

**CHINA'S ECONOMY IN REVIEW:
MODERATE SLOWDOWN IN 2011,
STILL WEAKER GROWTH PROSPECTS
FOR 2012**

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Executive Summary

1. China's economic growth in 2011 slowed to 9.2% from the 10.3% of 2010, while inflation went up to 5.3%, well above the government's original target of 4%.
2. China's growth performance in 2011 is actually quite remarkable by regional and global standards, far from the "hard landing" as some pundits had warned about.
3. However, the economy showed clear signs of a slowdown in Quarter 4 of 2011, just as the government had successfully reined in the high inflation and deflated the housing bubble—both measures hurt GDP growth.
4. In view of the dim external and domestic growth environment, China's economic growth in 2012 has been variously slated to be around 8.5%, the lowest growth in ten years, while inflation will be brought down further to around 4%. Some are even more downbeat about the 2012 growth prospects.
5. The government has recently pledged to maintain "stable growth for 2012" with "prudent monetary policy" and "pro-active fiscal policy". With the easing of inflation, the government certainly has plenty of room for pro-growth monetary and fiscal policies should the economy further lose its growth momentum.
6. The 18th Party Congress is due to convene in the autumn of 2012, which will formalize the handover of the top leadership. The outgoing leadership is likely to mobilize all available resources and policy instruments to maintain reasonably fast growth for the sake of smooth leadership transition.
7. China's economic growth mode started to change in 2011, with external demand (exports minus imports) contributing a smaller share to its overall

GDP growth, in line with government efforts to render China's long-term growth more dependent on domestic demand.

8. Export growth in 2011 actually came down to 20%, from the 26% of 2010. China's trade surplus in 2011 also narrowed to US\$150 billion, down from US\$180 billion of 2010. Gloomy export markets and RMB appreciation have actually precipitated China's move to rebalance its economic growth pattern.
9. Likewise, under mounting international pressures, the RMB has moved closer to its true market level. Over the years, it has appreciated over 30% against the US dollar, or nearly 40% in real terms (REER). It is expected to move up much less in 2012.
10. China's public debt problem has been blown out of proportion by the foreign media, with the debt issue discussed in the wrong context of insolvency, suggesting an imminent financial crisis in China.
11. Officially, China's total public debt is about 50% of its GDP, which is not high by international standards and certainly quite low for such a fast-growing economy. The actual level could be higher if other forms of debt were included.
12. Most debts in China are domestic liabilities. China can absorb and digest a much higher level of debt given its high domestic savings and strong revenue potential. That explains why Japan can live with a debt level of over 200% of its GDP. China's debt problem is basically a problem of reform for its financial sector and fiscal system.
13. Overall, starting with 2012, China's economy is saying good-bye to its double-digit rates of growth. As the economy is already large and fast maturing, it should not continue with such breakneck growth anymore. It would just be too disruptive for the world if China's economy keeps on adding another Japan's size every five years.