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China Shifts Attitude on Growth

Rate Rise Just After Party Meeting, Data Point to New Approach, a Focus on Putting More Money in Consumers' Wallets

By ANDREW BATSON



European Pressphoto Agency

Workers in a garment factory in China's Anhui province.

BEIJING—The world's fastest-growing major economy appears to be shifting from its single-minded focus on fostering torrid growth to one on structural changes that could do more for expansion and jobs in the West.

Data on Thursday showed China's economic growth slowing in the third quarter, figures that came on the heels of a surprise move to raise interest rates and after the ruling Communist Party agreed to make economic "transformation" the priority for the coming five years.

China represents one of the few sources of strong growth in the world today. While the recovery produced by the nation's huge stimulus plan has been welcome, the boom hasn't aided other economies as much as hoped, and many of China's trading partners want to see a change of course.

The U.S., for instance, has pushed for policies to



China's gross domestic product rose 9.6% from a year earlier in the third quarter, slowing from 10.3% growth in the second quarter, official data issued Thursday show, as the government withdrew stimulus and took measures to cool sectors such as the property market. Aaron Back joins us from Beijing to discuss.

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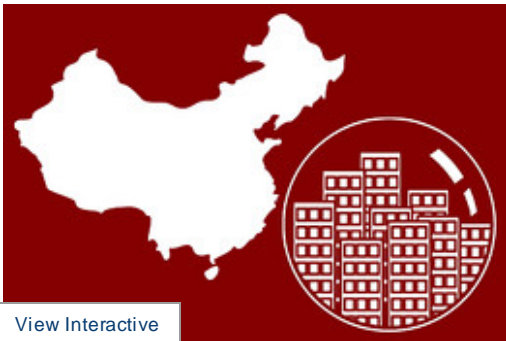
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many observers see a new approach at work.

"We think the government will tolerate a lower rate of growth but will aim to significantly improve the structure of the economy," said Deutsche Bank economist Jun Ma. China's currency is also now rising at its fastest pace against the dollar since 2008.

The Communist Party leadership closed a conference on Monday with calls for "accelerating the transformation of the nation's economic development pattern" and "putting more emphasis on securing and improving people's livelihood to promote social equality and justice."

The planned "transformation" refers to efforts to make Chinese economic growth less driven by exports to the West and the debt-fueled investment that has been at the center of its stimulus plan, strategies that while successful for years now face increasing domestic and foreign pressures.



free up markets and boost incomes, so Chinese consumers can buy more imported goods. Particularly contentious is China's exchange-rate policy: Many countries complain that China, by intervening to hold down the value of its currency, supports its own exporters to the detriment of others.

Until now, China's repeated pledges to do more to support consumer spending and cut its trade surplus haven't been backed up with many concrete changes, but there are now signs such priorities have gotten more backing, as authorities allow the recent boom—which has boosted domestic companies and government agencies with the help of state-backed credit—to cool.

The latest figures showed the rise in China's gross domestic product slowing to 9.6% from a year earlier in the third quarter, from 10.3% in the second quarter, as gains in capital spending fell back to levels last seen before the launch of the stimulus program in late 2008.

Authorities had already sent a strong signal that the ultra-easy policies adopted in the crisis years are on their way out with the increase in benchmark interest rates this week, China's first since December 2007. The move surprised markets since it showed a determination to fend off a property bubble and strains in the financial system even at a time when growth is clearly slowing.

Importantly, that shift in policy came just after a weekend meeting where the ruling Communist Party reached agreement on economic priorities and the political succession in coming years, and

With the next summit of the Group of 20 major economies just weeks away, China is being pushed to run its economy in a way that supports recovery elsewhere. Meanwhile at home, the government is


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Workers on a vehicle-assembly line in China's Anhui province.

now facing up to the costs of the stimulus: huge debts of uncertain quality in the state-owned banking system, and a bubbly housing market that is fueling urban discontent.

Officials hope the consumer spending of a rising middle class will provide a more sustainable source of growth for the future. A consumption-driven Chinese economy would likely grow somewhat slower without the steady injection of government

investment, analysts say, but be less prone to boom-and-bust cycles and shocks from abroad—a trade-off many see as worth making.

"To emphasize domestic demand is a firm policy of the Chinese government, and this is a comprehensive policy from all directions," deputy central bank governor Yi Gang said at the International Monetary Fund's annual meeting this month. He said the government will help drive domestic consumption through supporting urbanization; reducing income inequality; improving social security, health care and education, and boosting infrastructure in rural areas—all costly steps requiring more government spending.

The kind of language officials are using now is clearly in line with President Hu Jintao and Premier Wen Jiabao's priorities in previous years. But the communiqué issued by the Communist Party meeting has broken some new ground, adding new goals for the nation's next five-year plan that include targets for ensuring more of the nation's incomes goes to ordinary households.

The leadership's emphasis on structural overhauls over stimulating high growth rates is based on confidence in the economy's prospects, government advisers say. "We're not worried about China's short-term growth prospects. China has great domestic growth drivers," such as the urbanization of its rural population, said Hu Angang an economist at Tsinghua University who has advised the government on its five-year plans. But the new direction also recognizes that China is unlikely to sustain its recent 10%-plus growth rates as demand for its exports is unlikely to grow as robustly in the future as in the past.


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Associated Press

An employee in a Zhejiang province factory moves piles of brass tubes last month. Beijing's credit-driven stimulus effort has boosted domestic companies.

"Based on fundamentals, it seems likely that China's growth rate will ease. Growth in the coming 10 years is probably going to be less than in the previous 10 years," said Louis Kuijs, a World Bank economist in Beijing. "The government could boost investment to offset those fundamental forces, but it's deciding not to do that."

The priorities for the next five-year plan that the leadership presented this week will "help us adjust our economic structure at a faster pace, raise the quality and efficiency of economic development, and improve people's livelihood," Sheng Laiyun, spokesman for the National Bureau of Statistics, said Thursday. The next five-year plan will de-

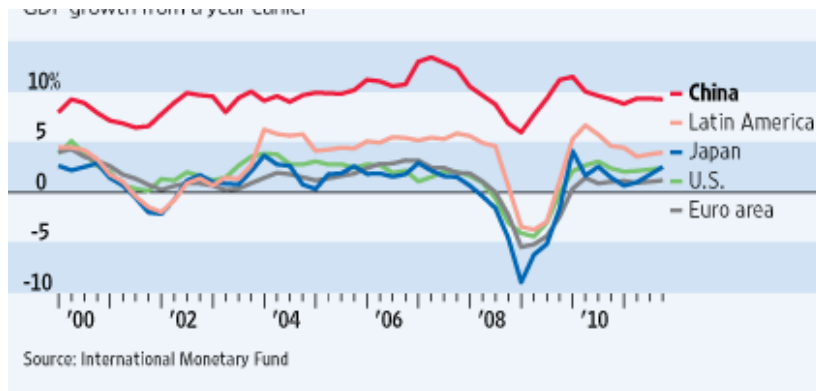
emphasize old-style quantitative targets, he said, which will help "dilute" some of the negative impact those have brought in the past.

Leading the pack

China has been at the front of the global recovery

GDP growth from a year earlier

Skeptics note that the latest economic data provide little concrete evidence that China has



shifted away from a free-spending stimulus policy. "Strong investment supported by easy money, record exports underpinned by a depreciating yuan, and retail sales that are driven by incentives to spend represents more of the same, not a shift in the growth model," said Tom

Orlik, an analyst in Beijing for Stone & McCarthy Research Associates.

Granted, the slowdown in growth has so far been very modest, with industrial output, an important indicator in China's manufacturing-heavy economy, still up 13.3% from a year earlier in September, after August's 13.9% rise. A sharper deterioration could test how willing the government is to let growth find a natural floor.

On the other hand, a pickup in broader inflation—the consumer-price index was up 3.6% in September after a 3.5% gain in August—helps the argument for higher interest rates and a stronger currency. The IMF on Thursday reiterated its support for China's interest-rate rise and said Asian countries should allow their currencies to rise and withdraw stimulus measures as they grapple with surging capital inflows that threaten to fuel inflation.

Even if the government succeeds in its goal of fostering a consumer-driven Chinese economy, there are questions over how much support to the world economy would be delivered even by the most free-spending of Chinese households. "Even in a best-case scenario, however, China will provide only a partial offset to the weaker demand from advanced economies, given the relatively small size of both overall Chinese consumption and Chinese imports of consumer goods," the International Monetary Fund said in its latest assessment of the world economy.

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