

**CHINA'S ECONOMY 2014/15: REFORM AND
REBALANCING TO SUSTAIN GROWTH
UNDER THE "NEW NORMAL"**

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Executive Summary

1. Having chalked up double-digit rates of growth for more than three decades, China's economy has in recent years slowed down, with only 7.3% growth for 2014. Growth for 2015 may further moderate to 7.1% or just about 7%.
2. President Xi Jinping has embraced such a low growth threshold as the "New Normal" partly because what is "low growth" by China's standard is regionally and globally still very "high", and partly because China's leadership has given up its former obsession with GDP-dominated growth strategy
3. What is most crucial for Xi is not pure GDP growth in quantitative terms, but whether the economy is on track to rebalance and reform, which is critical for the next phase of higher quality growth.
4. After its long period of hyper growth, China's economy is badly in need of restructuring and rebalancing. Its past investment-driven growth model is no longer sustainable while the external demand for its growth has also been weakened.
5. China's future growth therefore has to be more domestic demand driven, particularly for domestic consumption. A lot of China's structural problems are caused by its over-saving and under-consumption, leading to over-production and over-export.
6. Apart from rebalancing its major growth drivers, China needs to step up technological progress for greater contribution to growth from productivity, especially since its former sources of productivity growth from the early market reform have dried up.
7. Future sources of productivity growth have to come from more R&D and innovation. China's R&D spending has expanded rapidly in recent years, about 2% of its GDP for 2014.

8. By far the greatest challenge is “institutional innovation” as revealed by Xi Jinping’s comprehensive reform package at the Third Party Plenum in November 2013.
9. China has run out of its “demographic dividend” associated with its former labour-intensive manufacturing because of fertility decline. To support future growth under the New Normal, China needs to exploit the new growth potential of future reforms and institutional changes, i.e. to utilise the “reform dividend”.
10. With these, China is set to overcome the so-called “Middle Income Trap” and make a successful transition to a low per-capita developed economy before 2030.