CHINA'S "L-SHAPE" ECONOMIC TRAJECTORY AND THE "NEW NORMAL": COMPETING VIEWS AND THE STAKES

LU Ding

EAI Background Brief No. 1178

Date of Publication: 5 October 2016

Executive Summary

1. With the recent slowdown in the Chinese economy, a debate about its growth potential in the foreseeable future is heating up among economists and policymakers.

2. A focal point of this debate is the so-called "L-shape" trajectory, made by a mysterious "authoritative figure" reported by the official media. The trajectory points to a "new normal" in moderate growth, in line with the government-set target of achieving gross domestic product (GDP) growth of at least 6.5% per annum in the 13th Five-Year Plan period (2016-2020).

3. There is little consensus among economists on whether the economy has hit the flat part of the "L-shape" trajectory and what will be the rate of growth for "the new normal" in the foreseeable future.

4. The optimistic interprets the "new normal" as the economy having the potential to grow at an average annual rate of above 7% or even 8% for another 10 or 20 years. The less optimistic projects much lower potential growth rates for the coming years and even a high chance of the economy falling into the "middle income trap".

5. Both sides make their case based on the economy's structural features and trends, such as levels and status of industrial technology, labour productivity, capital stock, human capital capacity, demographic transition and degree of urbanisation. Different expectations of potential gains from further market-oriented reforms also lead to diverging views on growth trajectories.

6. Conflicting views of the economy's growth trajectory have contributed to the differences in macroeconomic policymaking. Reports of a policy split among the top leaders has added new complications to the Chinese Communist Party leadership.