



北京大學

China's Economy in the "New Normal": Current Economic Situation and Future Development

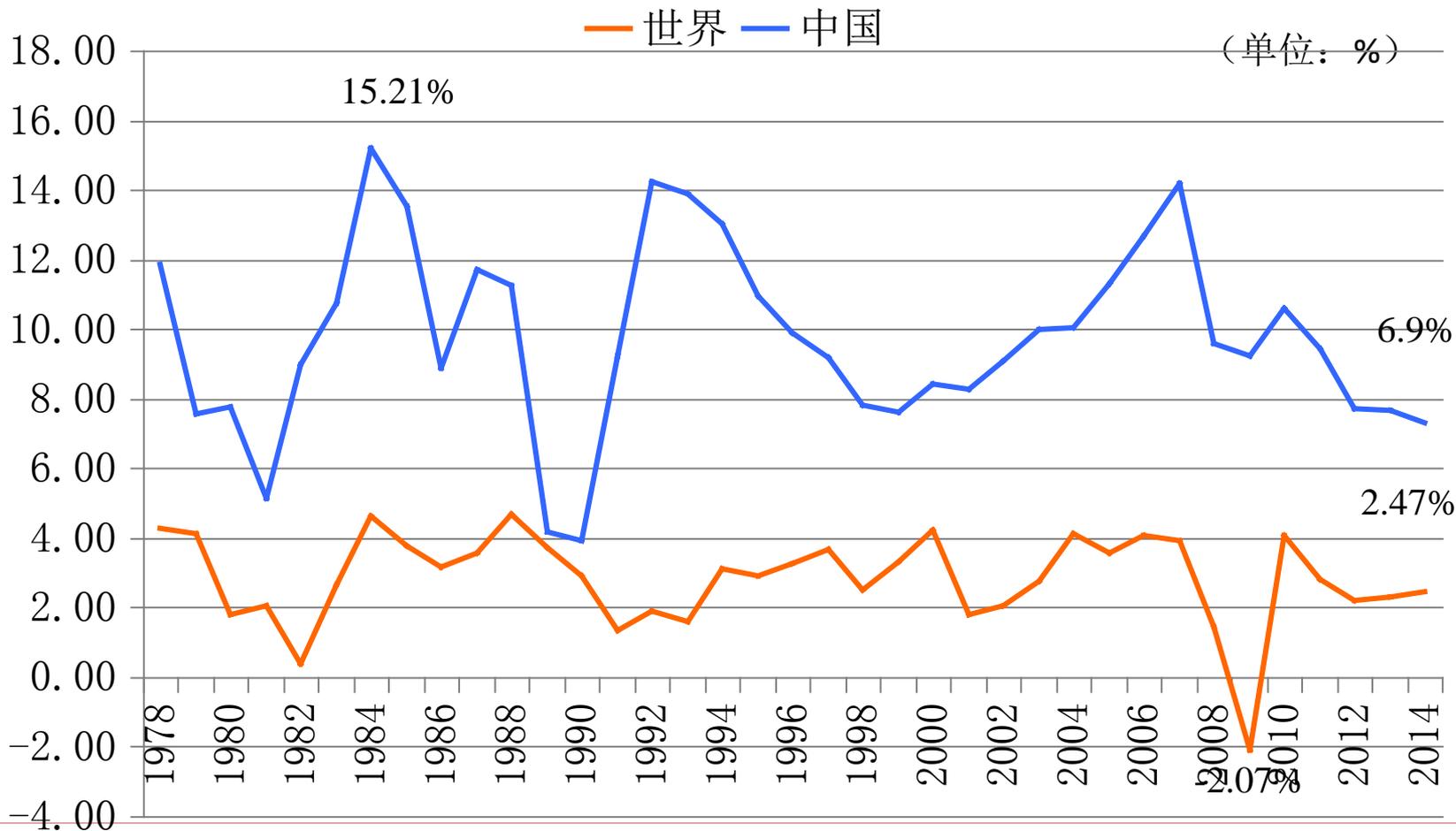
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Economic Growth of China and the World 1978-2015





China in the Global Economy

1. Second Largest Economy

US\$11.4 trillion, 15% of Global Economy

2. Largest Economy in International Trade

US\$ 3.96 trillion, 12% of Global Trade

3. Second Largest FDI Country

US\$ 145.7 billion, 9.9% of world FDI

4. RMB Internationalization

10.92% of IMF SDR



China in the Global Economy

5. Trade with EU

US\$ 564.8 billion, 15% of EU total trade
the 2nd trade partner
the 1st importing country

6. Trade with Italy

US\$ 44.7 billion, 4.9% of Italy total trade
the 9th exporting country
the 3rd importing country

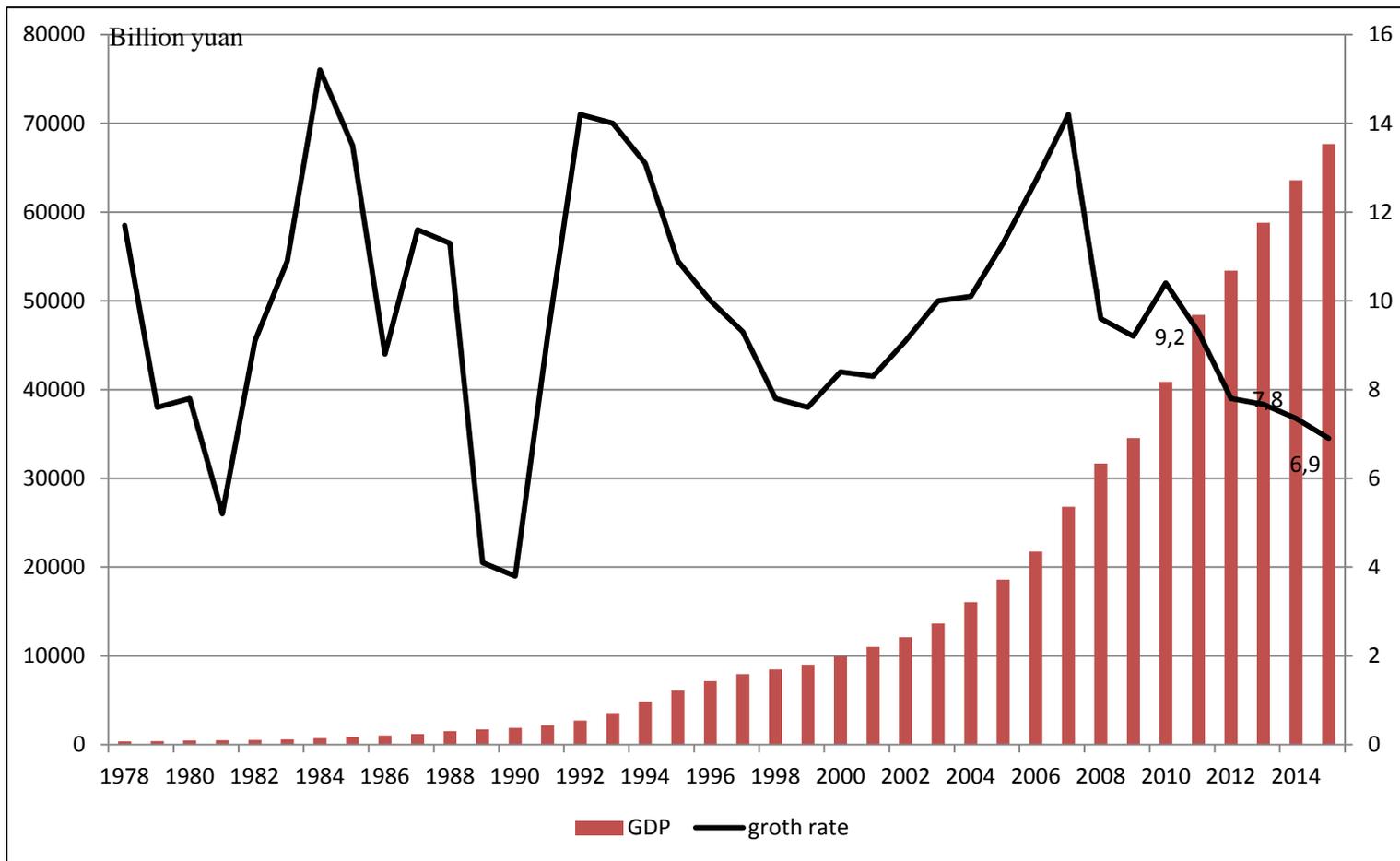


China's Economy in the “New Normal”

1. **NEW SPEED** of development:
high rate → medium high rate
2. **NEW STRUCTURE** of economy:
labor intensive manufacture
→ service and high quality manufacture
3. **NEW ENGINE** of growth:
resources input
→ reforms, innovation, and “one belt on road”



China's GDP and growth rate (1978-2015)



1. New Speed of Development

China's Current Economic Situation

- **GDP growth rate:**
 - ✓ **Less than 8% for five consecutive years**
 - ✓ **Less than 7% for the first time since 1991**
 - ✓ **Continuing to decrease**
first half year of 2016: 6.7%



Main reasons for the Slowdown

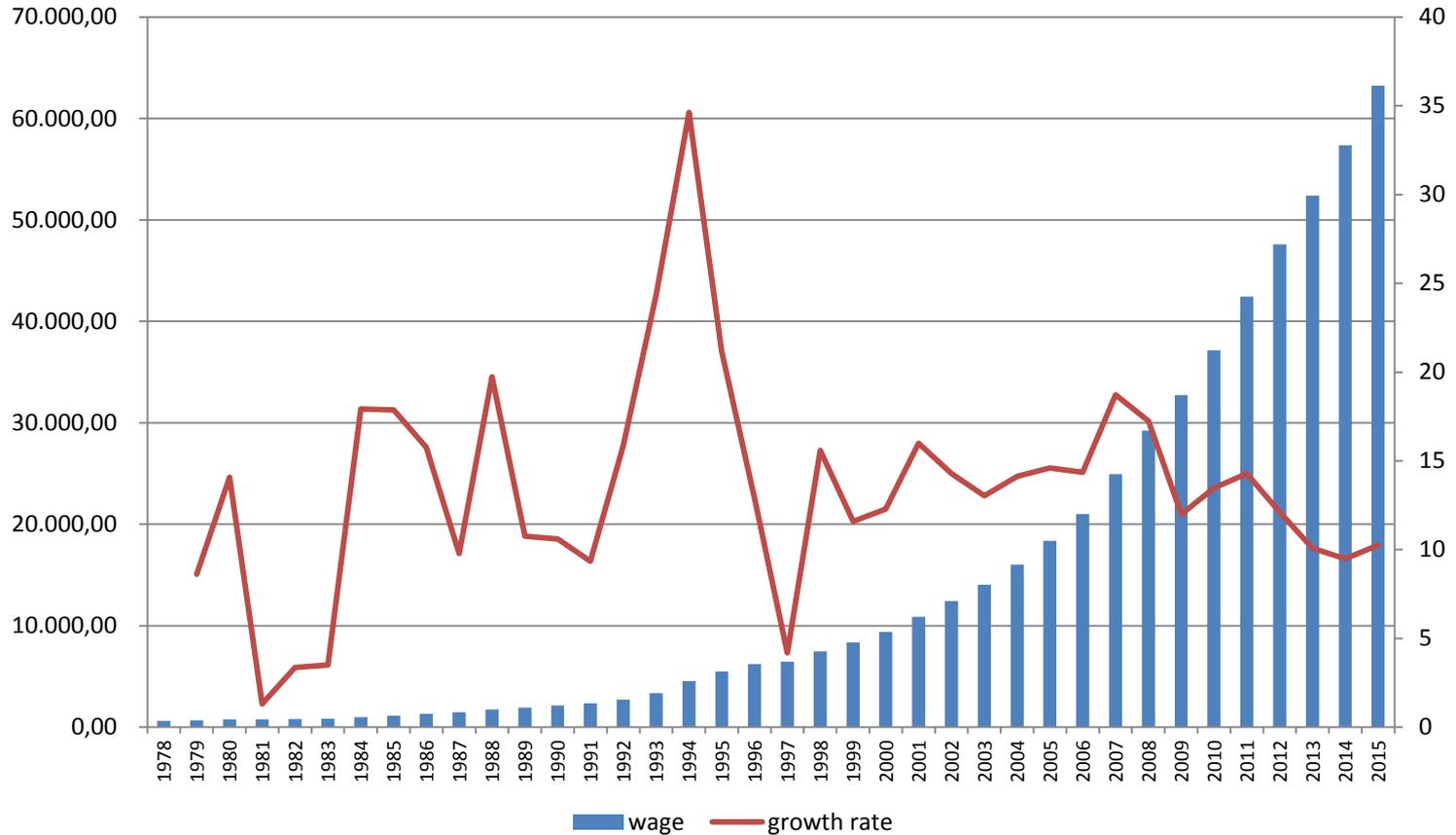
- **Long run trend:**
Increasing costs and diminishing returns
- **Business cycle**
- **Middle-income (Trap) Challenge**
Industrial structure adjustment
(unbalanced growth: industry vs. regions)



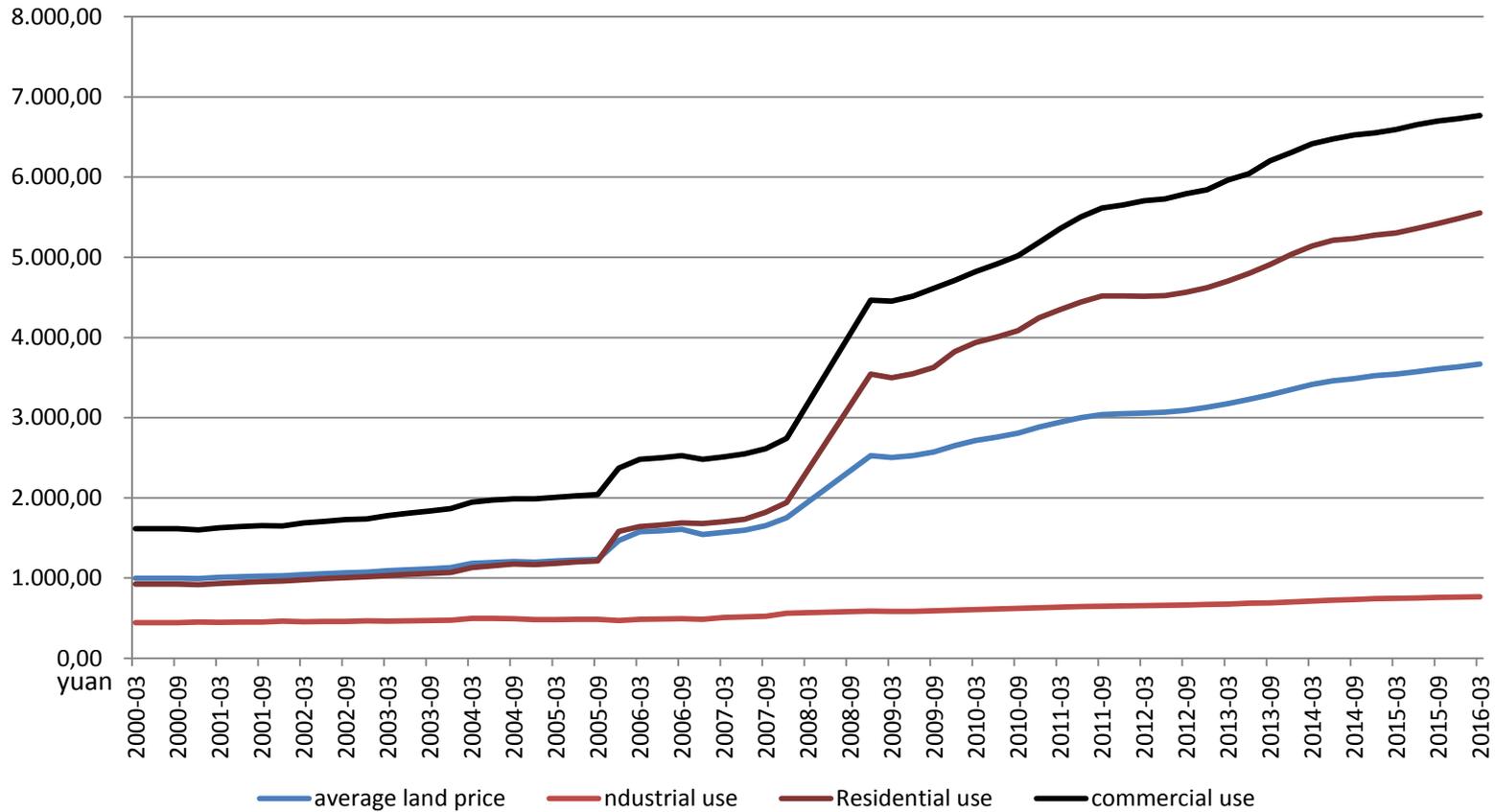
□ Long Term Trend: Increasing costs and diminishing returns

- ✓ labor cost
- ✓ land cost
- ✓ environment cost
- ✓ capital returns

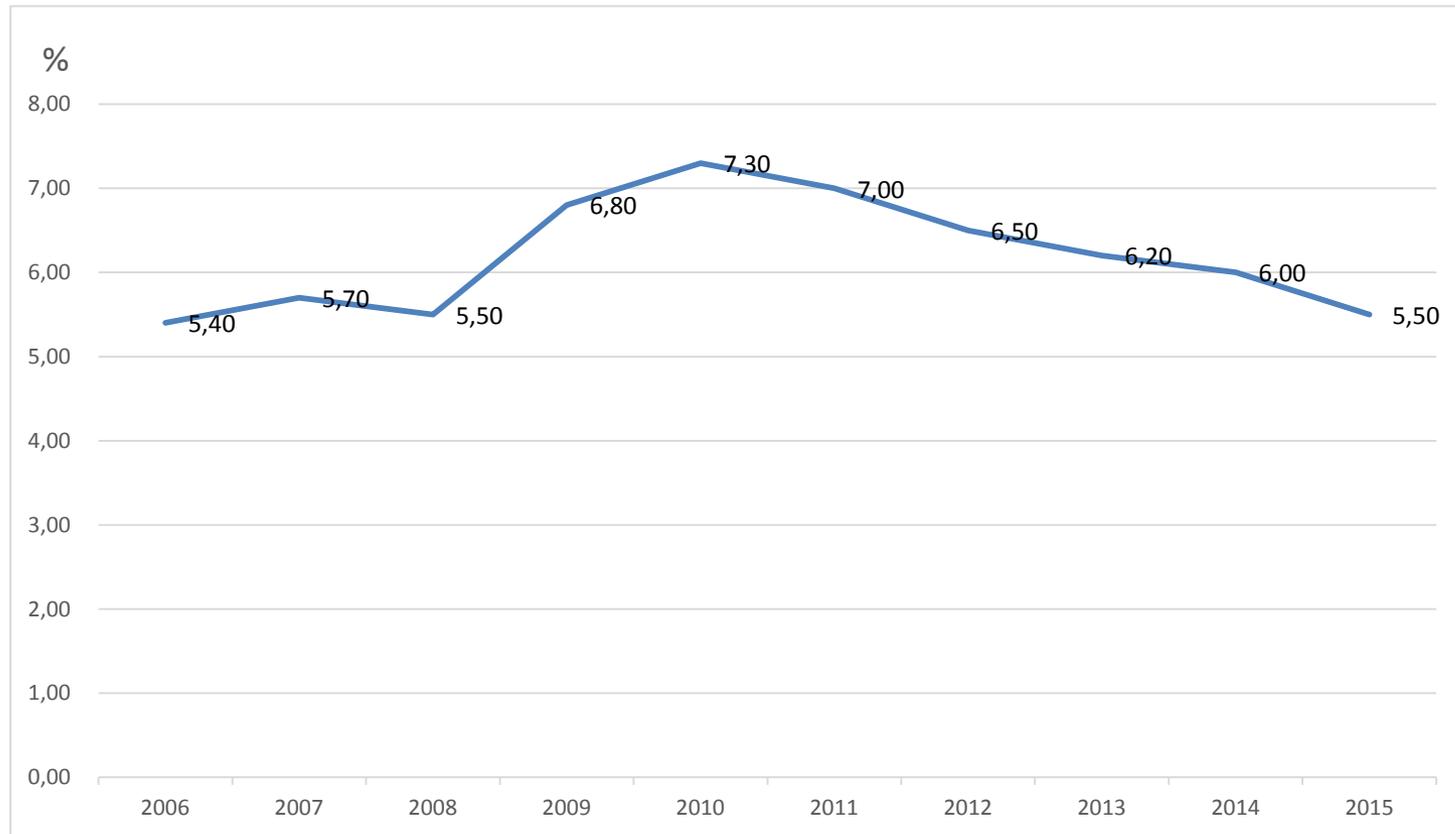
Average Wage of Labor (Yuan/Year)



Prices of Land (Yuan/m²)



Returns to Capital in Manufactures





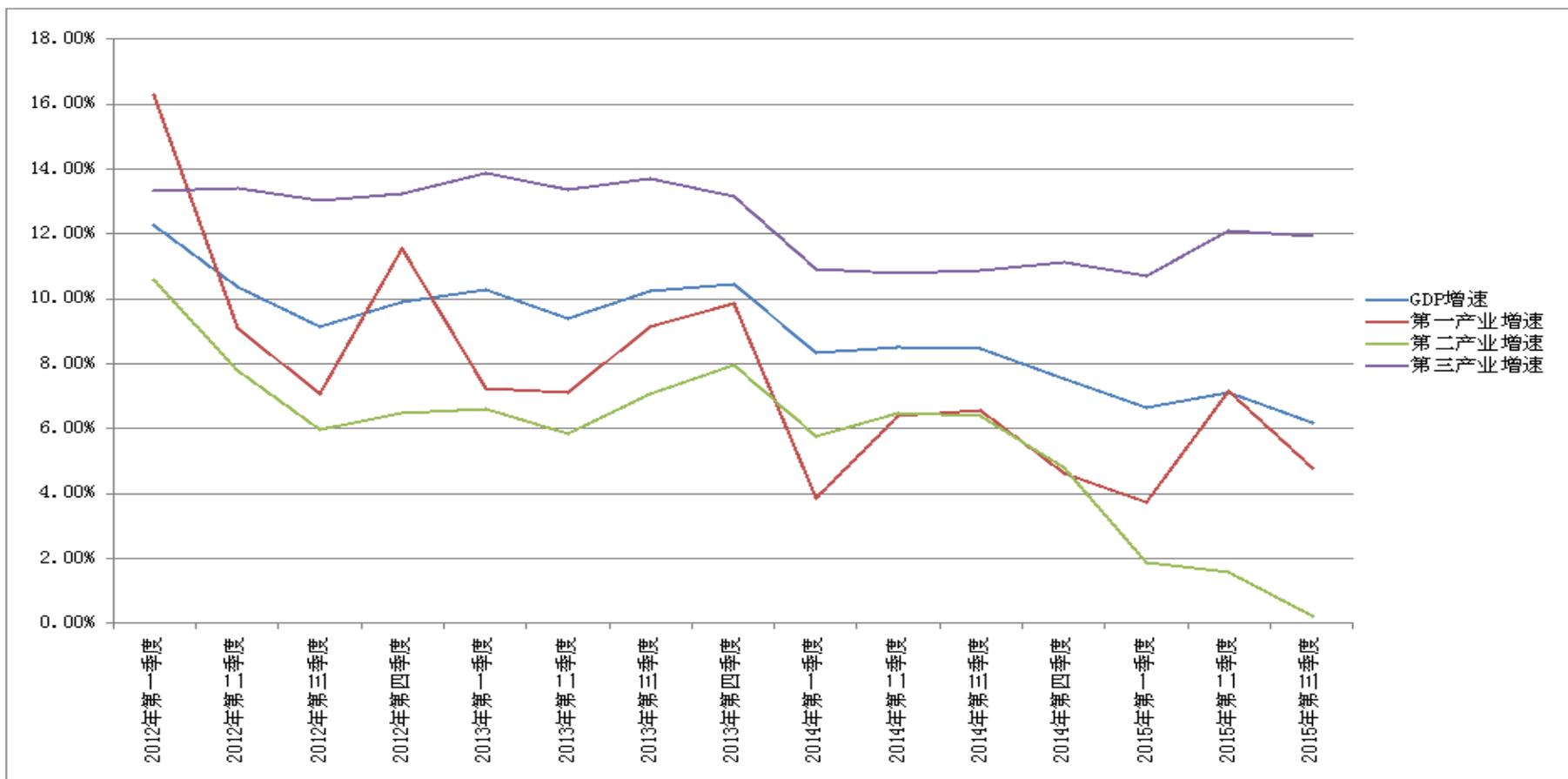
□ “Middle Income Challenge”: Economic Structure Adjustment

- ✓ slowdown of manufacture
- ✓ lack of high-tech manufactures and services



Growth Rate in Different Sectors (Quarterly)

Manufactural Sector Slowdown





2013-2015 Growth Rate in Each Sector

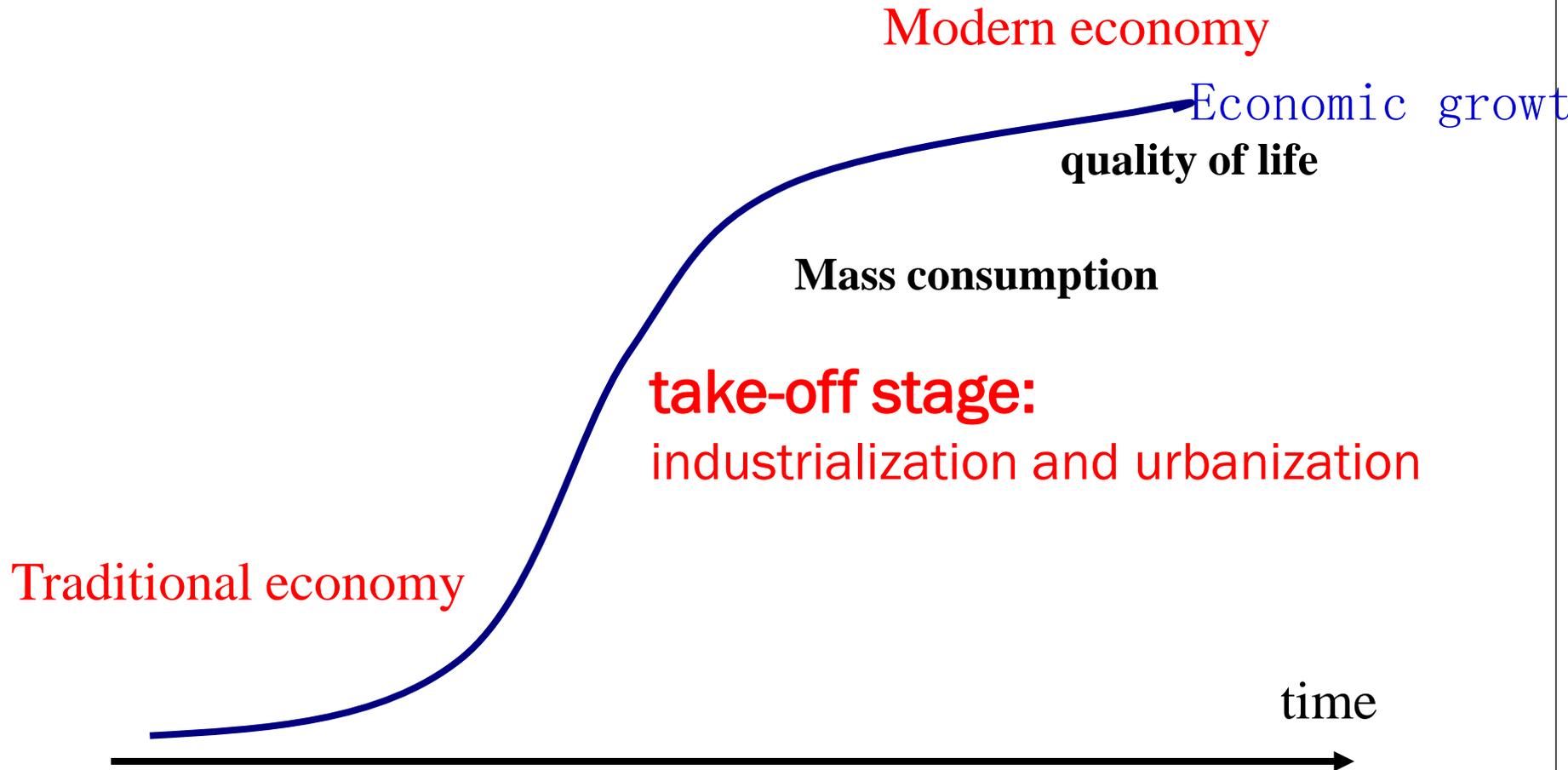
	Industrial proportion			growth rate compared to the same period last year		
	2013	2014	2015	2013	2014	2015
GDP				7.7	7.4	6.9
1st industry	9.4%	9.2%	9.0%	4.0	3.9	3.9
Agriculture & Farming				4.0	3.9	4.0
2nd industry	43.7%	42.6%	40.5%	7.8	7.4	6.0
manufacture				7.6	7.2	5.9
construction industry				9.5	9.2	6.8
3rd industry	46.9%	48.2%	50.5%	8.3	8.0	8.3
Transportation, warehousing and postal service				7.2	6.8	4.6
Wholesale and Retail Trade				10.3	9.8	12.1
Hotels and Catering Services				5.3	6.2	6.2
Finance				10.1	9.7	15.9
Real estate				6.6	2.5	3.8
Others				7.7	8.9	9.2

Will China's economy have a hard-landing

Two special factors:

- **China is still at the stage of taking-off
Industrialization and Urbanization**
- **China is still in the transition from a planed
economy to a market economy:
Role of Government**

Stages of Economic Growth



Urbanization is Still a Long Way to Go

1950 - 2011

➤ Japan : 50% - 2.0‰

➤ Korea : 63% - 4.2‰

➤ Taiwan : 56% - 5.2%

➤ China (Mainland) : (2012)

Rural population still accounts for 47.4%

Urbanization is an Engine of Growth

Infrastructures

(roads, bridges, railway, electricity...)

Urban Housing

(apartments, furniture, durable goods,...)

Consumptions

(goods and service, including clothing, restaurant, healthcare, education,...)



2. New Structure of Economy

Decrease:

low quality manufactures
overcapacity manufactures
small-medium size manufactures

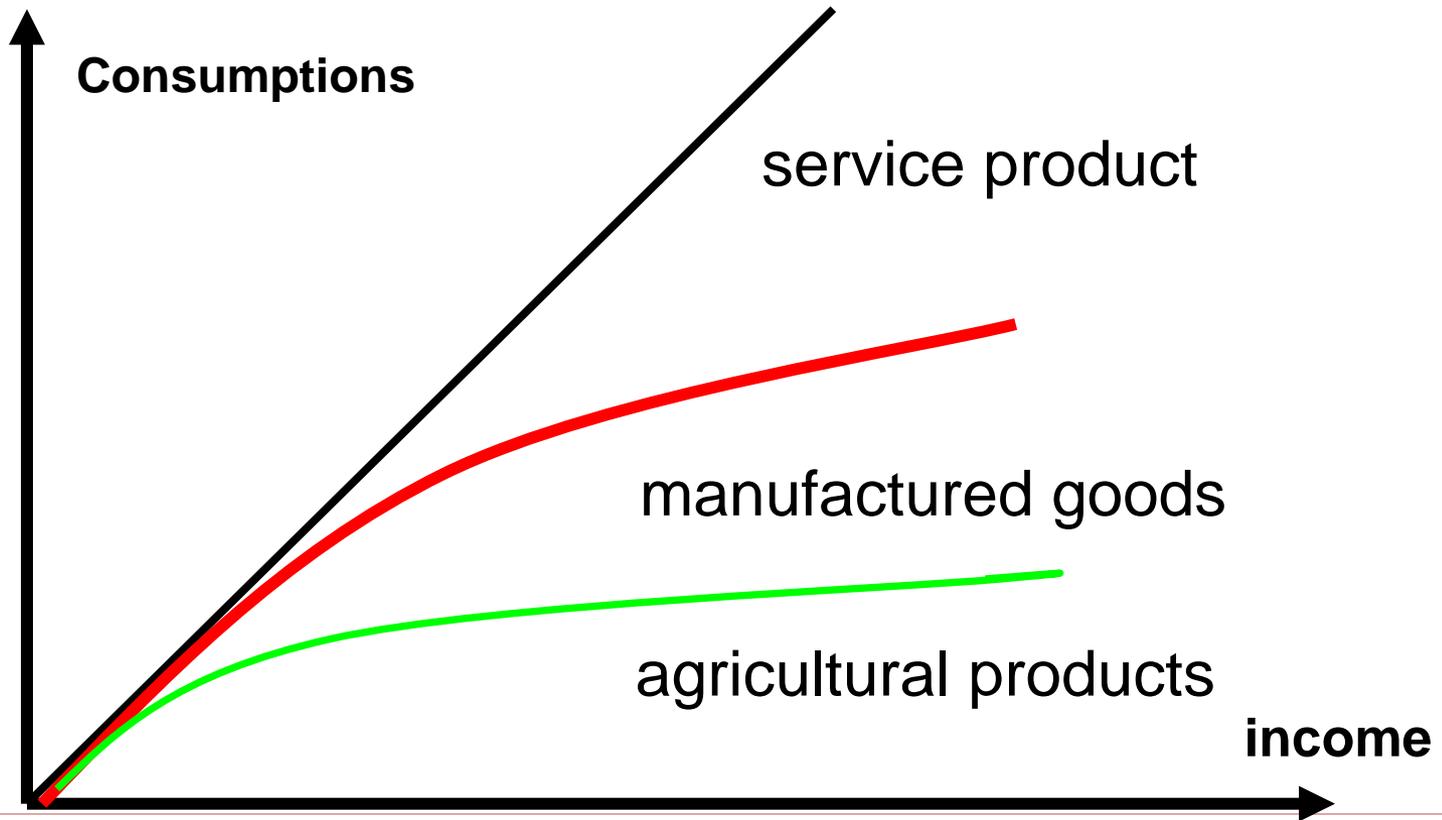
Increases:

high quality manufactures
manufactures with economy of
scales
service industry

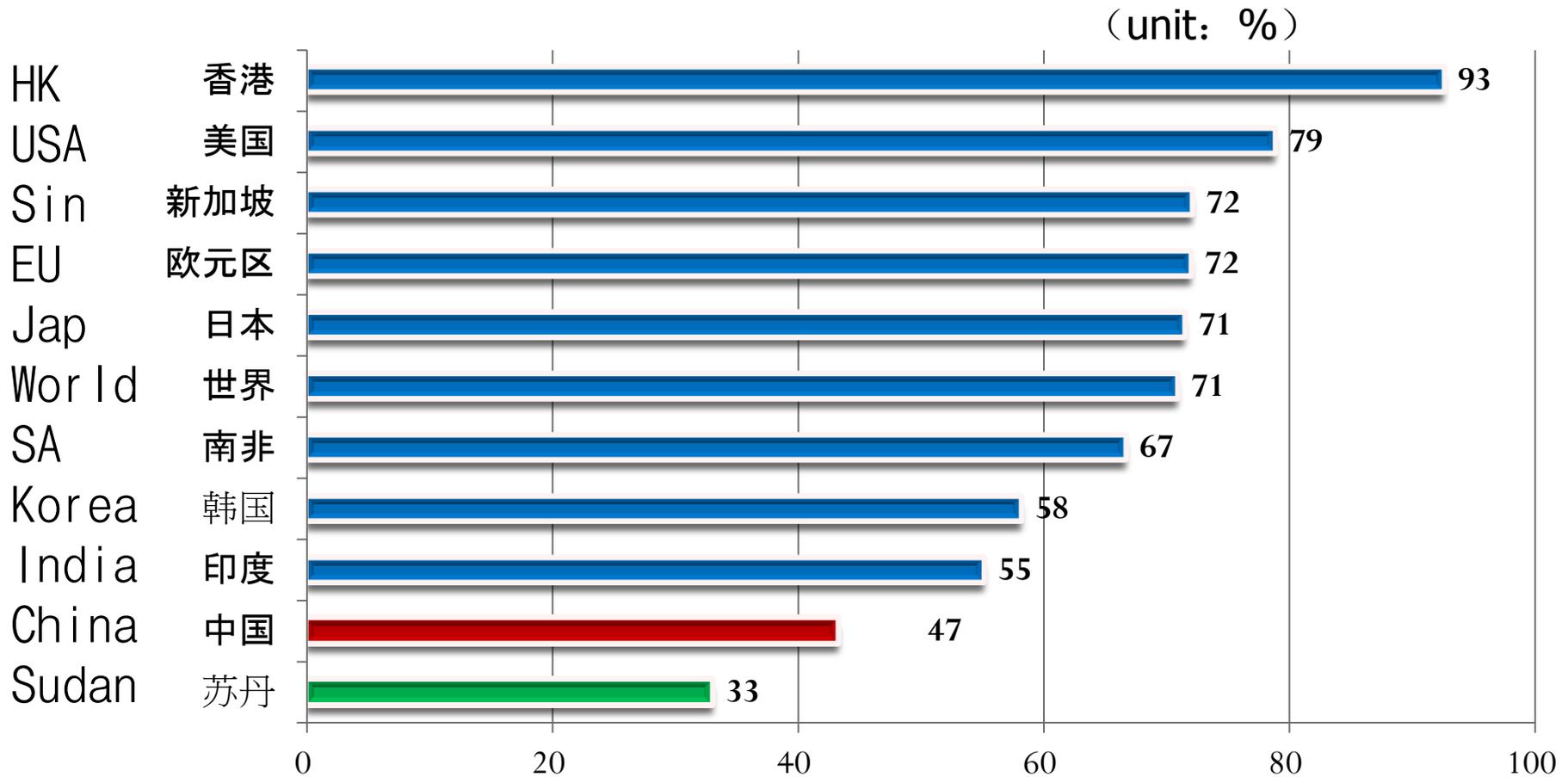


Change of Economic Structure

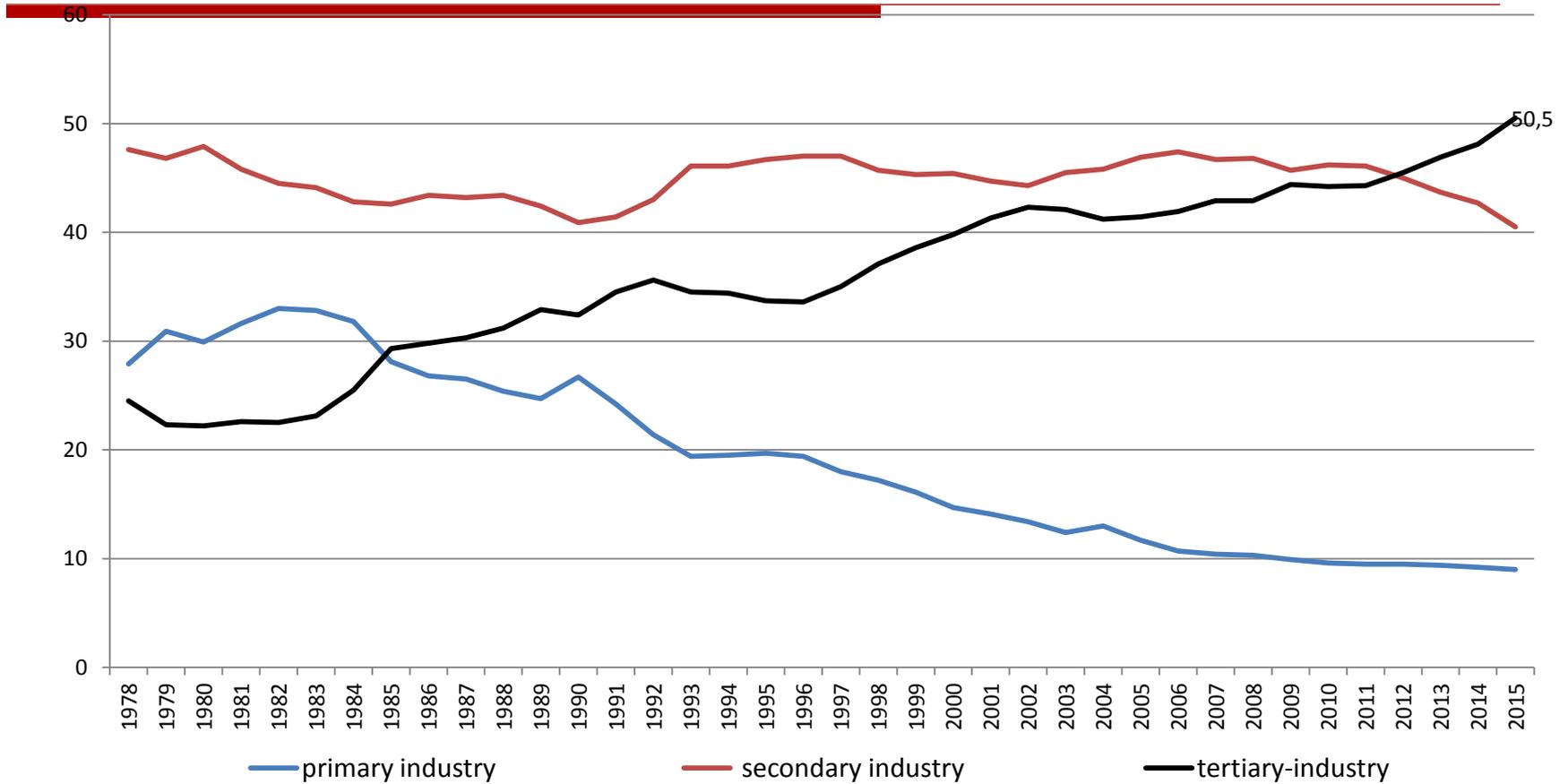
agricultural economy → industrial economy → service economy



Service Sector as Percentage of GDP



Change of Industrial Structure in China





Role of Service

■ Promote Consumption

Shopping, Real Estate, Culture, Entertainment, Leisure, Education, Healthcare etc.)

■ Increase value-added of Manufacture Goods

Finance, Telecommunication, Logistics, Design, Consultation, Marketing, Branding, IPO protection, etc.)



3. New Engine of Growth

- Reforms
- Innovations
- New international strategy:
One Belt One Road

Key Reforms

(1) Reforms to Promote Market Economy

The Government Function Reforms

State-owned-enterprises (SOE) Reforms

Tax System Reforms

Financial Reforms

Supply-side Reforms

(2) Reforms to Promote Urbanization and Agricultural Modernization

Reforms of Urban Resident Registration and Related System ;

Reforms of Rural Land System

(3) Reforms to Promote Service Industries

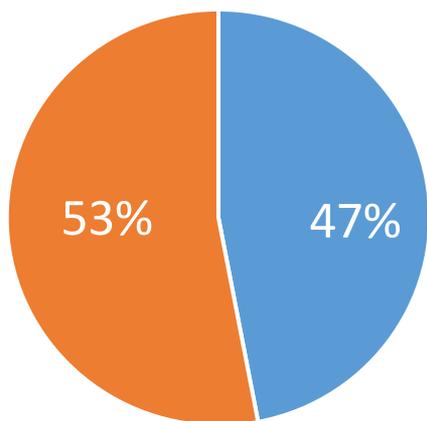
Education; Health care; Culture; etc.



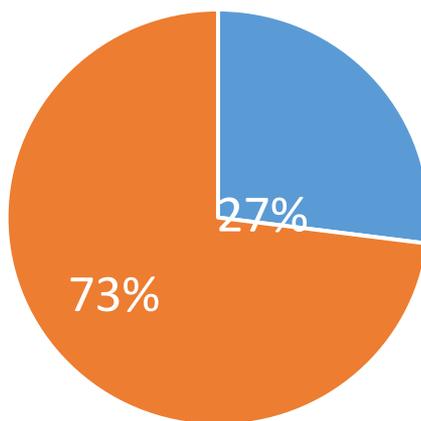
Potential for the Economic Cooperation and Development

Countries status along the road

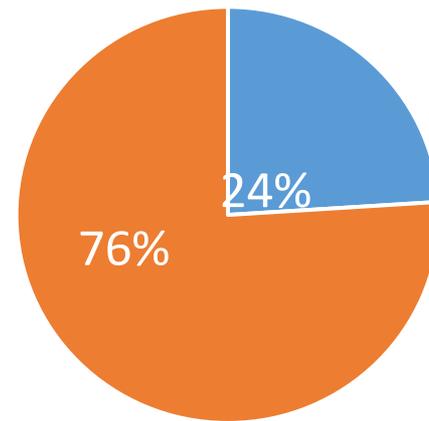
Share of Population



Share of the Global Economy



Share of Trade



■ One belt, one road ■ Other regions ■

Countries and regions along the road: **26**

Affected countries: more than **60**