

World Knowledge Forum 2013

Fan Gang, The Future of Likonomics

Early this morning at the 2013 World Knowledge Forum, Dr. Fan Gang, Director of the National Economic Research Institute in China, addressed an audience on the subject of Likonomics. Though this term is not often used in China, it is often applied to the new economic plan the government has adopted.

Dr. Fan said, “This word, actually, was invented by a friend of mine, Li Keqiang.” Dr. Keqiang was serving as a chief economist at Barclay’s Capital at the time he invented this term. Dr. Fan stated that Likonomics began “in the evening of China’s monetary market soar.” This past June, interest rates in China soared to approximately 30 percent.

Dr. Fan outlined four specific principles of Likonomics, the first of which emphasized the need for fundamental and stable growth.

“This is not actually very new,” Dr. Fan stated. “The previous administration didn’t want to see overheating, they didn’t want to see fluctuations. But sometimes, you are unable to avoid market movement.”

He also mentioned that under the older policies of maintenance, too much was done too quickly. He believes that the new administration would be satisfied with growth between seven and eight percent. “Even in the last decade,” Dr. Fan said, “China’s potential growth couldn’t be in the range of nine percent. Whenever it is over nine percent, China has inflation. And whenever it is double digits, China has both inflation and excess.”

Serious reform was the second point Dr. Fan stressed. He called for a reduction of government roles in order to allow room for more financial, fiscal, and land reforms. This, he stated, will encourage more growth in the private sector. He also announced that a new economic reform package is in the works for this coming November.

“I think that the current administration has really gone through several rounds of this reduction. The role of the Shanghai Free Trade Zone is to push the domestic reform forward,” Dr. Fan said, adding, “It shows the people an example of how government can play a minimum role, and to allow the people and companies to flourish.”

The role urbanization will play was also highlighted in Dr. Fan’s lecture. If the new government can give this more attention, there will be significant social and economic changes. One issue that particularly concerned Dr. Fan was that of migrant workers and labor costs.

“Currently 30 to 35 percent of the labor costs, approximately 800 million dollars, are still in the farming sector,” he said, including those who were living in the city, but then returned to rural areas. “We call this early withdrawal from the migrant worker supply.”

Labor costs have been a major challenge left behind the by the previous regime, but Dr. Fan believes that “this will be a new development for next year’s China, for next decade’s China.”

Dr. Fan’s final suggestion was further opening China up to the global market. Dr. Fan, as well as the Chinese government, has recognized the benefits the country has seen over the past 30 years through globalization. “You cannot invest all this money in [China], because that will create overheating. You don’t like imbalance...[China] invests so much into US charity bonds. It’s better to invest in real assets.”

Though Likonomics will see slow change for China rather than the immediate results of Japan's Abenomics, Dr. Fan remains hopeful for the "second season of China's miracle."

"My belief," Dr. Fan said, "is that it's likely that if we do the right thing, if we realize our potential, we can achieve another ten, twenty, maybe even thirty years of high growth...not overheated growth, but normal growth."