

Malaysia can ride on China's efforts to boost economy

FREE MALAYSIA TODAY

01 March 2024

Shankaran Nambiar

China is in a pickle and it seems that the current crisis spells the end of the China dream. Or maybe not.

It is undeniable that China faces its share of problems: domestic demand is weak, there is a real estate crisis and non-performing loans abound.

Stay up-to-date by following FMT's Telegram channel

All of this is true. Weak demographics is another factor that we can add to the list.

Although the Chinese economy shows signs of weakness, it is typical of capitalism that an economy that has been fuelled on speculation will at some point experience a slump.

The authorities in China have managed the economy prudently thus far; they have often taken bold decisions that have paid-off very well.

China's accession into the WTO in 2001, though seen as a highly risky decision at the time, got the country into the global capitalist system, and yielded tremendous dividends over the years.

There is no reason to think that China has lost that grasp over the economy.

More recently, the country has been going through a series of property-related misadventures, including the much-publicised collapse of Evergrande.

This has affected the economy since developers have run into a wave of defaults. There has been some de-leveraging of a once over-size real estate market.

The IMF expects housing demand to decrease by 50%. Growth in China for the whole of 2023 was a mere 5.2%, a sharp fall from the once brilliant growth rates. In 1980 it was 10%.

One of the measures the government has undertaken is to attempt to increase spending. Towards that end, the government has issued one trillion yuan (US\$139 billion or RM643 billion) in sovereign bonds.

In the process, unfortunately, the deficit has gone up. The deficit target has been raised from 3% to 3.8%.

Another policy decision that has been taken is to address affordable housing, a long-standing problem.

Rather than to add to real estate speculation, the government has decided to build more affordable houses, catering to those who do not have a roof over their heads than to encourage the development of property for those engaging in speculation.

This would also ensure that developers have use for their resources.

China also has to raise aggregate demand. It proposes to do this as any country under conditions of capitalism would do.

Traditionally, this has been done by improving technology, increasing productivity, capturing new markets, and extracting more surplus value from labour.

The key lies in upgrading capital, or more simply by improving the quality of technology.

The government realises that more money has to be put into science and technology. Efforts are being expanded in that direction, with emphasis on AI, digitisation, the green economy, non-fossil fuel energy and innovation.

Technology will also be upgraded in the industrial system. These are not new initiatives, but they will see renewed vigour this year and in the near future.

Developing countries that tie their fortunes to China may have a difficult time in the next year or so, that is, till China rebuilds itself.

But beyond that, China is still set to be a global economic powerhouse that will control large segments of the world.

Developing countries, Malaysia being an example, will find it profitable to take advantage of the niche areas within China where substantial progress is being made.

Gains can be made by cooperating with China in AI, the auto industry, fintech, high speed trains, and the innumerable other areas where China is pushing the envelope.

There are temporary adjustments that must be made. One such attempt that was made was to slash the mortgage rate by a hefty 25 basis points, leaving it at 3.95%.

This led to the yuan slipping, only to be saved by state-owned banks getting into the market and selling dollars to ward off a weak yuan. The lower mortgage rate was supposed to stimulate credit demand.

The outlook for the next few years is not going to be spectacular, and that is to be expected of a country that has been growing at breakneck speed.

Beyond a certain level, all countries experience a tapering off of their growth. China's annual growth is predicted to be 4% in 2024, and perhaps stay at that level in 2025, too.

In 2030, growth is expected to moderate to 3.5%, largely due to the country's fragile demographics.

None of this is to deny that China is an economic superpower that will only use the present circumstances as an opportunity to rebuild itself.

China can be expected to use the next few years to develop its technological capabilities.

Those developers who may be reluctant to invest in the China market may find opportunities in the developing world more attractive; it is up to the latter to decide if they want to take advantage of these possibilities.

Any capitalist economy will use a crisis as an opportunity to improve its technology, improve labour productivity and expand overseas.

As a developing country, we have the liberty of deciding what we want to do; we can take advantage of what China can offer, as equal partners, if we so wish.

Copyright © 2009 - 2024 FMT Media Sdn Bhd. All Rights Reserved.

A part of Media Prima Group.

Sources:

<https://www.freemalaysiatoday.com/category/opinion/2024/03/01/malaysia-can-ride-on-chinas-efforts-to-boost-economy/>