

Prospects for economic growth in China: putting slowdown in perspective

Zhang Xiaojing^{*}

The slowdown of Chinese economic growth has triggered a great deal of public debate. This paper points out that theoretical projections usually lag behind facts. Economists and policymakers should focus on the reasons and logic behind these projections instead of the specific numbers. In fact, many theories on the reasons for slowing Chinese economic growth are questionable. The Chinese economy will not be doomed by a reduced growth rate. If China can carry forward a new round of reforms, focus more on the accumulation of human capital, and play a more proactive role in global governance, the Chinese economy will acquire benefits from these measures and massive potential for growth will be unleashed. China is very likely to enjoy the fourth consecutive decade—maybe even longer—of strong growth.

Keywords: economic slowdown, reform dividend, human capital dividend, globalization dividend

The Chinese economy faces tough and longstanding challenges, which include weakened growth impetus, an aging of population, resource and environmental problems, the middle-income trap, and barriers to deeper reform. But these problems, by nature, are caused by the economic slowdown. It is obvious that China, an emerging economy with ambitions to surpass the U.S., will face more demanding challenges when its high-profile growth rate slows down to a medium pace.

Economic slowdown, or “the end of the high-growth era” as it has been described in the extreme, seems like the apocalypse for the Chinese economy. In fact, public debate on this issue was heated in the late 1990s. Some predicted that Chinese economic growth would plummet based on the international experience and China’s national conditions at the time. There were concerns that China would not be able to sustain a high growth rate in its third decade of development, roughly from 2001 to 2010. Now the concerns have been much expanded to the fourth decade, resulting from concerns that the dividends generated by reform, human capital, and globalization are running out. The trend of economic slowdown cannot be stopped. Apparently, the theory of a Chinese “economic apocalypse” seems convincing.

In fact, there has already been consensus that Chinese economic growth will slow, but when

^{*} Zhang Xiaojing (email:zhang_xj@cass.org.cn), Research Fellow, Chinese Academy of Social Sciences, Beijing, China.

that will happen and to what extent the growth rate will fall still remain controversial. On one hand, economic slowdown is a normal phenomenon in the long cycle of growth. Chinese authorities should respect economic laws and avoid being immersed in delusions of a double-digit growth rate and overly dependent on high growth. On the other hand, economic slowdown is not the apocalypse, and it is not necessary to be pessimistic about the future of the Chinese economy. If China can carry forward a new round of reforms, pay more attention to human capital accumulation, and play a more proactive role in global governance, the Chinese economy will benefit from these measures and massive potential for growth will be unleashed. China is very likely to enjoy a fourth consecutive decade—possibly even longer—of strong growth.

1. In the long-term, the growth rate must change

According to two ancient Chinese proverbs, “everything will decline after flourishing,” and “out of the depth of misfortune comes bliss,” both of which represent the periodic nature of everyday life. Kindleberger (2003), a historical economist, believes that everything moves in circles, which can be applied not only to people but also to nations. A nation, or an economy, also has its lifecycle. Usually, this lifecycle follows an S-curve: going slowly in the beginning, then accelerating, then maintaining rapid momentum for a time before declining at last. This national lifecycle model has other names such as logic curve, material conversion curve, and technological maturity curve. From the national lifecycle, Kindleberger extrapolated the rise, decline, and replacement of hegemony. From this national lifecycle model we can also infer the long-term cycle of economic growth, which is the most crucial indicator of a country’s vitality.

Economic growth cannot be sustained at a fixed speed forever, although neoclassical growth theory assumes that through dependence on the development of technologies, economic growth can be maintained in a stable manner. Such an assumption is not in accordance with the real cycle of economic growth, which fluctuates in different situations. The emergence of endogenous growth theory does not break the cycle of economic growth. It simply offers a more credible theoretical foundation for the postulated growth by increasing returns in terms of knowledge, creativity, and human capital. “Growth” becomes endogenous. The cycle of economic growth is somewhat predestined. No matter how hard people want to break it, all such efforts will prove useless.

Therefore, there are many differences in terms of economic growth on a global scope. The growth rate of developed economies has declined dramatically in recent years, while emerging economies are growing rapidly. However, these emerging economies will eventually experience what is now occurring in developed economies. Some reasons for this are as follows: labor from rural areas, though sufficient now, will drain out in the future; employment in the manufacturing industry will rise to a tipping point and economic growth will be more dependent on increasing the productivity of the service industry, which is more difficult; more capital stock will be depreciated, which requires more savings to increase stocks; a much closer

relationship between economic growth and technological improvement demands industries to be more oriented to independent innovation rather than importing technologies (Eichengree et al, 2011).

The inevitability of the slowing of rapidly growing economies can be more clearly proved in the international sphere. The Commission on Growth and Development (2008), headed by Nobel Economics laureate Michael Spence, has sorted out 13 successful economies that have sustained an average 7% growth rate in the past consecutive 25 years. They are Botswana, Brazil, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Malta, Oman, Singapore, Taiwan, and Thailand. We will leave Botswana, Malta and Oman out of the following analysis since their populations are too small.

The remaining ten economies have all been hit by economic crises, such as Brazil with the debt crisis in the early 1980s, Japan with the bursting of the bubble economy in the late 1980s, and other economies with the Asian financial crisis in the late 1990s. Japan, South Korea, Hong Kong, Singapore, and Taiwan successfully passed through these crises, while Thailand, Malaysia, Indonesia, and Brazil have stagnated. China is a special case in that it was not heavily impacted by economic crisis but is also not safe from the middle-income trap. That is also why many economic specialists predict that China's odds of encountering crisis are nearly 1:1.

In order to explore how a rapidly growing economy slows down, especially how it performs in the fourth decade of economic development, we will analyze these economies based on their economic performance each decade. It is important to choose the starting year before conducting research on the economic growth rate. Different time frames might show us quite different economic performance in a ten-year period. We referred to the standard of the Committee of Growth and Development (2008) when we selected the starting year. But when we analyzed China, instead of the usual 1961, we chose 1978, which we believe is more applicable to China's national situation.

Based on the above data, we produced a figure showing changes to the growth rates of three groups of economies (Figure 1). The first group is composed of economies that successfully escaped the middle-income trap. The second group is those economies that failed. The third group consists only of China. From Figure 1, we can conclude: (1) the successful economies have enjoyed a much higher average growth rate over the past 40 years than the losing economies; (2) in the first three decades, the growth rates of all economies did not decrease continuously, but all economies suffered great loss in economic growth in the fourth decade; (3) the Japanese economy plummeted from high growth rate to low rate, which was only 5%, while South Korea's economy declined smoothly; the only economy to sustain a growth rate above 7% in the fourth decade was Taiwan; (4) compared with other economies, Chinese economic development has been able to maintain a more steady trend, which does not appear to be declining; Its growth in the fourth decade is still unknown, and will be discussed later.

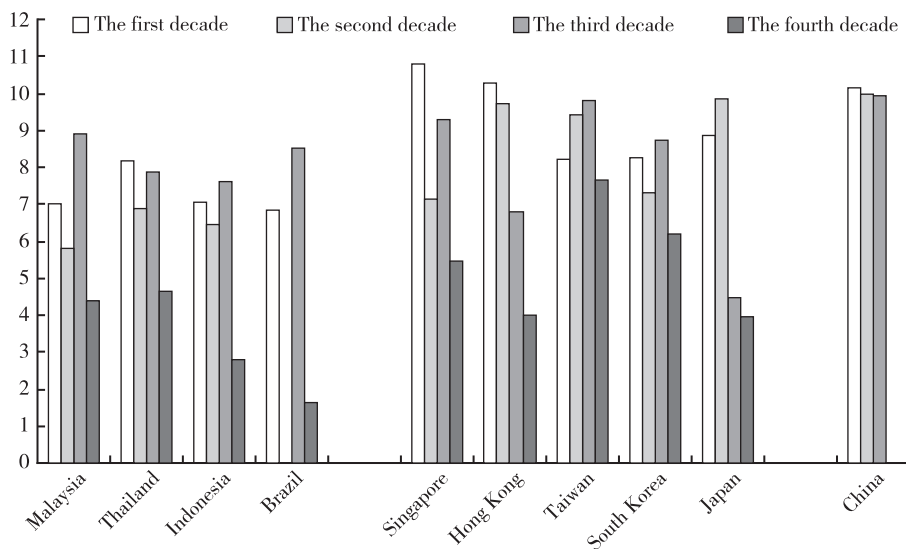


Figure 1. Economic slowdown of emerging economies (%)

Source: Data for Japan and Brazil from 1951–1960 is credited to Maddison Project Database; data for Taiwan to CEIC; data of China to *China Statistical Yearbook*; the remainder to the WDI issued by World Bank.

The above economies, except China, have proven the inevitability of the end of high growth rates. But Eichengreen et al (2011), perhaps still holding doubt, decided to draw more samples from successful economies¹. In order to better survey their economic slowdowns, they added two more conditions: first, before the growth rate slows (the economy grows fast at the initial stage), the average growth rate should be above 3.5%; second, only when the average growth rate of the economy in the latest seven years drops by 2 percentage points (a slight slowdown could be ignored) can economic slowdown be confirmed. Through this new round of research, they not only discovered more economies conforming to the rule, but figured out the critical point of economic slowdown and made comparisons with China. For example: (1) when per capita income in emerging economies reaches \$17,000 in 2005 prices (China will reach this level around 2015), economic growth will slow; (2) when the proportion of manufacturing industry employment reaches 23%, to which China is drawing near, rapid economic growth will slow; (3) when per capita income in these emerging powers reaches 57% of that of developed countries, economic growth will slow down.

2. Theoretical predictions often lag behind the facts

Emerging economies cannot escape economic slowdown. This rule has been tested by the

¹ These samples were measured by the standard that the per capita GDP was over \$10,000, which was calculated according to 2005 prices. The growth crises of unsuccessful economies were ruled out. Apparently, these “successful” economies, according to Eichengreen’s sampling, were measured by the standard of whether per capita GDP was over \$10,000 or not, not by the GDP growth rate.

above cases. But historical experiences cannot be extrapolated forward, because theoretical predictions always fail to keep up with the facts. In practice, human beings keep breaking through the bottlenecks of economic growth and reevaluating previous prejudices.

First, before the industrial revolution, the growth of the modern economy was beyond imagination.

Before the 19th century, the world population and the output of goods and services (GDP in modern times) grew slowly at a steady speed. In the 18th century, living standards in Europe were much the same as that of the ancient Chinese and Romans. However, in the past 200 years, both the world population and the output of goods and services have increased dramatically, and output growth has been more rapid than the increase in population. This is the first time that the living standard of most people has escalated in a continuous way and escaped the Malthusian trap. Robert Lucas Jr., one of the founders of new growth theory, believed this was a brand new discovery. It also makes growth matter more than other issues. The industrial revolution and the resulting massive economic growth were inconceivable things. This world-shaking change could not be extrapolated from the previous experience.

Second, Japan's economic resurgence after WWII has caused people to think outside the box. At the time, many economists preferred to treat Japan as a special case.

Although the industrial revolution largely promoted the growth of the modern economy, there were still concerns about expecting too much from it. For example, John Keynes said in 1937 that based on previous experience, it would be impossible to improve the standard of living by 1% on average each year. He believed that although technological innovations might facilitate higher levels of living standard, society could hardly get used to a growth rate over 1%. In the previous hundreds of years, there were only a couple of years that the growth rate of the standard of living in Britain was about 1%, but in most cases, it was lower than 1%. Keynes' remarks were delivered at the midst of the dark 1930s, which must have imposed some negative influence on his mind. But Keynes was right at that time, and few economists questioned his theory, because from 1860 to 1913, the average annual growth rate of actual income of British people was only 0.9%.

However, post-WWII Japan proved this conclusion wrong. The country entered a period of rapid development, during which its average annual growth rate reached 10% for two consecutive decades. That is why Japan's economic growth was called a miracle and treated as a special case at the time.

Third, the rapid economic growth of large emerging economies at the turn of the 21st century is the most influential event in human history. It started from China and has expanded to most Asian economies. Now the rest of the developing world is benefiting from it. But such a trend was not favored when it began.

Paul Romer, representative of the growth theory and also member of the Commission of Growth and Development, once said that when the Japanese economy developed at such an unprecedented speed, economists thought it was a special case of post-war recovery. And when the four "Asian Tigers" (Hong Kong, Taiwan, Singapore, and South Korea) took off, many skeptics attributed their success to their small size. But as the Chinese economy outran the

performance of the “Asian Tigers”, they explained that China’s “large size” was the reason it could make such a great achievement. The above cases actually demonstrate that people still do not understand what growth is. That is why, as Lucas indicated, when growth is mentioned, all other things can be left aside. The growths of different economies are divergent, but sometimes converge. What’s more, the stories of some successful economies, which either have rapid growth rates or long durations, have gone beyond the boundaries of theory.

Fourth, China’s economic growth has been a focus of forecast studies since the start of reform and opening up. But most predictions have been lower than actual growth. The World Bank was one of the first organizations to forecast the growth rate of the Chinese economy. In 1997, it issued a report called *China 2020*, in which the organization admitted that it had underestimated Chinese economic growth. As Figure 2 shows, the World Bank’s predictions for 1982, 1983, 1985 and 1992 were all lower than actual GDP growth, especially in 1995, when China’s GDP was two times the projection of the World Bank in 1985. But it seems that World Bank did not draw enough lessons from its previous failures. The *China 2020* report also failed to match the real performance of the Chinese economy. As Table 1 indicates, although the World Bank predicted China’s economic growth rate would be 8.4% from 1996 to 2000, which was very close to the real 8.6%, it failed in its prediction for the next decade (2001–2010), 7%, a far cry from actual growth of 10.5%. What’s more, it is worth noting that when the report was released, the Asian financial crisis had yet to occur. It is very likely that the prediction would be much lower than 7% if the crisis occurred before the report was announced.

Fifteen years later, the World Bank and the Development Research Center of the Chinese State Council issued a joint report called *China 2030*. The report predicted that, from 2011 to 2030, Chinese economic growth would slow in stages every five years, from 8.6% to 7.9% to 5.9% to 5.0%. The report forecast an average growth rate from 2011 to 2020 of 7.8%, much higher than the 5.5% prediction from *China 2020*. The World Bank must have drawn real lessons from its previous works.

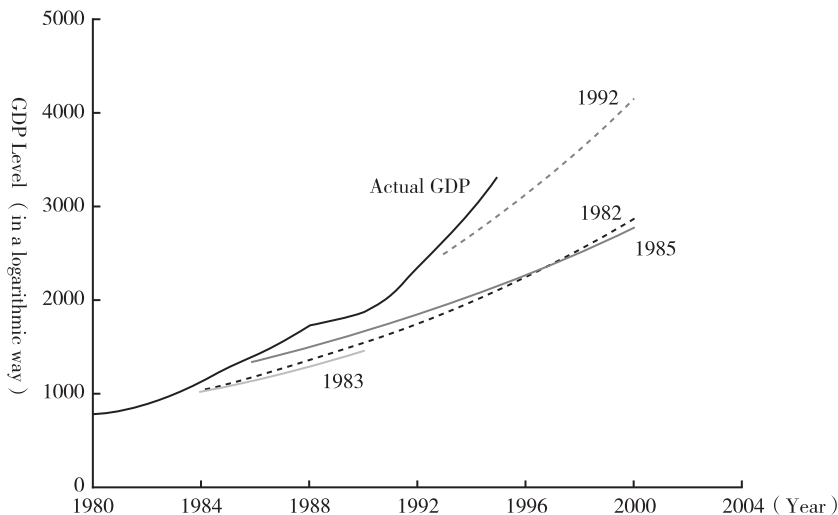


Figure 2. Comparison of the predictions of the world bank and actual Chinese economic growth
Source: World Bank (1997).

Table 1
World bank predictions of China's economic growth rate (%)

World Bank: <i>China 2020</i>	1996-2000	2001-2010	2011-2020			
	8.4	6.9	5.5			
World Bank: <i>China 2030</i>			2011-2015	2016-2020	2021-2025	2026-2030
			8.6	7.0	5.9	5.0

Source: World Bank (1997); Development Research Center of Chinese State Council.

In fact, it was not just the World Bank that underestimated Chinese economic growth of the first decade of the 21st century—domestic economists were also excessively prudent in this respect. They were probably discouraged by the *China 2020* report and influenced by the Asian financial crisis. The Chinese economy sustained a steady growth rate at a range of 7.0% to 8.0% from 1998 to 2001, which didn't inspire much confidence in the future growth of the Chinese economy. For example, Wang (2000) estimated that the average growth rate of the Chinese economy would be 6.58% from 2001 to 2010, and 6.21% from 2011 to 2020. If the estimation were applied to Japan, it would be a convincing prediction. However, it was a far cry from China's actual performance. Jiang (2004) pointed out that based on the international experience, it would be increasingly difficult for an economy to sustain such a high velocity after 20 years of rapid development. Since the 1960s, she said, no economy has been able to maintain an average growth rate of 7% for 40 consecutive years. The 16th CPC National Congress set a goal of quadrupling China's GDP by 2020 compared to that in 2000. In order to achieve this goal, China would have to maintain the trajectory of the past 20 years of rapid development for another 20 years, making the average growth rate higher than 7% for four decades. There are few economies that have accomplished such growth over the long-term.

According to this kind of theory, the growth rate of the Chinese economy would definitely slump. But the performance of the Chinese economy proved that the previous judgments were overcautious. The Chinese economy was not on the decline; on the contrary, it developed much faster. During the period of the Eleventh Five-year Plan, the growth rate of the Chinese economy reached 11.2%, far beyond forecasts.

3. Prospects for Chinese economic growth: slowdown isn't a sign of the apocalypse

The above analysis has illustrated a few points. First, although economic projections are not always successful, their value should not be underestimated. Second, economists and policymakers should place more emphasis on the reasons and logic behind these projections instead of the specific numbers. Third, what is going on in the world will broaden our understanding of economic growth and lead us to break through the barriers of current projections. This paper envisions the development of the Chinese economy on the basis of these three points.

We have to find the logic behind the slowdown, which can be explored from various perspectives.

The first perspective focuses on the three factors of production—capital, labor, and technology, which prove that the potential growth rate will decline. (1) Capital accumulation. China's high savings rate won't change significantly. But as the development pattern transforms, consumption will become the major drive of economic development. With the population aging more rapidly, the level of savings will not remain as high, meaning capital investment will be reduced and its role in advancing growth weakened. (2) Labor supply. China is rich in human resources, but as the working-age population starts to decline in the next three to five years, cheap labor will contribute less to economic growth. According to the sixth national census in 2010, the increase of the Chinese population has been much smaller than the projection and plan. In addition, the sharp drop in the birthrate and the aging of the population will pose more challenges to the security of labor supply in the future. (3) Technological progress. Measured by total factor productivity (TFP), technological progress will decline in the future for the following reasons. As more manufacturing industries transform into service industries, the growth rate of productivity will decelerate, as demonstrated by the development of OECD countries; as Chinese technological competitiveness grows stronger, the catch-up effect will recede. China is no longer a follower but an innovator. This change in roles will slow China's technical progress. Based on these points, China's potential growth rate will decline. If the limitations of resources and the environment are also considered, such a decline is even more assured.

The second perspective focuses on the disappearance of the dividends generated by reform, human resources, and globalization. Compared with the first analytical method, which focuses on the three factors of production, this dividend-based analysis is much easier to observe. But the former approach is more rigorous since the disappearance of these dividends will result in the decline of three factors. (1) Reform dividend. First, the benefits generated from the first round of reform have been almost fully unleashed over the past 30 years, which means continuous economic growth requires impetus from new reforms. Second, reforms in the past 30 years have basically been incremental with high yield and low cost (low resistance to reform), but the following 30 years will see more reforms of capital stock with low yield and high costs (significant resistance from vested interests). Thus, the dividend from reforms will decline. (2) Globalization dividend. China's economic growth benefits from reform and opening up, especially in the context of globalization. But the 2008 financial crisis dealt developed economies a heavy blow, in the aftermath of which trade protectionism and de-globalization are gaining ground. This will put an end to the era of export-driven globalization. (3) Demographic dividend. As mentioned above, the slowdown and even shrinking of the working-age population will reduce the labor force's contribution to driving economic growth. Worse, it will jeopardize growth as *China 2030* predicted. The demographic dividend is diminishing.

The above two perspectives have some overlaps, but they also have different focuses. We will make thorough analysis and see if the arguments for a declining growth rate are convincingly solid.

First, urbanization and the development of the service industry are not disasters for productivity.

Many studies find that Chinese urbanization and the development of the service industry will inevitably decrease the productivity of the overall economy. Lessons can be drawn from the stagflation in Western economies in the 1970s, showing that it is the substantial urbanization and the sharp growth of the service industry that resulted in declining productivity and stagflation in Western economies. Baumol (1967) expounded on this theory in *Macroeconomics of Unbalanced Growth: The Anatomy of Urban Crisis*. He argues that economic activities can be grouped into two types—"technologically progressive activities" and "activities which, by their nature, permit only sporadic increases in productivity." The former is represented by the manufacturing industry, in which labor is "primarily an instrument—an incidental requisite for the attainment of the final product." Consumers neither know nor care how much labor went into an end product. They only care about the quality and price. But in "non-progressive activities," labor itself is usually the final product. For example, orchestras spend almost the same number of hours in training as they did hundreds of years ago, and there is little chance for them to increase their productivity. Most services offered in cities are of this type, which would result in the so-called city crisis. In fact, it is a crisis of productivity. The increase of productivity in agricultural and manufacturing industries will release a great amount of labor, which will swarm into the service industry. This will cause the growth of productivity of service industry to stagnate, increase its wage cost, and restrain the overall increase to economic productivity.

However, there are disagreements over this hypothesis. (1) In the middle and late 1990s, the blossoming of the American new economy, especially the proposition of producer services, became the best counterargument to this theory. Oulton (2001) rectified the hypothesis, arguing that the service industry offers intermediate input to the manufacturing industry, which resembles current producer services. What's more, the elasticity of substitution in the secondary industry exceeds 1. As a result, economic development will not stagnate, and the growth rate of the overall economy is the sum of the growth rates for the primary and the secondary industries. (2) The problem of measuring the added value of the service industry remains to be addressed. When the American new economy was being evaluated, major progress was made in improving the statistical estimation method. There were errors with the calculations for the output and productivity of the service industry, and the statistical methods employed by the US Bureau of Economic Analysis and the Bureau of Labor Statistics overly underestimated the output and productivity of the service industry. Based on this knowledge and depending on the much-improved database of the US, Triplett and Bosworth (2003) discovered that after 1995, the growth of productivity in 15 out of 22 US service industries accelerated. The increased productivity of the service industry is equal to the average level of the whole economy, which is two times the average growth rate from 1973 to 1995. (3) The service industry has positive externalities and a spillover effect, which are results of research and development in the service sector. They can be used to optimize the human capital of the manufacturing sector.

Based on the above analysis, we believe the development of the service industry is not a

disaster for productivity. The low productivity of China's service industry is caused by strict controls in terms of price, market access, and other factors. Thus, in order to promote the development of China's service industry and greatly increase its productivity, it is necessary to relax strict regulations and break the monopoly.

Second, according to the outdated mindset, China's demographic dividend is diminishing. But China can restore a new demographic dividend, which is the "human capital dividend", by increasing both the amount and quality of labor.

Demographic dividend means that a country's working-age population accounts for a large proportion of the entire population, and social spending on dependents is thus low, spurring economic growth. The dependency ratio of the population is usually seen as a proxy variable for the demographic dividend. According to this criterion, some experts believe that China's demographic dividend will come to an end by 2015. But Golley and Tyers (2011) used working population instead of the working-age population to evaluate the demographic dividend. The working population is calculated by summing the labor force participation rates of different age-gender groups. For example, delayed retirement will increase the labor force participation rate of older working adults, which will result in a larger labor force. According to this new pattern, they found that China's demographic dividend could be extended to 2030. By increasing the labor force participation rate, the amount of labor would be augmented so as to prolong the demographic dividend. What's more, this new pattern, which focuses on the quality of capital resources, provides a more important way to regain the demographic dividend. Due to significant improvements to education, China is acquiring a large human capital dividend, which will offset the negative impact of the diminishing demographic dividend. Besides, China can maintain the increase to total human capital, supporting the high growth of the Chinese economy in the long run (Hu & Cai, 2011).

Table 2

China's net human capital dividend(%)

	1980	1990	2000	2010	2020	2030
Proportion of China's working-age population in the world	21.7	23.3	22.2	21.4	19.7	17.7
Proportion of China's overall human capital in the world	17.6	20.0	24.1	24.1	26.8	27.2
China's net human capital dividend	-4.1	-3.3	1.9	2.7	7.1	9.5

Source: Hu & Cai (2011).

Note: Total Human Capital=average years of education of the population above 15 years old $\times$ the working-age population (aged 15-64). Net Human Capital is the proportion of a country's total human capital in the world minus the proportion of the working-age population in the world. It reflects the net human capital dividend of a country from gaining educational dividend. The negative numbers in the table show human capital liability.

Table 2 shows that since 2000, the net human capital dividend has started to emerge and it will continuously increase until 2030. Of course, there are limitations in evaluating human capital by a simple measurement of the average years of education. Since China does not have

a large gap with developed countries, such as the US, in terms of the years of education (three years' gap in 2010), there is not much room for the further growth of human capital. Given that the average years of education is not the best gauge to weigh the quality of education, China's human capital can explore more potential for improvement if the focus could be shifted from getting more students to complete compulsory education to improving the quality of education.

Third, the dividend generated from globalization is also declining. But by engaging in global governance and making rules for globalization, China can produce a new round of dividend in this respect.

Under indurate global rules and system of labor division, the dividend generated from dependence on a low-cost and large-export mechanism is diminishing. This new trend is related to the rising cost of domestic factors, global rebalancing, and the demands of most developed economies for a new pattern of globalization. If China is able to take the initiative and engage in the formulation of the rules of globalization, it will acquire new benefits, which respond to interactions over "rules" between China and the international community in terms of financial supervision and management, reform of the fiscal system, and issues concerning development, security, and resource utilization.

On one hand, the international financial crisis triggered new developments in the supervision and management of global finance, the form of the international monetary system, climate change, and the low-carbon economy. These developments are pushing the rules of globalization into a new round of innovation and revision, which also brings about opportunities for China. On the other hand, the impact of the global financial crisis rocked the balance of power between developed and developing economies. It has brought many changes to the rules of global development, which gives China a bigger say.

Amending the rules of globalization can change China's position in the international community and make China more adept at playing to its advantages and shelving its disadvantages. For example, the reform on the international monetary system and the advancement of the internationalization of yuan can reduce China's book loss incurred by its massive storage of goods and help China gain the upper hand in global financial competition. If China has a bigger say in the pricing system for bulk commodities, it will occupy the vantage point in the negotiations on prices. As for regulations and targets in terms of energy conservation, emissions reduction, and the low-carbon economy and carbon trade, setting them determines the framework for future industrial development and the mechanism of allocating duties and costs to each country. This is extremely important. Thus, taking initiative in the rule-making of globalization and making sure global governance is beneficial to China will produce a new dividend.

Fourth, additional dividend from reform needs to be driven by a new round of reform, which requires more courage.

Reform is China's biggest source of dividend and it is the key to China's growth in the future. Whether a reform can be successful pivots on whether the relationship between the government

and the market can be handled well. China must carry forward market-oriented reform as well as government reform. Market-oriented reform can be specified as the marketization of economic elements including land (land reform), capital (interest rate liberalization and the prosperity of the capital market) and labor (reform of the household registration system and the integration of the urban and rural labor markets). Government reform requires the authorities to clarify the boundaries of their duties and take their due responsibilities. For example, the government should increase investment in social sectors and human capital development, ensure social justice, play a fundamental role in providing public goods and services, and make sure low-income people have access to equal public services. In the meanwhile, the government should reduce its interference with microeconomic activities, such as by relaxing controls, breaking monopolies, decreasing examinations and approval requirements, and increasing economic efficiency. Now the form has been greatly deepened, and the crux is how to redistribute social benefits and smash vested interests. This new round of reform demands top-level design and the boldness to enforce it. If reform can be carried forward as expected, enormous potential for economic growth will be unleashed.

We can draw the conclusion from the above analysis that many arguments about the Chinese economic slowdown are questionable. A rapid slowdown does not define the fate of the Chinese economy. If this new round of reform can be initiated with the focus shifted to the accumulation of human capital, innovation, and global governance, China will accomplish another decade of growth.

References

- Baumol, W. J. (1967). Macroeconomics of unbalanced growth: the anatomy of urban crisis. *American Economic Review*, 57 (3), 415-426.
- Commission on Growth and Development. (2008). *The growth report: strategies for sustained growth and inclusive development*. China Finance Publishing House. (In Chinese)
- Eichengreen, B., Donghyun, P., & Kwanho, S. (2011). When fast growing economies slow down: international evidence and implications for China. *NBER Working Paper*, 16919.
- Golley, J., & Tyers, R. (2012). Demographic dividends, dependencies and economic growth in China and India, *Asian Economic Papers*, 11 (3), 1-26.
- Hu, A. G., & Cai, L. M. (2011) Changes in human resources based on the sixth census: from demographic dividend to human resources bonus, *Tsinghua Journal of Education (Tsinghua Daxue Jiaoyu Yanjiu)*, 32 (4), 1-8.
- Jiang, X. J. (2004). Entering a new stage: China's challenges and strategies for economic development. *Economic Research Journal (Jingji Yanjiu)*, 10, 4-13.

- Kindleberger, C. P., (2003). *World Economic Primacy: 1500-1990*. Commercial Press. (In Chinese)
- Oulton, N. (2001) Must the growth rate decline? Baumol's unbalanced growth revisited. *Oxford Economic Papers*, 53 (4), 605-627.
- Triplett, J. E., & Bosworth, B. P. (2003). Productivity measurement issues in services industries: Baumol's disease has been cured. *Economic Policy Review*, 9 (3), 23-33.
- World Bank and the State Council Development Research Center. (2012). *China in 2030: building a modern, harmonious, and creative society*.
- Wang, X. L. (2000). The sustainability of China's economic growth and institutional changes. *Economic Research Journal (Jingji Yanjiu)*, 7, 3-15.