CHINA'S ECONOMY 2016/17: LOWER GROWTH AMIDST GREATER EXTERNAL UNCERTAINTY (I)

John WONG

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Executive Summary

1. China's economy in 2016 is most likely to grow at 6.7%, down from the 6.9% of 2015. For 2017, growth is expected to slow further to 6.5% due to many domestic constraints and growing international uncertainties.

2. China formally ended its era of double-digit high growth in 2012 with 7.7%. It has managed its growth deceleration remarkably well by letting it slide gradually, in only a small fraction of a percentage point for each year.

3. This was achieved mainly by the government's pro-growth policy intervention through expansionary fiscal and monetary policies, which also led to excessive growth of loans and credit.

4. The government soon came to recognise that such debt-fuelled economic growth was not sustainable.

5. Accordingly, it started to overhaul its policy direction—clearly with Xi Jinping behind it— by embracing the gradual economic slowdown in L-shaped pattern as the New Normal and refocusing its macroeconomic policy from demand-side management to supply-side structural reforms.

6. The supply-side reform policy still gives priority to reducing over-capacity and de-leveraging. Its long-term objective is to develop the New Economy based on innovation and technological progress.

7. Towards the second half of 2016, the government took measures to cool the property market while continuing to keep a close watch on the stability of the Renminbi exchange rate.

8. For 2017, economic growth will face stronger headwinds and much greater external uncertainties arising from the potentially hostile US economic policies of President Trump.

9. The year 2017 also carries significant political meaning as the 19th Party Congress is scheduled to be convened in November. Beijing wants to see reasonably strong but stable economic growth.

10. Thus, the annual Economic Work Conference of 2017 carried the central theme of “Seeking Progress while Maintaining Stability”. This also signifies both the challenges and dilemmas of China’s economy through 2017.