

Preface

New Normal, New Leap

I

During recent years, in discussing foreign and domestic economic development patterns since the global financial crisis, more and more people are inclined to describe it as the “new normal.” The meaning is similar to such phrases as “new stage,” “new era,” “new order,” and “medium- and high-speed development stage” for economic development. The term was first used by President Xi Jinping at the beginning of 2014 and later referred to in many formal occasions. “New normal” is becoming a standard concept to summarize the current and near-future domestic economic situation in China.

The “new normal” is a strategic concept of historical significance.

The word “new” divides global development since the middle and late 1980s into two periods with systematic differences. Externally speaking, these two periods are characterized by different economic growth rates which resulted in different macro-economic variables, such as employment, price of commodities, interest rate, exchange rate, balance of payments, financial revenue, expenditure, money supply, and demand. Internally speaking, the solid foundation supporting the long-term economic development is also different, such as scientific and technical innovation, its industrialization level, population structure, factor supply efficiency, relationship between saving and investment, and the real interest rate level when saving and investment are at equilibrium. Therefore, new normal reveals that in analyzing the present and planning for the future, we should first and foremost spend time reviewing the past to make detailed analysis of the “old normal”, in order to gain a clear perception about where we have started several decades ago, why we have come to where we are, and how to avoid following the old track.

The judgment of “normal” indicates the main themes of domestic and foreign economic development at present and in the future. It reminds us that no matter how much we would like to linger on the “old normal,” there is no turning back if we take the large probability into consideration. Therefore, to face the future, we must make a comprehensive adjustment of our ideal, attitude, strategy, and policy to rapidly adapt ourselves to the new normal and learn to grasp the principle of production and living under the new normal.

II

Before the new normal, the world has undergone an old normal stage called “great stability” by the international economic circle (an unforgettable prosperous period seldom seen in history). During the two decades from the mid-1980s to the global financial crisis in the twenty-first century, several financial crises of different intensities erupted (1980s in Latin America, 1997 in Asia, 1998 in Russia, and 2001 in America), and the decline of the real estate market at the end of 1990s and the IT bubble burst at the beginning of the twenty-first century occurred in America. However, overall, that period has witnessed a “happy time” rarely seen in the development of the global economy. The global economic development of the stable period is basically characterized by sustainable rapid economic growth, low inflation rate and low employment rate as well as infrequent economic fluctuation. “Great stability” is an integrated outcome from global scientific and technological progress, institutional reform and ongoing globalization. The year 2007 was the turning point that the “great stability” was transformed into a great crisis. The process from the phases of the “great stability” to the great crisis and to the new normal was mainly characterized by long-term structural adjustments. This was actually a process in which various conflicts were produced, accumulated, escalated, expanded, and broke out under the veneer of the prosperity of “great stability.” We think, two factors are critical in such a highly complicated historical transformation resulting from various factors: firstly, was the aggravation of the distorted economic development pattern and structure commonly seen in the world today. However, immersed in the comfort brought about by the great stability, most developed countries, in particular, showed a benign neglect to the crisis and were unwilling to make adjustments; secondly, the unreasonable international economic order formed after the global labor reorganization has led to increasingly severe global economic imbalance. Following the ending of the old normal which was mainly characterized by great stability is now the “new normal” for the global economy to make in-depth adjustments and reorganization. There is no exception both for China and the rest of the world.

III

The global financial and economic crisis triggered by America's subprime crisis in 2007 has terminated the 20-year-long "great stability" period. If we regard the crisis as "off the normal economic operation track," then there are two ways to recover from the crisis: one is to get back on track and the other, blaze a new trail. The former is the outlet for many crises; it is the unending alteration from off the track to back on the track that gives rise to the economic operation cycle. Blazing a new trail is otherwise. It leads the economic operation off the old track, to break the cycle and explore a new direction, from which the historical course for human development is heading toward a qualitative transformation. The fact that the seven-year-long crisis, (after all the hard struggling and in-depth adjustments), remains largely unchanged, tells us that like the crises in 1930s and 1970s, this crisis again heralds a profound change in the global economic development track. To cope with this change, a dependence on the "standard" (even "hyper-normal") stimulus policy will not work, nor will our efforts to remedy the systems or institutions jeopardized from the crisis. This means, we must explore again the tangible economic foundation for global growth and restructure its corresponding global governance mechanism. Obviously, the historical mission we are facing now is obviously different from the recession and recovery stage in the general crisis cycle. We define the recovery process that starts from such a crisis and is mainly characterized by the exploration of a new path for global economic development as the new normal of the global economy.

The new normal global economy has five characteristics: first, the global economic growth fluctuates at a low level; second, each country is stuck in the dilemma between "deleverage" and "balance sheet remediation"; third, trade protectionism is escalating; fourth, the country's policy cycle is nonsynchronous; and fifth, a vacuum appears in global governance. Factors resulting in the global new normal come from the long-term stagnation of real economy which is mainly caused by sluggish technological advance, exacerbation of population structure, decline of real interest rates to a negative value, and the fading effects of the balance sheet. This means, even if we eliminate the direct factors causing the crisis, developed economies still face many structural challenges in their future growth. Therefore, it is likely for them to lapse into the new normal characterized by long-term stagnation. Theoretically and practically speaking, in coping with long-term stagnation, we shall not depend on the rarely effective demand management policy represented by currency regulation and control. Instead, we should resort to the fiscal policy directly influencing total spending levels and its structure. Facing such a situation, economists unanimously agree that the only way to walk out of the long-term stagnation is to advance all-around reform intrepidly. The priority of the reform should be given to the supply end. We should encourage innovation and entrepreneurship, promote educational development, increase human capital, enhance the flexibility of labor markets, and decrease taxes for enterprises and residents.

IV

Since 2009, China's economy has entered the new normal stage, which is mainly characterized by structural slowdown. This followed the declining trend of the economic growth rate, a comprehensive manifestation of the national economy. The new changes come in a series of corresponding macro-economic indexes, such as saving, investment, commodity price, employment, financial revenue and expenditure (including deficit), international balance of payments, RMB exchange rate, money supply, interest rate.

Factors leading to the structural slowdown were produced at the substantial level deciding economic development, which mainly included a decline in resource allocation efficiency and factor supply efficiency, stagnation in innovation, and an enhancement of the restriction in resources and environment.

The new normal brings new challenges. It not only exposes deep-seated problems covered-up for the long term in the national economy, but also incurs a series of new problems. In summary, these problems are mainly manifested in five aspects: first, economic development lapsed into a vicious cycle "investment-growth-surplus." Our growth is highly dependent on investment while investment is the primary reason for excess production capacity. The key to stable economic growth under the new normal is to improve investment mechanisms through reform, dealing with the relationship between what to invest, how to invest, and who to invest in. The second principle is the soaring of leverage ratio. The soaring of leverage ratio is a financial crisis of comprehensive and systematic significance. The liquidity of China's local debt falls short of the ability to pay. In coping with the debt problem, the short-term objective is to stop the debt situation from aggravating, and the long-term aim is to establish a rational and sustainable local government financing mechanism. The third principle is the transformation of urbanization. To advance urbanization under the new normal, we must change our view that only urban residents can plan urbanization, reverse the "development zone" trend, avoid "losing the market," improve land utilization efficiency, and emphasize the integration between important supply factors to long-term sustainable development. This would include such factors as industry clustering, accumulation of human capital and knowledge spillover and make city and countryside integration the ultimate goal. Fourth, the reversal of the real estate market needs to be a priority. It is not the policy that has triggered this real estate market decline but the profound change in the internal supply-demand pattern of the urban housing market. The short-term policy should focus on reforming the countless real estate regulations, discarding those improper and self-contradictory ones and purifying the market. The long-term policy should be targeted at speeding up the "top-level design" of the real estate market, especially solving problems in the "Home Ownership Scheme," such as the rent-sell ratio, the relationship between housing and land and between real estate market and urbanization. In addition, the main developer of the real estate market, the government's status, and role in the real estate market needs to be reanalyzed, as does the real estate financial system. The

fiscal taxation policy which supports and regulates the development of real estate market needs better inspection. The fifth principle to stable economic growth is to assess why financial chaos keeps cropping up. It is indeed a chaotic phenomenon that the amount of money increases concurrently with the interest rate and price rise. To avert the financial chaos, we must reform the system and institution, first by reforming the current foreign exchange reserve management system, in order to protect our monetary policy from being kidnapped by foreign exchange reserves. Second, we must reform the model of separated supervision by multi-sectors to eliminate the root of regulatory arbitrage and to cover more of the emerging comprehensive financial business. Lastly, it is imperative that we abandon the complicated and outdated “policy restriction” to purify the market.

V

The new normal is pregnant with revolutionary transformation. Globally speaking, the new normal means the restructuring of the supply chain, the adjustment of the economic structure, the reshaping of the governance system, and the reshuffling of the relationship between great powers. Domestically speaking, the new normal means the “rebirth” of China’s economy. Through this stage, China’s economy will fundamentally shake off the investment-driven and export-driven growth mode and tread on a path characterized by the pursuit of quality, efficiency, and sustainable development. This will avoid the middle-income trap and realize the rejuvenation of China.

The new normal has ushered in development opportunities for us and endowed the period of strategic opportunity with a new shade of meaning.

The new normal helps to “squeeze out the moisture.” The moisture in our economy can be found mainly in the investment-driven economic growth mode. If investment cannot be channeled into productivity, the increase rate correspondent to this part of investment is moisture; if it is channeled into productivity, there appears to be an excess of production capacity and overstocking of product, the corresponding increase rate is also moisture. Undoubtedly, since the decline of the economic growth under the new normal is mainly attributed to the decrease of the investment growth, we will have favorable conditions to compress and squeeze out the moisture.

The new normal is beneficial to the implementation of the innovation-driven strategy. Since we can no longer depend on traditional factors such as investment and export, China’s economy is forced into the new innovation-driven track, a significant transformation we have been seeking during all these years.

The new normal is beneficial to unravel the relationship between government and the market. It will make the GDP assessment mechanism decline in importance. As a result, the investment promotion and investment impulsion can be effectively curbed. With a potential solution for the government’s long-term “offside” and “absence” problem, we can better exert the government’s influence. The new

normal requires us to strengthen the main status of the enterprise and the decisive role of the market in resource allocation and to realize benefit and efficiency maximization of resources based on market rules, market price, and market competition.

The new normal is beneficial to the development of a sustainable economy. Only under a lax macro-environment can we decrease resource waste and environmental pollution and truly promote the ecological construction of civilization.

The new normal is beneficial to the realization of social equality and justice. For a very long time in the past, an overemphasis on speed led to an excessive dependence on investment, which has made the capital owner a long-term dominant role in the economy. Consequently, the profits took up too much a proportion in national income and correspondingly, the labor income took up less a proportion. If such an unequal distribution pattern continues, it will aggravate polarization, rigidifying social classes and benefits pattern.

To sum up, the new normal has brought us development opportunities and while keeping abreast of the times, endowed China's period of strategic opportunity with a new shade of meaning under new conditions. We must proceed from the stage characteristic of economic development, concentrate on the stratagem, adjust our overall ideal, attitude, strategy and policy, adapt ourselves rapidly to the new normal, and improve the system and the structure of the rule of law of socialist market economy.

Globally, we have entered a "reform competition period", whoever has the most profound insight into the reform's urgency, complexity, and diversity, and has the most complete strategy, the strongest determination and the most obvious effect will gain a better niche in the future global competition. The decision to intensify overall reform and to govern the country by laws passed in the 3rd and 4th Plenary Session of the 18th Central Committee of CPC is a well-considered guiding principle to guide Chinese people to implement a new round of reform and realize China's Dream.

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