

How to achieve high-quality growth

Policymakers have provided clues about areas of development that need particular attention as China's economy moves forward

The annual meetings of the National People's Congress and the Chinese People's Political Consultative Conference, commonly referred to as the two sessions, are ongoing in Beijing. The two sessions this year have attracted unusually high attention from domestic and international observers for at least three reasons.

First, 2018 marks the 40th anniversary of China's reform and opening-up. Many believe that it was the historical decision to turn the nation back to the track of economic development that established the



Zhu Ning

foundation and paved the way for China to rise from one of the poorest countries in the world, judged by GDP per capita, to the second-largest economy. Therefore, many wonder whether China will keep its promises on further reform and opening-up, as President Xi Jinping and Politburo member Liu He

announced separately at the Davos World Economic Forum meetings last year and this year, respectively.

Second, the two sessions of 2018 will be the first to take place after the 19th National Congress of the Communist Party of China in October. Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, highlighted at the Party congress, not only provides longer term and more sustainable development goals, but also new ideas to achieve the new goals. The Central Economic Work Conference in December provided further details on the priorities for economic policies for this year, and some are anxious to find out further details from Premier Li Keqiang's forthcoming delivery of the Government Work Report, which typically includes specific growth targets and policy initiatives.

Third, China's economy is still trekking through some unprecedented transitional periods, and there has been considerable debate about whether it should try to maintain its high-speed growth, as in the past decade, or whether the time may be ripe for China to gradually give up its old "speed first" growth mentality. Observers are watching for various hints about whether China's government and its legislative body are ready for such fundamental changes, especially given that high-quality growth has been put at the top of priorities for economic policies.

To make things even more interesting, this year's meetings happen to coincide with an unprecedented period in the global financial order. The US Federal Reserve has started the process of unwinding its asset purchases (quantitative easing) after the 2008 global financial crisis, aimed at stimulating the US and global economy and its interest rate hike cycle. Such moves will rein in some of the unprecedented liquidity injection since the global financial crisis and are widely expected to have a profound impact on the global economy. This is particularly true for the emerging economies, many of which may not have fully prepared for such a shift and are known to be susceptible to such wide movements in international capital flow. As



ZHANG CHENGLIANG / CHINA DAILY

the leader and representative of the emerging economies, how China decides its policies during this crucial historical moment is yet another reason that the two sessions of this year are of particular interest and importance.

Policymakers have provided some clues about what to expect out of the high-quality growth. One does not have to look far beyond the central economic working meetings to find three highlighted areas of high-quality growth. In particular, preventing systemic financial risks as well as poverty relief and environmental protection are priorities for economic policies for 2018.

Given the emphasis on quality instead of speed, there are good reasons to believe that China's leaders are at least more relaxed with the economic growth speed than before. This may partly reflect the undisputable fact that China's has now become one of the most important economies in the world after four decades of miraculous economic growth. Now that China's economy is so big, it is no longer practical to expect the economy to grow as fast as two decades ago, when it was a fraction of the size of the current economy.

At the same time, each of the three highlighted areas points to an area of development that needs particular attention as China's economy moves forward.

Many worry that part of China's economic growth in the past decade was achieved through very aggressive credit expansion and debt financing. The national debt to GDP ratio, a gauge widely used to assess a country's debt burden and fiscal sustainability, increased from 160 percent in 2011 to over 260 percent in 2016. Even though the ratio itself does not put China among the most debt-laden countries in the world yet, the speed by which China's debt accumulated concerns not only international organizations, such as the International Monetary Fund, but also China's own policymakers.

In some sense, this is why containing leverage and preventing systemic financial risks has taken such an important spot in high-quality growth. If China cannot properly handle its escalating debt and the deteriorating asset quality in its financial sector, then its economic growth miracle may be at risk. The "lost decades" of Japan and the 1998 Southeast Asia financial crisis provide vivid

examples of what failure to take care of the debt problem can do to an otherwise vibrant and fast-growing economy.

After China successfully improves its fiscal soundness and growth sustainability, the next natural problem is the inclusiveness of its growth. At the same time that they are enjoying the economic growth miracle, many Chinese also sense that the inequality of wealth distribution has not diminished, but rather has grown. This is particularly striking given that China is such a large country and there are still millions of people living in poverty and not fully enjoying the economic growth shared by many others in the country. Therefore, poverty relief and reducing income and wealth inequality become the second important target of high-quality growth in the new era.

A broader and possibly longer-term goal of high-quality growth deals with neither the relationship between the economy today and the economy tomorrow nor the relationship between some people in the economy and others, but rather the relationship between the human race and nature. China recognizes that it has to do more to protect its environment, in order to avoid repeating the experiences of many other countries that paid a hefty price for restoring the ecosystem damaged through fast economic growth. If anything, China is indeed trying to become the global leader in environmental protection, which is in the interest of all of those living on Earth.

So high-quality growth should not be considered as something drastically new. Instead, it is the natural combination of the reflection of China's economy as it is right now, and a more inclusive and balanced approach to make sure that China's economic growth will bring happiness and dignity to every citizen of the country.

What remains an open question is how China will achieve such high-quality growth in the new era. Some argue that, given what has happened in policy in the past few years, China may gradually slow down its market reform pace and turn to rely more on its power policy adjustment and State-owned enterprises, whereas others contend that China needs to stick to its market-oriented reform spirit, which is central to China's accomplishments.

It is important to keep in mind that many global policies since the 2008 global financial crisis were made with the crisis still in the back of the mind and were temporary in nature. I tend to think that a similar logic is true in China as well. Many believe that China managed its economic growth miracle partly due to gradual yet determined reform toward the market economy, an economic paradigm that better aligns the interest of each individual and the greater society, a growth path that unleashes the potential and entrepreneurship of each individual. This has been true in many countries' development and true of China's past economic growth miracle, and probably remains critical to China's reaching its goal of high-quality growth in the new era.

The author is Oceanwide professor of finance at Tsinghua University. The views do not necessarily reflect those of China Daily.