



中国社会科学院 世界经济与政治研究所
Institute of World Economics and Politics(IWEP)
Chinese Academy of Social Sciences(CASS)

China's Structural Reform and Its Implications for Northeast Asian Economic Cooperation

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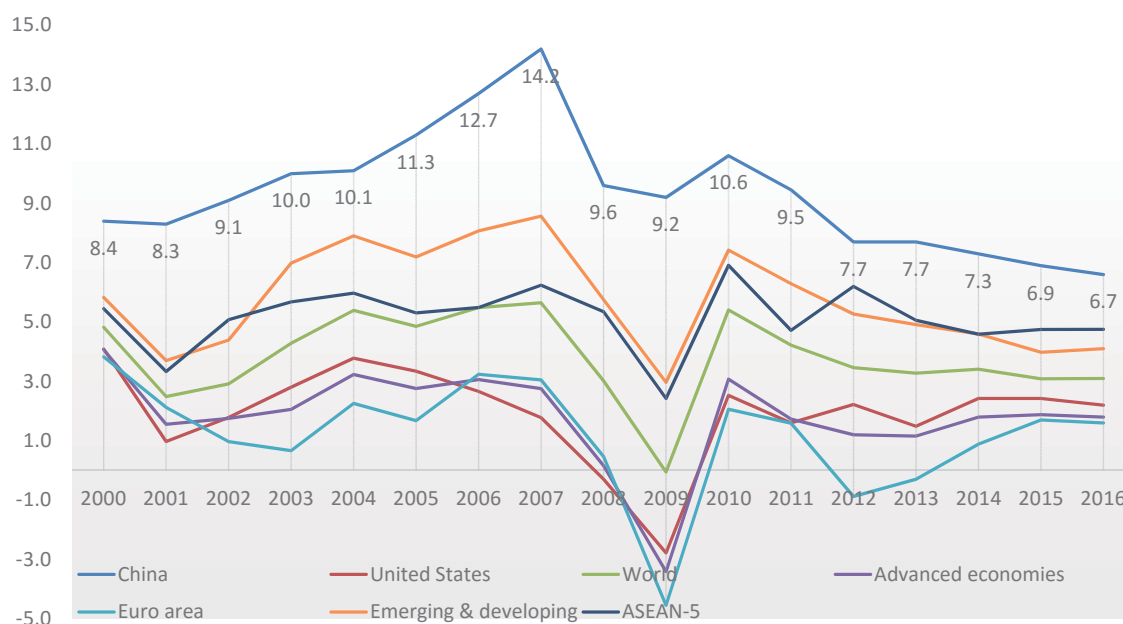
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- **I. Economic Situations**
- **II. Structural Reform: “New Normal”**
- **III. Regional Cooperation**



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World GDP Growth Rates, 2000-2016



Notes: 2016 est. Sources: IMF.

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I. Economic Situations

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
NATIONAL ACCOUNTS											
Real GDP	9.5	7.9	7.8	7.3	6.9	6.7	6.5	6.0	6.0	5.9	5.8
Total domestic demand	10.7	7.9	8.1	7.2	7.2	7.2	6.5	6.2	6.1	6	5.9
Consumption	12.2	8.7	7.2	7.2	8.3	7.8	7.7	7.1	6.8	6.6	6.4
Investment	9.2	7.1	9.1	7.1	6.1	6.4	5.2	5.2	5.3	5.3	5.3
Fixed	8.8	9	9.3	6.8	6.8	6.6	5.3	5.3	5.4	5.4	5.4
Inventories (contribution)	0.4	-0.7	0.1	0.3	-0.2	0	0	0	0	0	0
Net exports (contribution)	-0.8	0.2	-0.1	0.3	-0.1	-0.5	-0.2	-0.1	0	0	0
Total capital formation (%GDP)	48.0	47.2	47.3	46.7	45.0	43.7	43.1	42.5	41.9	41.3	40.7
Gross national saving (%GDP)	49.8	49.7	48.8	49.3	47.9	46.0	44.7	43.9	43.1	42.2	41.4

Notes: Projections are from 2016.
Sources: IMF.

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LABOR MARKET											
Unemployment rate (annual average)*	5	5.1	5.1	5.1	5.1	5	5	5	5
Wages	16.7	14	12.9	10	9.9	9	8.7	8.5	8.5	8.3	8.1
PRICES											
Consumer prices (average)	5.4	2.6	2.6	2.0	1.4	2.1	2.3	2.4	2.6	3.0	3.0
GDP Deflator	8.1	3.2	2.4	1.2	0.4	1.0	1.0	1.5	1.7	2.0	2.1

Notes: * Surveyed unemployment rate; Projections are from 2016.

Sources : IMF.

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FINANCIAL											
7-day repo rate (%)	6.4	4.6	5.4	5.1	2.5
10-year government bond rate (%)	3.4	3.6	4.6	3.7	2.9
Real effective exchange rate (average)	2.8	5.6	6.3	3.1	10.1
Nominal effective exchange rate (average)	0.1	5	5.3	3.1	9.5

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MACRO-FINANCIAL											
Total social financing*	18.1	19.1	17.5	14.3	12.4	12.7	11.9	11.4	11	10.3	10.1
In %GDP	157.9	169	180	189.5	198.4	208.3	217.4	225.1	232	236.9	241.6
Domestic credit to the private sector	16.2	19.8	16.6	13.5	14.7	14.7	13.4	12.1	10.9	9.9	9.7
In %GDP	124.8	134.3	141.9	148.2	158.3	169.2	179	186.5	192.1	195.5	198.7
House price**	5.7	8.7	7.7	1.4	9.1	8.9	7.3	7	7.3	6.9	6.8
Household disposable income (%GDP)	58.3	59.4	60	60.7	62.2	63.2	63.6	63.9	64.2	64.2	64.2
Household savings (%disposable income)	41	40.8	38.5	37.9	37.4	36.9	35.8	34.7	33.7	32.7	31.7
Household debt (%GDP)	27.8	29.6	33	35.3	38.4	41.8	45.5	49.1	52.4	55.3	57.5
Nonfinancial corporate domestic debt (%GDP)	97	104.7	108.9	112.8	120	127.4	133.5	137.5	139.7	140.2	141.2

Notes: * After adjusting local government debt swap, staff estimate that TSF stood at 203 percent of GDP in 2015; ** Average selling prices estimated by IMF staff based on housing price data (Commodity Building Residential Price) of 70 large and mid-sized cities published by National Bureau of Statistics (NBS); Projections are from 2016.

Sources : IMF.

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GENERAL GOVERNMENT (%GDP)											
Net lending/borrowing*	-0.1	-0.7	-0.8	-0.9	-2.7	-3.0	-3.3	-3.0	-2.8	-2.7	-2.7
Revenue	26.9	27.8	27.7	28.0	28.7	27.7	28.1	28.0	27.8	27.6	27.5
Expenditure	27.0	28.4	28.5	28.9	31.3	30.7	31.4	31.0	30.6	30.4	30.2
Debt**	15.2	15.2	15.9	38.5	38.3	38.6	39.1	39.3	39.3	39.2	39
Structural balance	-0.1	-0.5	-0.5	-0.5	-2.4	-2.9	-3.2	-3.0	-2.8	-2.7	-2.7

Notes: * Adjustments are made to the authorities' fiscal budgetary balances to reflect consolidated general government balance, including government-managed funds, state-administered SOE funds, adjustment to the stabilization fund, and social security fund. ** Estimates of debt levels before 2015 include central government debt and explicit local government debt (identified by MoF and NPC in Sep 2015). The large increase in general government debt in 2014 reflects the authorities' recognition of the off-budget local government debt borrowed previously. The estimation of debt levels after 2015 assumes zero off-budget borrowing from 2015 to 2021. Projections are from 2016.

Sources : IMF.

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BALANCE OF PAYMENTS (%GDP)											
Current account balance	1.8	2.5	1.5	2.6	3.0	2.4	1.6	1.4	1.1	0.9	0.8
Trade balance	3	3.6	3.7	4.1	5.1	5.1	4.5	4.3	4	3.8	3.7
Services balance	-0.6	-0.9	-1.3	-1.6	-1.6	-2	-2.3	-2.6	-2.7	-2.9	-2.9
NIIP	22.4	21.8	20.7	15.2	14.3	16.5	16.9	16.7	16.3	15.5	14.8
Gross official reserves (bn US\$)	3,256	3,388	3,880	3,899	3,406	3,181	3,064	2,993	2,890	2,813	2,740

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MEMORANDUM											
Nominal GDP (bn RMB)*	48,604	54,099	59,696	64,849	69,630	74,715	80,118	86,159	92,834	100,244	108,246
Augmented debt (%GDP)**	45.8	47.1	51	51.8	55.8	60.4	64.5	67.8	70.4	72.2	73.5
Augmented net lending/borrowing (%GDP)**	-6	-5.1	-7.6	-7.2	-7.8	-8.4	-8.2	-7.8	-7.4	-7	-6.6
Augmented fiscal balance (%GDP)***	-8.2	-7.8	-10.3	-9.8	-9.5	-10.1	-9.8	-9.3	-8.8	-8.4	-8

Notes: * Expenditure side nominal GDP; ** Augmented fiscal data expand the perimeter of government to include local government financing vehicles and other off-budget activity; *** "Augmented fiscal balance" = "augmented net lending/borrowing" - "net land sales proceeds" (in percent of GDP) as we treat net land sales proceeds as financing. Projections are from 2016.

Sources : IMF.

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II. Structural Reform: “New Normal”

- L-shaped Economic Growth
- Supply-side Structural Reform



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L-shaped Economic Growth

China's GDP Growth Rate Forecasts

	2011-2015	2016-2020	2021-2025	2026-2030
World Bank	8.6	7	5.9	5
IMF	7.8	6.1	5.8 (2021)	
Institute of Economics, CASS	7.8-8.7	5.7-6.6	5.4-6.3	
Cai Fang, CASS	7.8	6.3		
Lawrence Summers	5.01 (2014-2023)		3.28 (2024-2033)	
US National Intelligence Council	5.0-6.7			

Sources : As mentioned above.



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L-shaped Economic Growth

➤ From high growth to medium-high growth

- Depletion of rural surplus labor
- The peaking of employment in manufacturing as a share of total employment results in economic growth more dependent on the service industry sector whose productivity is more difficult to increase (service as share of GDP in the first half of 2016: 54.1%)
- Declining rate of return on investment
- The economy approaching the technology frontier, which necessitates a shift from technology import to indigenous innovation

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Supply-side Structural Reform

➤ Liberalize labor market

- Reform the household registration system
- Loosen the one child policy to allow couples to have two children
- Revise the Labor Contract Law towards more balanced rights and obligations between employees and employers
- Link the number of migrate workers with the budget expenditure on education

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Supply-side Structural Reform

➤ Improve education system

- Expand the scope of compulsory education from currently 9 years to 15 years
- During the 13th Five Year Plan period, China plans to increase the average length of education of the working age population from 10.2 years in 2015 to 10.8 years in 2020
- Develop vocational education by encouraging qualified ordinary 4-year colleges to transform into application-oriented institutions



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Supply-side Structural Reform

➤ Encourage innovation by building an innovation-driven economic system

- Increase investment in R&D: 2.1% in 2015; 2.5% in 2020
- Update the GDP calculating method to include investments in R&D so as to encourage both central and local governments to increase R&D investment
- Deduct R&D investment from taxable corporate income: 3/4 R&D investment comes from business sector
- Build a favorable financial climate for innovation through facilitating IPO process of venture capital or promising companies
- Grant researchers more rights and reform the way research funds are managed





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Supply-side Structural Reform

- **Let market play a decisive role in the allocation of resources**
 - Reduce the administrative approval procedures
 - Remove barriers of entries into market by mitigating the regulation on sectors like health care, education, digital market
 - Decentralize powers from central to local governments
 - Require governments at all levels to work according to the negative list
 - Reduce taxation for SMEs

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Supply-side Structural Reform

- **Reform SOEs**
 - Conduct mixed ownership reform by bringing in multiple types of investors
 - Encourage SOEs to go public
 - Improve differentiated salary system for executives
 - Let professional managers chart the course for SOEs
 - Strip social functions

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Supply-side Structural Reform

➤ Cut excess production capacity

- Shut down zombie companies (insolvent companies that are losing money and could hardly get by relying on debts and subsidies)
- Make the reduction of overcapacity be one of the major indicators for the assessment of local government performance
- Avoid adversary impacts on economic and social stability: creating a national fund aiming at enhancing the laid-off workers' abilities to find new jobs
- Cut steel output by 100-150 million tons during 2015 to 2020, of which, 45 million tons in 2016, 47% during Jan. to July 2016



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Supply-side Structural Reform

➤ Mitigate the negative impact of corporate debt

- Promote enterprises direct financing rather than borrowing
- Push forward the debt to equity swap
- Harden budget constraints on SOEs
- Restructure debt





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Supply-side Structural Reform

- **Reform fiscal and taxation system**
 - Transform business tax into VAT and build a sound VAT system
 - Improve consumption tax system
 - Better regulate how administrative fees are charged and how government funds are collected
 - Build a legal and transparent non-taxable income regulation system

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III. Regional Cooperation

- **China's Spill-over Effects: Challenges and Opportunities**
- **China's Policy Orientation**
- **Policy Priorities for Regional Cooperation**
- **The Belt and Road Initiative**

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China's Spill-over Effects: Challenges and Opportunities

- Decreasing imports: \$ 8 trillion in the coming 5 years
- ODI (\$ 600 billions) and FDI (\$ 750 billions): labor cost, industrial upgrading
- Tourism: 700 million in the coming 5 years
- Exchange rate: more fluctuation vs. stability
- Commodity prices and over-capacity cutting
- Trade frictions between China and U.S.

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China's Policy Orientation

- **Foster an enabling and orderly environment for investment**
 - Expand market access for foreign investors
 - Build high-standard pilot free trade zones, strengthen protection of property rights,
 - Level the playing field to make China's market more transparent and better regulated.
- **Foster an external environment of opening-up for common development**
 - Form a global network of free trade arrangements
 - Stand for concluding open, transparent and win-win regional free trade arrangements
 - Prevent a currency war

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Policy Priorities for Regional Cooperation

- RCEP
- FTAAP
- China-Japan-Korea FTA
- China-Mongolia-Russia economic corridor
- Financial safety network: AMRO
- AIIB: key role in infrastructure construction

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The Belt and Road Initiative

- Proposed by China's President Xi Jinping in 2013 and began to take shape in 2014 with a focus on infrastructure
- The Silk Road Economic Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean.
- The 21st-Century Maritime Silk Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other.
- Five Major Goals: Policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds

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Four Dimensions

- **Physically**, it means connectivity among countries involved via land-road, railroad, sea-route, airways, internet, and the like
- **Financially**, it means innovation and cooperation in transforming savings into investment in real economy and RMB internationalization
- **Institutionally**, it means reduction of transaction costs and provision of positive incentives for investors in order to improve the allocation of production factors
- **Culturally**, it means the betterment of mutual understanding of different peoples and enhancement of peaceful coexistence



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“A Hidden Agenda” or “a Sense of Gain”?

- **Some people are suspicious of China’s intention by saying that there is “a hidden agenda.**
 - The export of production and construction capacity is not only in the interest of China but also in the interest of those countries whose financial resources and infrastructure are far from sufficient by pushing forward their industrialization as well as helping to stabilize the world economy.
- **President Xi on August 17 2016 urged the implementation of B&R projects to ensure that the countries involved have “a sense of gain”.**
 - China is willing to give other countries “a ride” as it renews ties with them. Chinese companies will be strongly encouraged to invest in countries along the B&R and China welcomes investment from those countries.
- **The B&R Summit 2017**



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Thanks for your attention !



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