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How Will China Temper its Growth in 2013?

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TAIPEI (TheStreet) -- Expect turbulence.

That's the message I get from this year's **National People's Congress**. The political body that meets formally every March heard reports from their Communist Party bosses that the economy will grow just 7.5% this year. It's the envy of other countries but would mark a second straight year of slower growth after 7.8% in 2012.

As increases in China's total goods and services ease, investors have surely priced it into their positions by now. But the importance of the 2013 GDP forecast given in early March isn't the number. It's the narrative that Chinese leaders spun around that figure in reports and speeches linked to the March meetings.

New leaders, incidentally, are taking over the country this month. While the new crew obviously comes from the same Communist Party as the outgoing one and the Party is not about to sell out its long-standing economic ambitions, they could still shake things up to consolidate their personal reputations and gain respect from competing factions.

Don't be surprised about some bumps in global stock markets. China is a leading global indicator, so a jolt there easily ripples to foreign bourses. The bump won't last long if GDP growth really clocks in at 7.5% and the rest of the world averts market-throttling disasters. But certain sectors will slow along with China as a whole.

We heard from top state planner Zhang Ping's March 5 news conference that China was still able to weather global financial storms and that the country had already "increased the quality and efficiency of its economy" following faster buildup before 2012, according to the state-run *China Daily* newspaper.

But that's the sunny side. Zhang also said an unspecified list of remaining economic problems must be overcome. Premier Wen Jiabao got closer to the point, though he wasn't exactly bursting with specifics either.

China will "implement a prudent monetary policy," and check inflation by "carrying out macroeconomic policies, managing the supply of money and credit, and striving for basic equilibrium in aggregate supply and demand," China's official *Xinhua News* agency said, quoting the lame-duck premier.

Let's presume the magic number 7.5% isn't really that magic. Communist China controls its economy more so than less Communist countries. If it wants 7.5%, it will get something pretty close to that. And a leadership out to prove its ability, as most governments try to do at the start of their terms, will do visible, concrete things to realize their top-priority goals.

"As for the immediate outlook, we are already seeing signs that policymakers are shifting towards a tighter stance, on fears that credit growth has been excessive," says Mark Williams, chief Asia economist with **Capital Economics** in London. "The People's Bank has signaled that it will shift to a tighter monetary stance during the year ahead."

Going back to the premier's comments, I'd vote for modest a modest, symbolic interest rate hike at some point this year. The government still wants to pull down property prices. Higher rates could also indirectly cap everyday inflation, the leading conversation topic at Beijing restaurants whenever the bill comes.

Property price controls would slow momentum of the country's top real estate stars **China Vanke** (000002.SZ) and **Vantone Real Estate Group** (VTNI).

But the hikes wouldn't be ridiculous, as China still wants a relatively loose monetary environment while it tries to eradicate poverty, increase consumer spending and give its top domestic firms more muscle in other countries.

Any new monetary policy should then steer away from domestic MNCs such as **China Merchants Holdings** (0144.HK) or **China Ocean Shipping** (COSCZ).

Foreign firms keen on expanding in China might find their JV partners paying more interest on loans, an obvious extra cost of doing business that could muck up the bottom line.

But since the government wants consumer spending to lead the economy, it won't touch companies that sell affordable stuff to the masses.

Good on the likes of **Starbucks** (SBUX), with plans to take its 570 China stores to 1,500 by 2015, and **Pizza Hut** (YUM), which was on track to open 150 stores around the country last year.

"Three factors should be grabbing our attention in China right now: policy action around property prices, a loose monetary environment and increasing inflationary pressures," forecasts James Berkeley, director of the British customer management consultancy **Berkeley Burke International**.

He adds a caution: "It is too early to find hard evidence from data releases at this time of the year, to state which of those policy tools will be favored to achieve the 7.5% GDP target."

Expect evidence to emerge in April with first-quarter economic indicators. Expect China to act, and expect markets to react.

At the time of publication the author had no position in any of the stocks mentioned.

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This article was written by an independent contributor, separate from TheStreet's regular news coverage.