

## OPINION

### Ending Government Debt

The National Audit Office began a nationwide audit of local government debt on August 1. As local government debt has hit the spotlight, the move indicated that the Central Government had paid great attention to the problem. Following the audit, big changes are likely to come.

Theoretically speaking, the government is entrusted by the public to manage social affairs, so all its spending should be covered by tax revenues. If the government can budget according to its tax revenue, it would be free from borrowing. However, since local governments undertake a great many public welfare projects like road construction, they have to borrow from banks and take cash from the public in the form of, for example, tolls, to repay their debt. But a lack of strict control and regulation would result in mounting government debt and adversely impact government functions.

Since China began its reform and opening-up policy, the country has been enthusiastically pursuing the rapid growth of its gross domestic product (GDP). However, an unbalanced distribution of wealth and slow growth in resident income have led to sluggish domestic demand, forcing the government to rely on investment as an engine for economic growth.

In a mature market economic system, investment should go hand in hand with consumption. But in China, the contrary is the case. When domestic demand cannot support high-speed economic growth, governments invest in major projects by borrowing heavily from banks. If the market doesn't properly digest these projects and generate cash, they become a debt burden for local governments.

For instance, in some inland cities, the costs of building airports, subways and high-rise buildings, though effectively driving GDP growth, cannot be recouped because there is no corresponding consumption. Statistics show that local government debt has surpassed 10 trillion yuan (\$1.63 trillion), without factoring in hidden debt, and some cities are stumbling along with debt in excess of 100 bil-

lion yuan (\$16.32 billion).

Mounting local government debt has sown the seeds of crisis and exert a negative influence on social and economic development. Detroit bankruptcy has raised alarm bells for some debt-ridden local governments. Nonetheless, since China's Central Government often pays off their debt, they won't go bust. But it doesn't mean government debt can be ignored.

Fundamentally, the spread of local government debt is the outcome of governmental interference in the economy. In other words, governmental interference has greatly twisted market dynamics. Other countries struggle with debt, but unlimited government reach is the culprit in China.

Banks used to be seen as private coffers for the Central Government under the planned economy, resulting in inefficiency and bad loans. Now that banks are more commercialized, it is still difficult to rebuff the credit needs of governments at all levels for investment projects. At the same time, to maintain social and economic stability, local governments tend to guarantee bank loans for some troubled enterprises, allowing government debt to pile up and dragging commercial banks into dangerous territory.

To handle swelling local debt, focus should be placed on deepening administrative reform and transforming government function. The current nationwide audit, as an important part of the reform, will help detect the size of the debt in order to figure out what reforms are needed. For local governments with massive debt, more efforts should be made to cut down spending on government vehicles, receptions and overseas trips, to further enhance the transparency of government spending. ■

This is an edited excerpt of an article by Zhou Junsheng, a financial commentator, published in *Securities Times*

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## NUMBERS

# 2.58

 tln yuan

The profits of industrial enterprises above the designated size—annual sales revenue of more than 20 million yuan (\$3.15 million)—in the first half of 2013, an 11.1-percent year-on-year increase

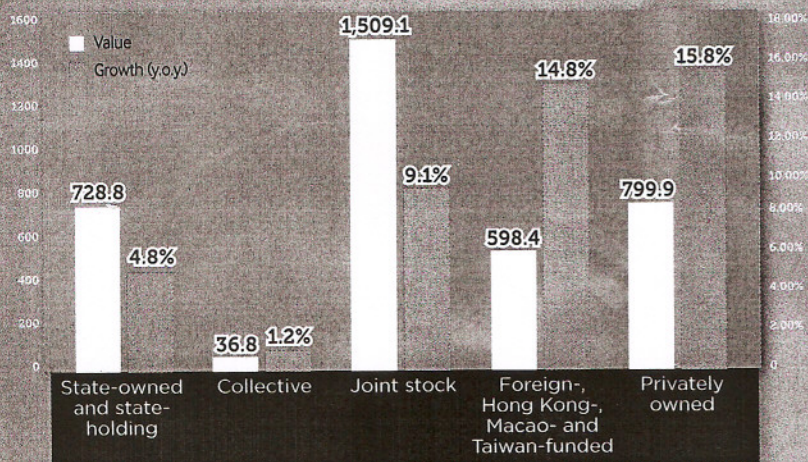
# 30

The number of industrial sectors that witnessed higher year-on-year profits in H1

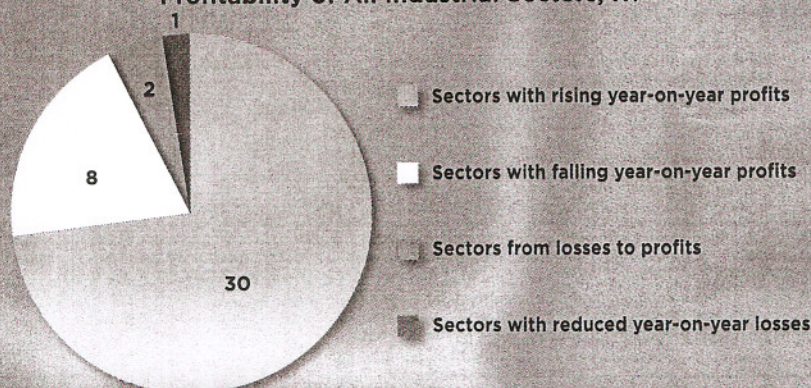
# 79%

Year-on-year increase in profits of the power and heat generation sector in the first half

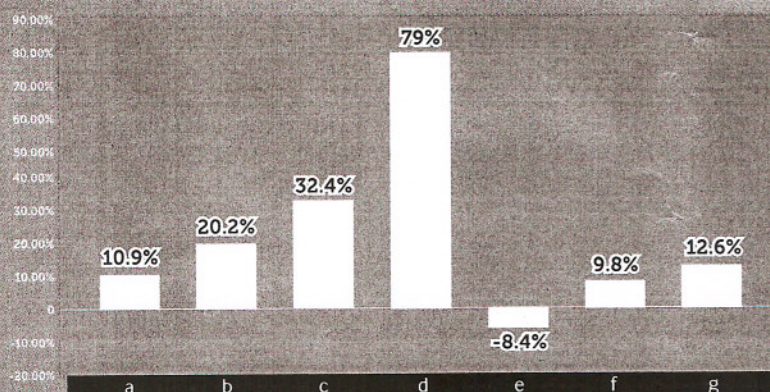
### Industrial Enterprises' Profits, H1 (bln yuan)



### Profitability of All Industrial Sectors, H1



### Profit Changes of Major Industrial Sectors, H1 (y.o.y.)



- a: Agricultural product processing
- b: Automobile
- c: IT equipment
- d: Power and heat generation
- e: Petroleum and natural gas
- f: Raw chemicals and chemical products
- g: Electrical machinery

(Source: National Bureau of Statistics, \$1=6.13 yuan)

## THE MARKETS

### Mobile Payment Boom

Mobile payments are becoming increasingly popular in China. According to a report published on July 29, online payment transactions handled by Chinese mobile payment service providers will exceed 9 trillion yuan (\$1.45 trillion) in 2015.

In 2012, the country's mobile banking sector handled 800 billion yuan (\$130 billion) in online transactions, an increase of 265 percent from a year earlier, according to the Internet Society of China (ISC).

The country's online payment market is maturing with the accelerated growth of Internet finance, said Shi Xiansheng, Deputy Secretary General of the ISC.

Online payment transactions handled by Chinese payment service providers totaled 830 trillion yuan (\$135 trillion) in 2012, according to data from the Payment & Clearing Association of China.

### Land Market Thrives

After a quiet first quarter, China's real estate market regained momentum in the April-June period, with investments picking up speed, according to a report published by the Ministry of Land and Resources (MLR) on July 28.

The Q2 composite index for the China Land Index (CLI), released by the MLR to gauge the health of the overall land market, increased 17.4 percent from the previous quarter, or 19 percent from the same period last year.

It marked a rebound from the first three months of the year, when the CLI witnessed a fall in major indices after the Central Government rolled out a string of measures to cool the country's red-hot property market at the beginning of the year. ■