Opinion **Global Economy**

Wiping out bad data will not solve China's economic woes

Given the biggest economic problem is lack of confidence in government, pretending everything is fine will only backfire

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Trumpeting only positive rhetoric is no substitute for action in China © Raul Ariano/Bloomberg

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China's economy remains in a rough patch, with deflation becoming entrenched, the stock market cratering and capital flowing out of the country. Deteriorating animal spirits are making things worse and the government seems to have decided it needs to control them — by eliminating data that paint a bad picture and by squelching negative commentary and analysis.

At a time when the biggest problem facing the economy is lack of confidence in the government, such actions are likely to backfire and make things worse. Unrealistically positive rhetoric, which is at odds with the realities that Chinese households and businesses are experiencing, is hardly the solution to China's economic difficulties.

At the end of 2023, President Xi Jinping gave a speech explicitly acknowledging the difficulties that enterprises and households were facing. He indicated that the government would take resolute measures to revive growth and ensure economic and financial stability. This speech generated hope that the government understood the seriousness of the challenges the economy faced and would take strong actions to stem the rot. But then the drumbeat of bad economic news continued amid a tepid policy response. Worse yet for China, this was all happening at a time when the US economy keeps firing on all cylinders

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By the time Premier Li Qiang gave his speech at Davos last month, the government seems to have decided that only positivity was acceptable. His speech extolled the virtues of the economy. The only cryptic reference to any short-term challenges was to advise the audience that understanding the Chinese economy required a panoramic view "to see the whole picture in an objective and comprehensive manner and truly grasp where it is now and where it is going."

China's government clearly wanted to send a message that the economy's growth momentum had stabilised, any risks were manageable and the country remained welcoming to foreign businesses and investors. These words have done little to improve sentiment, either in China or outside it.

This comes on the heels of measures to suppress data that convey bad news. When fertility rates started falling a few years ago, raising concerns about a shrinking labour force, the government stopped releasing that data. When youth unemployment rates surged last year, the government discontinued those data as well. Now it is publishing unemployment data with supposed "improvements" that show lower youth unemployment rates but that are seen as less credible. Data about consumer confidence and financial markets have also been subject to blackouts.

Of course, every government tries to spin economic data in a positive light. Still, wiping out bad data, along with censorship and repression of any negative sentiments about the economy, is hardly likely to inspire confidence. This approach even engenders doubts about ostensible good news. When Li Qiang announced at Davos that China's economy had exceeded the 5 per cent growth target for 2023, it was met with scepticism.

The government's attempts to send a positive message while simultaneously taking heavy-handed measures to limit the downward economic and financial spiral are further hurting confidence. Curbing short selling in stock markets, restricting capital outflows, and sacking officials hardly address the fundamental problems responsible for the economic malaise and might only exacerbate panic.

To turn things around, China would do well to revive a playbook it has used in the past — announcing a reform framework and then acting on it. Some of these frameworks, including making the renminbi a major international currency and the common prosperity initiative, have been derided as ambitious but empty slogans. But they did encompass measures that were positive for China's economy and pointed to a clear direction for policies, something that has been missing of late. Given how far confidence in the government has slumped, a lot more will be needed now — not just a clear articulation of the government's intentions but also concrete actions such as fiscal support for the economy, especially directed towards households, and a downpayment in the form of immediate policy changes bolstering private enterprises.

Stifling bad news and trumpeting only positive rhetoric is no substitute for action in solving China's problems. It is time for the government to acknowledge the difficult realities and respond with a clear policy agenda backed by forceful actions.