

**CHINA'S ECONOMY 2015/16: ADJUSTING TO  
A SUSTAINED SLOWDOWN IN UNCERTAIN  
STRUCTURAL TRANSITION (I)**

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## **Executive Summary**

1. Despite strong downward pressures, China's economy still ended 2015 with an expected 6.9% growth, substantially lower than the 7.3% of 2014 and 7.7% of 2013 and only a trickle from the 7% target set by Premier Li Keqiang.
2. Throughout 2015, many commentators outside China had been quibbling about China's 2015 economic growth numbers within a narrow fraction of one percentage point, from 6.5% to 6.9%.
3. For China's economy today at about US\$11 trillion, there is really no significant difference in GDP from any growth within these small fractions of one percentage point. Even taking a 6.5% growth, China generates additional GDP that is equivalent to 80% of Indonesia's current GDP or one-third of India's!
4. Thus, China's leadership under Xi Jinping readily embraces China's slower growth as a "New Normal", having fully realised that China's economy after three decades of breakneck growth would inevitably come down due to the weakening of its growth drivers.
5. Xi also dismissed any unwarranted concern about "slowdown" as something that is "actually not all that scary", noting that "China's 7.7% growth in 2013 had added to China an increment of GDP in one year that was equivalent to China's entire GDP of 1994". Xi understands the arithmetic of economic growth.
6. However, the growth problems in 2015 had gotten very sticky. The slowdown had gathered momentum, despite the People's Bank of China's (PBOC) six rounds of interest and four rounds of reserves requirement ratio cuts.
7. This continuing economic downturn in 2015 was not just due to normal cyclical fluctuation that operated to weaken such conventional growth drivers as exports and investment.

8. In reality, China has started its restructuring and rebalancing in earnest with several critical transitions taking place simultaneously: from external demand for growth to domestic demand, from manufacturing to services, from investment and saving to consumption, and from labour-intensive to higher value-added activities.
9. As the slowdown has sustained, 2016 growth is likely to be even lower. Xi might not be overly worried, but he should be more concerned because of the potential rising unemployment.
10. Accordingly, the government has changed tags to become more pro-growth by introducing more vigorous policy interventions, including measures to tackle industrial overproduction and excess capacities as well as debt deleveraging.
11. The government has also taken to “supply-side” measures to improve market efficiency and raise productivity as a long-term solution.
12. As China’s economic growth is becoming increasingly consumption driven and service-oriented, its future growth will also become lower, and hence the sustained slowdown.