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NEWSLETTER

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Supply-Side Reform

Supply-side structural reform focuses on the "elimination of excess capacity". In a broad sense, this means de-stocking, de-leveraging and cost reduction. It is a long-term issue which requires in-depth institutional planning and long-term adjustment.

Confidence in China's Future Growth

The downward trend of Chinese economic growth will to some extent help to break the vested interest in reform and opening-up, thereby laying the foundation for sustainable economic growth of China in the "New Normal" state.

To Eliminate Excess Capacity

Excess capacity is a symptom of imbalanced supply and demand. The re-balance of supply and demand can be realized by transforming and upgrading traditional industries, developing emerging industries, using new factors and forming new productivity.

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A Study on Port-Shipping Cooperation of Shenzhen along the 21st Century Maritime Silk Road

The study, finished in December 2015, proposes positioning and measures for Shenzhen's port-shipping cooperation along the route.

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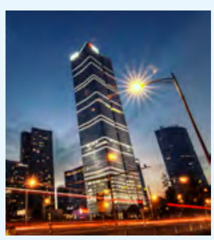
The 11th Shanghai-Tianjin-Shenzhen Forum / Dec. 11, 2015, Tianjin

Macao Financial Development Forum / Dec. 11, 2015, Shenzhen

Upcoming

CDI Beijing Annual Meeting / May 7, 2016, Beijing



Themed on "China's ODI: Strategy, Mechanism and Challenges" the meeting convenes more than 100 participants including 20-plus economic experts to discuss pressing issues concerning China's open economy and explore the policy solutions.

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China's Opening-Up Beige Book (2014-2015): the First Year for ODI

What is Supply-Side Reform?

Prof. FAN Gang

What is supply-side reform? To put it simply, the supply side is the opposite of the demand side. On the demand side, there are 3 stimulating forces of the economy, e.g., investment, consumption and export. These 3 forces determine the short-term economic growth rate. On the supply side there are 4 factors, e.g., the labor force, capital, technologies and regulations. In essence, it takes a long time to improve these 4 factors, which decide the long and mid-term potential growth rate.

In this sense, supply-side reform is a long-term issue which requires in-depth institutional planning and long-term adjustment. Reform is necessary whether or not the economy is good. However, the supply side also has short-term issues such as eliminating the supply surplus. Building a factory is a long-term issue because it only takes 3 years. However, that factory can be closed in an instant.

Quickly eliminating the supply surplus and helping to excise the excessive resources trapped inside it can improve the efficiency of resource use, enhance the quality of growth and promote economic growth, and this captures the essential meaning of supply-side structural reform. "Zombie companies" in some regions rely on subsidies from local governments and continue to waste resources, resulting in the decline of the whole industry's supply capacity. This is the practical meaning of supply-side reform now and in the near future.

For these reasons, supply-side structural reform focuses on the "elimination of excess capacity". In a broad sense, this means de-stocking, de-leveraging and cost reduction. The capacity would not be released and the next round of growth would not happen if such measures were not taken. Although some doubt that the next round of growth will happen, this author firmly believes it. Sooner or later, the Chinese economy will escape its slow performance, abnormal state and deflation, and we will definitely see the results of this adjustment. If we accept the market economy, we have to accept the whole process of the economic cycle. I hope the next round of economic growth will not be too extreme and will maintain normal development. A 14% growth rate is much too high, and 7% is already a high growth rate.

This adjustment has an active meaning. When the economy is far too hot, the "survival of the fittest" seldom obtains because all enterprises have their orders. However, when the economy is in a downward trend, enterprises have to think about reducing costs, making innovations and improving efficiency. Enterprises that have focused on product innovation and the improvement of technologies in the past few years are presented with greater advantages when the economy is slow, and those enterprises that are not sufficiently professional and always think about speculations and consider business transitions find themselves in the position of possibly being eliminated, merged or regrouped. When good resources go to good enterprises, better benefits will be generated, and the form of direct financing will play a bigger role.

We must now be fully aware of the mistakes that can be made in undertaking supply-side reform. Some people misunderstand reform as adding new industries and new supplies, which might result in a new surplus when the original supply surplus has not yet been eliminated. In our future economic development, we should not use new supply growth to cover past problems.

Prof. FAN Gang is the president of CDI.

Which Fields Inspire Confidence in China's Future Growth?

Dr. LIU Guohong

Since 2011, China's annual growth rate has fallen from a 2-digit number to about 7%. It is true that China is experiencing economic restructuring. However, one would 'miss the forest for the trees' if they considered this short-term restructuring as a long-term law.

Firstly, China has high-quality human resources. The Chinese spirit and tradition of diligence and endurance, particularly in the period of reform, opening-up and pushing industrialization forward, have transformed into incredibly powerful resource advantages and development impetus. In just 3 decades, Huawei has grown into the world's largest provider of telecoms equipment by relying on the above-mentioned spirit and attitude. The Chinese people live a thrifty life and accumulate wealth, resulting in the fact that China accumulates capital faster than any other country in the world. It is true that China is now gradually becoming an aging society, which means the total labor population is in decline. However, the percentage of Chinese people receiving university education is rising considerably. In 2015, 7.5 million graduates graduated from universities, approaching the total population in Israel, a country known for its high-tech development. According to the results of a 2012 study by the OECD, by 2020, 29% of graduates aged between 25 and 34 in the world will come from China. For these reasons, we can safely expect the high quality of Chinese human resources to be sustained, and the high-quality labor force of China to continue to rise significantly. Moreover, as the cultural gene of the Chinese people determines our habit of saving, the accumulation of wealth and capital in China will also continue to grow. After the Chinese economic restructuring is completed and a proper growth route is identified, it is likely that China will maintain a high-medium growth rate into the future.

Secondly, China has huge market demand. After experiencing rapid growth over the past 30 years or more in the process of reform and opening-up, 1.3 billion Chinese people have escaped from poverty. By 2020, when China fully realizes a well-off society, the market space and purchasing power of China will continue to grow; in fact, this can already be seen in the fever with which Chinese people shop all over the world nowadays. The Chinese people are also curious about new ideas, technologies and dynamics, and show a higher than average tolerance for taking risks in innovation.

Take the mobile and internet industry as an example: the Chinese people change their mobile phones very frequently, and they have a higher tolerance for risks involving the Internet, which ensures that the mobile and internet industries of China quickly realize the upgrading and replacement of products and technologies. We can predict that, after this round of economic restructuring, it is highly possible for China to lead global industrial development in mobiles, Internet, IOT, e-commerce and even new-type finance.

Thirdly, China pushes forward market-oriented reform that is aggressive but not bold-faced. Looking back over the country's market-oriented reform, China didn't take "shock therapy", but "crossed the river by feeling the stones". Over the past 30 years of reform and opening-up, the Chinese economy has made huge achievements in its transition. China is now performing exceptionally in perceiving reform and opening-up, and applying the international rules of the game. It is clear that reform and opening-up in China are still underway, and there are still huge opportunities to release the bonuses involved therein. Due to the great gap between the per capita GDP of China and those of other developed countries and regions in the world, there is huge potential energy in the Chinese economy between East China, Central China and West China, and between the urban and rural areas. Nevertheless, this also clearly reflects that the Chinese economy can find opportunities in a crisis. The downward trend of Chinese economic growth will to some extent help to break the vested interest in reform and opening-up, thereby practically promoting the process and laying the foundation for sustainable economic growth in China under the New Normal state.

Dr. LIU Guohong is the director of Finance and Modern Industry Department at CDI.

Work Tirelessly to Eliminate Excess Capacity

Dr. HU Caimei

Recently, both traditional industries and emerging industries represented by iron and steel, coal, petrochemicals, nonferrous metals, optic fibers, carbon fibers, wind power, polycrystalline silicon and lithium batteries are suffering from excess capacity to different degrees. Eliminating excess capacity will probably become the major task of China's economic work in the following 2-3 years or even longer. As a matter of fact, if we can correctly understand excess capacity and identify the breakthrough points of eliminating it, we can remove the barrier obstructing economic growth.

Excess capacity is not a new phenomenon. It is the logical outcome of the economic cycle and the process of market clearing. Since the 1980s, the U.S. has suffered from serious excess capacity three times. After World War II, Japan was hit by various occurrences of excess capacity in its economic cycles. This round of excess capacity in China is serious because of the overlapping effect produced by the two instances of overheated economic development in 2004-2007 and 2009-2010, and because of the shortage of effective demand caused by the slow performance of the global economy.

Excess capacity is a symptom of imbalanced supply and demand, which is caused by factors on both the supply and demand sides. On November 10th, 2015, at the 11th Meeting of the CPC Central Committee Financial & Economic Leadership Panel, General Secretary Xi Jinping of the CPC Central Committee pointed out that "it is necessary, while properly expanding the total demand, to enhance supply-side structural reform and focus on improving the quality and efficiency of the supply system".

By undertaking supply-side reform, we can transform coarse, disorderly and failed supply into intensive, orderly and effective supply. In other words, by transforming and upgrading traditional industries, developing emerging industries, using new factors and forming new productivity, we can realize the re-balance of supply and demand.

As a result, the 2016 Economic Work Meeting of the CPC Central Committee made arrangements to eliminate excess capacity. China also established special funds to provide subsidies for local governments and enterprises in their efforts to eliminate excess capacity. On January 27th, 2016, the Executive Meeting of the State Council formulated measures to give financial support to industrial upgrading and development, and proposed phasing-out loans for "zombie enterprises" to support the elimination of excess capacity. A campaign designed to eliminate excess capacity and focused on supply-side reform at its core has been kicked off.

Aside from supply-side reform, another major means of eliminating excess capacity is to expand external demand. The "Belt and Road" initiative provides an opportunity to eliminate excess capacity through international capacity cooperation in such fields as iron and steel, cement and plate glass.

Dr. HU Caimei is a postdoctoral fellow at CDI.

Projects >

A Study on Port-Shipping Cooperation of Shenzhen along the 21st Century Maritime Silk Road

E Based on such background strategies as the "Belt and Road" initiative, FTZs, Guangdong-HK-Macao Bay Building and international port-shipping cooperation, this study analyzes the current international port-shipping cooperation, proposes a general strategy, targets and positioning for port-shipping cooperation of Shenzhen and recommends such measures as deepening partnerships and developing cruise-ship tourism and port-shipping exhibition-conference cooperation along the route, thus providing decision-making references for Shenzhen to conduct international port-shipping cooperation. It has been finished in December 2015.

The 11th Shanghai-Tianjin-Shenzhen Forum

On December 11, 2015, the 11th Shanghai-Tianjin-Shenzhen Under the theme "deepening reform in a comprehensive way: making innovative development in new areas and special areas in the 13th Fiver-Year Plan period", the Forum discussed the economic restructuring and upgrading of the three cities, and the latest thought and progress concerning the planning of the 13th Five-Year Plan period.

Macao Financial Development Forum

On December 11th, 2015, the Macao Financial Development Forum was held at the Institute. Based on the "Belt and Road" initiative, the participants discussed the feasibility of securing common development by combining the Macao Strategic Development Fund with domestic and overseas resources.

China's Opening-Up Beige Book (2014-2015): the First Year for ODI

In 2014, for the first time, the overseas direct investments (ODI) made by China exceeded the Foreign Direct Investment (FDI) received by the country, and this has milestone meaning for China's reform and opening up. The five chapters of this book elaborate on the ODI made by China, China's opening-up to the outside world, the opening of the Chinese economy, the opening of the society and culture of China, and the opening of Chinese regions to the outside world.

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Contact us
For more information, please visit our website:
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Editor-in-chief: Carol Feng, Wendy Zhang
Email: carolf@cdi.org.cn, wendyzhang@cdi.org.cn / Tel/Fax: 86-755-8241 1011