

Macro Economy Research Conference

CHINA'S TRANSITION AND THE GLOBAL ECONOMY

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

Shi-Ji GAO, PhD

Development Research Center of the State Council, China

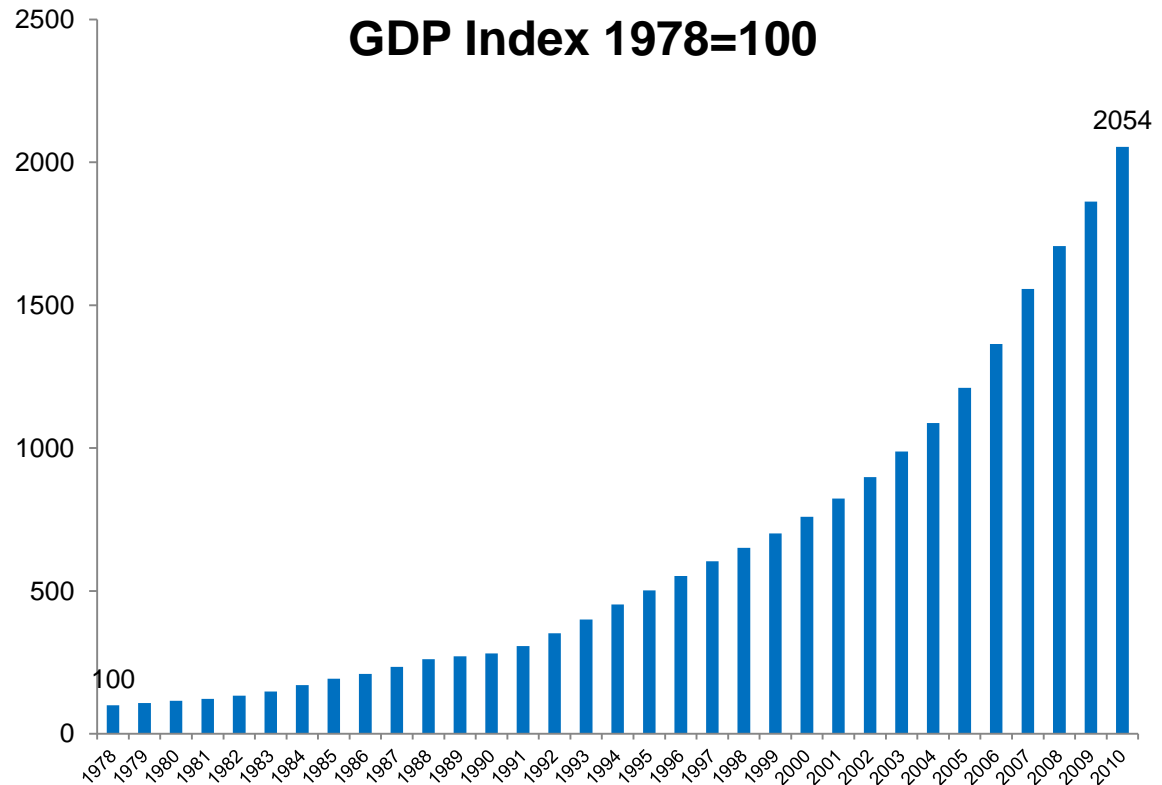
Outline

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

➤ Past Economic Growth Performance

- **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

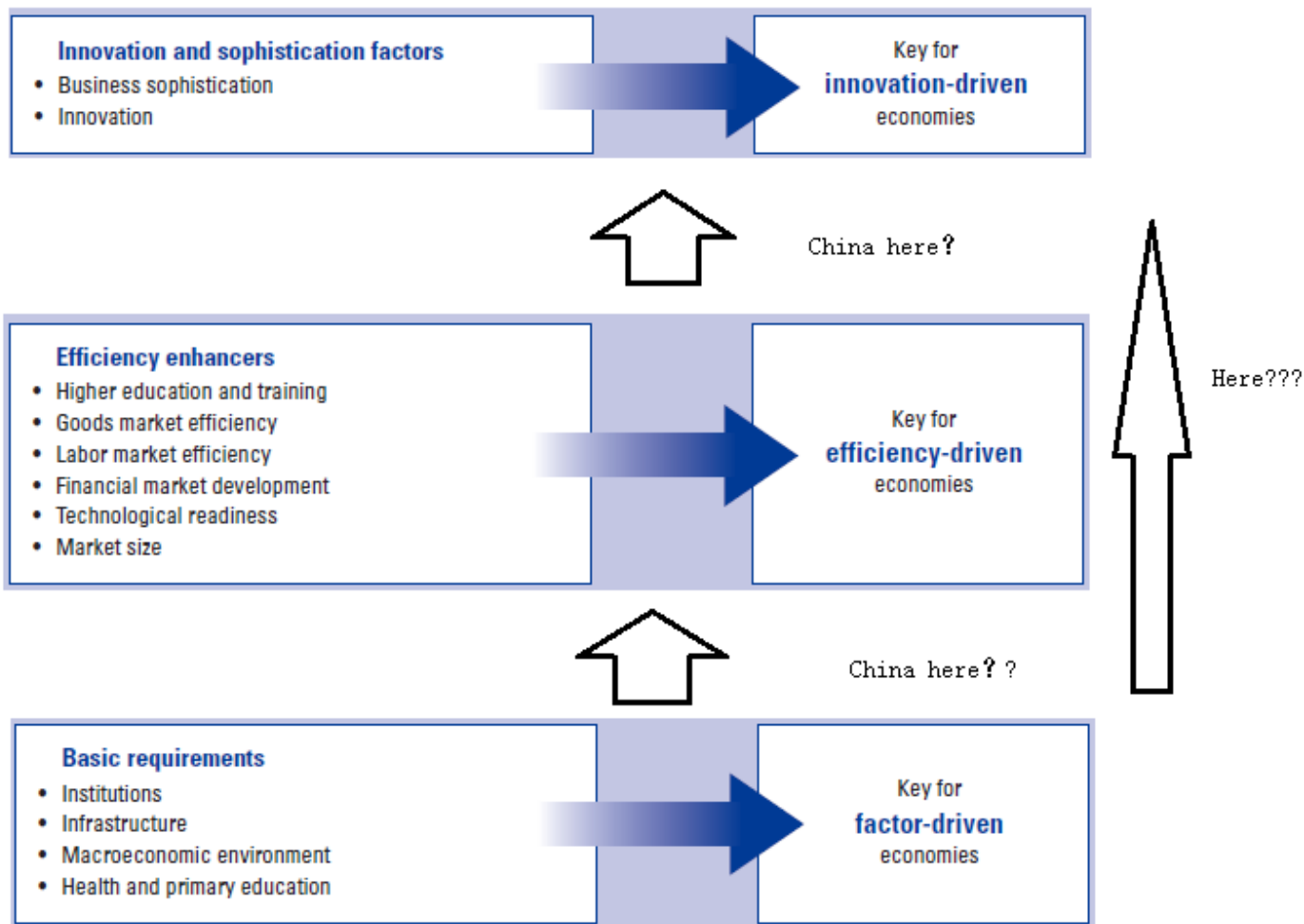
- ① Fiscal and taxation system reform
- ② Deepen SOE reform
- ③ Reduce entry barriers to market
- ④ **Pursue innovation-driven growth**
- ⑤ Enhance the quality of human resources
- ⑥ Broaden opening-up to the world

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- Financial sector reform
- Land reform
- Re-define the role of government

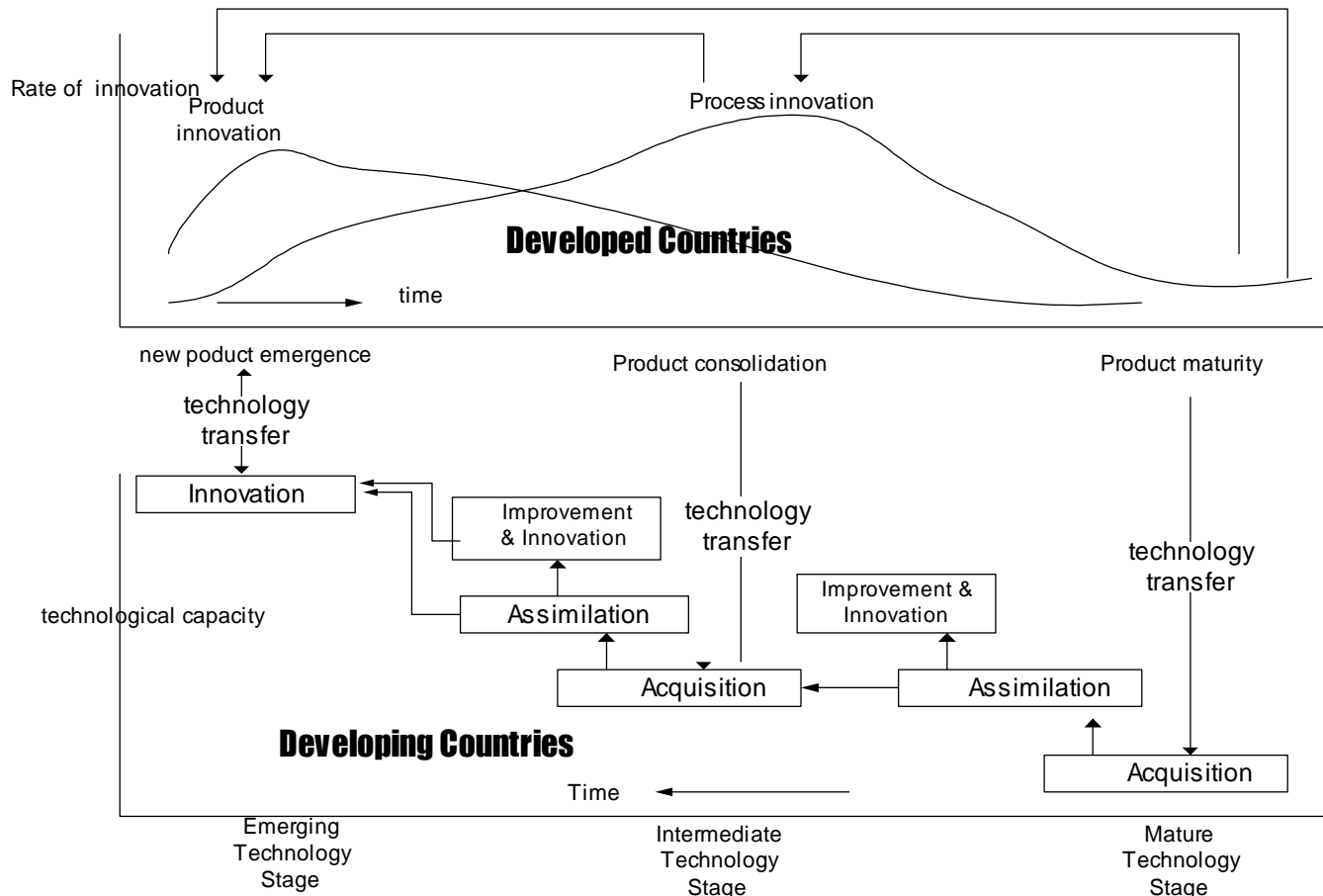
Pursue innovation-driven growth

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



Pursue innovation-driven growth

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



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!