China makes steps to increase economic stimulus measures

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The leadership of the ruling Chinese Communist Party (CCP) has announced some more measures to try to stimulate the economy as Beijing braces itself for the hit if incoming US president Trump goes ahead with his repeated threat to impose a 60 percent tariff on Chinese imports. But the general reaction has been that the proposed actions do not go far enough.

There have been a series of top-level meetings, involving both the CCP, the central bank and other authorities over the past months as signs of a China slowdown grow. Foreign investors, as well as those in China, calling for greater stimulus, have been awaiting the announcement of a "big bazooka" to lift the economy. However, nothing akin to the kind of measures taken in the past has been forthcoming.

But some limited measures have been undertaken. On Monday the 24-member Politburo concluded a two-day meeting with the announcement of a shift in monetary policy.

It abandoned the term "prudent" and said that henceforth monetary policy would be "moderately loose." Such language has not been used since the global financial crisis of 2008–2009 to which China responded with major stimulus measures.

The Politburo also indicated that China's budget deficit would be allowed to expand above the current level of 3 percent of GDP.

But as with previous measures there is a lack of detail. At the end of September, a $1.4 trillion package was announced to ease the debt burden of local governments which is proving to be a major drag on the economy. But nearly three months on it is still unclear how it is operating and what the broader plans of the government are in regard to the property market.

Following the Politburo meeting, President Xi Jinping sought to provide an upbeat assessment to a meeting of international financial officials, including the managing director of the International Monetary Fund, Kristalina Georgieva and World Bank president Ajay Banga, in Beijing.

"China has full confidence in achieving this year's economic growth target and continuing to play its role as the world's largest economic growth engine," he told the meeting.

Even as the US economic warfare measures intensify—the latest being a further series of export controls on high-tech components announced by the outgoing Biden administration earlier this month followed by increased tariffs on goods used in solar cells—Xi continued to publicly maintain that some accommodation with the US was possible.

As reported by the state news agency Xinhua, he said China was prepared to maintain dialogue, manage differences and promote a healthy US-China relationship "hoping that the US side will meet China halfway."

Undoubtedly Xi knows that there is no prospect of such an accommodation. Major think tanks and economic institutions in the US as well as both sides of the political establishment and the military have made it clear that China's economic development, above all in the field of high-tech, must be prevented at all costs if the US is to maintain its global hegemony.

The news agency report of Xi's remarks contained a veiled warning. "Tariff wars, trade wars and technology wars go against historic trends," he said. China would "resolutely safeguard its sovereignty, security and development interests."

Some evidence of how that response will unfold has been revealed in the past two weeks with the imposition by China of bans on the export of critical minerals to the US needed for chip manufacture and the launching of an anti-trust investigation into the leading US tech firm Nvidia this week.

Following the Politburo meeting, a two-day meeting of the Central Economic Work Conference expanded somewhat on the measures it had announced.

The meeting committed to issuing "ultra-long" special bonds to finance debt and said China would lower interest rates and the amount that banks must hold in reserves—a loosening of monetary policy—at "an appropriate time."

It said China would "vigorously boost consumption" as a priority, expand domestic demand "in all directions" and undertake other special actions.

The expansion of domestic consumption has been a persistent demand of all the major powers for some time. This is motivated by the concern that if the domestic market continues to slow and even stagnate, the result will be an increase in Chinese exports as the government seeks to maintain the growth rate at or near its target of "around 5 percent."

But there are considerable doubts about whether even this figure, itself the lowest official target in more than three decades, can be maintained after this year.

Bloomberg cited remarks by Gao Shanwen, chief economist at SDIC Securities, who had previously advised government officials and regulators, that a growth rate of around 3-4 percent was a more realistic level for coming years. He told a meeting of the Peterson Institute in Washington that the "true number of China's real growth figure" was not known and that following the pandemic, official numbers "may not be so accurate."

In a Morgan Stanley research note issued on Wednesday, cited in the *Wall Street Journal*, its economists said the falling yield on Chinse government bonds suggested investors were not convinced policy could successfully boost growth and reverse a persistent deflationary trend.

There was a mixed reaction from economists to the decisions of the Work Conference with the general view that the measures so far are still not enough.

Zhiwei Zhang, chief economist at Pinpoint Asset Management, told the *Financial Times* it was clear Beijing would step up support for the economy and measures this week were more significant than those at the end of September. But he continued, "the market is anxiously waiting for details on what exactly the government will do."

Kelvin Lam, an economist at Pantheon Macroeconomics, said there was little clarity on what the government would do to boost consumption and this "lack of details… disappoints the market."

Zhu Haibin, chief economist as JPMorgan, said: "At this stage, we do not think there will be a fiscal bazooka that some investors hope to see, but the positive thing is that, for 2025, the fiscal package will be more accommodative compared to the last three months."

Complaints about the lack of details both from within China and outside will not be met until a meeting of the country's top legislative body, the National People's Congress, scheduled for March.

But by then the economic situation may have changed markedly with the coming to power of Trump on January 20, depending on how fast and to what extent he goes ahead with his threat to introduce a 60 percent tariff on Chinese exports.