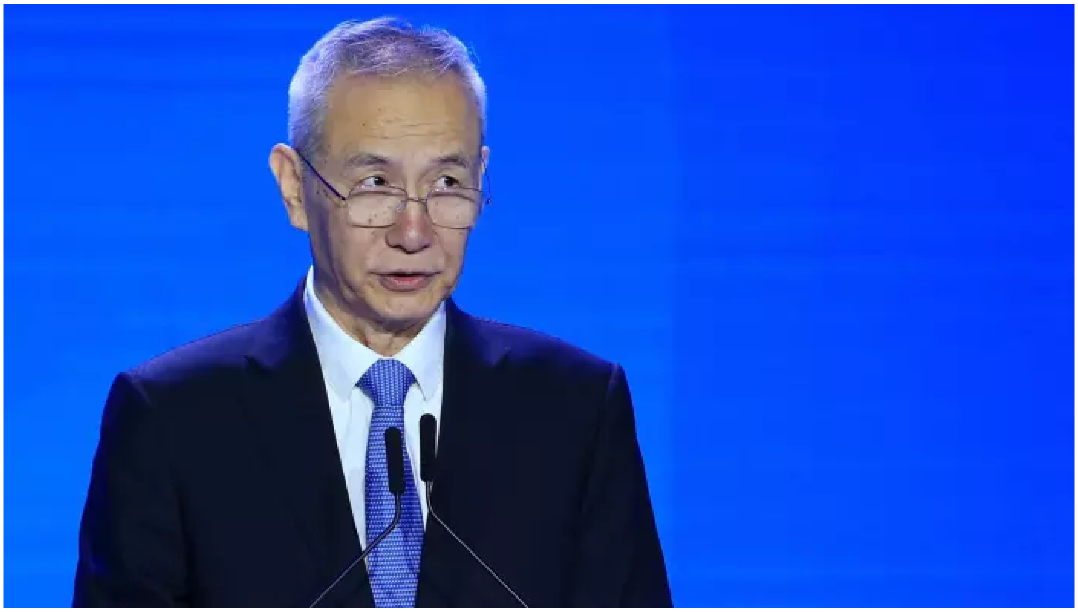
China

China strikes upbeat note on growth despite slowdown

Liu He seeks to bolster confidence in reform programme after GDP figures are released



Liu He has sought to bolster confidence in China's economy and Beijing's reform programme © Reuters

Tom Mitchell, Archie Zhang and Xinning Liu in Beijing OCTOBER 19, 2018

The last time Liu He, top economic adviser to China's president Xi Jinping, spoke so forcefully about pressing policy issues, he did not venture out from behind the curtain.

Two years ago in a lengthy interview with the People's Daily, an " authoritative figure" railed against the dangers of excessive debt. The anonymous admonishment was drafted by Mr Liu's staff at a Communist party office responsible for economic and financial policy.

On Friday Mr Liu, who was promoted to the party's politburo last year and became a vice-premier in March, took a more public stand. In an interview with the People's Daily, China Central Television and the Xinhua news agency, he sought to bolster confidence in the country's economy, stock markets and broader reform programme just hours after Chinese statisticians reported their lowest quarterly year-on-year growth estimate since the financial crisis.

An increasing number of people in Beijing believe the reform programme outlined by Mr Xi and Mr Liu five years ago has largely stalled, especially in terms of its stated aim of giving market forces a greater role. But some are hopeful the slowing economy will force their hand, much as it did Deng Xiaoping's in the wake of the 1989 Tiananmen Square massacre.

"Deng said that 'economic development is the only hard truth'," said an adviser to senior Chinese finance officials. "When growth stalled after Tiananmen, Deng knew he had to accelerate economic reforms."

Adding to the sense that Mr Liu was perhaps protesting too much about the economy's underlying health, the heads of the central bank, banking regulator and markets watchdog were trotted out on Friday to issue reassuring messages.

Uncharacteristically for a vice-premier who is generally seen as one of the strongest advocates in Mr Xi's administration for market-based reforms, Mr Liu even carried out some cheerleading for the country's struggling bourses, which he said now offered the world's "best investment value".

The publicity blitz had its intended effect as the Shanghai and Shenzhen stock exchanges' composite indices rallied sharply, rising more than 2.5 per cent.

However, both markets remain in correction territory for the year while the renminbi is threatening to fall to seven to the dollar, which would be its lowest level in a decade.

Eswar Prasad, a former head of the IMF's China division, said recent policy measures "suggest [Beijing] is tilting towards supporting growth while trying to postpone the day of reckoning on financial sector risks".

Others believe there no contradiction between the dark warnings Mr Liu made two years ago as the People Daily's unidentified "authoritative person" and his more upbeat message on Friday.

"Deleveraging is supposed to affect economic growth," said Jia Jinning at Renmin University in Beijing. "But China has basically achieved [Mr Liu's] goal of stabilising debt levels."

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Andrew Polk at Trivium, a Beijing-based consultancy, argued that Mr Liu's decision to refrain from large stimulus measures in the face of the increasingly pronounced economic slowdown — had been impressive.

"One of the most remarkable things about China's current economic cycle has been the restraint authorities have shown in pushing through economic support measures, which have all been pretty targeted," Mr Polk said. "They are not panicking."

Despite his generally positive tone, Mr Liu acknowledge concerns about official bias against China's private sector.

"Staff at some financial institutions believe that it's safe to lend to state-owned enterprises but politically risky to lend to private enterprises," he said. "They would rather do nothing than take a risk. Such thinking and behaviour is totally wrong . . . Supporting the development of private enterprises is the same as supporting the development of the national economy."

China's private sector accounts for 50 per cent of all tax revenues and more than half of economic output, research and development spending, and exports, making it pivotal to the "very bright" long-term economic outlook Mr Liu tried to paint on Friday.

"The private sector has been hit by the slowing economy and private businessmen are pessimistic about the future," said Wang Jun at the China Center for International Economic Exchanges, a Communist party think-tank. "If the government does not stabilise private investment, there won't be any basis for future economic growth."

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