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## Comments on BCI Data, September 2017

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In September 2017, the CKGSB Business Conditions Index (hereinafter referred to as “the BCI”) stood at 62.4, a significant rise from last month’s figure of 56.1. This is the second highest value of the BCI in 2017, second only to 63.9 in April.

Among the sub-indices constituting the BCI, those representing sales and profits have risen greatly, while the corporate financing environment has improved slightly and the inventory status remains unchanged. This shows that demand in the economy has risen significantly and that the prospects for economic growth are rosy.

Such a state of affairs is also reflected by the indices of investment and recruitment, both of which rose in September. However, we should note that the price indices both greatly increased this month. Has this rise in prices been caused by an acceleration in economic growth or by an anomaly in the data collection process? We need to observe further.

With respect to this month’s data, I have the following two comments:

### 1. China’s economic growth this year should be smooth.

Three-quarters of the year has gone, with GDP year-on-year growth for the first half year reaching 6.9%. Since the BCI is a predictive index, and its outlook period is half a year, I think that China’s economic development will comfortably realize the growth goal set by the government for 2017.

The stability in economic growth has laid a good foundation for the upcoming 19<sup>th</sup> CPC National Congress, with all sectors of society expecting that the Central Government will make more efforts to promote economic reforms after the Congress. Recently, the S&P downgraded China’s sovereign credit because it is worried about risks caused by the Chinese model of promoting economic growth via credit. According to our results, China’s economic development looks promising in the short term, but, over the long term, the structural problems faced by China’s economy have not significantly improved.

Our data shows that structural problems remain serious. The sample enterprises surveyed by BCI are almost all small and medium-sized private enterprises, which are typically among the best performers in their industries. That is to say, they are enterprises of good quality and with high efficiency. From the perspective of improving economic efficiency, more resources should be distributed to high-quality enterprises, but the financing index shows that our sample enterprises have faced poor financing conditions for a long time. A difficult financing environment and the high costs accrued by good enterprises reveal two problems: first, our financial system is

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defective and funds are not distributed fully according to earnings. Many low-efficiency state-owned enterprises and local governments have obtained lots of funds, creating a “crowding-out effect” for high-efficiency private enterprises; second, how can these low-efficiency enterprises that are getting lots of funds repay the capital and interest in the future? If they have no plausible economic prospects, then their debts will not only continue to accumulate, but will also take on a very high risk.

Therefore, my views on China’s economy are: first, it will be worry-free in the short term; second, the situation will become worrying if there are no major reform measures in the medium term; and third, China’s economy will be promising in the long term because of the Chinese people, the strong enterprising spirit of entrepreneurs and the government’s decision to rejuvenate China.

## 2. The change in the consumer and producer prices indices is significant.

This month, the two price indices increased greatly. Although it is unclear whether this trend will continue, we still need to watch carefully. Since the period of reform and opening-up, China’s economy has suffered several large challenges, often related to high inflation. Given that China’s economic growth has been rapid, the rise in prices can be understood to a certain degree, but the question is how much is acceptable? Except for consumer goods and intermediate goods, we also need to consider that if these items all see large price increases, the prices of other things, such as property, may also rise. When we consider these factors collectively, then the damage to the economy caused by the rise in prices may be underestimated.

China is still developing, but it has caught up with high-income countries in several aspects, including the cost of property in first-tier cities. To maintain competitiveness against a backdrop of rapid cost increases, China needs to improve labor productivity. However, at the moment the economy faces a series of structural problems and the growth of labor productivity is not as quick as it has been in the past. As a result, we need to monitor the rise in prices carefully in order to avoid a sharp drop in the competitiveness of China’s economy.

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