

**CHINA'S ECONOMY 2014/15: ADJUSTING
TO THE "NEW NORMAL" OF
MODERATE GROWTH**

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Executive Summary

1. According to the IMF, China has become the world's largest economy in 2014 based on PPP (purchasing power parity) GDP. Beijing was actually quite blasé about this new landmark. China's GDP, even in nominal terms, will inevitably catch up with the US level to be the world's largest in a decade or less.
2. At the recent APEC meeting, China left no one in doubt that it is a fast rising economic superpower, with Chinese President Xi Jinping putting up China's own version of "Marshall Plan" of US\$40 billion to assist neighbouring countries in their infrastructure development.
3. As China's economic growth has lost its momentum, growth for 2014 is widely estimated to be 7.3%, the lowest in 15 years and a marked decline from 7.7% of 2013. Xi Jinping, however, has openly embraced this low-growth threshold as the "New Normal".
4. In fact, Xi had publicly dismissed any potential risk from such a slowdown, as something that is really "not so scary". What is considered "low growth" for China is actually still very high growth by regional and global standards.
5. China today as a big economic mammoth of about US\$10 trillion should not continue to be growing at its former high rates. Its mere 7% growth will add to it the amount of GDP that is slightly more than two-thirds of Indonesia's and one-third of India's.
6. The unfavourable global economic environment in 2014 had brought down growth everywhere. But China's present slowdown is attributable mainly to its own deliberate "policy options" and "structural factors" that are needed for the New Normal.

7. Xi's relentless anti-corruption campaign has inflicted collateral damages to economic growth by causing lower domestic consumption and slowing down investment projects in many localities.
8. Xi's reform agenda has also affected growth in the short run. Financial sector reform, in the deleveraging of credit and loan, has hurt growth. So has local public finance reform reduced local investment.
9. Apart from being "policy induced", China's present slowdown has also been caused by "structural factors". In the past, China's growth was mainly investment driven. But excess capacities in heavy industry and the cooling housing market have recently depressed domestic investment.
10. Meanwhile, domestic consumption (very low for China because of its high savings and high investment) has not risen fast enough to compensate for the decline in domestic investment.
11. China's external demand has also plummeted partly due to the erosion of China's export competitiveness. In all, China's major growth drivers have been seriously weakened. Hence the inevitable slowdown.
12. Most significantly, China's leadership has recently changed its perception of economic development by ending its long obsession with GDP-dominated growth in exchange for higher quality growth.
13. From now on, the Chinese government will not rush to prop up growth with artificial stimulus. What is more crucial to Xi Jinping is whether the economy is on track for reform and rebalancing. Xi wants more balanced and more stable growth, emphasising quality and efficiency.
14. Such is the "more advanced growth mode" that will develop under the New Normal. Xi endorsed this again at the 2014 Central Economic Work Conference. He wanted the whole country to understand his New Normal and adjust to it accordingly.