China’s Growth Transition

Chair: Ashok K. Kantha

Speaker: Anoop Singh

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In his talk Anoop Singh’s sought to analyse the current imbalances plaguing the Chinese economy. Arguing the persistence of imbalances caused by the 2008 global financial crisis, Singh noted that current trends must be understood in light of China’s economic performance in the decade before the crisis. In that decade, Singh argued, China’s GDP grew on an average of 10% per annum. The crucial motor of China’s economic growth was exports, as can be ascertained by the exponential rise of exports as a share of the GDP. China’s exports were aided by a low exchange rate, although after 2005 China allowed its exchange rate to appreciate. Investments and consumption were rising, and the Chinese economy in general looked healthy because its financial sector was performing well. Singh also observed that major parts of bad debts had been written off and public debt was ‘basically’ low, which meant that although China’s debt was higher than countries which were at the same stage of development, in absolute terms it was manageable.

This positive picture, however, upturned as the 2008 crisis hit the world. Singh argued that the crisis significantly impacted China’s exports, resulting in a sharp decline in their current account surplus. This in turn reduced growth and ushered in deflationary trends. To revive the economy, the Chinese government introduced a US$4 trillion stimulus package. Much of this of money, Singh said, was funneled into infrastructure markets rather than in health-care, education and low-income housing support. He also pointed out that apart from bringing in fiscal and monetary stimulus, specific policy changes were also brought about to keep the real estate industry as the driver of the economy. Such desperate attempts unsupported by market logic, resulted in productivity inefficiencies resulting in the creation of what Singh termed as ‘Zombie Enterprises’. Such enterprises are worth more when liquidated than kept operational. Despite the inefficiencies and the real estate bubble that was building up, China continued to invest in the real estate.

In the financial sector, Singh pointed out, that credits rose in parallel to corporate debts. Singh noted that the credit system grew opaque and complicated as money was lent to financial institutions and products rather than to the non-financial sector. One critical problem that began to emerge was that even though credits rose, productivity fell. This, Singh argued, was a major problem that China has yet to address. With an aim to tackle exactly these plaguing issues China has recently constituted a ‘state council of financial stability & development’. To deal with the extant imbalances it would require the new council to curb the inefficient capital movement, which in essence would mean the slowing down of credit flow. At the same time China also aims to double its real GDP which means the credit tap needs to continue to flow. Singh argued that this dilemma of on the one hand controlling credit and on the other hand to keep credit flowing is one of the gravest challenges facing the Chinese establishment.

Singh’s talk was followed by a Q&A session. The first question asked Singh about his assessment of the implementation status of the reform agenda initiated at the 3rd plenum, 2013, especially in the context of the recently held 19th Congress of the CPC which saw the declaration of several course-corrections. Singh replied to the question by saying that in theory China has liberalized the financial sector to accommodate the conditions of imbalances and that banks can lend at rates determined by them, although lending to Zombie Enterprises and SOEs are yet to be addressed. Another question sought a clarification on how the debts, that the speaker had alluded to in his talk, are divided between the centre and the provinces. Singh replied that the data available indicates high debts of the local governments, although the central government argues that this should not be taken as an indication of public debt. A third question sought a clarification on the ownership of Chinese bank by foreigners. To this Singh answered that capital is tightly controlled in China and therefore foreign firms can only become shareholders of Chinese banks in alliance with a Chinese enterprise.

Report prepared by Rajesh Ghosh, Research Intern, Institute of Chinese Studies, New Delhi.

About the Speaker

Anoop Singh is currently adjunct Professor at Georgetown University, Washington DC and Director, Financial Markets, Centennial Group International, Washington DC. He is also Distinguished Fellow of Geoeconomic Studies at Gateway House, India and on the Academic Committee at Renmin University, Beijing. Before that, he was Managing Director and Head of Regulatory Affairs, Asia Pacific, for JP Morgan (2014-2015); and, at the International Monetary Fund, he was Director of the Asia and Pacific Department (2008-13), Director of the Western Hemisphere Department (2002-08), and Director of Special Operations. His additional work experiences include: Special Advisor to the Governor of the Reserve Bank of India (RBI). Mr. Singh has worked and written on macroeconomic, surveillance, and crisis management issues, helping design programs in emerging market, transition, and developing countries in South and South-East Asia, Eastern Europe, and Latin America. He led IMF missions to many ASEAN countries, to Vietnam, Bulgaria, and Albania during their early transition experiences, and to a number of other countries in Asia and in the Americas, including India, Australia, China, Japan, and Argentina. He has many publications to his name

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