China's year of challenges

The decision of the 2013 Central Economic Working Conference is to raise the quality of economic growth and make it more result-oriented by focusing on "six musts".

The first is expediting economic restructuring. The second is transforming the pattern of economic development to ensure that it is based on expanding domestic demand. The third is continuing to work effectively on agriculture, rural areas and farmers, as well as advancing urban-rural integration. The fourth is continuous implementation of the strategy to invigorate China, and boost its economic and social development. The fifth is prioritizing people's interest above everything else and working tirelessly for people's well-being so that development benefits reach the whole nation in a fairer manner. And the last is deepening reform in an all-round way, clearing obstacles in the system that hinder development, proactively implementing the opening-up strategy and creating a competitive edge.

The key to fulfilling the "six musts" lies in handling the relations between steady economic growth in the short term, economic restructuring in the intermediate term and systematic transformation in the long run.

The prospect of global economic growth, however, remains troubling in 2013.

First, the global economy will continue to grow slowly this year, for it has not fully recovered from the global financial crisis of 2008. For example, the International Monetary Fund had forecast that the global economic growth rate in 2012 would be 3.3 percent, the lowest since 2009, and lowered China's and India's growth rates to 7.8 percent and 4.9 percent.

Purchasing manager indexes across the world, particularly in the European and American economies, are mostly below 50 percent, also the lowest since June 2009. This raises two questions: Will the growth rate of 3.3 percent forecast for the global economy and 7.8 percent for China become constant in 2013? And how long will the rates last?

The fear of the global and Chinese economies slowing down this year is one important reason for China to focus on improving the quality of its economic development by handling the relations between stable growth in the short term, and expediting economic restructuring in the intermediate-to-long term. Fundamental to all this is the deepening of reform.

Second, the prevailing macro-economic policies in major developed countries will increase the number of jobs by creating inflation in 2013. The United States has already implemented its fourth round of quantitative easing, or QE4. The US Federal Reserve will keep the basic interest rate at or close to zero and link the country's inflation and unemployment rates to ensure that the policy remains as long as inflation does not rise above 2.5 percent and the unemployment rate does not fall below 6.5 percent. This will hold the global economy hostage by creating inflation and asset bubbles across the world until the US unemployment rate falls to the desired level and the American economy starts real recovery.

The European Union is following in the US' footsteps, while Japan is likely to join the trend soon. Faced with an influx of excessive liquidity from the West, the Chinese government must step up its financial assistance to expand domestic demand and develop the real economy while deepening reform to soften the impact of foreign capital invasion.

Third, developed economies will take more protectionist measures in trade and investment this year to break free from the limbo of industrial vacuum. This means China will have to tackle more trade disputes, from the tactical to the strategic front, and from economic, political, social and cultural matters to military affairs.

Nevertheless, the Chinese economy will enter an important transitory phase this year. The country's GDP growth potential for 2013 is likely to be lowered to between 7 and 8 percent, and its foreign trade is expected to slow down. Economic growth in China's more developed region along the coast will remain relatively low, while the central region will grow slightly faster with the western region growing even faster.

China's heavy, chemical, construction and real estate industries, including their related equipment manufacturing output, will enter a long period of adjustment this year, while the growth rates of power generation, steel, other industrial materials and automobiles sectors will slow down.

At the same time the cost of labor, land, water, power and gas - all essential for economic growth - will continue to increase, and so will the yuan's exchange rate, interest rate and consumer price index. These signs make it even more important for the government to improve the quality of economic growth and make it more result-oriented in 2013.

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