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East Asia

Editors

Sarah Y TONG

WAN Jing

China's Economy in Transformation under the New Normal

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China's Economy in Transformation under the New Normal

This book examines the recent development and prospect of the Chinese economy as the country adapts to changing domestic and external settings. After more than three decades of near double-digit annual expansion, the country's growth decelerated considerably to enter a new era of the so-called New Normal.

At the macro level, considerable amount of overhaul is required to improve governance and enhance regulatory effectiveness. These include monetary policy adjustment, financial sector development and taxation reforms.

As the Chinese government at both the central and local levels plays an important role in promoting growth, issues such as the role of local government and the reform of state-owned enterprises are examined in this book. Topics such as the development of private consumption and industrial upgrading are also assessed. The book discusses several matters considered important to China's social and economic cohesion including the management of agricultural product reserves, the development of a functioning social security system and regional development. To help project a long-term view of China's economic strength, the book also examines such factors as development in population and the labour market.

This book provides a comprehensive analysis of China's economy and identifies the recent developments that matter to China's economic future.

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*East Asian Institute
National University of Singapore
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the New Normal**

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About the Series

EAI Series on East Asia was initiated by the East Asian Institute (EAI) (<http://www.eai.nus.edu.sg>). EAI was set up in April 1997 as an autonomous research organisation under a statute of the National University of Singapore. The analyses in this series are by scholars who have spent years researching on their areas of interest in East Asia, primarily, China, Japan and South Korea, and in the realms of politics, economy, society and international relations.

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China's Economy in Transformation under the New Normal

edited by Sarah Y TONG and WAN Jing

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Introduction

Sarah Y TONG and WAN Jing*

After nearly three decades of rapid growth since the late 1970s, China's economy is now the world's second largest by nominal gross domestic product (GDP) and is the world's largest by purchasing power parity (PPP) according to the International Monetary Fund (IMF).

In 1978, when Chinese economy stagnated from years of complete state control of productive resources and ineffective central planning, the government embarked on a major programme of economic reform. In an effort to reinvigorate the economy, it introduced economic incentives into the state sector, encouraged the development of rural enterprises and private businesses, liberalised foreign trade and investment, relaxed state control of prices, and increased investment in consumer-related industrial production and in education of its labour force. China achieved remarkable rapid economic growth as a result. Between 1978 and 2015, China's per capita GDP grew from US\$153 to US\$6,416, while its current account surplus increased by over 50 times between 1982 and 2015, from US\$5.7 billion to US\$293 billion.

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However, such hyper growth is bound to end and since 2011, China investment-driven and export-oriented growth has decelerated to less than 7% in recent years. Various factors have contributed to China's economic slowdown. Domestically, the important concerns are mostly structural issues within the economy.

The first is the structural changes of China's population. After more than 30 years of population control programmes, China's population has been ageing at a rapid rate; the country has largely exhausted its demographic bonus, resulting in a spike in the cost of labour. The second is its highly skewed industrial structure. China has for decades relied heavily on the manufacturing sector, being highly export-oriented and reputed as the world's factory. As external demand weakens, the government highlights the need to transform the economy towards one that is domestic consumption-driven and to encourage the development of service sectors. The third is the structural problem of financing. China's investment relies primarily on indirect financing, which results in an unhealthy high leverage for both local governments and for businesses.

Externally, economic growth is constrained by uncertainties and rising protectionist tendencies. Consequently, China's long-term outlook for growth will continue to be under strong downward pressures and a relatively slower growth will likely persist in what has been termed the "New Normal". China will need to embark on a new course of structural reforms to sustain a healthy development of the economy in order to transform the country into a moderately prosperous society.

These structural reforms, first and foremost, aim for enhancement and improvement of its macroeconomic management, in particular its fiscal and monetary policies. This is essential to providing a strong support for difficult reforms and the necessary economic restructuring. Years of expansionary fiscal policy have significantly facilitated China's infrastructure construction and rapid economic growth, while strong fiscal stimulus has resulted in large accumulation of government debts, causing deep concerns over China's fiscal sustainability and long-run growth prospect. Indeed, China's government debt has become very large, both in total amount and in relation to the economy size. As a