Resource efficiency and clean development

The exhaustion of resources has increasingly made improving resource efficiency a priority. Green development has become an inevitable trend. Urgent problems include smog, water shortage, etc. This represents both a challenge and a business opportunity. Companies around the world are faced with the same problems with a common prospect of transformation and upgrading. What matters is how to do better.

Large city clusters

In the past few years, the supply of real estate has been insufficient and uneven, resulting in skyrocketing housing prices in large cities and overstocking in small ones. To solve this problem, the Ministry of Land and Resources of China has announced its decision to increase land supply in large cities and allow collective land to enter the market. Housing prices will stabilize after an equilibrium of supply and demand is reached. At the same time, through upgrading transportation and public services, large, medium and small cities in a region will be able to develop in a more coordinated way to jointly form an ecosystem of metropolitan groups. With urbanization taking up speed, there will be huge opportunities.

In the future, China will see the formation of three super city clusters with a population of 100 to 200 million each, and a number of large city clusters with a population of 30 million to 50 million each. The three super city clusters are the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Pearl River Delta. In addition, large city clusters will emerge in areas surrounding provincial capitals.

Reform to support private sector

The central government has successively introduced new measures for reform and opening-up, with new adjustments centered on the development of the private sector. If state-owned enterprises are to acquire private ones to become their largest shareholders, then the nature of the latter will be transformed into that of state-owned enterprises, which will result in them being restricted by SOE management rules, thus losing their vitality. Financial mechanisms can be leveraged or funds be established to allow the partial acquisition of the equity of private businesses and to exit after the market rebounds. This will effectively prevent private businesses from being incorporated into state-owned enterprises, so that they can finally return to the market.

Fan Gang, President of CDI

Based in Shenzhen, Guangdong Province, China Development Institute (CDI) is a non-governmental and market-oriented think tank which was founded in 1989 on approval from the Chinese State Council. CDI was designated as one of the 25 China Top Think Tanks in 2015.

CDI develops solutions to public policy challenges through broad-scope and in-depth research to help advance China's reform and opening-up. CDI is committed to providing proactive, innovative and practical research and consultation for China's central and local governments and businesses at home and abroad. Its research and consultation is centered on macro strategy, regional economy, urbanization, industrial development, business strategy and decision-making.

CDI Online

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Equal Terms for Foreign Firms

Industrial output was up 5.3% y/y in January-February, a record low rise, and down 0.4 pps from Q4 2018. The slowdown was mainly caused by weakening auto industry output, and a plunge in exports.

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China's Shifting Economic Landscape

The current slowdown in China's economic growth, while affected by the overall global economic sluggishness, is also inseparable from a number of overheating in China's own development process.

China's New Development Stage: Challenges and Opportunities

China's new development stage has many features: independent innovation has become a new growth pillar; the domestic consumer market has grown steadily; large city clusters have gradually formed; green development has become an inevitable trend; and private businesses urgently need to find a way out.

News >

CDI Explores Opportunities for China-Israel Innovation Cooperation

CDI researchers visited Israel together with the delegation of Shenzhen Association of Medical Devices to explore what fuels Israel's innovation and opportunities for China-Israel cooperation on scientific and technological innovation, digital health, etc. from March 23 to 28.

In the meeting with Mr. Matan Safran, Director of the China Department at the Foreign Trade Administration within the Israeli Ministry of Economy & Industry, both sides agreed to tap into great potential for China-Israel innovation cooperation, especially on digital health, with Israel's successful innovation ecosystem covering makers, incubation, commercialization and industrialization of scientific research results and venture capital and China being an important market in the world.

The delegation also visited eHealth Ventures and Techcode Israel, the innovation incubators, and Sheba Medical Center. They also attended the MEDinISRAEL, the flagship event of the digital health industry in Israel.

CDI-NERI Macro Outlook >

Equal Terms for Foreign Firms

Prime Minister Keqiang Li announced during his annual address to the People's Congress of Beijing on March 5th that China's growth target for 2019 would be in the 6% to 6.5% range. Another key takeaway is a significant 3 pps cut in value-added tax rate for manufacturers, to 13%.

Industrial output was up 5.3% y/y in January-February, a record low rise, and down 0.4 pps from Q4 2018. The slowdown was mainly caused by weakening auto industry output, and a plunge in exports. Fixed asset investment was up 6.1% y/y, down 1.4 pps from Q4, but 1.6 pps higher than the lowest rate seen in 2018, in Q3. It's hard to conclude a clear trend for investment growth. Retail sales of consumer goods were up 7.1% y/y in real terms, up 1.1 pps from Q4. Trade dipped further. Exports were up only 0.1% y/y, down 10.2 pps from the fastest-growing rate, in Q3. Imports were up 1.5% y/y, down 17.5 pps from Q3, and have been sharply declining since November.

CPI rose 1.6% y/y in February, down 0.7 pps from its highest growth rate, in Q3 2018. We expect the CPI to fall further. For producer prices, the ex-factory price index of industrial products and PPI were up 0.1% and -0.1% y/y, down 4.6 pps and 5.3 pps from its fastest growth rate of 2018. In January-February, M1 rose 2% y/y, up 0.5 from the end of 2018, M2 was up 8% y/y. The total financing scale jumped 25% y/y, in contrast to -14.1% y/y in 2018, possibly to keep future money growth afloat.

On March 15th, at the end of its annual policy conference, Beijing passed a new foreign investment law, in which it promised to give foreign firms treatment equal to domestic firms. Government support will apply equally to foreign firms, and their applications for operating licenses won't be treated differently from their domestic rivals, Beijing announced. Forced technology transfers will be banned. This policy demonstrates China's commitment to continue opening, consistent with previous government claims. The equality law will compensate for the negativity from growth slowdown and trade war. We expect FDI, crucially built on investor confidence, might rise, though FDI has already been stable.

Insights >

China's Shifting Economic Landscape

China's emergence as an economic powerhouse is mainly determined by its own national conditions, not by the international landscape. At present, China faces strong downward pressure on economic growth because of the increasing costs of labor or environmental protection, and more importantly, cutting overcapacity and deleveraging, which have led to tightened monetary policy and lower leverage ratio, seriously constraining the development of private businesses.

The underlying problem is over-investment when the economy is overheated, which generates huge production capacity, whereas such demand is only an illusion, thus resulting in over-capacity. Investors fail to repay debts, resulting in bad debts and increasing leverage ratio.

In the face of economic overheating, the Chinese government has strong regulatory capacity and adopts a soft landing. Its advantage is to suppress bubbles before the full establishment of the long-term mechanism, to ensure that risks do not escalate into systemic ones and maintain sustained growth.

The disadvantage is that many problems remain unresolved, with the emergence of more and more zombie enterprises and bad debts.

China's economic fluctuations are similar to those of other countries, with an average of 8% volatility, from 14% to 6%, as compared to 6% of many other countries, from 3% to minus 3%. The difference is that China's economy is able to maintain growth.

The U.S. was at the lowest point of its economy when its market was cleared out. It arrived at that stage much earlier than China, while the latter is still in the process of digesting and clearing, tackling zombie companies, debt-for-equity swaps, and deleveraging. China has already moved from deleveraging to stabilizing leverage.

Globally, on the one hand, conflicts of interest have widened in various aspects. One important change is heightened trade conflict between the United States, the European Union, Japan and China. On the other hand, there are many uncertainties in the world, such as the U.S. stock market bubble and Brexit.

Considering the situation at home and abroad, we need to be prepared for relative downturns of China's economy. As Chinese economy nears its bottom, the government is adjusting and adopting easy monetary policies, such as lowering the reserve-deposit ratio. When the market is basically cleared towards the end of the cycle, China will enter the next round of growth.

Fan Gang, President of CDI

China's New Development Stage: Challenges and Opportunities

Independent innovation

China is entering a new stage of development, where the driver of growth is independent innovation, moving away from leveraging only comparative advantages to leveraging both comparative advantages and late-mover advantages. China's comparative advantage is cheap labor. Reform and opening-up introduced foreign know-how, which became part of China's knowledge pool and helped form China's late-mover advantage of saving research and development costs. However, imitation means a lack of independent innovation. As global technological barriers become more and more evident and China has gradually approached to leading positions in many fields, China is forced to enter the stage of independent innovation. We should give priority to improving the long-term mechanism for incentivizing independent innovation, gradually weaning it off from government's sponsorship and subsidies, and turning intellectual property into equity which will become a permanent incentive.

Domestic consumer market expansion

Various factors in China account for the decline of savings rate and the increase of consumption rate. GDP per capita in 2018 was close to $10,000, ushering in a stage of high consumption. In the past decade, low-income people have seen faster growth of income, leading to higher consumption. The Internet and e-commerce are highly developed today, promoting consumption tremendously. Many young people are taking out loans for consumption purposes. At the same time, consumption among senior citizens is also upgraded.