

**CHINA'S ECONOMY 2017/2018 (I):
STABILISING SLOWDOWN AND
GEARING UP FOR A NEW
MODE OF GROWTH**

John WONG

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Executive Summary

1. China's economy in 2017 is most likely to grow at 6.8%, up from the 6.7% of 2016. This puts China back as the world's best-performing major economy for the year.
2. What is more significant is that China has successfully stabilised or even halted its gradual growth deceleration of the past five years.
3. China formally ended its three-decade long high growth in 2012 at 7.9%, which was much sensationalised by international media as a "big slowdown". In reality, average growth during this so-called "slowdown" period of 2012-2016 was still 7.3%.
4. Many foreign analysts had thus clearly exaggerated or misinterpreted China's economic slowdown process just as they had also underestimated China's ability to successfully manage its transition to lower growth.
5. The government did initially use highly pro-active monetary and fiscal policies to prop up growth, which inevitably led to explosive growth of credit and loans, and to mounting debt.
6. Xi Jinping had openly embraced China's economic slowdown as "New Normal" as he realised that such debt-driven pro-growth was not sustainable.
7. Xi quickly intervened by pushing for greater supply-side structural reforms, focusing on cutting over-capacity and reducing overproduction as well as vigorous debt deleveraging.
8. The 2017 strong growth was partly the successful outcome of macroeconomic rebalancing towards greater domestic demand-driven growth based on rising consumption and the turnaround of China's exports.

9. The economic outlook for 2018 is rather mixed. Although main macroeconomic fundamentals have remained robust, the general policy tone of the economic agenda for 2018 is not particularly pro-growth.
10. Xi has made no bones about his preference for higher quality economic growth rather than just simple GDP growth in quantity terms. His penchant for more poverty reduction is also not directly growth-inducing by nature.
11. In particular, Xi's policies of stepping up state-owned enterprise reform and implementing tighter management of financial risks with further debt deleveraging are clearly anti-growth, at least in the short run.
12. Thus, many analysts have marked down 2018 growth forecast to 6.5%, which is still a highly respectful rate, sufficient to meet Xi's cherished target of achieving a *Xiaokang* society by 2020.
13. Since 2018 is the 40th anniversary of Deng Xiaoping's Reform and Open Door Policy, chances are the government will maintain growth at a reasonably high level.