



## China is shifting gear

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With signs that economic recovery in the US economy is slowing, there has been better news from China, where the most recent data suggest stabilisation rather than further weakness. China avoided the worst of the recent recession by turning on the monetary taps and no doubt a lengthy period of virtually unrestrained lending by China's banks, not to mention underground lending, will leave a legacy of NPLs (Non Performing Loans) at some point in the future. Yet, in the near term, China's growth drivers remain powerful and are increasingly domestic rather than trade focussed.

Inevitably, most western comment on China takes its cue from first tier cities such as Beijing, Shanghai and Shenzhen, hence the recent bout of hand wringing about a residential property bubble. However, with 175 inland cities having populations in excess of 1m, China is already unlocking its potential as a continental rather than just a coastal economy grown fat on exporting to the rest of the world. The rural economy is also being transformed, as land usage rights are bought and sold, thereby providing collateral for borrowing; a trend which also gave fuel to the industrial revolution in Great Britain.

With low levels of public debt and urbanisation as a major motor of growth, we believe that China is in a strong position to sustain its rapid expansion. The authorities view a steady, high-growth rate as a precondition for resolving social ills, although they are now trying to focus on the "quality" of growth rather than just going for quantity. Looking further ahead, the tensions within such a centralised political system will be sorely tested when China faces its first major crisis as a capitalist economy.

Source: rlam as at 15th September 2010 unless otherwise stated.

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