China’s economic growth has been on a downward trend in the past several years, as the country has implemented supply-side reforms aimed at shifting the economy’s growth driver gradually from its excessive focus on manufactured exports and fixed investments towards household consumption and services activities.

In 2016, growth moderated to 6.7 per cent from 6.9 per cent in 2015, although this rate was somewhat better than expected. As external demand remained subdued, economic expansion was underpinned mainly by consumer spending and public infrastructure investment. In addition to higher per capita disposable incomes, relatively low inflation and urban unemployment rates at 2 per cent and 4 per cent, respectively, supported private consumption in 2016.

Output growth is projected to soften further to 6.5 per cent in 2017 and 6.4 per cent in 2018. As supply-side reforms continue, industrial sectors are expected to grow at a more sustainable pace. On the demand side, consumer spending is likely to propel economic growth as exports are expected to improve only gradually in the wake of rising trade protectionism.

Inflation is projected to edge up to 2.3-2.5 per cent during the period 2017-2018, with upward pressure from global commodity prices and the weaker domestic currency.

The outlook is subject to headwinds and downside risks. Monetary policy tightening in the United States could result in financial volatility and capital outflows, especially in the event that China’s growth performance becomes weaker than expected. Capital account restrictions could help curb some volatility, although China’s financial linkages with international markets have risen through (a) the inclusion since October 2016 of the renminbi in the IMF special drawing rights basket and (b) a growing number of currency swap arrangements.

Domestically, high domestic indebtedness could act as a drag on economic growth. The liabilities of State-owned enterprises are estimated at about 115 per cent of GDP, which could undermine the country’s fiscal sustainability, especially in the wake of a rising fiscal deficit. A notable increase in corporate debt is also a major concern.

On the policy front, structural reforms in 2016 were focused on reducing industrial capacity, housing inventory, corporate leverage and production costs. Some progress has been made in these areas. For example, the targets on steel production and coal capacity were achieved ahead of schedule, while lower tax rates and energy and logistics costs helped pull down production costs.

For medium-term development, further reforms are needed to tackle rising social inequality, address rapid urbanization and enhance energy efficiency.
**MACROECONOMIC SNAPSHOT**

**CHINA**

GDP (current US$, billions): $11,158.50
Share of GDP in developing Asia-Pacific: 42.0%
Average inflation (2016): 2.0%
GDP per capita (current US$): $8,109.00

Poverty headcount ratio at $1.90 a day: 11.18%
Population (thousands): 1,382,320
Inequality (Gini index, 2010): 42.06

Note: Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality.

**Overview**

**Contribution to GDP growth**

- **Consumption**
- **Investment**
- **Net Export of Goods and Services**
- **Real growth (RHS)**

**Labour and employment**

- **Unemployment**
- **Labour productivity (YoY)**
- **Labour force participation (RHS)**

**Exports by country (top 5), 2015**

- Korea, Republic of (10%)
- Germany (8%)
- United States of America (7%)
- Japan (5%)
- Hong Kong, China (3%)

**Exports by product (top 5), 2015**

- Machinery, nuclear reactors, boilers, etc.
- Electrical, electronic equipment
- Furniture, lighting, signs, prefabricated buildings
- Articles of apparel, accessories, knit or crochet
- Articles of apparel, accessories, not knit or crochet

**Trade and current account balance**

**Export and Import growth**

- **Export growth**
- **Import growth**

**Financial account**

- **Direct investment**
- **Portfolio investment**
- **Financial derivatives**
- **Other investments**

**Sources:** CEIC, ESCAP statistical database, and World Development Indicator database of the World Bank.

**Note:** RHS = right-hand side.

*CEIC and Trade Map data of the International Trade Centre (ITC).*
Government revenue, 2013 (Percentage of GDP) 1.51
Government expenditure, 2013 (Percentage of GDP)
- Taxes on income, profits, and capital gains
- Taxes on property
- Taxes on goods and services
- Taxes on international trade and transactions
- Other taxes

Note: CEIC, Bank for International Settlements (BIS), and Government Financial Statistics of the IMF.

Monetary sector

Sources: CEIC and Bank for International Settlements (BIS).
Note: * In February 2015, the central bank imposed cut in the required reserve ratio, enabling banks to extend more credit in support of the real economy. There were total of 4 times RRR cut in 2015 and another cut in early 2016. The reduction of policy rate also imposed in a bid to lower borrowing costs of businesses.

Sub-sectors

Source: CEIC.
Note: Industrial production index used in this snapshot is a value added output of industry (Value added of industry) measured in year-on-year percentage change.