On Some Reform Measures to Strengthen the Foundations for China’s Future Economic Growth

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Outline

1. Headwinds for China’s Future Growth
2. Six Strategies for China’s Future Growth as in *China 2030*
3. Some Supply Side Reform Measures
4. Conclusions
1. Headwinds for China’s Future Growth

- GDP in 2010 was more than 20 times of that in 1978, the average annual growth rate is 9.9% over those years!
1. Headwinds for China’s Future Growth

• Tight supply of labors
• Low economic efficiency, especially an inefficient financial sector
• Tightening of environment constraints and resource supply
• Rising social unrest
• Growing trade frictions

*Unbalanced, Uncoordinated and Unsustainable.*
2. Six Strategic Directions for China’s Future Growth

① Re-define the role of government and the private sector to strengthen the market-based economy

② Encourage system-wide “open” innovation

③ Protect environment and grow “green”

④ Promote equality of opportunity and basic social protection for all

⑤ Build a strong fiscal system aligned with the evolving role of government

⑥ Develop win-win relations with the rest of the world

------ Nehru Presenting *China 2030*
3. Some Supply Side Reform Measures

1. Fiscal and taxation system reform
2. Deepen SOE reform
3. Reduce entry barriers to market
4. **Pursue innovation-driven growth**
5. Enhance the quality of human resources
6. Broaden opening-up to the world

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- Financial sector reform
- Land reform
- Re-define the role of government
Pursue innovation-driven growth

China’s Next Challenge: becoming an innovation-driven economy

Innovation and sophistication factors
- Business sophistication
- Innovation

Key for innovation-driven economies

Efficiency enhancers
- Higher education and training
- Goods market efficiency
- Labor market efficiency
- Financial market development
- Technological readiness
- Market size

Key for efficiency-driven economies

Basic requirements
- Institutions
- Infrastructure
- Macroeconomic environment
- Health and primary education

Key for factor-driven economies

China here?

Here???
Pursue innovation-driven growth

Technology Transfer vs Technical Capability: How Chinese companies have been learning and developing technological capacities

Sources: Adapted from Lim (1998)
Pursue innovation-driven growth

China’s Growing Technology Capacity

• R&D Spending: rising from 0.5% of GDP in 1995 to 1.75% in 2010 and climb to 1.87% in 2011. Target is 2.5% of GDP by 2020.

• Human resources: 6.5 million graduates in 2010, approximately 40% in S&E fields.

• Patents output: ranked as fifth highest patenting nation by WIPO in 2009.

• Scientific output: Number of published scientific papers rose from 25,474 in 1996 to 184,080 in 2008. China now in the second place after the U.S.
Pursue innovation-driven growth

Factors contributing to Chinese firms’ success

• Past Experiences in production and technology development can be utilized
• MNCs acting as role models for market-oriented production, R&D, and marketing innovation
• Supply of skilled labor and qualified engineers
• Changing technologies changed landscape of competition—ICT as enabling as well as generic technology
• Unique demand structure induced localized innovation
• Competitive environment promotes innovation.

Host country and industry characteristics Matter!
Pursue innovation-driven growth

The Importance of Market Competition

Promote Market Based Technology Progress and Innovation, i.e. to encourage entrepreneurship to discover and seize business opportunities in an open competitive market within a globalized market, with knowledge and talents readily available thanks to ICT and transportation progress.

– Making competition more effective (institutional building) provides the strongest incentive for innovation

– Support entrepreneurship: starting-ups play important role in spurring innovation and they need support from government as well as from organized venture capital
Pursue innovation-driven growth

In the long run, the National Innovation System should be able to provide proper incentives to all the players and stake-holders

• **Government**: to supply rules, funds, human resource; create demand
• **Enterprises**: to invest in R&D, improve technological capabilities
• **Research Institutions**: to carry out fundamental research, create knowledge
• **Universities**: to create knowledge, to supply high-quality scientists and engineers
• **Financial intermediaries**: to invest in start-ups
• **Multinationals**: to attract local talents
• **Scientists & Engineers**: to create

**Improve Interactions among these elements!**
4. Conclusions

• The Chinese government has been firmly committed to deepening comprehensive reforms (as demonstrated by the 18th Party Congress Report)

• Reforms to improve supply side conditions do facilitate China’s long term growth (also confirmed by quantitative examination)

• Through coordinated and comprehensive reforms under strong leadership, China can meet its challenges and become a modern, harmonious, and creative high income society by 2030.
Thank You!