

“On the current macroeconomic situation and economic challenges” by Wen Jiabao posted on www.qstheory.cn, a Communist Party of China website on 1 September 2011 – 关于当前的宏观经济形势和经济工作 来源:《求是》 作者:温家宝

An English synopsis of salient points

A reasonably manageable outlook

- **Domestic demand** growing at 16.8% p.a. to play an increasing role with reducing trade surplus.
- Summer **agricultural production** increased by 6.2 billion catties (3.1 billion kg).
- **Price inflation** still within manageable levels.
- **Government revenue** increased by 31.2% (by 1.35 trillion yuan).
- Profitability of **large industrial enterprises** increased by 28.7 %.
- **Strategic structural adjustment** speeding up: growth rates of engineering and pharmaceuticals higher than large industrial enterprises; software, informatics, culture, creative and other service industries on the rise.
- Central and Western regions in process of accommodating **relocated industries**.
- Urban employment **increased by 6.55 million jobs**.
- Per capita **cash income of peasants** increased by 13.7%; per capita **urban disposal income** increased by 7.6%.
- Government investments in **social security, employment creation, healthcare and public housing** expanded by wide margins.
- **Slower growth at reasonable levels**, largely a result of macroeconomic adjustments.
- Focus to centre on balanced but reasonably fast **growth; economic re-structuring and inflation management**.

Complex, Unstable and Uncertain domestic and international challenges

- **Western economies** mired in national debt, fiscal imbalance, sovereign credit risks, unemployment, economic sluggishness, and declining growth; global inflationary pressures building up, especially in **emerging markets; even Brazil and India** beginning to lose a little steam.
- **China – slower growth combined with inflationary pressures; housing market in a tug-of-war** between competing forces; **energy conservation and emission reduction facing critical challenges** as energy-intensive industries show signs of re-emergence; **export growth** facing serious downturn; **stronger public reaction against food safety and other livelihood issues**.
- **Local government debt risks loomed but manageable**. State Council investigation (March- May 2011) revealed (and made public) its extent – 10.72 trillion yuan (\$1.68 trillion, or 28% of GDP), of which 51.15% for pre-2008 projects. Most debt for infrastructural and economic projects. Need to regulate use of local government financing vehicles (LGFVs).
- **Significant improvements so far** – credit growth reducing towards normalcy; July M2 grew 14.7%, within 16% target range; but speed of credit growth still high; need to enhance credit quality and credit provision for agriculture and SMEs.

- *Need to deepen monetary and financial reform*, including interest rate liberalization, risk management; management of quantity and utilization of foreign exchange reserve; prevention of “hot money” inflows; maintaining the soundness and stability of the banking system.
- Need to maintain *direction, focus, flexibility, effectiveness and far-sightedness in macroeconomic adjustments*, mindful of rising costs of commodities, energy and wages, interest rate increases, RMB appreciation and other business challenges.

2011 priorities

- Maintain *price stability*.
- Continue to regulate the *housing market especially in 2nd and 3rd tier cities*, including land supply and the target provision of 10 million subsidized housing.
- Ensure *adequate food production and distribution*, including management of agronomy, water resources and food (especially pork) market stability, and political accountability of governors and mayors of national ‘rice bag’ provinces and ‘vegetable basket’ municipalities.
- Deepen *structural economic reform* including *energy conservation and emission reduction* strategies; FDIs in RMB- denominated products; income and property tax reform; and eminent-domain laws including compensation
- *Assist SMEs to adjust to economic re-structuring*, including credit provision, linkage to large, strong enterprises, marriage of traditional industries with high-technology and high value-added, combination of traditional market and emerging new markets, merger of general trade with sub-contracting trade, equal priority to both import and export, and speed, quality, efficiency and coordination of external trade
- *Vigorously improve people’s livelihood* – old age insurance to achieve 60% coverage by year-end; improve municipal management including social order, public safety, disaster response, addressing people’s legitimate demands and *promoting social stability and harmony*.

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