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## China sets their GDP target for the year [article]

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I'm sharing an article that discusses the effect of the stimulus package that China injected into its economy in recent years. Using graphs, they analyze that the effect of this stimulus is currently wearing off. They suggest that China will need to release another stimulus to maintain their growth. China projects a growth of GDP in 2014.

This article discusses and reviews the real GDP for China and suggests that the way the government sets hard economic GDP targets is somewhat misleading considering it is not capturing growth momentum as effectively as if it were being analyzed by quarter and adjusting for seasonality.

Happy reading and I would love to hear your opinions!

↑ 0 ↓ · [flag](#)[Andrew Johnson](#) · 6 days ago 

One cannot compare China and any other economy especially the US. Ask yourself why is China virtually the only country in the world allowed to fix their RMB exchange rate to the dollar? They run a centralized economic system with a closed capital account (to avoid a sudden stop event), export led growth economy characterized by massive debt growth where one does not know where the private balance sheet ends and the public balance sheet begins.

The Chinese government wants to restructure the banking system to re-orient it around productive versus non-productive projects so that more credit is extended to firms that intend to build next generation factories to meet demand for higher value-add manufactured goods and less to firms engaged in wasteful property projects.

The intention is to force most banks, and particularly banks that lend to property builders, into needing recapitalization by the government. By recapitalizing only those that the government wants to see survive they can achieve the desired banking system restructuring in one fell swoop. The crisis that the PBoC has induced and is now escalating is in its early stages. I imagine they can achieve the desired level of crisis in weeks or months at most, but who knows. They absolutely have the means to halt the crisis and reflate at any time.

This could never be done in a western democracy. Restructuring a banking system by fiat is one of the benefits of a centralized economic system.

There is none of the tension there we have in the U.S. and Europe between principles of free markets and degrees of government and central bank influence or interference, whichever term applies depending on your ideological bearing. At least in principle in the U.S. and Europe the government is there for the people. In China's it's the other way around. The people are a means to an end, by which the government achieves aims on behalf of the elites who run the government. Fiscal policy and monetary policy are not tools to use to manage the business cycle and recessions that occurs as a natural outgrowth of free markets. That is a western Keynesian concept. There has been not a single recession in China in over 36 years because there is no business cycle in China because there is no market in the sense of markets as we conceive of them in the west, that occasionally punish the careless and reward prudent. In China markets are perpetually managed in real time. Fiscal and monetary policy are not tools used to modulate the extremes of the market but to determine specific market outcomes. If you used the phrase "the central bank is interfering with the market" in policy circles in China they'd find it as confusing as the phrase "the steering wheel of a car interferes with the car's direction." They'd ask, But isn't steering what the steering wheel is for just as the purpose monetary and fiscal policy is to steer markets and the economy in the desired direction?

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[Aranya Edmonds](#) · 2 days ago 🔒

Hi Andrew, Thank you for responding with some very interesting information about China's policies and how they differ from other countries (such as the US). We live in a decentralized system here in the US, but when the majority of the wealth is owned and controlled by a small few, I have to say that it starts to feel the same...democracy or not...If you told the average american that the Federal Reserve was interfering with the market I bet that you'd hear some similar responses...

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[Andrew Johnson](#) · 16 hours ago 🔒

Hello Aranya, this is because in the US's hope of pushing China toward Capitalism back in the 1970s,

they naively thought China would become more like the US but in fact the US has become more like China; more authoritarian, more command economy based, more spying etc.

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