

CHINA COMING TO THE END OF ITS HIGH GROWTH

John WONG

EAI Background Brief No. 707

Date of Publication: 19 March 2012

Executive Summary

1. The Chinese economy, having chalked up 9.9% growth for more than 30 years, is facing the end of its high growth era. The recent World Bank study also says that China has reached “a turning point in its development path”.
2. No economy can keep on growing at such high rates without sooner or later running into various constraints. Apart from its inherent structural problems, the Chinese economy today, already bigger than Japan’s in size, should not continue to grow at breakneck rates without causing too much disruption to China itself and the world.
3. Chinese policy-makers have already come to realise that its past pattern of super high growth is not sustainable in the long run. Premier Wen Jiabao’s recent scaling down of China’s growth target for 2012 to 7.5% from the standard 8% is a case in point.
4. In actual fact, the 12th Five-Year Plan (2011-2015), in calling for a shift in the past GDP-dominated development strategy to one based on more inclusive growth, is preparing China to adjust itself to the lower growth era. The greater emphasis on the quality of growth will however weaken some basic growth fundamentals.
5. At the intellectual level, Chinese economists have recently focused on the issue of the “middle-income trap”, which has plagued numerous developing economies. Most, including the World Bank, take the view that China can escape this trap because of its inherently strong growth potential.
6. In the past East Asian (EA) development experience, Japan and the four newly industrialised economies (NIEs) of South Korea, Taiwan, Hong Kong and Singapore used to have high growth for 25 to 30 years; but as they became mature, their growth came down.

7. China's growth strategies are much akin to those of the other EA economies. By comparison, China is much larger and with bigger hinterlands and domestic markets; China therefore has more internal dynamics, (including its higher saving rates and better demographics) to sustain high growth longer than that for the other EA economies.
8. Still, China's economy must brace itself for the eventual lower growth. Two questions remain: (a) What is low growth for China's economy? How low is low? and, (b) When will low growth set in?
9. Foreign analysts and commentators, who are used to China's continuing breakneck growth rates, would consider a decline of one or two percentage points from a double-digit rate as "hard landing" or at best, "soft landing"—which is strictly, no landing at all!
10. Accordingly, what is "low growth" for China can still be "strong growth" in regional and global contexts. The World Bank study still projects 8.6% growth for China during 2011-15 and 7% during 2016-20. This is "low growth" only by China's past standards!
11. The World Bank has also urged China to step up its unfinished economic and institutional reforms to facilitate China's transition to a high-income economy.