China's growth trajectory set to buck global headwind post-pandemic

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The lifting of pandemic controls will have a major impact on the global economy as China's growth trajectory enjoys upward mobility, according to Teng Tai, director of the Wanb New Economy Institute. Teng has served as chief economist, head of a research institute, and managing director of several financial institutions in China. On several occasions, he has addressed the State Council's executive meetings.

In a recent interview Teng shares his insight with Shanghai Daily.

Q: How will the domestic economy grow this year in the post-pandemic scenario?

A: Since major growth metrics for 2022 have been fairly low due to the pandemic, it will be safe to predict a growth of 5 percent this year.

The growth will be led by a recovery in consumption. Before the pandemic, consumption had already emerged as the engine for growth, accounting for 65 percent of growth. The unexpected onslaught of the pandemic compelled the government to stabilize growth by expanding infrastructural investment. With post-pandemic social order restored faster than expected, growth will again be spearheaded by the fast recovery of consumption.

One of the major constraints impacting residential consumption is the relatively low residential income growth, especially in terms of its share in the GDP, which is at 43 percent. For your reference, the share is about 80 percent in the US, and 60 percent in Germany, where taxes are high. So one of the imperatives would be to increase the residents' disposal income relative to their share of GDP.

Q: And exports and investments?

A: Exports this year will confront major challenges. With the US and Europe both in the midst of mild recessions, there is a higher probability that export growth is likely to be modest, or even negative.

Investment will keep its momentum. Real estate investment growth would likely be in negative territory for the first six months, but would be hard to predict after that. Infrastructural investment will continue to grow in excess of 5 percent, and factory and equipment investment will continue to be relatively high.

To sum up, manufacturing and services investment will be back to normal, while infrastructure and real estate will be in a long-term contraction.

Q: What are the underlying causes of this? How do you think we can sustain China's growth momentum?

A: The fundamental cause for this is that China has already gone through fast urbanization and industrialization, and now finds itself in the post-infrastructural stage. There will be a limit to the number of roads and houses that can be built. Continual investment in this direction will lead to a glut. Thus, there will be a relatively serious lack of aggregate demand.

Given these constraints, in spite of our forecast of 5 percent GDP growth, and given the myriad factors that might depress sustained growth, the fundamental solution will be to expand internal demand by giving fuller play to the pivotal roles of consumption and investment.

With the central government stressing stability and expansion of consumption in the economic work conference late last year, it can be safely predicted that regional governments will soon come up with measures to stimulate consumption, though a sustained and long-term solution will be to expand the share of disposal residential income in national GDP.

Q: Some major economies are in the grip of inflation. How will this shape the post-pandemic recovery?

A: We believe that inflation in the United States and Europe will ease faster than the market anticipates. We predicted earlier in 2021 that US inflation would be worse than the Fed estimates, and we got it right using our own model. Since inflation is a condition that the US and Europe have not seen for decades, they seem to be proactive in raising interest rates without adequately accommodating for the delay in effect. According to our model of forecasting, it would take about six months for the effects of these measures to be fully felt. Thus, our conclusion is that the US has been overreacting in raising the rates, and we believe that inflation in the US for Q1 and Q2 this year will go down to 5 and 3 percent, respectively, faster than expected. The successive rate hikes will likely impact real estate. Our prediction is that European growth this year will be at 0.5 percent, slightly worse than the 1 percent of the US.

Q: How will the Chinese economic recovery impact the global economy?

A: Our study has suggested that Chinese exports correlate less with the exchange rate of the renminbi than the American and European economies. Thus, the lackluster economic situation will obviously impact Chinese exports, with negative annual growth in exports not unlikely. Nevertheless, the global economy will benefit from a surge in the number of Chinese tourists, and Chinese consumption overseas will positively affect Chinese imports, and stimulate global consumption. Given China's leading position in total retail sales of consumption goods, expanding consumption, a national priority, will also help stabilize and improve the global economy.

It is our sincere hope that major countries will refrain from unilateral protectionism and solve trade-related disputes within the WTO framework.

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People work at an intelligent plant for manufacturing the FAW Jiefang J7 trucks in Changchun, northeast China's Jilin Province, last week. — Xinhua