Economist sees momentum, urges reform

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Eswar Prasad, a senior fellow at Washington-based Brookings Institution, hopes for strong measures to push forward China's economic and financial reforms during the upcoming annual session of the National People's Congress in Beijing.  
An expert on China's economy, Prasad said he has seen positive signs in the country's economic transition and reforms in recent years.  
"Over the last year or so while the economy has done quite well, the overall credit growth, no matter how you measure it, has been coming down. This is a positive thing for the financial system," he said.  
Prasad also noted "significant actions" taken in past years such as interest rate liberation, the institution of an explicit deposit insurance system, efforts to more effectively enforce banking regulations and the move by the People's Bank of China, the central bank, to try to make monetary policy be more driven by price signals.  
"These are all steps in the right direction," said Prasad, a former China division chief of the International Monetary Fund.  
The many indicators moving in the right direction also include the contribution of consumption to China's economic growth exceeding the contribution of investment, and the fact that the service sector accounts for more than half of the gross domestic product.  
However, he believes that if China wants to achieve sustainable and quality growth in the long run, much more needs to be done to address economic reforms and financial risks.  
Prasad, who is also a professor at Cornell University, believes the Chinese government is capable of coping with short-term financial problems, such as those in the banking sector and housing market.  
"My concern is about the rising medium-term risks, especially the financial risks," he said, citing an excessive amount of credit still going to the state-owned enterprises that are not performing well and raising concern for longer term financial stability and risk.  
Prasad said whether those medium-term problems can be dealt with effectively is going to depend a lot on what comes out of the NPC meetings for the next year in terms of reform of SOEs, the banking system and the financial system more broadly.  
He is much less worried about an economic or financial crisis in China as some have predicted. "I think China has enough resources and buffers to be able to prevent the rising debt level turning into a financial crisis," he said.  
Prasad said his concerns are over the amount of wastage of resources, adding that the cost of dealing with the debt problem and the misallocation of resources will rise.  
"So it's very difficult to see China being able to sustain high growth, especially high quality growth, if you don't have better allocation of resources," he said. "That is the real issue."  
Prasad stressed that the Chinese government has clearly recognized the underlying problems, but more concrete actions must be taken soon to push forward SOE and financial market reforms.  
He is hopeful that a strong leadership under President Xi Jinping and a new set of economic officials put in place will take "aggressive action on state-owned enterprise reform and broad economic reform".

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