China: The Economic Stimulus That Wasn't

Beijing disappointed those hoping for urgent economic stimulus, offering only a financial gimmick to delay the day of reckoning for local government finances.

A driver prepares to transport cars at a factory of electric vehicle manufacturer Leapmotor in Jinhua, China's eastern Zhejiang Province, on Sept. 18, 2024. Adek Berry/AFP via Getty Images

By Milton Ezrati
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Commentary

After Beijing's September economic stimulus effort fell short of expectations and the economy's needs, Beijing promised that it would do more when the Chinese Communist Party's (CCP's) powerful Standing Committee met.

Now, the committee, too, has disappointed. Instead of economic stimulus, it has offered only a form of financial help to local governments. If this is the best that the CCP can do, China's economy will almost certainly continue to struggle in the new year.

China's business and investment communities had hoped that Beijing would act more decisively once it knew the results of the American presidential election. They wanted—and needed—policies that would jolt China's underperforming economy. Especially since Donald Trump won, making it likely that the United States would raise tariffs on Chinese goods, people saw policy help as that much more urgent.

Instead of the promised massive stimulus, the Standing Committee has delivered a plan to divert the equivalent of some $1.4 trillion raised by the central authorities for infrastructure spending to ease the immediate financial burdens on local governments.

The local government debts in question are held off the balance sheet. Also referred to as "shadow" and "hidden" debt, they are obligations local governments have incurred outside usual channels, typically to avoid the legal debt limits imposed by Beijing. Chinese Finance Minister Lan Fo'an estimates that the burden of this "shadow debt" on local governments is equivalent to some $2.0 trillion. Still, private economists have put the figure much higher, closer to between $7 trillion and $11 trillion. Whatever the precise amount, the burden of servicing this debt has weighed heavily on local governments and, in some cases, has even hampered their ability to finance public services. It is easy to see why the CCP has concerns.

But what Beijing has done is hardly an answer. Local governments have burdened themselves with debt because the underperforming Chinese economy has starved them of revenues. All Beijing is doing with this latest program is buying local governments time by extending the maturity of the loans. This practice is not uncommon among bankers worldwide. It is typically referred to with the pejorative expression: “extend and pretend,” meaning that the lender extends the time before the loan is due and pretends that the borrower somehow will find a way to pay at a future date. But without improving the economy and, hence, local government revenue streams, the problem will only recur. To confirm this judgment, Beijing had to perform this rescue twice—in 2015 and 2020.

If the CCP had bought time—again—for local governments, this action would have done nothing to help China’s economy or improve the fundamentals of local government finance. Meanwhile, the property crisis, a major reason local governments are short of funds, drags on. Chinese consumers, having lost much wealth from stock price declines and the slide in real estate values, are, at best, cautious about spending. The slow growth pattern in which the Chinese economy has fallen has dissuaded private businesses from investing in either expansion or hiring. If Beijing addresses these underlying problems, it will have less of a need to step in and help with local government finances, but this is not what the Standing Committee has done.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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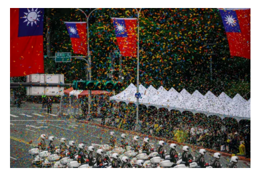

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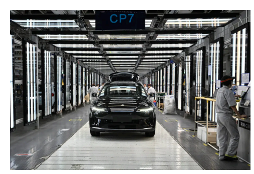

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