

NEWS Stephanomics From the BBC's economics editor Stephanie Flanders

Optimism about China's economy

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Stephanie Flanders | 14:44 UK time, Wednesday, 29 April 2009

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For anyone who has spent the past two weeks thinking about Britain's finances, here's one big thing what happened while you were away: people got a lot more optimistic about the Chinese economy.

I had a good chat with Jim O'Neill, Goldman Sachs' chief economist yesterday. He could scarcely contain himself on the subject.



The Chinese authorities have impressed the world before with their response to economic crises - for example during the Asian financial crises of 1997-8. This crisis is of a different order. But so has been the response.

As a share of the US economy, China's fiscal stimulus measures this year are larger even than America's. While the loosening of credit conditions is greater than any that O'Neill has ever seen.

All this policy seems to be having an effect. He's just raised Goldman Sachs' forecast for Chinese growth this year from 6% to more than 8%, and next year's from 9% growth to nearly 11%.

This optimism gets support from stories on the ground. Qu Hongbin and Sun Junwei, of HSBC, just returned from a tour of three big cities in inland provinces, which were never as dependent on exports as the coast.

They say that firms there are already benefiting from all the new infrastructure projects that the government is putting on stream. And consumer spending is holding up as well, growing at annual rates of close to 20%.

The national picture is also looking up. The volume of bank loans grew by nearly 30% in the first three months of the year. While the British were obsessing over their finances, China also reported a record month for car sales in March.

Before the G20 I said that the Chinese central bank governor, Zhou Xiaochuan, deserved credit for highlighting the crucial importance of more balanced global growth coming out of this crisis. But then, as now, the big question was whether the Chinese authorities were willing to follow that thought to its logical conclusion - that China itself would need to change, since one of the biggest imbalances in the pre-crisis system was China's surplus with the West.

Is the domestic demand-led growth we may see from China this year a sign of things to come? Possibly. None other than Dr Doom himself, Nouriel Roubini, recently returned from China saying that the authorities recognised the need for change.

But there is plenty of room for doubt. The government may have put on the domestic spending taps to avoid recession this year (and we should all be very grateful that they have). But when global demand for toys and everything else eventually picks up, there will still be plenty of Chinese firms eager to meet it.

More important, without further reforms, the Chinese economy that comes out of this crisis will still be hard-wired to save a ridiculously high share of its national income.

Thanks to a distorted financial system, firms - especially small ones - will still save a lot more of their profits than they do in other countries. And the sparse-to-nonexistent social welfare system will still mean that families save every penny they can, not just for retirement but for health and education expenses and to insure against the risk of being laid off. As Dr Roubini's own [RGE Monitor](#) points out, only 10% of the \$600bn Chinese stimulus package this year is allocated to social welfare spending.

Even with reform, China would probably be a high saving economy. But it could save a lot less than it does. The excess means that it inevitably ends up with more than it can possibly invest at home. As I've discussed many times before, this export of Chinese savings is the flipside of its massive exports of goods.

No-one expects that imbalance to go away as a result of the authorities' efforts to date. Indeed, the IMF thinks that China's current account surplus will actually go up again this year, to nearly \$500bn, though that's a smaller rise than in past years.

In short, it is very good news that China's economy seems to be picking up. But it's too soon to judge whether it will manage the long-term turnaround the global economy dearly needs.

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