

Abstract

China's economic growth has experienced a significant decline in the first three quarters of 2012, which has made structural production overcapacity more serious and business operating more difficult. Moreover, pessimistic anticipations are relatively strong among consumers and investors. What reasons have caused Chinese economy so dispirited? What kind of logical relationship is between those factors? How do they interact? How will China's economy run? These problems all need to be given a full and clear answer. Focused on these problems, this report carries out a comprehensive study on the economic conditions in China and tries to give a theoretical interpretation for them.

According to the logical relations existing in the economy, the report is divided into five parts, i. e. Situation and Forecast, Growth and Structure, Resource and Price, Division and Demand, Policy and Regulation, which respectively take an in-depth research on China's economic growth, price trend, demand fluctuation, macro-control and other important aspects based on a combination of quantitative and qualitative analysis, long-term and short-term analysis. Accordingly, the trend of Chinese economy is analyzed and predicted.

The first part includes only one chapter. Based on the conclusions of other parts, we make an analysis of the economic performance, the conflicts and problems, the overall trend, and then conclude that exogenous shocks such as weak external demand, structural problems such as overcapacity and transformation dilemma, as well as the lagged adjustment of policy and system are the main reasons which have caused and increased the economic fluctuations. After examining the factors affecting the trend of China's economy, we introduce the predictive values of main macroeconomic indicators, and point out that China's

economic growth rate in 2013 will rise to about 8.5% with the consumer price index slightly eased to about 2.4%.

Growth and Structure consists of two chapters. Due to the changes in the domestic and international economic environment, China's potential economic growth rate has been somewhat lower, and the decline of real economic growth rate not only has the nature of convergence to the new potential economic growth rate, but also has the nature of cyclical fluctuation. Therefore, at present, we should not only tolerate somewhat decrease of economic growth rate, but also avoid the excessive volatility of the economy through macro-control and macro-regulation. As China maintained a rapid economic growth, the economic structural imbalances also became more serious. Some are the results of uneven development strategy which are necessary at a particular development stage, but some will significantly damage the long-term economic growth, such as the imbalance between investment and consumption, which should be corrected through the market-oriented reform and enhanced supply management.

Resource and Price consists of three chapters. Mainly due to sluggish economy, price falling of some important consumer goods, as well as the decrease of imported inflation pressure, Chinese economy in 2012 shows a characteristic of somewhat deflation with both CPI and PPI growth rates declining substantially, which has made monetary policy more flexible, but increased the finance cost of enterprises. At the same time, the rising wage and high capital cost have also made a serious erosion of business profits. However, in 2012, the employment of workers still experiences a more substantial growth, the unemployment does not increase significantly, and even the structural labor shortage still exists. The conflict of capital supply and demand has also been intensified, because large-scale enterprises, especially heavy chemical enterprises are deeply trapped in overcapacity which has led to a weak demand for capital, but SMEs have a larger demand of funding because of capital chain tension due to falling profits, which has led to a further highlight of financing problem of SMEs. At present, the supply and demand structure of labor and capital should be adjusted through effective policies and measures as soon as possible.

Division and Demand consists of three chapters. Shrinking external demand and regulation of real estate are the main factors that have reduced the growth rate of investment which then caused the emergence of China's economic slump situation. In 2012, per capital disposable income has greatly increased, but the imperfect social security system, underdeveloped consumption financial system, too many uncertainty factors, have constrained the release of consumption potential, and will also make consumption difficult to become a main driving force of China's economic growth in the short term. While advancing structural reform to boost consumer confidence and carrying out disbursement policy of subsidies to stimulate consumption, we should also take fiscal and monetary measures to optimize investment structure and increase investment scale which will promote economic stabilization. In addition, while adhering to the principle of a basic balance between import and export, we should also take measures to adjust the structure of export product structure and export regional structure, and thereby promote the reasonable growth of export with service products included. This is also the important connotation of "steady growth" policy.

Policy and Regulation consists of three chapters. At the present stage, in the case of tight resource constraints, China is getting less but paying more from the foreign exchange reserve accumulation and the formation of double favorable balance, and thus has to be faced with such an international distribution of resources which is less favorable to China but more conducive to foreign countries. Therefore, it is urgent to change and correct this international distribution relationship through the foreign exchange system reform and trade strategy adjustment, and change the passive situation of monetary policy constrained excessively by foreign exchange so as to reduce the too high statutory deposit reserve ratio as soon as possible. Structural tax reduction is also an important method of expanding domestic demand and promoting the economy stabilization, but the small scale in 2012 has only little effect on increasing investment and promoting economic growth. Therefore, it is very urgent to transform business tax into VAT in the whole country, and it is also necessary to eliminate the excessive taxation and the excessive collection of fees that may offset the tax reduction effect. European debt crisis has also a large degree of adverse

impact on China's economy. The possible deterioration of European debt crisis in the future may increase the risk of China's macroeconomic performance, and then it is necessary to actively respond through economic structure adjustment, prudential supervision, and management of capital flows, foreign exchange system reform and other measures.

In summary, China's economy still has a large potential for growth, but there are many conflicts and problems, and the uncertainties also rise further. In view of this situation, in addition to maintaining the active fiscal policy and moderately easy monetary policy, we should pay more attention on the policy adjustment and structural reform to eliminate the short-term output gap and promote the rate of potential economic growth gradually in the long run when China is committed to "steady growth". Efforts should also be made to reduce excessive price volatility and create a healthy operating environment for economic development mainly through system reform.