China's Growth after Slowdown

Why in news?

The Chinese economy grew at 6.4% in the first quarter of the current year, much faster than what was expected.

What are the recent developments?

- In the recent period, the Chinese economy has been slowing down, facing a host of challenges which included -

i. a long-running trade war with the US
ii. weak consumption at home
iii. slower export demand abroad
iv. debt problems in both the public and private sectors

- But China's economy is now showing signs of a rebound.
- This rate of growth is equal to the pace registered in the December quarter and faster than expectations of a 6.3% expansion.
- Retail sales and factory output showed strong growth momentum.
- Chinese exports reached a five-month high in March, rising 14.2% when compared to the same month last year.
- China's stock market has also been driven by the early signs of an economic turnaround and increased liquidity.

What does it imply?

- The latest growth figure is an indication of the positive effect of Chinese government's efforts over the last few quarters to stimulate economy.
- Total social financing grew by almost 40% to 8.2 trillion yuan in the first quarter of the year.
- It points to a credit expansion that will boost growth in the coming quarters.
- With trade tensions with the U.S. subsiding significantly for now, export growth may accelerate and further boost the economy.

What is the need for caution though?

- Gross domestic product growth is generated largely by increased lending.
- China, of late, has once again been encouraging its banks to boost lending to public and private businesses.
- This is being done apart from implementing various fiscal measures to boost consumer spending.
- However, it poses the risk of losing momentum once the stimulus is withdrawn.
- This is because businesses may resort to heavy borrowing when credit is easily available.
- But they soon become burdened with disproportionately high amounts of debt once the economic boom cycle reverses.
- The country may eventually be forced to crack down on excess lending by banks when the economy is under burden.

How does the future look?

- The Chinese government is now walking a tightrope as it attempts to keep the momentum only from slowing in the short term.
- Meanwhile, market forces are trying to correct imbalances within the economy.
- Any macroeconomic policy focussing too narrowly on the short term and ignoring the long-term consequences is risky.
- It does not bode well for either the Chinese economy or the wider global economy.

Source: The Hindu

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