CHINA’S ECONOMY: REBOUNDED IN 2012, GEARING UP FOR REBALANCING IN 2013 AND BEYOND

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Executive Summary

1. The Chinese economy after rebounding in Quarter 4 ended 2012 with a surprisingly strong growth of around 7.7% along with 2.6% inflation.

2. The economy experienced serious slowdown through the greater part of 2012, plunging to a three-year low of 7.4% in Quarter 3 as a result of export slump.

3. The government took the slowdown quite calmly as inflation also came down. Basically, economic fundamentals remained robust, with slower growth in coastal regions being substantially compensated by double-digit growth in central and western China, which was primarily driven by domestic demand.

4. This is why the government did not apply even a mini-stimulus package to restore growth, though it had the available fiscal means to do so.

5. The year 2012 can go down in China's economic history as a new watershed. First, the slowdown has clearly signaled the end of China's era of double-digit rates of growth.

6. Second, the slowdown has also precipitated government efforts to step up macroeconomic rebalancing by boosting the domestic demand-led growth.

7. The plunge of exports to single-digit growth in 2012 from the past double-digit rates — but without the concomitant rise in overall unemployment — has further reinforced the government's resolve to reduce export dependence.

8. In fact, the rebound in Quarter 4 was primarily fuelled by expansion in domestic demand — both rising domestic consumption and domestic investment.

9. Even more significantly, domestic consumption in 2012 contributed more (54%) to growth than domestic investment (50%), marking a remarkable departure from the past pattern of investment-driven growth.

10. In this way, 2012 truly marks the critical shift in China's growth pattern, which is likely to intensify in 2013 and beyond, especially since Xi Jinping has openly embraced such a new development paradigm.

11. Specifically, Li Keqiang, the next premier, has singled out accelerated urbanisation as the main driver of China's future economic growth.

12. The new leadership will certainly take to the strategy of "reform and rebalancing through growth" whilst also sticking to its strategy of "seeking progress with stability".

13. The future challenge is, therefore, how to balance the trade-off for growth with stability and structural reform.

14. The World Bank has projected 8.4% growth for 2013. The government's major task is to keep macroeconomic rebalancing going while taking the necessary fire-fighting measures to deal with such short-term crises as the return of inflation.

15. China's economic restructuring and rebalancing is not just good for China's future growth, but also potentially beneficial for some ASEAN economies.