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China's growth back in full swing by 2010

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Stephen McMahon
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CHINA's growth is likely to return to low double-digits within the next two years, and the rebound will carry Australia with it, according to a leading China watcher.

Professor Harry Harding, of George Washington University, was upbeat yesterday that China's amazing growth story will be back in full swing by 2010.

"They have the resources to make their fiscal stimulus package work," he said. "China is much more resilient than many people are expecting. It has its vulnerabilities . . . but they look likely to get through this financial crisis with the minimum of pain."

The Chinese Government has reportedly moved to keep its currency - the yuan - trading in a narrow band in a bid to aid exporters to the recession-hit economies of Japan, Europe and the US.

Senior Chinese trade sources are also expecting China to cut import tariffs by 20 to 30 per cent to boost global trade.

As the world's third largest exporter - after the US and Germany - any jump in Chinese imports will offset some of the fall in other countries.

However, many economists have scoffed at the Chinese Government's $US586 billion rescue package announced earlier this month for providing false optimism, claiming it is riddled with double and triple counting of projects.

Despite conceding the Chinese Government's numbers were a bit rubbery, Prof Harding, who is addressing a round table on China today at Monash University, expects the commodity super-cycle driven by China will begin to restart by late next year - albeit at a lower level than its 2007 peak.

"China has enormous potential for domestic stimulus and it is possible their recession will end earlier than others," Prof Harding said.

However, he said a return to its whopping 12 per cent economic growth of last year was highly unlikely.

"Maybe they will be the first to recover, but their growth rate of recent years has been unnaturally high and I don't expect it to return to those levels," he said.

"I think a figure closer to their 30-year average of about 10 per cent will be where it settles."

This is good news for mining giants BHP Billiton (http://www.bhpbilliton.com/) , Rio Tinto (http://www.riotinto.com/) and Fortescue (http://www.fmgl.com.au/) , which are hugely dependant on Chinese demand to fuel their expansion plans.

The other glimmering light on the horizon for Australia's big miners is that India is expected to replicate, to some extent, China's extraordinary growth story over the next 30 years.

But Prof Harding expects that, while China's growth will remain strong as it evolves, its demand for commodities will soften.

"They are not going to be building cities at the rate they have as rural migration will slow," he said.

"But as the economy matures its mix for minerals and commodities changes as the economy goes up the value-add ladder. The only certainty is demand for energy will remain very strong as the Chinese economy grows."

Prof Harding also expects China will take advantage of the downturn to increase its clout in financial markets by using sovereign wealth funds to invest in major banks and corporations.

He said China's desire for greater control or security over minerals and energy will undoubtedly bring it into conflict with US, and even Australian, regulators over the next few decades.

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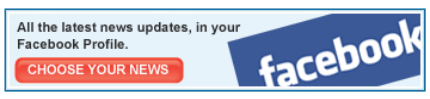

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