STRUCTURAL CHANGES IN CHINA'S ECONOMY: PROGRESS AND CHALLENGES

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Executive Summary

1. China has entered a “new normal” growth era. Although growth has slowed, the Chinese economy is now a much bigger contributor to the global economy than it is a decade ago when the country’s growth peaked at 14.2% in 2007.

2. China will overtake the United States to become the world’s largest economy in US dollar terms by the year 2034. However, to maintain the current “new normal” growth, the Chinese economy has to undergo thorough drastic structural changes.

3. Modest structural shift from investment-driven to consumption-led growth is evident, with consumption changes as the main source of newly added gross domestic product (GDP) in recent years. China’s trade balance as a share of GDP is also slightly higher than Japan’s but far smaller than Germany’s.

4. China’s service sector has replaced manufacturing to become the largest contributor to GDP though service sector GDP share is still small relative to those in the developed economies. As urbanisation accelerates, the role of the service sector is expected to expand.

5. China’s Gini coefficient, a popular indicator of inequality, peaked in 2008 and has since declined which implies falling inequality. This fall in inequality is largely due to rising income of middle-income families. Rural-urban income gap has also narrowed over time.

6. State-owned enterprises (SOEs) still play an important role in the economy, albeit with a shrinking market share. SOEs continue to control the bulk of resources despite being less efficient than non-SOEs.

7. China’s energy consumption per unit of GDP has maintained a steady trend of decline which may be due to improved energy use efficiency or changes in fuel mixes. Empirical evidence also shows that energy-intensive economic sectors tend to grow slowly.

8. Huge regional disparity in terms of restructuring towards consumption-led growth prevails. With the exception of several coastal regions, most Chinese provinces still rely on investment as the main growth driver.

9. Empirical evidence also demonstrates that economic activities have shifted from coastal to central and western regions, accounting for the disproportionate increase in energy consumption in the western provinces. This may have implications for environmental protection in these relatively less developed regions.

10. The economies of three northeast provinces are declining relative to the rest of the country. This calls for urgent policy responses.