

Can the Dragon Save the World?

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An increasing number of economists are comparing the global economy to the sinking of the Titanic as each economy is seeking a lifeboat to survive. If we think about the lifeboat for our economy, China would be one on the list. The main reason is that China is the only economy in the world that has a sizeable domestic market with potential to grow as much as 8 per cent this year. Back in 2008, China's growth contributed as much as 22 per cent to world economic growth and it is expected to help more this year since other motor economies' growth rates are projected to be negative.

Hence, we need to ask whether Thailand and other Asian economies can rely on the demand from China to help cushion growth. To answer that, the other related question is, as global demand has plunged, "Can the Chinese economy depend more on domestic demand as the only main engine of growth?"

Today, China is shifting towards self-dependence by stimulating domestic activity. Early November last year, the Chinese government announced a massive stimulus package worth 4 trillion Renminbi (Bt20.67 trillion) to boost the domestic economy. This amount of funds would be spent over two years to finance various programmes, including transportation network expansion, post-earthquake reconstruction, affordable housing for low-income population, technology improvements, and environmental protection.

Apart from the above direct stimulus from fiscal spending on investment, China's government is now paying attention to improve rural social welfare and social stability to stimulate rural consumption by launching a pilot programme for the rural pension system, which will cover 10 per cent of the rural population. In addition, the government has confirmed that it would spend RMB 850 billion over the next three years to improve health insurance coverage and facilities. This is the first step towards improving the social safety net in the rural areas. This move may also potentially reduce the precautionary savings of the Chinese people that have kept domestic the past decade. Since China's rural population comprises more than half of the total population, rising spending from rural residents would be the new engine of Chinese economic growth in the longer term.

With the above stimulus measures in place one might raise a question: "How much can we export more to China?" One plausible scenario is that some countries who export commodities or machinery related to heavy infrastructure investment will benefit from the Chinese policies. However, for Asian economies who mostly export manufacturing components to China, the benefits would likely be quite limited. Moreover, while the Chinese authorities have publicly announced their stance against protectionism, local governments have announced some policies to support local producers by giving some subsidies to the buyers who purchase local products or requiring that the publicly funded infrastructure projects use local materials. If these policies continue, China might be able to save just only itself but not the rest of the world.

(Views expressed are the author's own.)

Source: The Nation