



DRC

A world map is shown in the background of the slide, rendered in white against a blue sky with white clouds. The map is centered on the Atlantic Ocean, showing the continents of North America, South America, Europe, and Africa.

New Normal of China's Economy
--Rebalancing China's Economy for Short and Long-term Growth

Dr. CHEN Changsheng

Tokyo, Japan

2015-1-27

China's "compressed development"

China's GDP per capita, in terms of international dollars (PPP), rose from 1,800 in 1995 to 10,500 in 2014, and it will reach 11,000 by 2015. Thus, China is expected to finish the development process in only 20 years, while it took the advanced economies over a century to accomplish this.

Per capita GDP : from 1,800 to 11,000 (PPP 1990G-K)

This journey took the advanced economies over a century to complete. The **UK spent 141 years, the US took 109 years and Germany spent 103 years.** Some economies that developed later took only a few decades to complete the century-long journey that the advanced economies went through. **Among them, Japan took 54 years, South Korea and Taiwan spent 27 years, and Hong Kong and Singapore respectively took 31 and 37 years.**

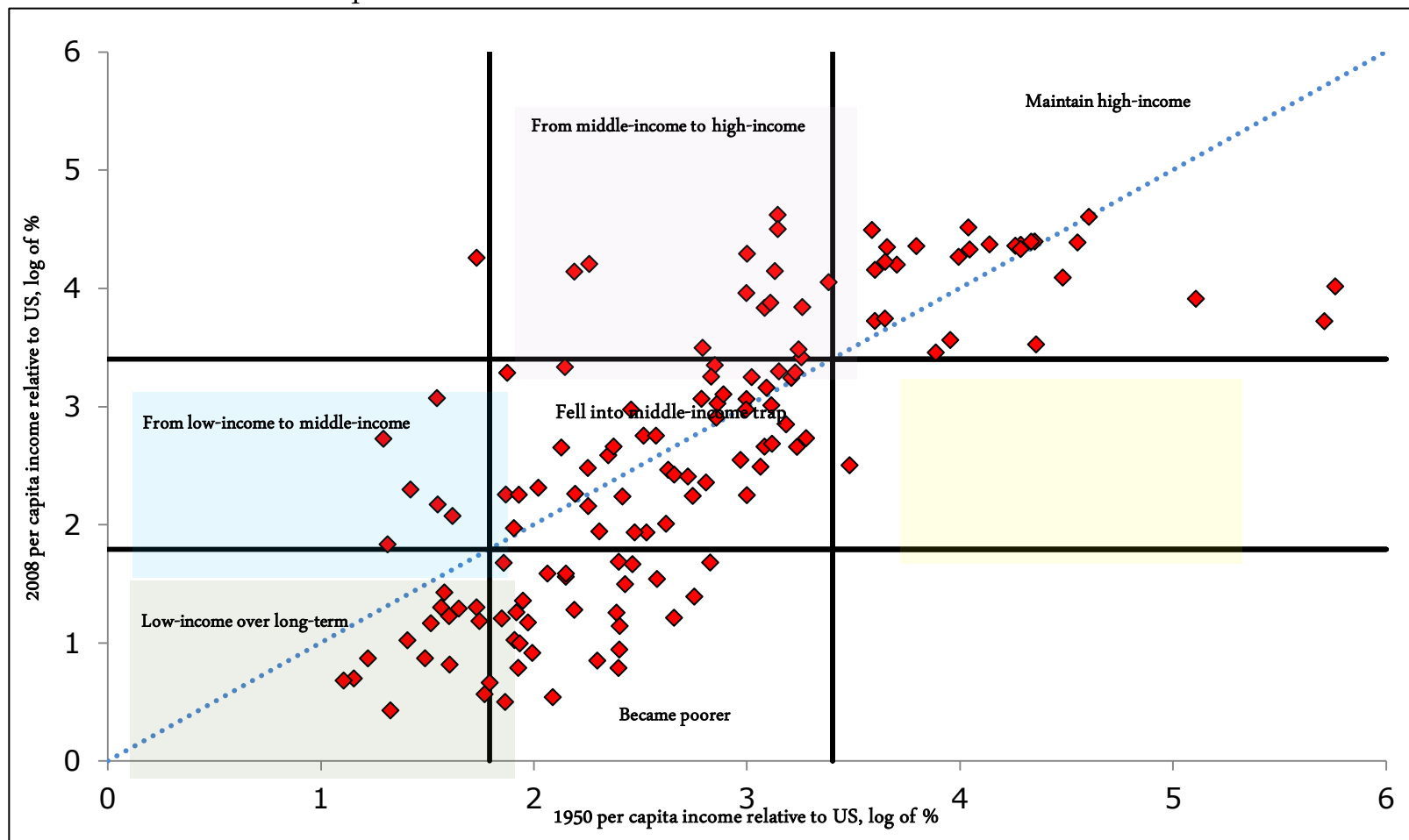
China's economic growth is slowing down and deviating from the long-term trend



After a period of rapid growth, average growth usually declines by 3-5 percentage points

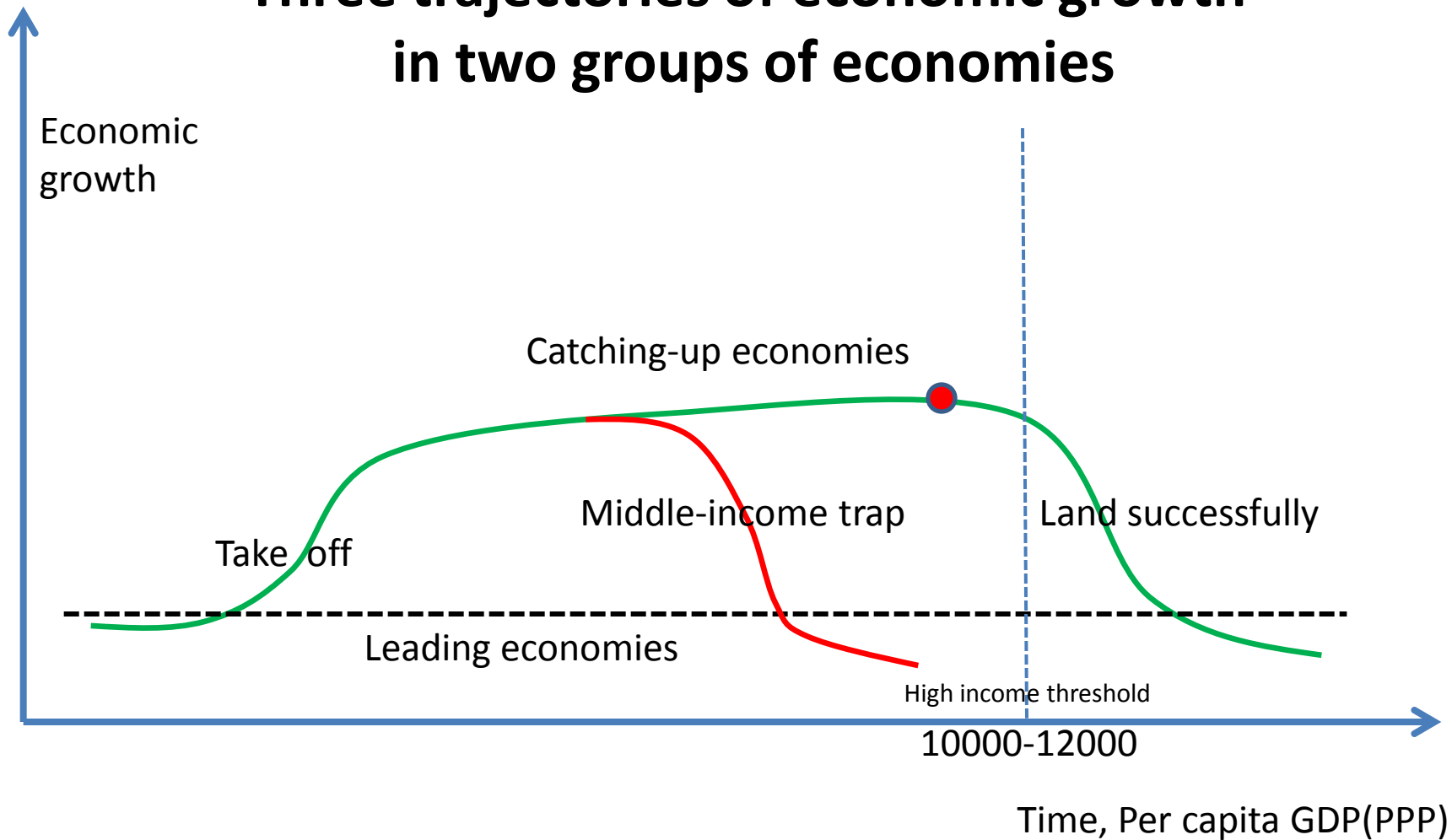
Region	Average annual growth during rapid growth phase	Average annual growth within 10 years after end of rapid growth phase	Extent of growth/decline	Average annual growth from end of rapid growth phase to 2008	Extent of growth/decline
	%	%	Percentage point	%	Percentage point
Western Europe and North America	5.7	1.9	3.8	2.1	3.5
Eastern Europe and former Soviet Union	4.7	0.1	4.6	1.9	3.3
Latin America	3.7	-2.0	5.7	0.5	3.2
East Asia and Southeast	6.6	3.1	3.5	3.1	3.5
Middle East	6.0	-1.5	7.5	0.6	5.4
Africa	5.0	0.4	4.5	1.6	3.4
Global average	5.3	0.3	4.9	1.6	3.6

Of the 101 middle-income economies that existed in 1960, only 13 managed to enter the high-income club by 2008 (Japan, Ireland, Spain, Portugal, South Korea, Mauritius, Puerto Rico, Singapore, Hong Kong, Taiwan of China, Israel, Greece and Equatorial Guinea).



Source: China in 2030 (DRC and WB).

Three trajectories of economic growth in two groups of economies

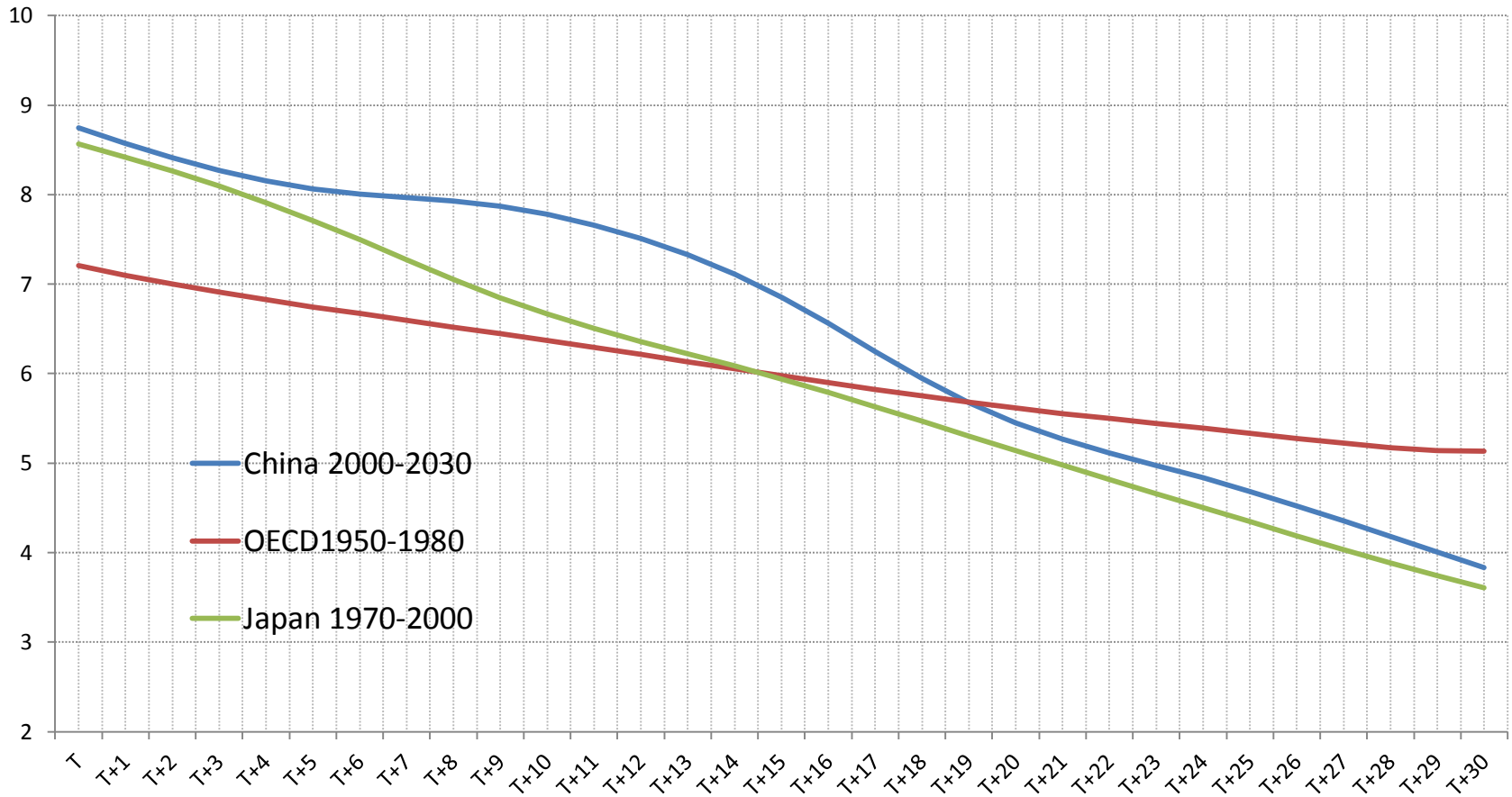


What will be the outcome of China's story

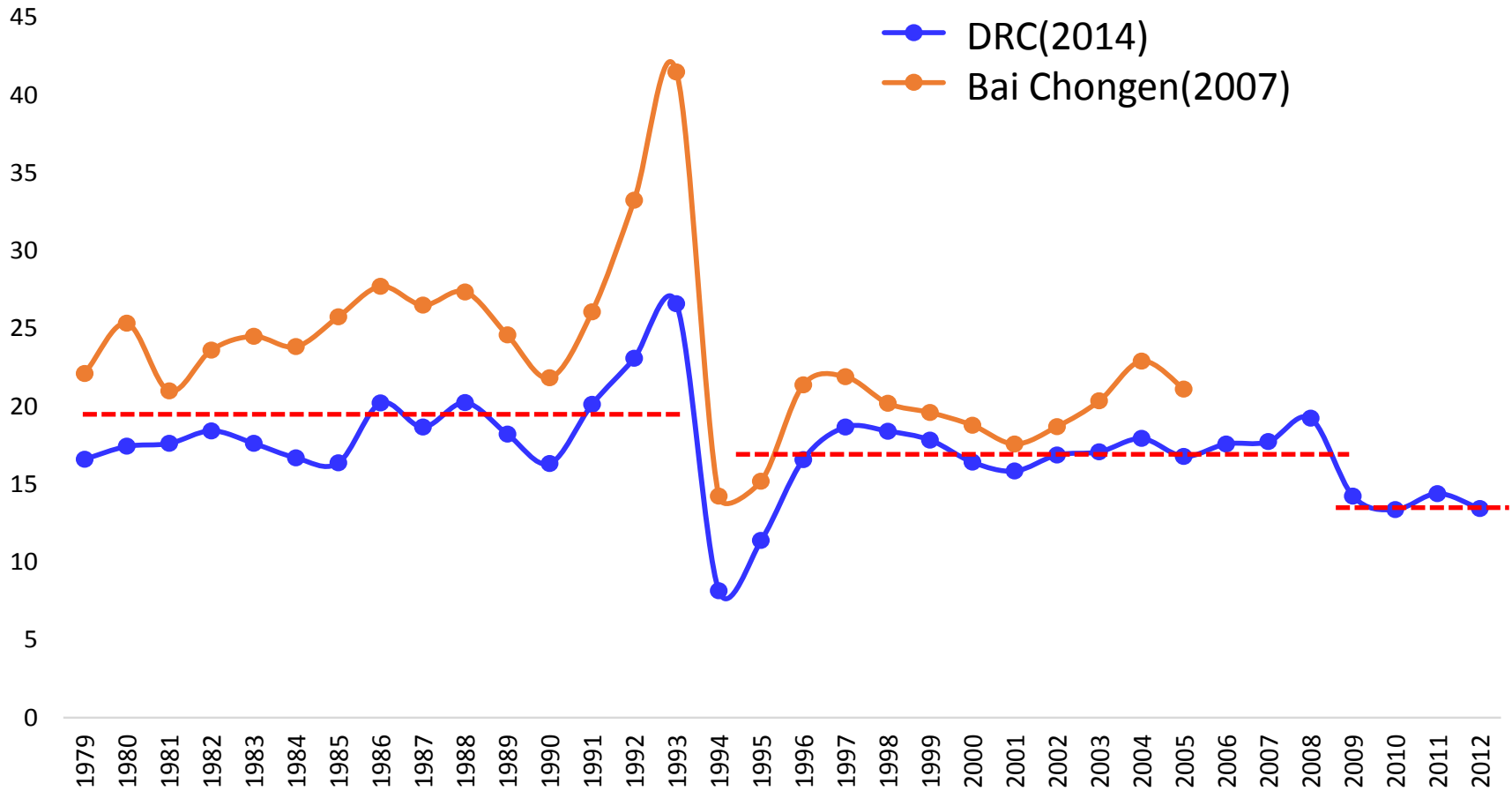
- **Catching up successfully to become a high income modern country**
- **or long-term economy stagnation and backwardness**

the inverse aged dependency ratio

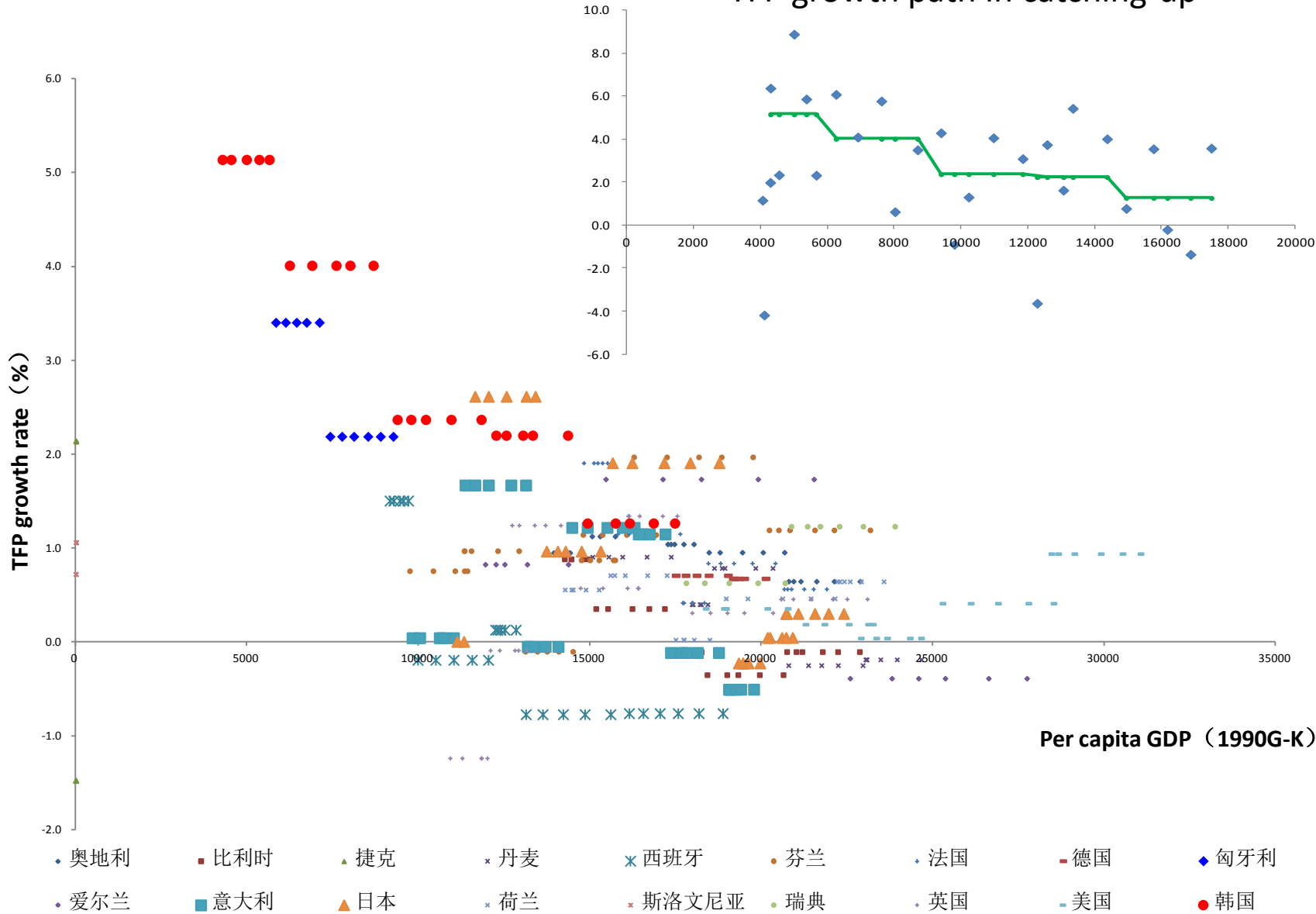
(people aged 20-64/aged 65 and over)



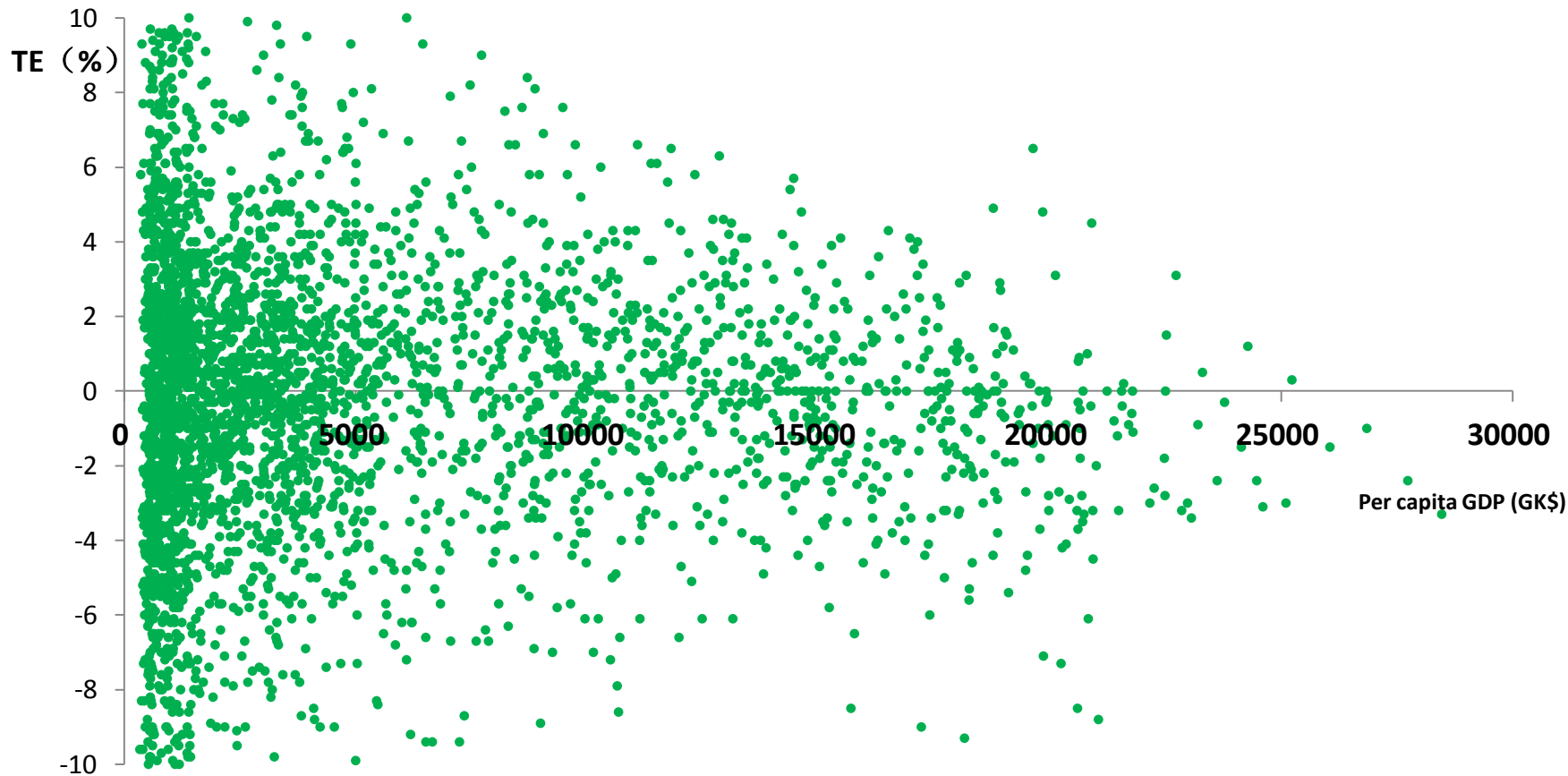
Return on capital is decreasing in China



TFP growth path in catching-up



In the past over thirty years China's TFP growth has averaged close to 3.6% , contribution to the economic growth of close to 38%; Elements in the next decade by reconfiguration of the promotion of China's TFP growth potential is smaller and smaller, expected to be about 1.5-2% lower than average before, at the same time also will transition from technology catch-up to rely more on their own technological innovation.



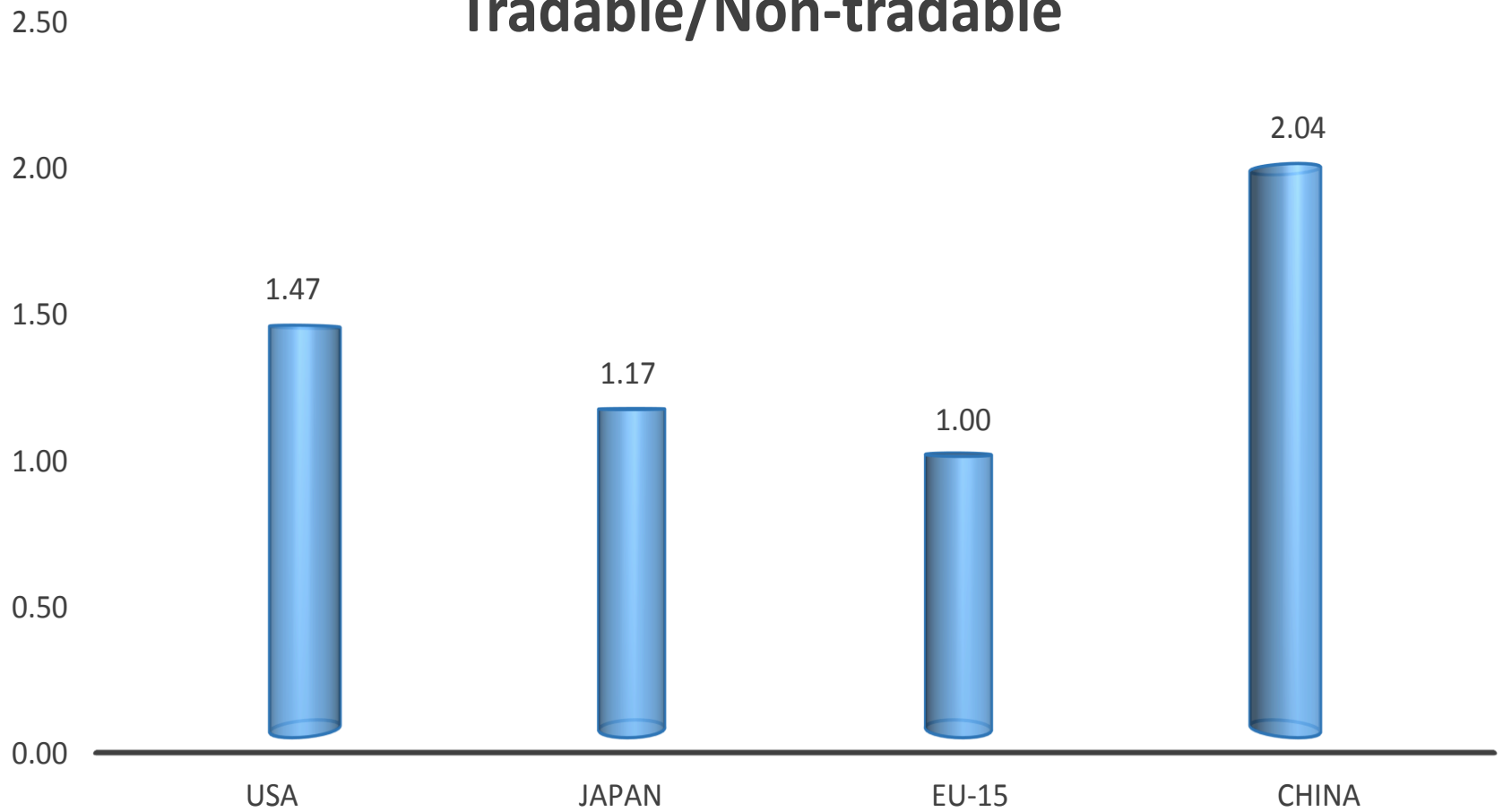
Source: EU-KLEM

TFP growth rate

year	Japan	Korea	China
1960-1973	5.58	1.59	-0.67
1973-1980	-0.53	0.44	0.03
1980-1990	1.41	2.87	3.81
1990-2000	-0.88	0.65	4.19
2000-2007	0.69	0.70	3.75
2007-2011	-0.75	0.31	1.64
2011-2013	-	-	1.2
1978-2013	-	-	3.6

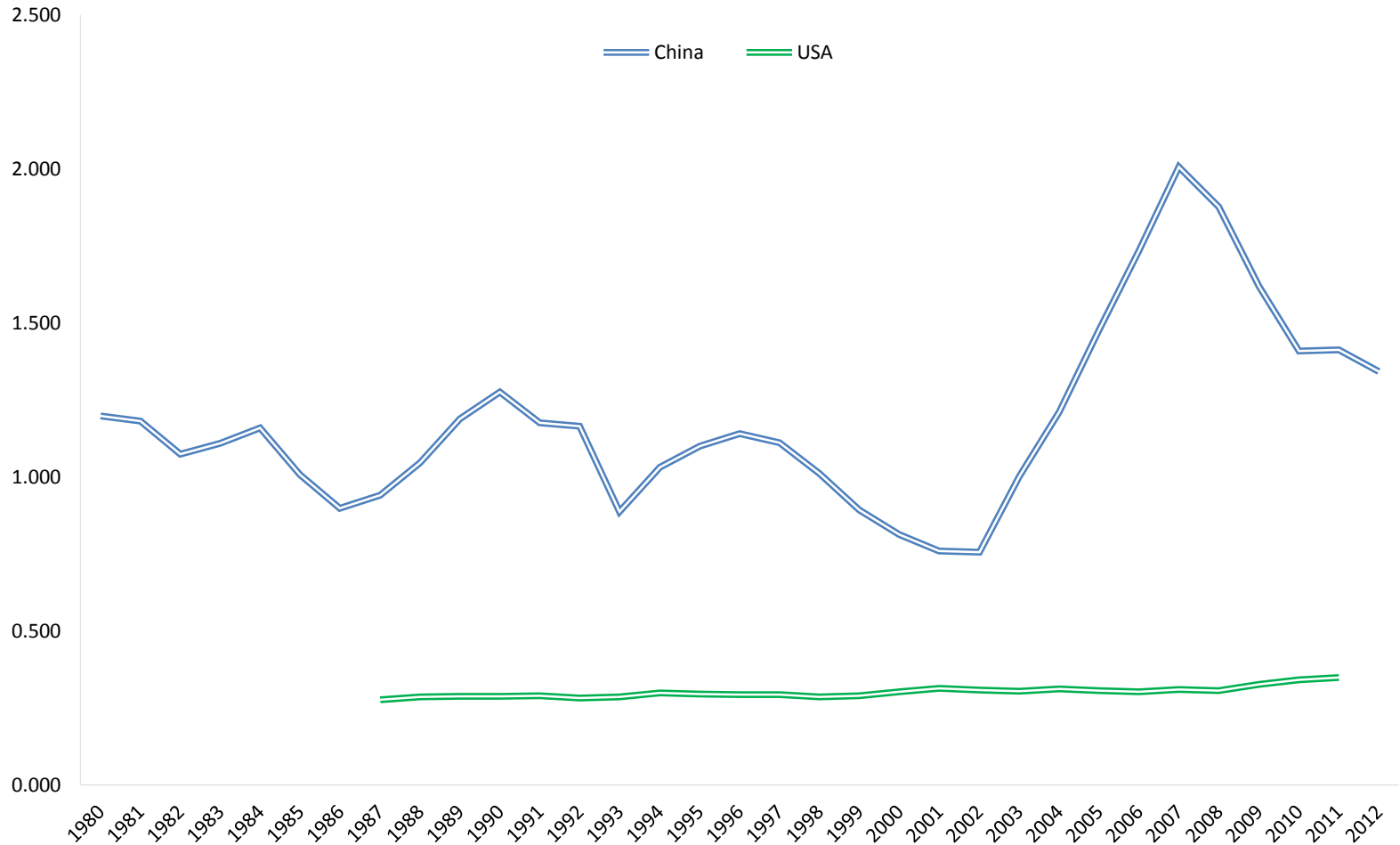
Source: DRC(2014).

Tradable/Non-tradable



Source: EU-KLEM, Dong He (2012), DRC(2014)

The discrete degree of Marginal Revenue Product of Labor among sectors



Outlook: sources of growth(average) ---baseline scenario

	2015-2020	2020-2025	2025-2030
Annual GDP growth in baseline	6.4	5.5	4.4
<u>Sources of Growth :</u>			
Labor	-0.2	-0.2	-0.4
Capital	8.0	6.1	4.5
Total Factor Productivity (TFP)	1.8	2.0	2.0

Source: Estimates of DRC Model.

Overall outlook

Considering these various factors and the experience of other countries, it is projected (based on the DRC model) that over the next 6 years, the effective implementation of China's key reforms will enable its economy to shift from a high annual growth of about 10% on average to a moderate growth of about 6.4% on average. Even so, this is still a rather high growth rate on the global stage. If the fastest phase of China's economic growth is over, it would also mean the most challenging yet equally exciting phase of China's economic development has arrived, a phase that will see the shift from industrialization to "maturalization" and the creation of a high-income and middle-class society.

New Normal

China's new
normal

World economy
secular
stagnation

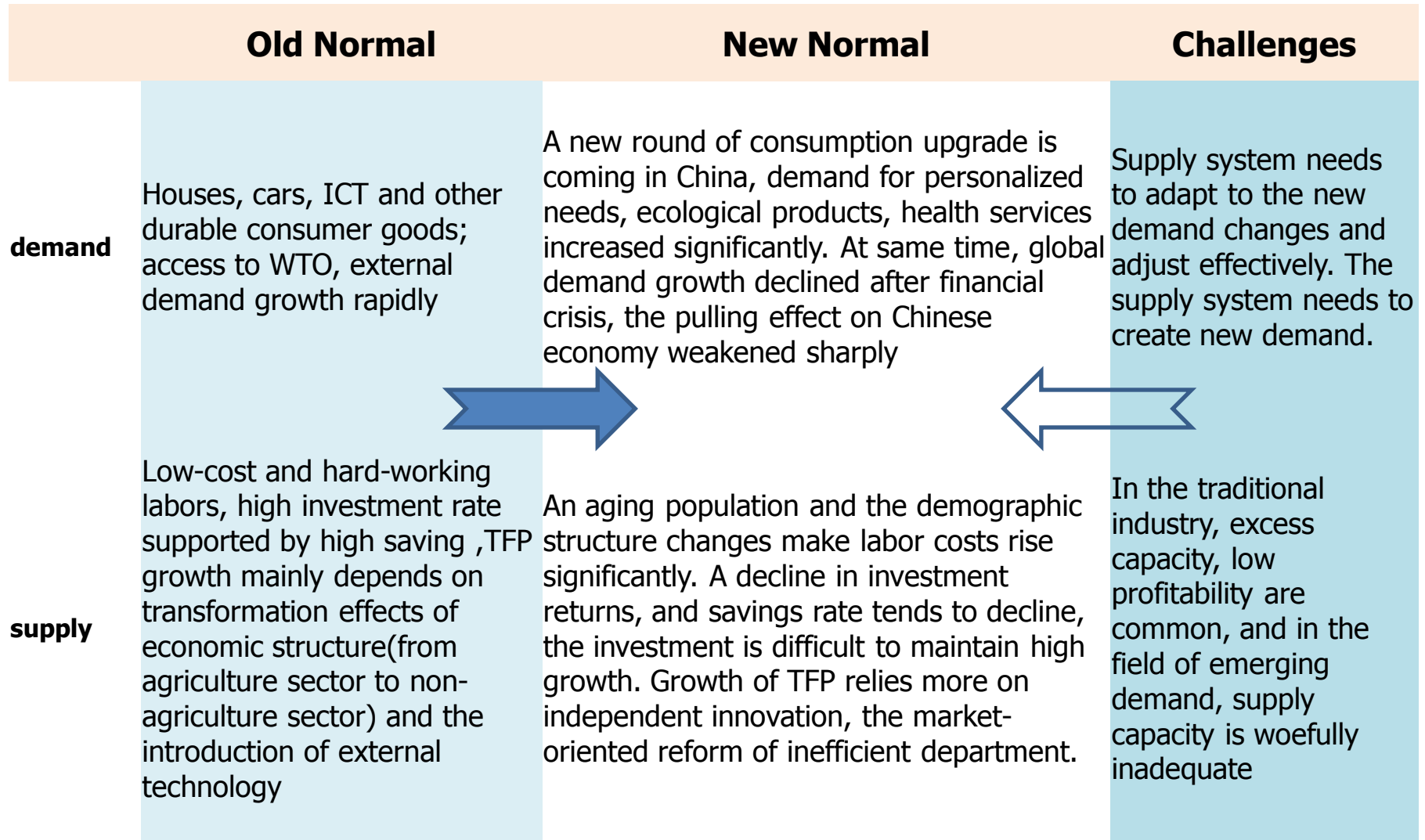


China's
economy
access to
new normal

World economy
back to
Old Normal
(Victorian era)

Growth decline----restructure-----multipolarity-----reshape

New Normal of China's economy



Old Normal

New Normal

Challenges

risk

Annual increment under high-speed growth is huge, it can cover up stock and local risk. enterprise profit model based on rapid growth and scale

Risks of highly leveraged, bubbles, especially in fields of excess capacity, local government debt, real estate and shadow bank system, increased obviously. Strong stimulation also brought some problems during the crisis.

Let risk to be gradually revealed and resolved, not break out in short term, prevent the systemic risks



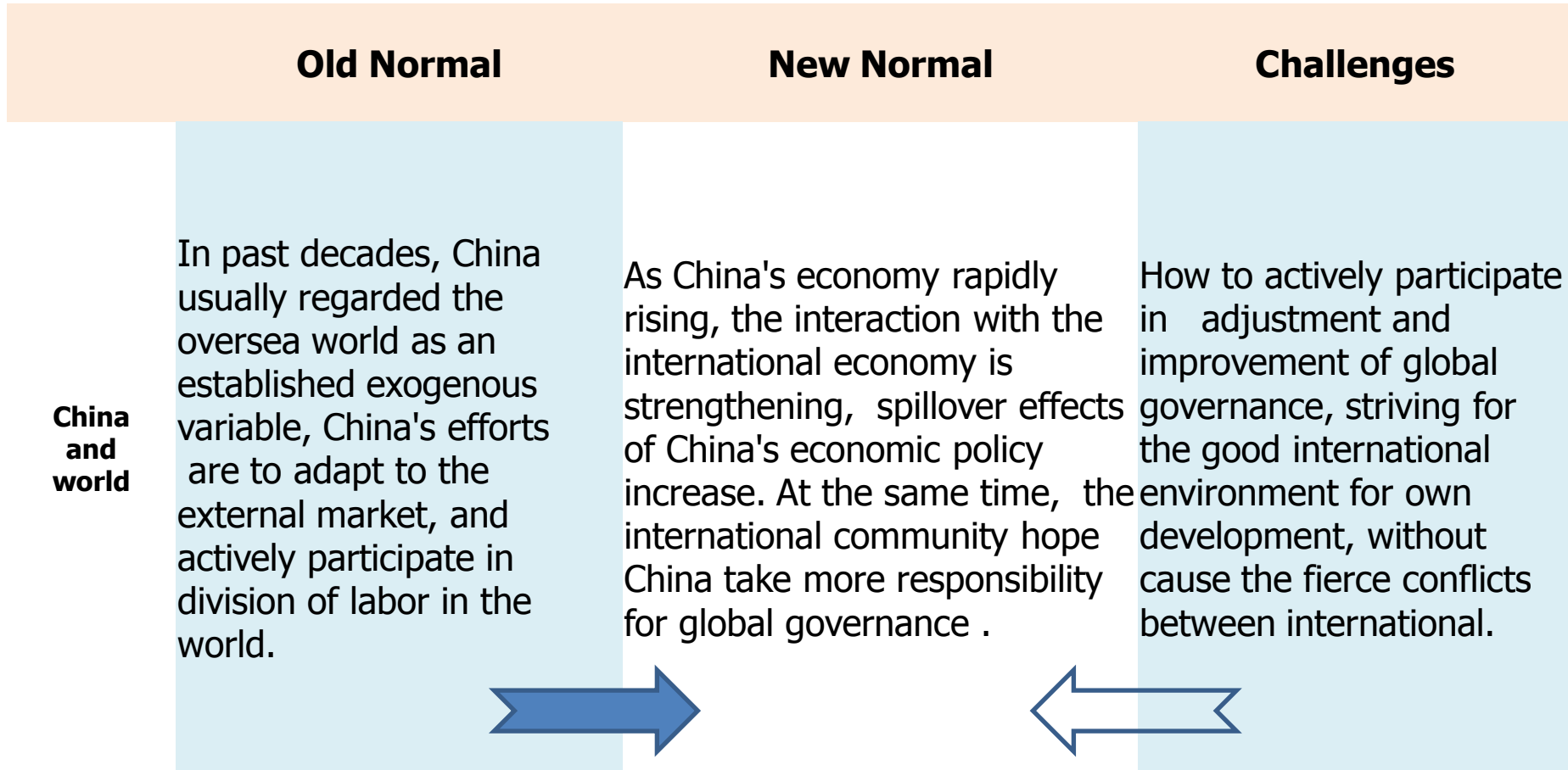
government

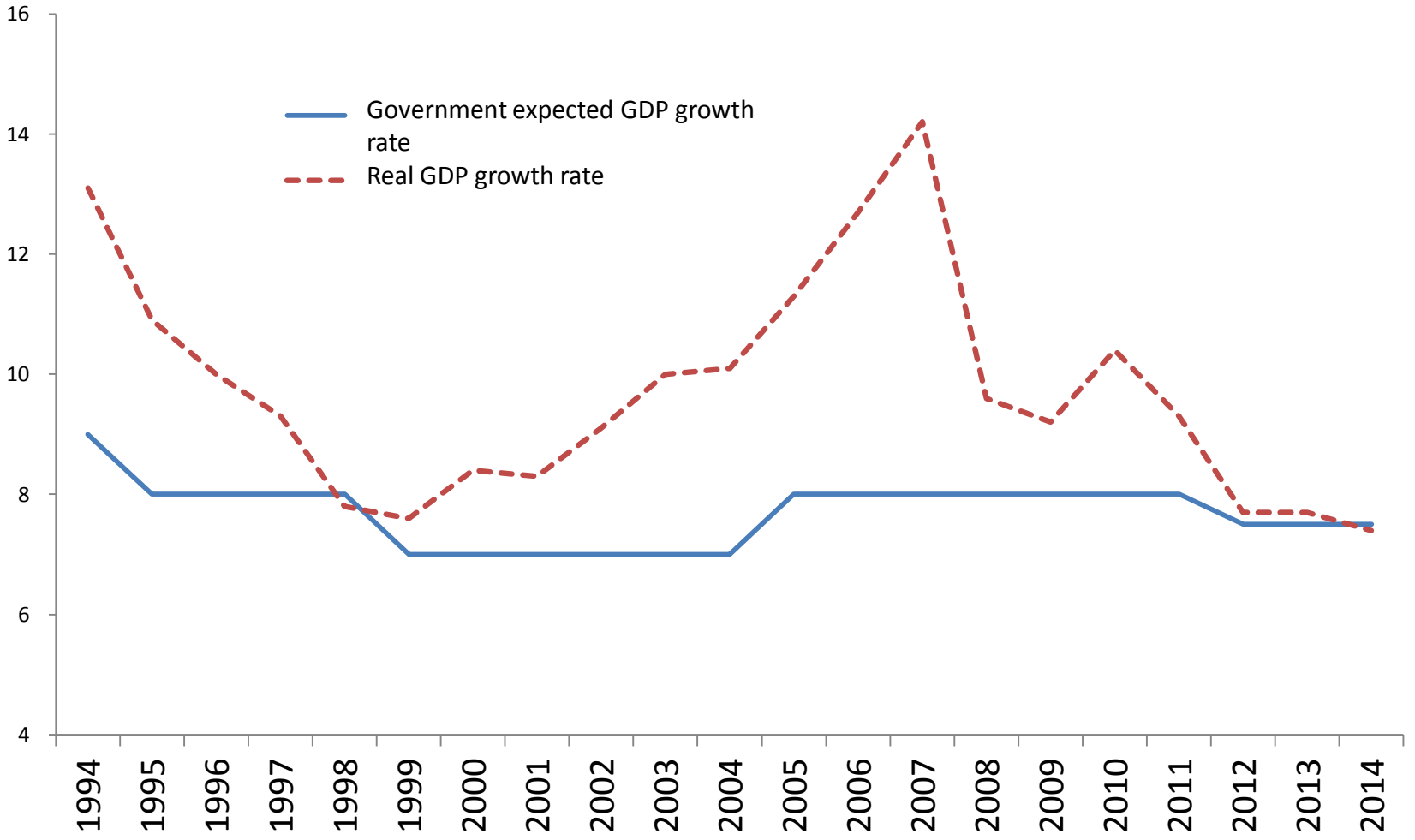
Experience with leading countries and regions, which can direct be imitated and learned, make technological breakthroughs and industrial development path clear, strong government can use advantage of mobilizing the resources to pursue and achieve rapid development. The competition between local governments accelerated this process.

When effective experience can directly learn from advanced economies become less and less, some areas were near the frontier, it is more difficult to introduce advanced technology directly from outside. The original advantage of strong government is diminishing, and even become negative.

To deepen reforms, let the market play a major role in the innovation and industrial development, give full play the market trial and error mechanism and competition mechanism, make the outstanding person stand out from the competition.

New Normal of China's economy



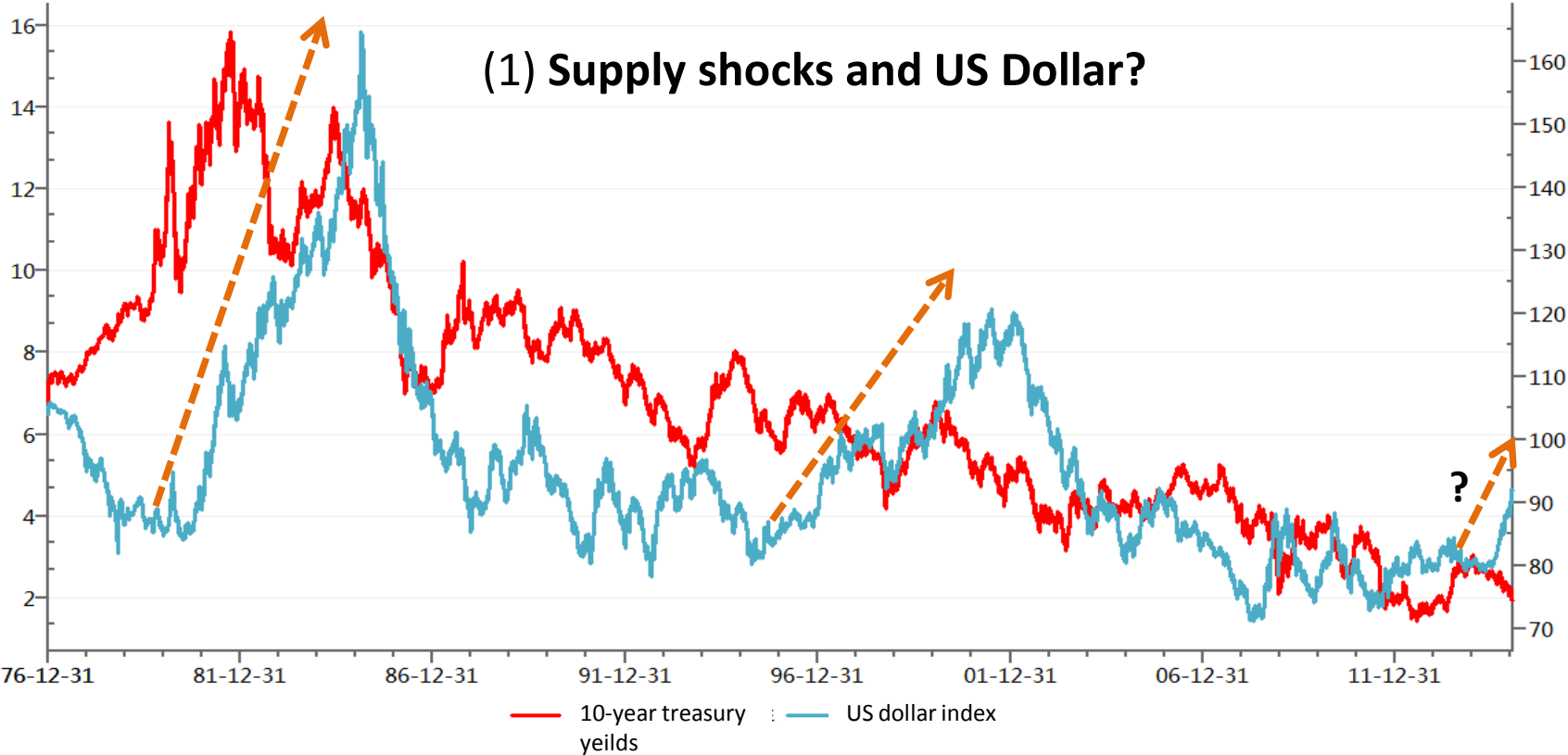
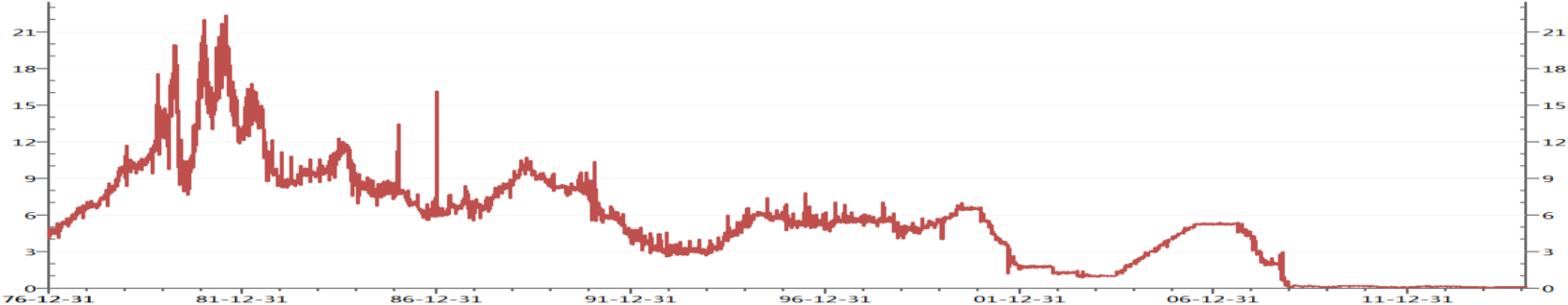


Outlook of China's economy in 2015

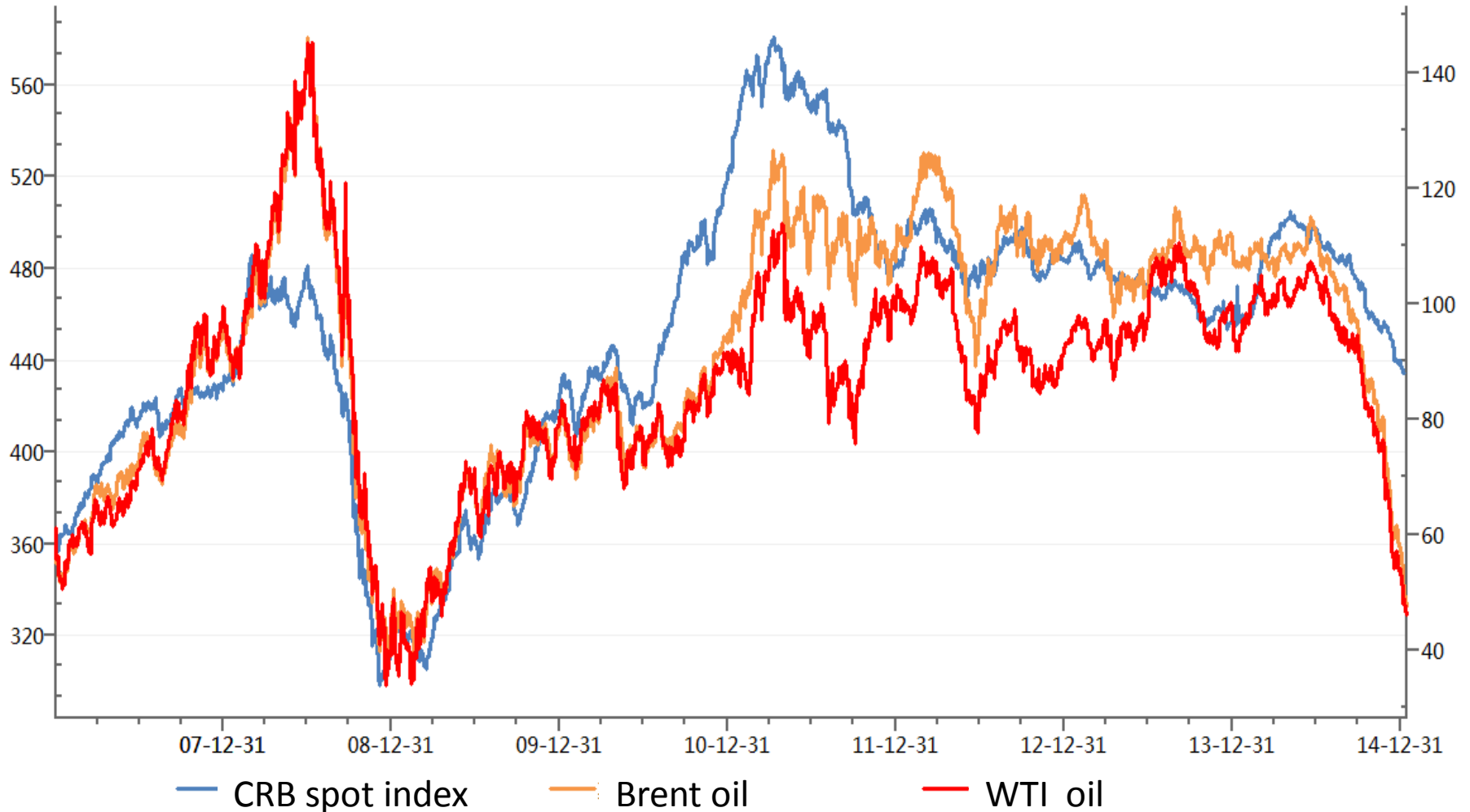
Core indicators	unit	2010	2011	2012	2013	2014	2015e
GDP	%	10.4	9.3	7.7	7.7	7.4	7.0
CPI	%	3.3	5.4	2.6	2.6	2.0	1.8
Fixed Assets Investment	%	24.5	23.8	20.6	19.6	15.7	14.0
fiscal deficit/GDP	%	1.7	1.1	1.7	1.9	2.1	2.4
M2	%	19.72	13.6	13.8	13.6	12.2	12.0
Newly increased Employment in Urban area	10 thousand	1168	1221	1266	1310	1300	1200

Sources: DRC staff, Chen(2014)

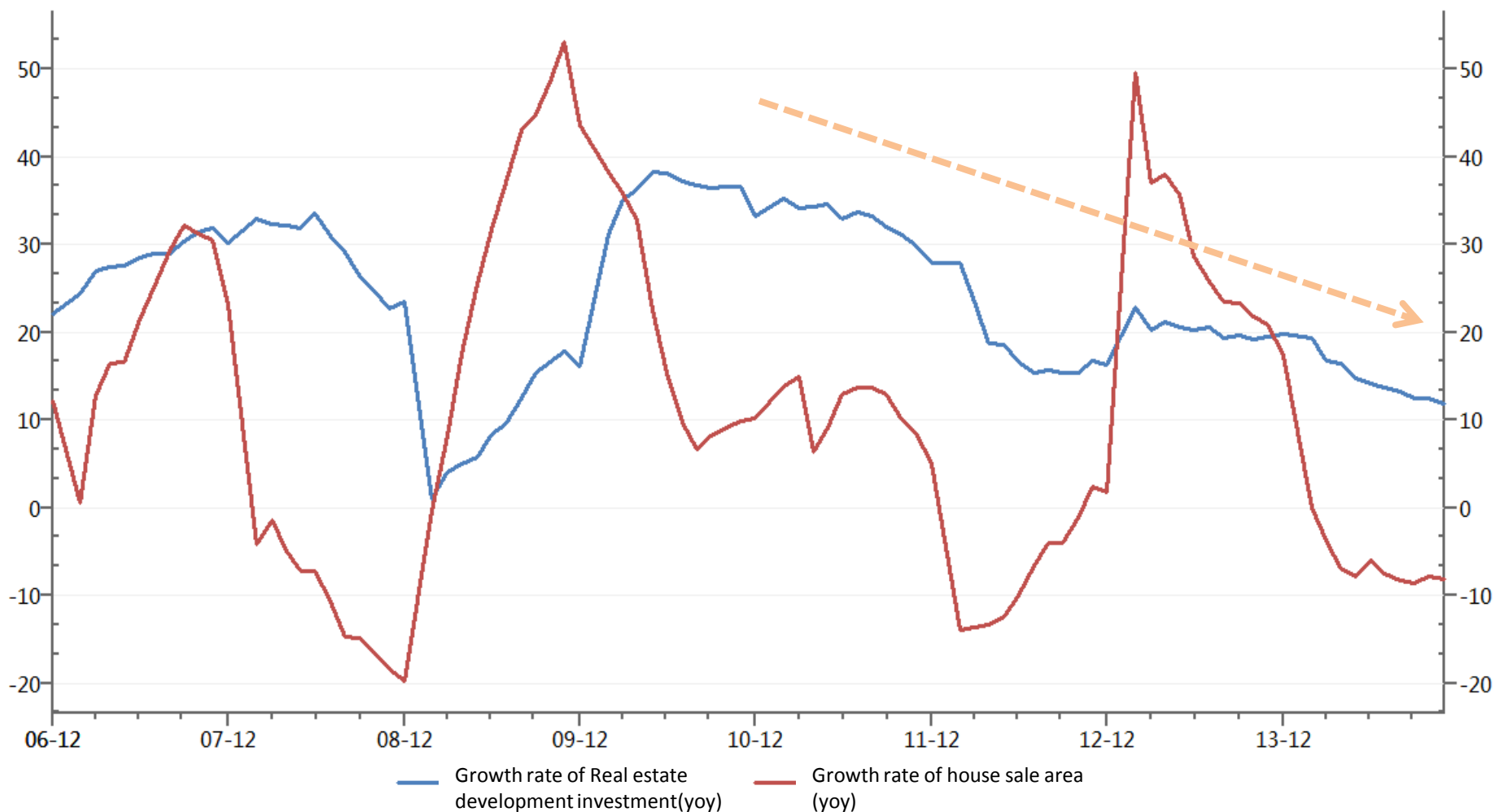
Uncertainties cast shadow in 2015



(2) Oil price crash and the performance of energy exporters ?



(3)China's real estate and fixed assets investment?



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Thank you