



Centre for Air Power Studies (CAPS)

Forum for National Security Studies (FNSS)

ON CHINA'S 6.9 PERCENT GROWTH

Dr Temjenmeren Ao
Associate Fellow, CAPS

The data released by China's National Bureau of Statistics for its third quarter (July-September, 2015), revealed that China's GDP growth stood at 6.9 percent. For the very first time it fell below the seven percent mark since the global financial crisis. This has caused a lot of unease in the global markets and has raised serious question on China's possible economic slowdown. There is cause for concern as a result of this slowdown. Firstly, when we compare China's GDP growth in the first and second quarter of 2015, which stood at seven percent, there are negative connotations since it fell below the psychological mark¹. Furthermore, the IMF in its World Economic Outlook for October 2015 projected China's GDP to settle at 6.8 percent in 2015, which could further go down to 6.3 percent in 2016². Secondly, the cause for concern also lies in the fact that the current fall in China's GDP is as a consequence of a slowdown in China's manufacturing sector which constitutes the secondary sector, growing at 5.8 percent in the third quarter of 2015, down from the previous 6.1 percent during the second

quarter³. This would imply not only that China's manufacturing is slowing down but it would also have direct implications for countries that are dependent on China's manufacturing. Another external factor that also exists is the poor external demand in the post- global financial crisis. This has led to a change in the economic growth model which today is no longer exported as it was in the post-globalisation period.

Despite the slowdown, China's growth rate, when compared to other global figures, is very impressive, with its economy nearly doubling in size in just six years, meaning that at its current lower growth rate it still remains a major engine for global consumption and production. According to China's top planning agency, the National Development and Reform Commission, much of China's growth now comes from services, which aren't as well reflected in such traditional measures such as industrial production⁴. The data from the National Bureau of Statistics in the last quarter shows that the tertiary sector has grown at 8.6 percent from 7.9 percent in the first quarter of 2015. According to

James Laurenceson, deputy director of the Australia-China Relations Institute at the University of Technology in Sydney, there is a re-balancing away from growth driven by investment and secondary sector production towards consumption and the services sector⁵. This is in keeping with the idea of the “new normal” being floated in China, characterised by a shift from high speed growth to a medium-to-high one, a shift from focussing on quantity and speed to quality and efficiency in growth, a shift from stressing production expansion to improving current production, and a shift from growth being driven by conventional engines to increasingly being driven by new ones⁶.

After the global financial crisis the overall demand in the West has continued to get degraded and therefore exports which were the main drivers of growth in the post-globalised era became a lesser driver of growth. Therefore the need emerged to allow other sectors of the economy to help push growth. The intent of China is to move to a new model of economic growth which is domestic consumption driven rather than export driven, and hence the fall in its manufacturing sector which has seen a constant decay in the last few quarters. This re-orientation in its economic growth model is to ensure continued and long term growth which is generated through its domestic consumption and innovation. As reported in the Wall Street Journal on October 18, 2015, the statement of Premier Li Keqiang that even though the growth in the last

quarter has fallen below the seven percent mark, he was optimistic that improved innovation will help the country restructure its economy⁷. Therefore, it is innovation, and the re-orientation to a new model of growth that could in the short term cause this slowdown, with the IMF forecasting a less than six percent growth by 2017. However, despite the onset of this economic slowdown in China, if it is able to undertake all the necessary pre-requisites through its economic reforms, innovations in its R&D and the indigenisation of its production methods and its products, in the long run this would enable a more robust Chinese economy. Therefore, the current slowdown in China’s economic growth at best could be stated as a corrective measure undertaken, where there is a shift in the engines of economic growth from manufacturing to services, from exports-led to consumption-led; in order to ensure that in the long term the economy is on the right trajectory.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

Notes

¹“Preliminary Accounting Results of GDP for the Third Quarter of 2015”, *National Bureau of Statistics of China*, October 20, 2015, http://www.stats.gov.cn/english/PressRelease/201510/t20151020_1258661.html, accessed on October 21, 2015.

²“World Economic Outlook, October 2015”, *International Monetary Fund*, <http://www.imf.org/external/pubs/ft/weo/2015/02/pdf/text.pdf>, accessed on October 21, 2015.

³“Preliminary Accounting Results of GDP for the first half of 2015”, *National Bureau of Statistics of China*, July 16, 2015, http://www.stats.gov.cn/english/PressRelease/201507/t20150716_1216024..html, accessed on October 21, 2015.

⁴Mark Magnier, “China Economic Growth Falls Below 7% for First Time Since 2009”, *The Wall Street Journal*, October 18, 2015, <http://www.wsj.com/articles/china-economic-growth-falls-below-7-for-first-time-since-2009-1445221368>, accessed on October 21, 2015.

⁵“China’s GDP Growth Beats Forecasts as Stimulus Supports Spending”, *Bloomberg News*, October 19, 2015, <http://www.bloomberg.com/news/articles/2015-10-19/China-s-gdp-growth-beats-forecasts-as-stimulus-supports-spending>, accessed on October 21, 2015.

⁶“China to keep 2015 growth policy steady under ‘new normal’”, *Xinhua News Agency*, December 11, 2014, <http://news.xinhuanet.com/english/china/2014-12/11/c-133848770.htm>, accessed on October 5, 2015.

⁷Mark Magnier, “China Economic Growth Falls Below 7% for First Time Since 2009”, *The Wall Street Journal*, October 18, 2015, <http://www.wsj.com/articles/china-economic-growth-falls-below-7-for-first-time-since-2009-1445221368>, accessed on October 21, 2015.

