

# Chapter 2

## Analysis and Policy Suggestions for the Economic Trends at Present and in the Middle and Long Term

Liu Shucheng

**Abstract** This paper analyzes the current economic situation in China, and points out that the downward pressure of the economy did not reduce, but increased. The paper puts forward the future economic trends (2015–2020), and suggests that there are four possibilities: First, all the way down; The second is to continue going flat; Third, return to a high growth rate of more than 10%; Fourth, on the basis of the midline of the reasonable range, make the economic normal fluctuations lie within the reasonable interval between the upper and lower limits. This paper argues for the fourth possibility and proposes some policy recommendations: We need to build a new type of medium and long-term development of China's economy, combining a new type of people-centered urbanization with major regional development of the Yangtze River economic belt, the Beijing–Tianjin–Hebei economic belt and the Silk Road economic belt. Finally, the paper points out that there is much room for the development of new-type urbanization in China; the current decline in China's economic growth should show a gradual fluctuation rather than a significant slow-down.

**Keywords** China's economy • Macroeconomic control • Economic fluctuations • New type of urbanization

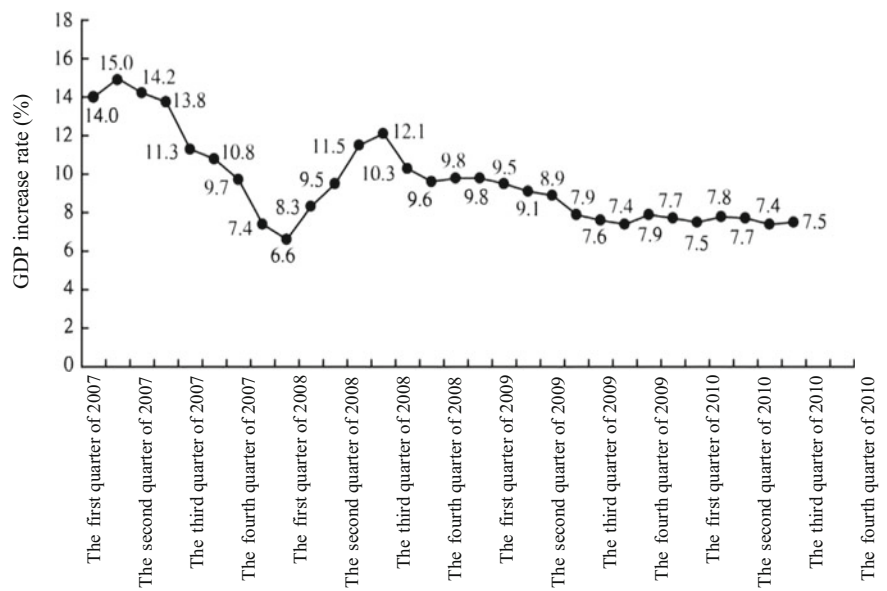
### 2.1 Current Economic Development Trend: Heavier Downward Pressure on the Economy

Seen in the following quarters, the year-to-year increase rate of our GDP grew as high as 14.2% on average in 2007; in 2008 and 2009, due to the shock from the international financial crisis, the graph shows a “V” shape depicting the decrease and rebound; in the first quarter of 2010, it peaked at 12.1%; since the second quarter of 2010, it had entered a new stage, and was sustained for 17 consecutive

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L. Shucheng (✉)

Department of Economics, Chinese Academy of Social Sciences, Beijing, China



**Fig. 2.1** GDP quarter year-to-year increase rate (from the first quarter of 2007 to the second quarter of 2014)

quarters until the second quarter of 2014. The rate during the 17 quarters basically maintained a decreasing trend (see Fig. 2.1). However, from the first quarter of 2012 to the second quarter of 2014 (10 quarters in total), it maintained some stability hovering at 7.6%. However, seen from the economic operation data in July and August, 2014 (August in particular), the downward trend did not stem, but accelerated instead.

In August, 2014, the growth rate of our national industrial production experienced a significant slump; the month-to-month increase rate of the value added of industries above designated size was 6.9%, a drop of 2.1% points, compared with July. Since the serious shock of the international financial crisis at the end of 2008 and in the beginning of 2009, this drop has marked the lowest level of the national industrial growth rate of production after the six years following the crisis. In November and December of 2008, the growth rate of the national industrial production decreased to 5.4 and 5.7%, respectively. Taking both January and February of 2009 into consideration, the growth rate of the national industrial production plunged once to 3.8%. Under the “micro-stimulation” measure which propagated since April, 2014, the growth rate of the national industrial production in August decreased significantly, beyond the market’s general expectations. According to the analysis of many experts, the growth rate of the national industrial production in August was appalling, which significantly surprised various parties in the market. At the same time, indexes in August, revealed a mass decrease in various areas such as: fixed-asset investment (excluding farming household), investment in real estate,

total generating capacity and electricity consumption, value of retail sales in domestic goods, total government and local financial revenue which reflected the operation condition of the real economy. Moreover, the ex-factory price and purchase price of industrial producers have maintained a negative growth in the recent three years. Unquestionably, there was expected to be a rebound in the indexes of the industrial production growth rate in September and October, 2014. Nevertheless, at present under the “micro-stimulation”, such a rebound cannot be sustained for long. By the end of 2014 to the beginning of 2015, the economic growth rate would be slumped again. Some experts believe that we should not be surprised or overreact in confronting the data from August. However, some experts also propose that by not being surprised we should not treat it lightly either. The question lies in the uncertainty in future years even if the annual GDP growth rate in 2014 was likely to be lower or around the expected goal of 7.5%.

## **2.2 Four Possibilities Exist for the Future Economic Trend**

There may be four possibilities for the future economic trend (6 years from 2015 to 2020).

The first possibility: the annual GDP growth rate will be a constant downward trend, dropping from 7.5% at present to 7%, then to 6.5%, and hover around 6% in 2020. Policy implications for the first possibility: give up the lower limit of 7.5% and continuously move down the bottom line of macro-control. The problems will be: First, it will cause a decline in the market expectations, which will not be good for consolidating and boosting market confidence. The continuously decrease in enterprises' expected profit will have an influence on their investment willingness and ability and on their technological innovation and upgrading. Second, although it has not influenced employment at present (because of the development of the tertiary industry), it has already influenced the growth of the urban per capita disposable income. Generally speaking, the growth rate of the urban per capita disposable income is lower than the GDP growth rate. By 2020, if the GDP growth rate will drop to approximately 6%, then the growth rate of the urban per capita disposable income will drop to or below 5%. By then, the continuous decrease in the growth rate of the urban per capita disposable income will become the social focus by replacing the employment problems. This will also influence the increase of consumer spending and the adjustment of the demand stimulus structure. Third, it will influence the increase of the fiscal revenue by diminishing the space for fiscal tax reductions and seriously impact the role of finance in regulating income distribution and bridging the income gap.

The second possibility: the annual GDP growth rate will keep leveling out. It will be at approximately 7.5% in 1–2 years and during the “13th Five-Year Plan” period, it will keep at approximately 7%. Policy implications we will firmly

safeguard the bottom line of 7.5% at present or 7% during the “13th Five-Year Plan” period, while continue to adopt the “micro-stimulation” policy. The problems to this scenario will be: the effect of the “micro-stimulation” will be dwindling and it will be more passive for us to safeguard the bottom line. In recent years, the “micro-stimulation” has formed a cycle, namely, the “drop in economic growth rate—micro-stimulation—rebounding slightly—another drop”. To be more specific, the economic growth rate at the beginning of every year declined, then in the second quarter, the “micro-stimulation” measure has been adopted, then the economic growth rate slightly rebounded, later the effect of the “micro-stimulation” dwindled and in the second half of the year or in the beginning of the next year, the economic growth rate has kept dropping. If such a cycle continues, there should be a “bottom line defending war” staged each year in macro-control. Once there appears to be some disturbances in the domestic and foreign economic environments, namely various economic impacts for uncertain factors, the economic operation will very likely drop under the bottom line.

The third possibility: we will try to achieve a high growth rate above 10%. Policy implications: strong stimulation. But there will be no such possibility. However, what should be noted is that the mention of a recovery in economic growth rate at present will be labelled as “coming back on the old road of a high growth rate above 10%”. As a matter of fact, during the medium and high growth rate from 7 to 9%, there is still room for proper economic growth. Keeping the economic operation in a reasonable range does not mean that we should just settle for the bottom line; there is precious space between the upper limit and the bottom line.

The fourth possibility: in adhering to the economic fluctuation rule, we should not be satisfied with settling for the bottom line, but ensure the economy operates with normal fluctuations (7–9%) in a reasonable range from the upper limit to the bottom line. Economic fluctuations serve for different functions in the rising and falling stages. The falling stage is an adjustment and elimination phase in which the market slump makes it difficult for the operation of enterprises to rebound and for the promotion of technological innovation. Conversely, the rising stage is an active phase for the market, investments and consumer spending, which is beneficial to promote technological innovation realize quality improvement, effect increase and upgrading and move to medium and high levels. Policy implications: from 2015 to 2020, with the midcourt line of the reasonable range as the standard, the growth rate can ascend and descend as required as long as they are rational and justified. At present, to get rid of the passive settling for the bottom line, we should not just depend on short-term “micro-stimulation” measures, temporary counter cycle measures, simple easing policies and single or scattered projects. That is to say, we can achieve our aim neither by “heavy irrigation”, nor by “sprinkling irrigation” or “trickle irrigation”. We cannot just argue about the intensity of short-term macro-control, whether we should tighten or loosen macro-control and whether we should adopt micro-stimulation or strong stimulation. We should consider the general picture of our macro-control. That is to say, we should reform our current measures for dealing with short-term projects and emergent projects into a new

pattern for our medium and long-term economic development, adopting a comprehensive measure with medium and long-term driving force. In another word, we should master the general picture of our economic development from 2015 to 2020, to make it clear what we should follow through with what we should aim for in our economic development in 2020 (Shucheng 2013b, 2014a, b, c).

I argue for the fourth possibility, although it will not be easy, as it requires a top-level design and a corresponding implementation plan regarding China's economic development in 2020.

## 2.3 Policy Suggestion: Constructing a New Pattern for China's Economic Growth

China has already set down an executive-level plan in deepening its overall reform, namely, the 3rd Plenary Session of the 18th Central Committee of the CPC which has passed the *Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform*. However, there still lacks a new executive-level corresponding plan concerning China's economic development in 2020. President Xi Jinping pointed out in the *Explanation of Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform*: the decision in the 3rd Plenary Session of the 18th Central Committee of the CPC "focused on the new measures in deepening overall transformation with the reform as the main focus while excluding general, repetitive and purely developmental measures."<sup>1</sup> Yang Weimin, deputy director of the general office, the Leading Group for Financial and Economic Affairs, said, "there are two principles impressing me deeply in the drafting and revising process of the decision passed in the 3<sup>rd</sup> Plenary Session of the 18th Central Committee of the CPC: one is, we only put in reform, important reform in particular, instead of the development task; the other is, in revising, generally speaking, we should not accept measures that may impair or weaken our reform unless there should be sufficient reasons. In adding some content for reform, we should add whatever is the greatest common divisor and is of the broadest consensus."<sup>2</sup>

Currently, we should resort to the plan of the 13th Five-Year Plan for the new executive-level design of our economic development. By 2020, while deepening our overall reform, we should make the combination of advancing the new population-based urbanization and regional development as the key for the new pattern of our medium and long-term economic development, and increase the

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<sup>1</sup>Xi Jinping, Explanation of Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform, *People's Daily*, November 16, 2013.

<sup>2</sup>Detailed Explanation of the Highlights of the 3rd Plenary Session of the 18th Central Committee of CPC by Deputy Director of the General Office, the Leading Group for Financial and Economic Affairs, *People's Daily*, November 15, 2013.

focus of our strategic support with medium and long-term vision for China's economic growth. On April 25, 2014, General Secretary Xi Jinping chaired the Political Bureau Meeting of the CCCPC to study the current economic situation and strategies. It was proposed in the meeting that "we should advance the coordinated development of Beijing–Tianjin–Hebei Region and the development of the Yangtze River Economic Zone, in order to make efforts to carry out our new national urbanization plan."<sup>3</sup> On September 11, 2014, Premier Li Keqiang pointed out in his speech in the 8th Summer Davos Forum, that "there is a great chasm between China's urban and rural development as well as in China's regional development. Despite the serious imbalance, there is still enormous potential. The advance of a new population-based urbanization is the greatest structural adjustment."<sup>4</sup> The new urbanization is an unavoidable historical evolution for the social and economic development of mankind. It is a great adjustment for the urban-rural infrastructure and for the social and economic infrastructure. This involves the mandated structural adjustment for both domestic and foreign demand, the domestic demand structural adjustment of investment and consumption, the industrial structural adjustment, the regional structural adjustment and investment factor structural adjustment. The urbanization level is an important indicator of a nation's economic and social development. We should focus on the combination between the population-based new urbanization and important regional developments in the Yangtze River Economic Zone, Beijing–Tianjin–Hebei Economic Regions and in the Silk Road Economic Belt. By implementing executive-level designs with corresponding plans, dividing them carefully into annual and quarterly measures for successive endorsement we can solve the difficulties by deepening the overall reform. By dealing with downward pressures in our economic developments in these regions, we can pioneer a new situation for our economic reform and expansion, which will save us from passively launching a "bottom line defending war" every year.

## 2.4 New Urbanization and the Problem of the Significant Slow-Down of the Economic Growth Rate

We are confronted with a very important problem, that is, whether the space of our urbanization development and the economic growth rate should be implemented much more slowly.

Our new urbanization development claimed the potential of expansion but faced many difficult tasks. For example, in 2012, the urbanization rate of our permanent resident population was 52.6%, while that of the registered population was only

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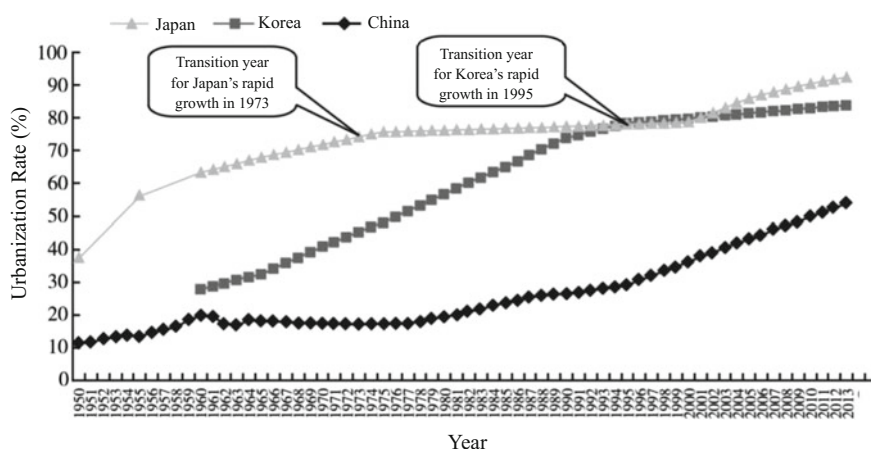
<sup>3</sup>Political Bureau Meeting of the CCCPC to Study the Current Economic Situation and Work, *People's Daily*, April 26, 2014.

<sup>4</sup>Li Keqiang: Speech in the 8th Summer Davos Forum, *People's Daily*, September 11, 2014.

35.3%; this reflected a gap of 17.3% points between the two. According to the data of other countries' urbanization rate in the World Bank's WDI database, in 2013, that of the highest-income countries was 80.5%; the middle-income, 50.1%, among which the upper middle was 61.6% and lower middle was 39.3%. In 2013, internationally speaking, the urbanization rate of our permanent resident population (53.7%) was far lower than the average level of high-income countries (80.5%) and lower than the upper-middle income countries (61.6%).

In recent years, the popular assessment states that less developed countries that catch up with other countries are sure to suffer a "significant" slow-down in economic growth after a period of rapid growth. It is a law and China is no exception. This was evident particularly seen in Japan and Korea after World War II. It was evident that their economic growth slowed down after a period of rapid growth, but by the same token it was not evident that their economic growth suffered a "significant" slow-down.

According to the World Bank's WDI database, in 1973, when Japan's rapid economic growth was in transition, its urbanization rate reached as high as 74.2% (see Fig. 2.2). When Korea's rapid economic growth was spiraling downward in 1995, its urbanization rate reached 78.2%. From China's current urbanization rate of permanent resident population (53.7%), it only matched Japan's in 1955 (56.3%) and Korea's in 1978 (53.2%). From this perspective, we cannot say that it is time for China to enter the significant slow-down stage as Japan did in 1973 and Korea, in 1995.



**Fig. 2.2** The Urbanization Rate of China, Japan and Korea. *Data source* China's data comes from *China Statistical Yearbook*, China Statistics Press, from 1950 to 2013. The years 1950 and 1955, was a reflection of Japan's growth, from *Japan's Economic Statistics Collection* by Japan's Institute of Statistics, cited from *Historical Economic Statistics Collection in Soviet Union and Major Capitalist Countries (1800–1982)*, People's Publishing House, 1989; the data from 1960 to 2013, from the World Bank's WDI database. The data of Korea from 1960 to 2013 came from the World Bank's WDI database

Through a careful examination of the international experiences of various countries, the decline of the economic growth rate in other countries of diverse periods varied with many factors including: national territorial area, population scale, resource endowment, economic development phase, technological innovation, domestic and foreign environment conditions, and development strategy and policy selection. For example, some countries showed a steep decline (i.e., Japan), while others showed a mild decline (i.e., Korea) and some, showed a rise after a decline (i.e., America) (Shucheng 2012, 2013a). China's expansive territorial area is 25.4 times larger and 96 times bigger than that of Japan and Korea respectively; China's population is 10.5 times and 27.1 times more than that of Japan and Korea respectively. Therefore, given our vast geographical size, there is abundant maneuvering room for economic and new urbanization development. In recent years, significant changes have occurred in the domestic and foreign environment of our economic development. For example, our economic development has entered the shifting period of our economic growth after it had reached the near-10% high development period over the past 30 years since the reform and opening up. Therefore, it was a normative phenomenon for the decline in economic growth rate. The decline of the economic growth rate should be a gradual fluctuation rather than a significant slow-down. China's new urbanization plan has much room for development and growth, which means it will also face great challenges. With the "maneuvering room", we are offered some possibilities, but that doesn't mean we can make good uses of them. A good utilization of the room depends on whether there is plausible development strategy and relevant policy measures.

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