New boom period under way

Data suggest 2017 kicked off a seven-year growth cycle for China, but policies are key to countering economic headwinds

By YAO YANG

The world economy is showing definite signs of recovering growth. The International Monetary Fund has revised up its forecast for global growth in 2018 to 3.7 percent. In China, however, there is a debate on whether the country's economy has entered a new booming period of growth. Market watchers, with some anxiety, are waiting for the upcoming annual Economic Work Conference to set the tone for the government's take on the economy next year.

The anxiety is unwarranted if one looks at some of the key economic indicators. As a measure to stop capital flight following the devaluation of the yuan since August 2015, the government started a rather strong stimulus package in the first quarter of 2016. Its impacts were immediate.

Local governments increased their investment in infrastructure; the housing market recovered (although later it was stabilized by the government); commodity prices regained much of the losses they had incurred in the previous several years; and industrial profitability improved.

Moreover, what has happened in China has had a significant spillover effect on the global economy. Global recovery has benefited from China's faster growth, which in turn has stimulated China's own growth. One of the brighter signs is that after two years' decline, exports began to grow again in 2017.

Historical data provide a clear regularity for China's business cycles: Accelerated growth lasting six to seven years followed by roughly the same period of deceleration.

Since 1992, there have been two booming periods, 1992 to 1997 and 2004 to 2010, and two decelerating periods, 1998 to 2003 and 2011 to 2016. Judging by this regularity, it is safe to assume that 2017 is the starting year of a new booming period.

That is not to say there may not be headwinds for China's economy. One of the uncertainties is whether the government will continue to tighten up the market. The recovery starting from last year has been clearly led by investment in infrastructure and housing, prompting many people to believe China has reverted to its old investment-driven growth model.

The authorities, though, probably knew from the beginning that investment was only a tentative measure to boost domestic demand amid the risks of capital flight. That is why the investment policy, as well as the housing policy, has been tightened since the end of last year.

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This in turn has had a direct effect, slowing down the economy — the year-on-year growth rate has declined over the months this year. Anticipating the tight policy to continue, the market is forecasting a low growth rate of 6.5 percent for next year.

A stronger headwind may come from the other side of the Pacific. US President Donald Trump has won a major victory by getting his tax cuts plan through the Congress. While the US tax bills' long-term effects are unclear, this round of tax cuts will, in the short term, boost growth and consumption in the United States.

In general, this should not be bad news for China. Because of the close economic links between the two countries, a booming US economy will have a positive spillover effect on the Chinese economy. However, China may face the challenge of stopping capital flight again because a strong US economy is likely to attract more capital.

This will be aggravated by the US Federal Reserves' move to raise the interest rate. The Fed has already announced that three interest rate hikes are expected next year. It looks like a repeat of the early 1980s, when former president Ronald Regan announced a major tax cut, and the then Fed chairman Paul Volcker aggressively raised the interest rate.

The result was a modest recovery of growth, but significant appreciation of the dollar. This time, the appreciation of the dollar will again be a big probability event.

Against these headwinds, the Chinese economy needs a more accommodating government policy to sustain economic growth.

The coming year will not be an eventless one, and the Chinese authorities need to prepare for unexpected surprises. But robust growth will prevent the Chinese economy from slipping into the kind of disorderly depreciation and capital outflows that it experienced in the later months of 2015.

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Digital economy on the fast track

China uses its advantages and makes concerted efforts to become a leading player in the cyber world

By WANG PENG

The theme of the recent 4th World Internet Conference, held in Wuzhen, East China's Zhejiang province, was "Developing digital economy for openness and shared benefits — building a community of common future in cyberspace". It points to the direction of global economic development, which among other things requires advanced technologies and a smarter production system.

A country that takes the lead in mastering the core technologies of the digital economy and successfully implements these on a large scale will gain the upper hand in the fierce global competition, because an advanced digital economy can make growth more sustainable and effective, as well as promote research and development in related areas.

Statistics from the Ministry of Industry and Information Technology show that people in the regions where the digital economy has developed rapidly enjoy a relatively high degree of economic growth. And National Bureau of Statistics data show that a 1 percentage point growth in the Internet Plus digital economy index will increase the GDP by 140.6 billion yuan ($21.26 billion). For the record, China's Internet Plus digital economy index was 161.95 points at the end of 2016.

But how healthy is China's digital economy? Authoritative data on 2016 show that China's digital economy accounted for 30.1 percent of its GDP, much lower than those of developed economies such as the United States (59.2 percent), the United Kingdom (54.5 percent) and Japan (45.9 percent).

Although there is still a gap between China and some developed economies in terms of the weight the digital economy carries, China's chase demand strategy has many advantages and a lot of potential.

"China's huge total economic output, market size, population and economic growth gave the country a certain 'advantage' in rapidly developing the digital economy."

Of course, China's huge total economic output, market size, population and economic growth gave the country a certain "advantage" in rapidly developing the digital economy.

But more importantly, the Communist Party of China and the Chinese government attached, and still attach, great importance to the digital economy, and used their unique institutional advantages to formulate effective industrial policies and accelerate its development. For example, at the Fifth Session of the 12th National People's Congress in March, Premier Li Keqiang said in the Government Work Report that both the Chinese people and enterprises will benefit from a fast-growing digital economy. It was also the first time the term "digital economy" was mentioned in the Government Work Report.

The report said China's digital economy is making big headway. With data resources as its core elements, information technology as its endogenous driving force, and cross-industrial integration and technical innovation as its typical features, the digital economy has been developing rapidly, and its spillover effect is benefiting other economic sectors to such an extent that they, too, have registered impressive growth.

China is making concerted efforts to elevate its digital economy from a "large-scale" level to one that is truly powerful, in order to become a leading player in the cyber world in the future. For instance, the Outline of National IT Development Strategy issued by the General Office of the State Council, China's cabinet, said the country will reach the advanced international level in core technological fields of the digital economy by 2020. Also, by the middle of this century, China is expected to become a prosperous, democratic, civilized and harmonious modern socialist country.

And by then, China will have consolidated its network capability and governance, as well as become the global trendsetter for the digital economy.

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