



## China's declining growth is structural, not a cyclical downturn

---

The nature of the People's Republic of China's growth slowdown is a key question for the global economy.

If it's a bump in the road, growth in China should soon return to a high rate that can help support global growth. If it reflects deeper problems, the world may have to live without the contribution that has come to be expected from China's hard-charging economy.

Economists must first determine the factors behind China's growth, which poses statistical problems.

Was it mostly due to investment, with more money spent equaling a higher rate of growth? That could mean the slowdown will be deeper and longer than many expect, since the effectiveness of such spending declines over time.

Or was it because workers and companies became better at using the resources they were given, a measure known in economics as total factor productivity? That could indicate that the downturn is cyclical and should turn around before too long.

A new book by the Asian Development Bank Institute explores that question and other related issues.

Peter Morgan, co-chair of the Research Department at ADBI and one of the editors of *Slowdown in the People's Republic of China, Structural Factors and the Implications for Asia*, says there are optimists and pessimists on the questions surrounding China's economy.

**The pessimistic and optimistic views on China's growth divide along several key fault lines, including the relative contributions of capital and total factor productivity to growth; whether or not the factors behind the recent slowdown are mainly structural or cyclical; and what key factors, if any, could enable the return to high GDP growth rates of, say, about 8%.**

In the book, Harry X. Wu, professor at the Institute of Economic Research at Japan's Hitotsubashi University, proves to be one of the pessimists.

Morgan highlights his findings:

**Notably, Wu estimates that total factor productivity growth actually turned negative from 2007 to 2012, which raises a further question on China's growth sustainability. Another key finding is that industries that are less prone to direct state interventions show faster total factor productivity growth than those controlled by the state.**

Wu questions whether China was growing as fast as the official numbers indicated during the boom years. His research estimates economic growth was about 3 percentage points lower than the official statistics, running at 7.2% a year from 1980 to 2012, rather than the 10.0% average in official numbers.

That presents problems for any attempt to analyze China's growth.

Wu points to government interventions in the economy, especially at the local level, as one of the main reasons for the lack of improvement in total factor productivity. Capital was not invested wisely and that has resulted in overcapacity in some industries, especially those closest to the government.

Industries with the least government interference had the best gains in total factor productivity, although even they were affected since they rely on inputs from sectors like energy, which are tightly controlled.

He says total factor productivity is unlikely to improve any time soon.

But Wu concludes with an optimistic suggestion. Since much of the problem with China's economy can be attributed to government decision making, reforms by the government to liberalize the economy could go a long way toward putting China on a more sustainable growth path.

This was based on research done for ADBI by Harry X. Wu, professor at the Institute of Economic Research at Japan's Hitotsubashi University. It's published in [\*Slowdown in the People's Republic of China: Structural Factors and the Implications for Asia\*](#), edited by Peter Morgan, co-chair of the Research Department at the Asian Development

Website: [www.adbi.org](http://www.adbi.org) | e-mail: [info@adbi.org](mailto:info@adbi.org)

Copyright © 2018 ADBI. All rights reserved.

Bank Institute; Justin Yi-fu Lin, director of the Center for New Structural Economics, Peking University, China; and Guanghua Wan, director of the Institute of World Economy, Fudan University, China. This is part three of a five-part podcast series on the book.

#### Listen to podcast

- <https://soundcloud.com/adbinstitute/chinas-declining-growth-is-structural-not-a-cyclical-downturn>

#### Read the book

- <https://www.adb.org/publications/slowdown-prc-structural-factors-and-implications-asia>

#### Know more about ADBI's work on PRC

- <https://bit.ly/2vVCoYi>
- <https://bit.ly/2vQ3fDf>