

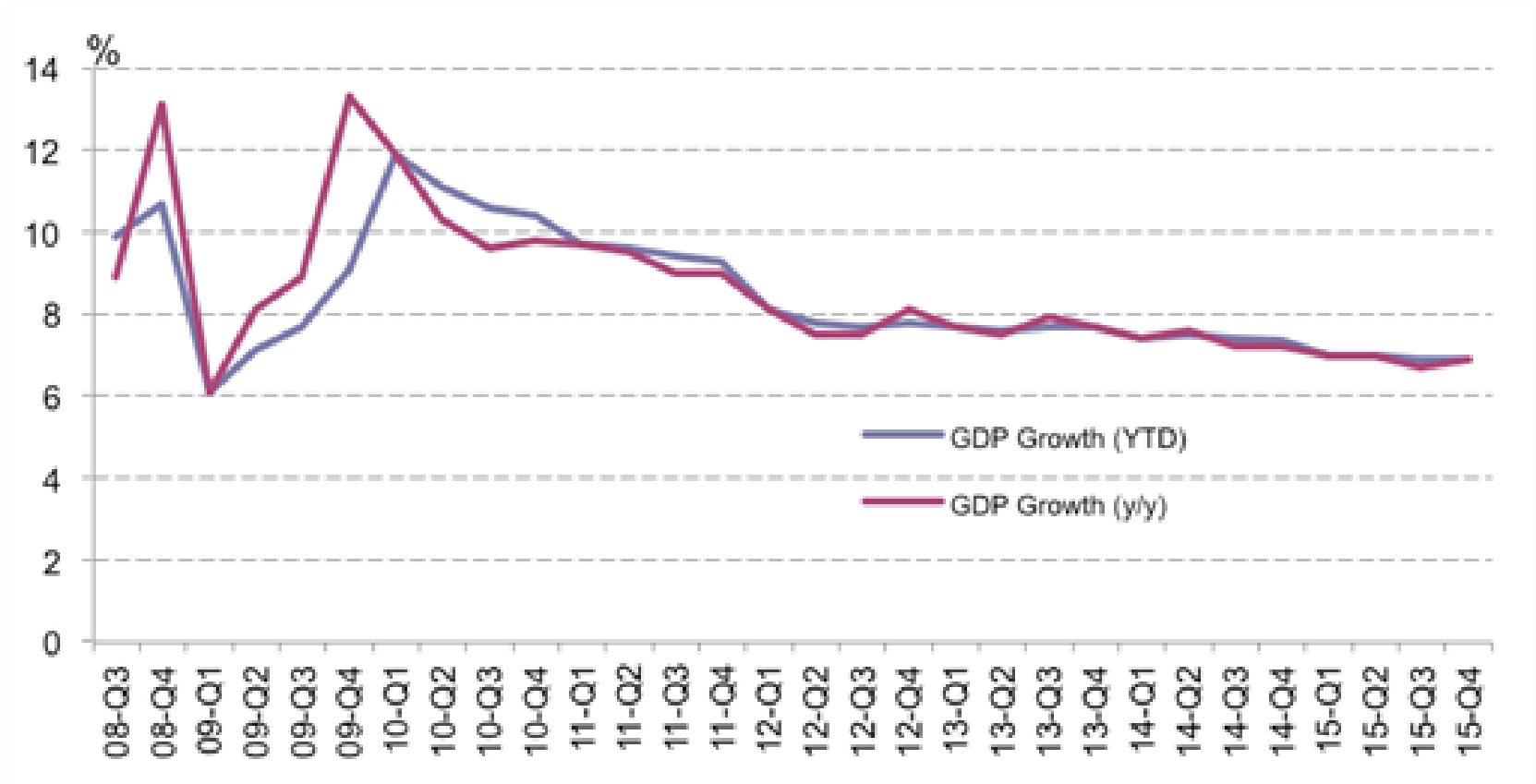
China's Business cycles and Growth Prospect

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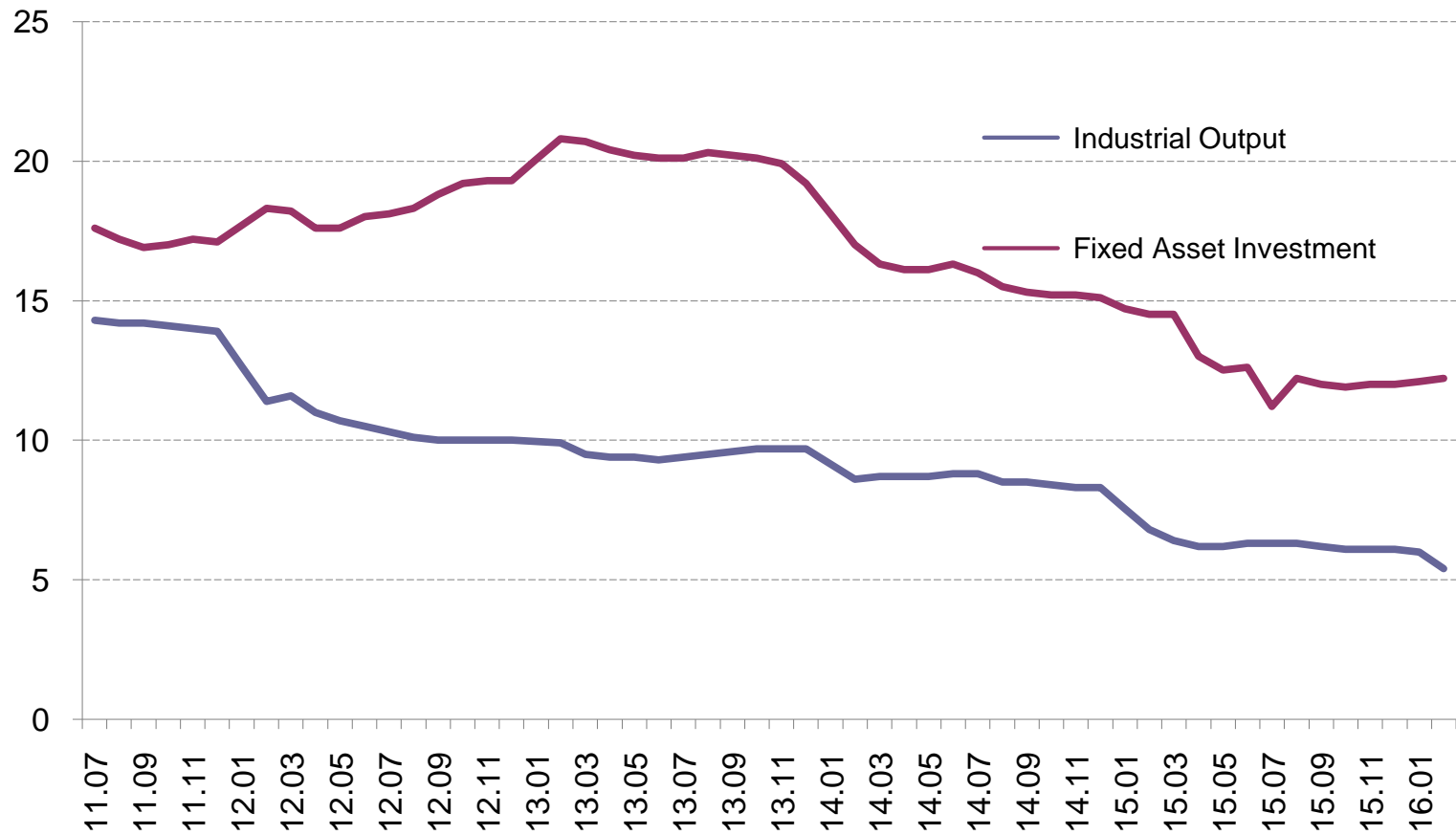
China Development Institute

I. the slow-down and cyclical factors

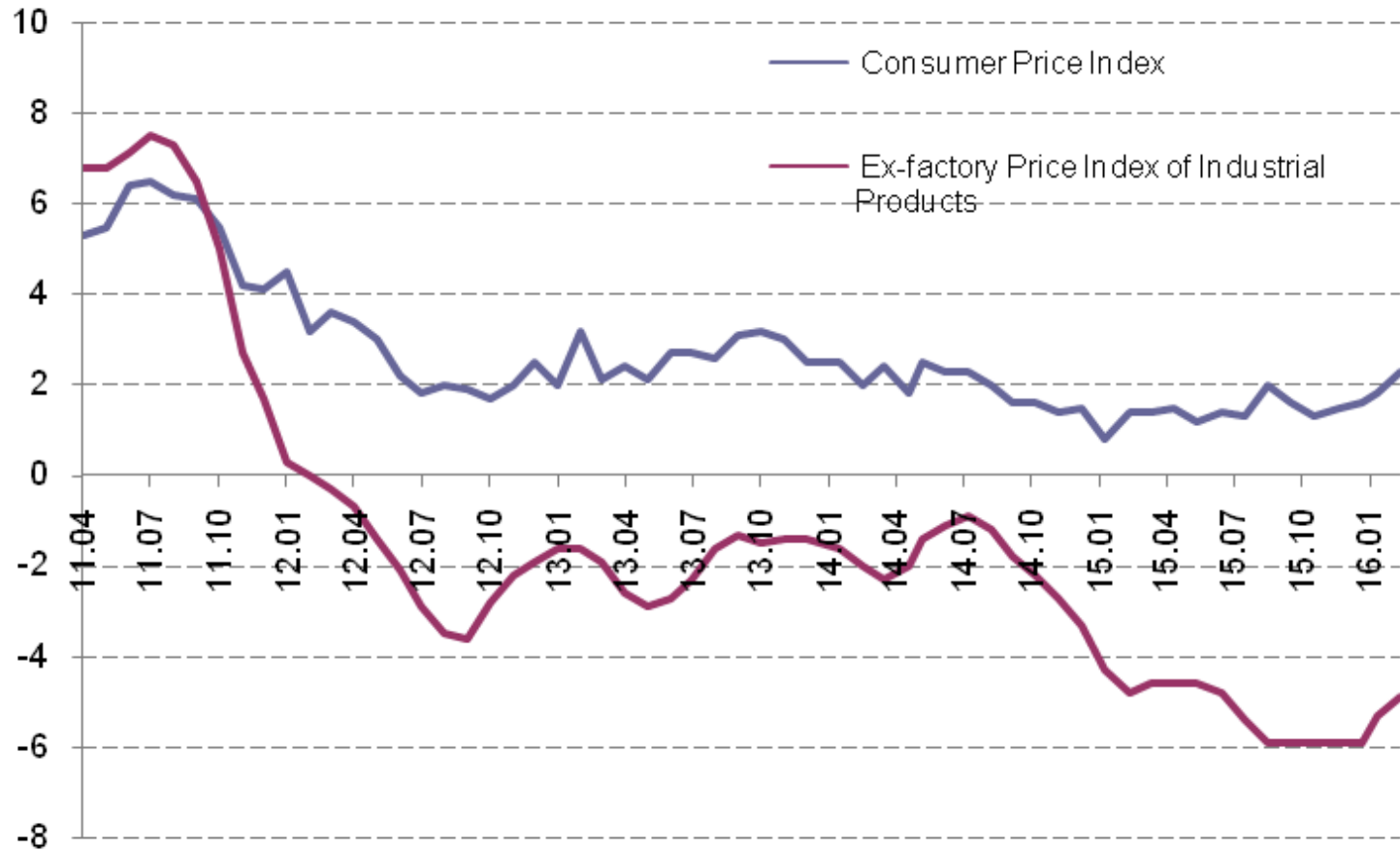
GDP Growth Slower



Output and investment all fall



Deflation



Economic Cycles in recent history



What are the problems?

- The major problems are: over-capacities, debts, struggling companies, the deflation.....the typical problems in the down turn of a business cycle, after 2 over-heatings in 2004-2007, and 2009-2010, respectively.
- Therefore, the cyclical issues are important to understand the situation , in addition to the “long-term factors” such as institutional or structural factors

The Soft-landing

- What is special for China's cycle is that people would prefer a managed adjustment process, or, the “soft-landing”, if you are able to control the process of bubble burst.
- The good side of soft-landing is you may prevent the economy from over reaction and great recession.
- The not-so-good side is it may take longer time to finish the cycle. (last time the down-turn took 8 years in 1990s through 2000s).

Two so-much-talked issues

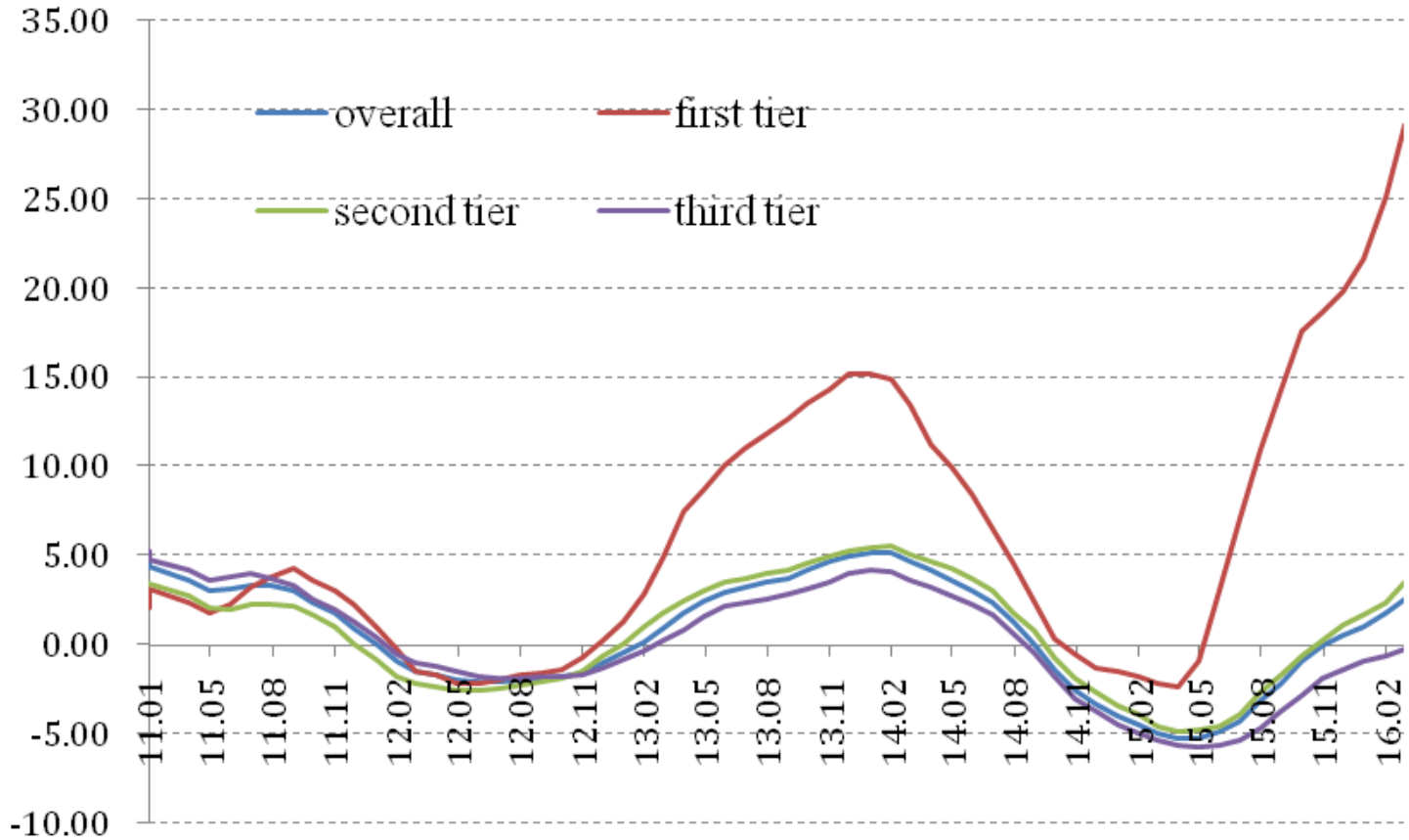
1. The local government debt. It is an issue but not a one that would cause financial melt down or crisis:
 - the overall government debt/GDP ratio is still about 50%;
 - the swap by public bonds can reduce the risks to financial sectors.

2. Housing market: there are problems there, but not something would cause hard-landing

-- tightening policies;

-- divides in many perspectives, but overall (average) adjustment would be not too big.

Housing market devide



Short run policy factors

- The government “forgot” to exit the tightening policies for too long;
- Too slow to respond to the financial risks;
- “inactive government” due to anti-corruption.
- Stock market and foreign exchange rate management.

Structural Reforms

- “Cutting over-capacities”;
- Government/SOEs reforms;
- Opening up service sectors;
- Social reforms: urbanization, social security....

Some good news

- Government is relaxing policies, and government investment is back to work...
- More and more industries have been stabilizing and start to have normal growth: automobiles, machineries, consumer goods, services, Industrial profit starts to grow again;
- Consumption grows steadily, and Service industries accounts for more than 50% of GDP by 2015
- “New wave” of start-ups;
- Annual ODI surpassed FDI in 2014-2015.

II. The Long-run prospects

The gaps

- \$7800 per capita GDP by 2015.
- Less than 70% for industrialization;
- 54% for urbanization;
- 70% of labor in low income groups, 35% as migrant workers, 35% as farmers;
- 50% as national saving rate (of GDP);
- Household consumption only counts for 35% of GDP.

Key issues for the future growth

- “new urbanization” – Labor supply;
- Financial reforms – Capital efficiency
- Reforms – Institutions
- Education and innovation – Knowledge/Technology
- And, environment protection and clean-up.

Potential growth

- It is still likely for China to have around 7% growth for 10-20 years if things going “normally”.
- The question is how to realize the potential?.