ASIA ECONOMY

Cooling Economy Drives Chinese Officials to Prioritize Growth

After years of trying to stem rising debt, China's policy emphasis seems to be back on headline GDP

Workers making down coats at a factory eastern China. Though officials once emphasized what they called the quality of economic growth, they are now indicating the headline growth rate is important again. PHOTO: STR/AGENCE FRANCE-PRESSE/GETTY IMAGES

By James T. Areddy

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SHANGHAI—China's slipping economic momentum is sparking a shift in government priorities—away from curbing mounting debt levels and toward a renewed focus on raw growth.

Gross domestic product growth fell to 6% for the third quarter of the year, hitting the bottom of Beijing's targeted range, amid clearer signals the government wants to ramp up infrastructure spending and official support for businesses, the kinds of policies that fueled borrowing—and economic expansion—after the 2008 financial crisis.

Beijing is taking steps to give banks more leeway to lend, prodding local authorities to borrow to fund big-ticket infrastructure projects like high-speed railways, and allowing the country's currency, the yuan, to depreciate to counter trade challenges from the U.S.

In the last few years, China's government has signaled it was de-emphasizing the GDP's pace, in favor of an emphasis on what officials called the quality of growth. The priority was containing debt. But authorities are now indicating that the headline growth rate is important again.

The third-quarter GDP expansion reported Friday by China's National Bureau of Statistics put growth at the baseline of the government's 6%-6.5% target for the year, after efforts in September kept it from going lower.

Economic figures for September also released Friday showed an unexpected burst of activity in infrastructure spending in the weeks ahead of China's Oct. 1 National Day anniversary—which analysts attributed to last-ditch efforts by authorities to keep the quarterly GDP number from slipping under 6%.

The slowdown continued a trend of growth falling to levels not seen in the roughly three decades since China began using its current GDP measure in the early 1990s.

GDP growth has been slowing since 2010, clocking in below 7% in every quarter since mid-2015 as the country digests massive debt from past construction and, more recently, as business confidence is whipsawed by trade tensions with the U.S.

The deceleration reported Friday compares with China's 6.2% growth in the second quarter, which economists said was driven by more lending, and the 6.4% pace in the first quarter, which was helped by a 2 trillion yuan ($283 billion) tax cut in March.

While officials had appeared to be growing comfortable with tapering headline GDP numbers, anything below 6% risks undermining longer-term goals, such as doubling the GDP over the course of this decade.

The continued slippage is also vexing for multinational companies that still regard China as their biggest global opportunity. And it blots the Chinese Communist Party's celebration of its economic stewardship as it marks its 70th year in power and its fourth decade since adopting market-oriented "reform and opening" policies.

Other fundamental challenges show how tough it is to spur an economy that generated $13.4 trillion in activity last year, particularly as China struggles with depressed trade tied to the government's tariff-battle with the U.S.

Consumer confidence is waning just as businesses most need domestic spending, while mixed signals on inflation—pork prices have surged 70% this year, while factory prices recently slid into negative territory—have made it difficult for authorities to simply adopt textbook policy prescriptions like lowering interest rates.

A debt overhang, plus strict measures to curtail it, has dissuaded lenders and investors, including local governments, from undertaking projects that might create jobs.

These debt levels, together with rising inflation, are narrowing options for Chinese authorities, said Victor Shih, an associate professor of political economy at the University of California, San Diego. But Mr. Shih's analysis of government statements has led him to conclude that "the elites in the party, including Xi Jinping, have really ramped up their discussion on growth maintenance."

Official policy is critical to business trends in China's top-down system, but authorities face no easy choices. As growth hovers at the 6% floor of the government's target range for 2019, for example, consumer prices are pressing up against the targeted ceiling of 3%, ensuring that forceful action to achieve one goal means sacrificing the other.

Unlike major Western countries, China doesn't primarily guide the economy through interest rates and hasn't changed them since 2015, though predictions are growing rates will soon fall again.

Instead, in September, Beijing took steps to give banks more leeway to lend, and during the third quarter authorities let the yuan depreciate to make its exports more attractive; the dollar now buys more than 7 yuan.

In addition, Beijing looks to provincial and city governments to take the lead in building job-creating projects, as it did to counter a previous slowdown in 2008, with $586 billion in spending on airports, railways and other construction.

However, those priorities clash with its quest to limit the kind of runaway debt produced by the 2008 stimulus. Today, wasteful spending can land officials in hot water.

A lack of pickup in the economy has officials signaling that government action is needed now. Earlier this week, Premier Li Keqiang ordered provincial governors at a symposium in northwestern Shaanxi to "facilitate steady economic growth" and "ensure the fulfillment of major targets and tasks."

On infrastructure, a government auditor report recently found project delays in 13 of 30 provinces. The problem is that after China's building binge in the past few decades, it is harder than ever to come up with projects that make economic sense and would meet regulatory requirements, according to ANZ economist Betty Wang, who notes officials are unwilling to stake their political careers on projects that may face a backlash.

"It became a bit clearer since September that the authorities wanted to do more to support economic growth, but so far they still haven't made any decisive moves. So a [policy] guessing game will probably continue," says Tommy Xie, economist for Oversea-Chinese Banking Corp. in Singapore.

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During his highly-choreographed visit to China's northwest this week, Premier Li's presence hinted at some pressing economic priorities for Beijing: He stopped at the construction site of a multibillion-dollar section of high-speed railway; in a shabby neighborhood he reiterated promises to ease poverty; the pork burger he had for lunch drew attention to the soaring prices for China's favorite meat, and his look at a Samsung Electronics Co. memory chip factory assembly line was a nod to international companies that their presence is welcome.

Despite tax breaks and other government incentives to support small companies, consumer-linked sectors are still struggling. Liu Yaohai's cosmetic package maker Guangzhou Qiaoneng Plastic Product Co. has pared a once-200 strong workforce by half amid disconcerting trends.

"There were previous ups and downs," Mr. Liu, the general manager, said, "but our business hadn't been so bleak for so long before."

—Liyan Qi and Grace Zhu contributed to this article.

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