

## What Opportunities Does China's Reform Bring to the World?

*By Wang Jianjun, Outlook Weekly*

**Abstract:** *At the moment of President Xi Jinping's visit to the United States, Chinese economic risks were gradually fading, vitality emerging, innovation occasionally rewarded, and potential of domestic demand was especially large, and Chinese economy is becoming the cornerstone of hedging the global economic turmoil... History is reaching a turning point and the colorful China story is far from over.*

On September 22<sup>nd</sup>, President Xi Jinping left Beijing and flew to Seattle, which drew the curtain for his first state visit to the United States. It is noteworthy that the 16<sup>th</sup> Meeting of the Central Leading Group for Comprehensive Deepening Reform on September 15th, one week before heads of world's two most influential economies launched the all-dimensional dialogue, used the wording four “unswervingly” for the very first time to newly define the basic state opening-up policy for the new era.

It states that we must unswervingly implement the basic state policy of reform and opening and a more proactive strategy of opening, unswervingly heighten the level of open economy, unswervingly introduce foreign capital and foreign technology, and unswervingly improve systems and mechanism of opening, promote the deepening of reform with the expanding of opening and promote the expanding of opening with the deepening of reform to inject new impetus, add new vitality and develop new space for economic development.

In a written interview with *Wall Street Journal* before visiting the United States, President Xi pledged that against the overall global economic backdrop, many countries had encountered difficulties in their economy, and Chinese economy was also under a downward pressure, but it is a problem in the course of

progress. What he emphasizes, in particular, is that whatever happens, China would stay strongly committed to deepening its reform on all fronts while opening still wider to the outside world.

He hopes that visionary people worldwide need to take a longer view. Vividly comparing Chinese economy to a large ship, he states that to understand Chinese economy, one can liken it to a large ship on the sea, the question one asks is whether it is sailing in the right direction, and does it have sufficient engine power and energy to stay long. Any ship, however large, may occasionally get unstable sailing on the high sea. Investors would come to a right judgment if they have a full understanding of China's progress in economic development since the reform and opening-up, of China's strategies formulated recently to ensure sustained and steady economic growth, and of the relevant data and trends in China's economic performance.

According to IMF data, in 2014, EU's GDP reached US\$18.5 trillion and contributed US\$0.2 trillion to global economic growth; U.S. GDP was US\$17.4 trillion, contributed US\$0.375 trillion; while Chinese GDP was US\$10.4 trillion, but contributed US\$1.32 trillion to the global economy, provided 40% of the global newly growing power and became the strongest driving locomotive of global economic growth.

Mr. Han Baojiang, Director of Department of Economics in Party School of the CCCPC, told a reporter of Outlook Weekly in the interview that reform and opening are concomitant and mutual promotion. Nowadays, China has integrated into the world market economic system. The breadth and depth of participating in economic globalization continue to elevate and the status and impact in the world economy have significantly improved. This high degree of interconnection means comprehensively deepening the reform and discarding defects of mechanisms and systems that hinder economic development, which will not only restart China's economic vitality, but also bring about magnificent opportunities like those in the past 30 years of reform and opening to the region and even the world at large.

### **The Reform Courage is Rare in the World.**

In recent two years, compared with the dynamics and breadth of the world economic adjustments, China's courage, speed and intensity of promoting a new round of deepening reforms are rare in the world. Especially after the Decision by Third Plenary Session of the 18th CCCPC, about 80 major reform tasks were basically completed just in 2014. On top of that, the relevant government departments finished 108 items of reform tasks, with 370 items of reform results delivered in various sectors.

About 100 items of key reform steps are launched this year, and about 70 reform programs adopted. As President Xi points out that more major economic reform measures would be introduced this year, those reform measures that facilitate growth, structural adjustment, people's well-being and risk prevention would be prioritized, and substantive reform plans would be vigorously adopted in areas such as fiscal and taxation, finance, opening-up, the judiciary and people's livelihood.

President Xi also stresses that this round of reform in China is comprehensive in nature and it is pursued with unprecedented intensity, and briefs foreign media with deep feeling. After enormous efforts, China has managed to

overcome some long-standing obstacles. These reform steps have upset the vested interests of some people, and caused changes to their work and life and therefore it is only natural to witness some difficulties, otherwise the reform fails. That is why he explains that China must be bold enough to crack hard nuts and ford dangerous rapids during reform and that only the daring would prevail at key stages of reform. At the same time, reform calls for down-to-earth efforts, and setting expectations in fantasy, playing public opinion by talking big or just making scratches would not work. Like an arrow shot that cannot turn back, China would forge ahead against all the odds to meet goals of reform.

At the crucial moment when the global economy needs boosting urgently, the importance of these reforms to the world is deeply sensed by developed countries. Henry M Paulson Jr., Chairman of Paulson Institute of the University of Chicago, published a signed article titled "Why China's economic reforms are critical to the United States" in Washington Post. The reason given by the author is the biggest risks for China--and, by extension, for the world-- can be avoided if China does the right things now to deal with its immediate challenges while accelerating President Xi Jinping's economic reform agenda.

With confidence, this former Treasury Secretary believed that China has the necessary tools and financial capacity to do so. He stresses that in recent years, China has made two principal contributions to global growth: it sustained its own growth in the wake of the 2008 financial crisis and served as a demand driver for the commodity and industrial exports of other countries. Thus, the man who is influential in both U.S. political and business area asserts:

The United States, for all its differences with Beijing, should be rooting for China's economic reformers to succeed.

### **Reform Actions have Gained Splendid Achievements.**

In recent years, China's economic growth has stepped into the New Normal and international community is becoming

pessimistic about long-term growth of Chinese economy, however, more and more signals indicate China's leading global economic growth in the future. Mr. Zhong Wei, Director of Center for Financial Research in Beijing Normal University, told a reporter of Outlook Weekly. The process of China's deepening reform is beginning to show more and more significant results.

*Firstly, the systemic risks of Chinese economy are gradually reduced.*

In his opinion, risks concentrated in areas of corruption, finance, real estate and debts are gradually being cleaned up through densely effective reform measures.

On anti-corruption, working styles of Party and Government are cleaned up and the rule of law is increasingly clear after continuous hard work. Mr. Zhong argued that compared with corruption impact on the Chinese economy and China's future national destiny before the Third Plenary Session of the 18th CCCPC, it should be concluded that today's actions of combating corruption and building clean government have achieved decisive success and would play a decisive role in promoting growth of Chinese economy in the future.

On fiscal revenue, despite of growth of current financial revenue slowing down, local debt problems have been clarified and the acceleration of 2 trillion CNY local debt exchange with stocks resolves extremely urgent needs of local financing. Fiscal and taxation system reform is in rapid progress and financial risks are eased and walking down the road of reconstruction methodically.

On real estate, real estate sector was going downward with high inventory and capital chain tension in 2014. Zhong said that there emerged a turning point for the estate to ease its sector risk this April. Real estate in first-tier cities and surrounding areas was stabilized and warmed up and housing finance, particularly, mortgage going downward enabled a soft landing for the Chinese real estate sector.

On debts problems, cooking China's huge debts used to be quite popular two years ago. Total outstanding debts accounted for more than 2.5 times the GDP was keenly emphasized,

while the total assets of Chinese government, businesses and residents equivalent to at least 6 to 8 times the GDP were ignored. Zhong said that currently, shadow banking system was back to the balance sheet, bubbles in real estate was gradually brought under control, bubbles in stock market were basically removed and non-performing assets caused by overcapacity in coal, iron and steel sectors were fully exposed. Currently, people do not only see China's debts, but also the assets, risk control and opportunities. Finance sector risks were being in steadily resolved.

*Secondly, growth potential and transformation effects of Chinese economy are gradually emerging.*

Zhong Wei believed that these positive factors are reflected in potential growth rate, real economy and innovation capability.

On potential growth rate, China has the ability to maintain economic growth at around 7% before 2020. Capital formation, human resources and total factor productivity determine potential growth. In terms of capital formation, as a major developing country China's per capita GDP is only one-seventh of the United States. Effective demand and investment capacity remain strong for domestic capital accumulation. In terms of human resources, growing length of per capita education and rising intelligent robots industry makes it possible for China's demographic dividend to disappear gradually. In terms of *total factor productivity*, China still has a large room.

On real economic transformation, currently, China's real economy is likely to have been through the most difficult time. Zhong analyzed that in the past 6 seasons, main business profit tax rate of Chinese enterprises with designated size was gradually maintained at more than 5%. Since 2015, total profit of state-owned enterprises is no longer subtracting and local state-owned enterprises profit growth is at 6% to 8%, profit rate in private sectors grow even faster. Taking industrial investment, added value, profit rate and gross profit into consideration, the real economy is highly likely to be close to the lowest point in the second quarter of this year.

On innovation capability, serving manufacturing sector and technicalization of service industry are becoming increasingly evident, contribution of consumption to economic growth is rising and major technological innovations accelerate spreading over a whole area from one point. Industries including “Internet +” as the core, typical regions like Shenzhen and sectors represented by defense, information and new energy begin to showing sustained vitality. Zhong said that innovation has a great potential to become the soul of Chinese economy.

The world economy is still struggling hard since the international financial crisis erupted and even though the United States leads quitting Quantitative Easing, its economy’s just entered the “new mediocre” period described by Ms. Lagarde, IMF Managing Director. In contrast, the growth rate of Chinese economy will be around 7% in the next five years, which is still outstanding in terms of both speed and quality. Zhong concluded from an international lateral perspective that Chinese economy, strongly committed to reform, was becoming the “ballast stone” of global economic stability.

### **Continue Protecting the World from “Wind and Rain”.**

Imagine what would happen if China didn’t substantially increase infrastructure investment? Otherwise, commodity prices wouldn’t rebound rapidly after the global financial crisis. Many emerging markets would find their lack of export earnings and in certain circumstances would directly face international balance of payments crisis.

Now imagine again what would happen if there was no sharp appreciation of Chinese Yuan? Currencies in other regions of the world would not devalue and monetary conditions would be much worse than what are now in many countries. Chinese Government still tolerates the continuous appreciation of Chinese Yuan regardless of downturn in export.

Mr. Jian Shixun, senior economic adviser of HSBC, took exception to the “amnesia” of some international public opinion. In his opinion, a true appraisal should be that since the global economic crisis, China had been

protecting the world from “wind and rain” which though is also in its own interest. China acted as the shock absorber for the global economy. China, like a sandbag, seemed to be able to absorb pacts of recession that could hamper global growth. Criticizing China’s internal imbalances was quite easy. However, that would be a significant mistake if the role of these imbalances in balancing the global economy was not considered.

He proposed three pieces of evidence. First, Chinese Government enormously increased infrastructure investment after the outbreak of the crisis, turning to “domestic demand first”. The ratio of total investment expenditure to GDP rose from 41% in 2007 to 47% in 2013, which boosted global demand. Second, Chinese Government simultaneously decreased current account surplus. The ratio of current account surplus to GDP dropped from 10.1% in 2007 to 2.1% in 2014, which contributed valuable and huge demand to the international market. Third, Chinese Government allowed steady appreciation of the Chinese Yuan. Since 2005, the currency exchange rate from China Yuan to US dollars has risen by 25%.

According to Jian, it is obvious that China has become the world’s last consumer in recent years, which is played more by the United States traditionally. Along with many other economies, especially the United States and Europe launching “massive deleveraging”, Beijing has played a balancing role. Otherwise, crisis faced by the world might be much more serious.

Mr. Han Baojiang believed that, in comparison with innovation or transformation in other countries, the new round of China’s reform is prominently featured by keeping people oriented and focusing on improving people’s livelihood, enhancing people’s sense of gain in the reform and really ensuring that civilians share the results of reform. For example, the data delighting Chinese decision makers are that from 2012 to 2014, number of new jobs rose by 39 million in total in the unfavorable conditions, more than Polish population. Rural per capita net income grew by 29.2% while urban by 23.4% and both

surpass the 22.8% of GDP growth in the same period.

Reform generates revenue growth and large numbers of Chinese consumers brought endless opportunities to countries around the world. Chinese International Travel Monitor 2015 indicates that Chinese outbound tourists amounted to 107 million at an increase of 20% in 2014, and exceeded 100 million for the very first time, among who 2.2 million traveled to the United States, with consumption reaching more than US\$23.8 billion. However, this is definitely not the peak of Chinese outbound tourist wave. According to forecasts by the report, the number of Chinese outbound tourists is expected to reach 174 million annually within next four years, contributing to a total annual consumption of US\$264 billion, almost equivalent to Singapore's GDP.

It is only a detailed case showing that leeway for Chinese economic development and potential for growth are still huge in the process of Chinese's reform and opening. Just as President Xi Jinping states to foreign media that with China's steadily promoting a new type of industrialization, IT application, urbanization and agricultural modernization, high residents savings rate and a huge potential of consumer spending plus its diligent workforce, rising middle-income population, robust service sector and vast and potential-rich market, China has the capacity and is in the position to maintain a medium-high growth in the years to come.

President Xi especially used two heavy-weight data to reply to the arguments that China's investment environment has changed and that foreign investors have lost

confidence. Firstly, China received US\$120 billion in foreign investment, more than any other country in 2014, and continued to be the leading destination among the developing countries for 23 years running. In the first eight months of this year, the actual amount of foreign investment used by China totaled US\$85.3 billion, up by 9% from the corresponding period of the previous year. Secondly, the report released by the American Chamber of Commerce in Shanghai showed that 95% of the surveyed businesses have planned to increase or maintain their investment in China... That is a decision made by over 300 American entrepreneurs, President Xi said meaningfully,

Just one week before those remarks, General Electric (GE) and China National Machinery Industry Corporation (Sinomach) signed a M.O.U. on strategic cooperation to join their hands to promote clean energy projects in Africa, aiming to help realize the goal of doubling population accessible to electricity in Sub-Saharan Africa. This project is identified as a substantive outcome of China-U.S. economic and trade pragmatic cooperation before President Xi's visit to the United States.

Ms. Duan Xiaoying, GE senior vice-president and Greater China CEO, told Outlook weekly that as China enters the historical stage of New Normal, GE proposed "Source China" and "Sink Worldwide" as one of the strategic pillars in China and that supporting enterprises in Belt & Road Initiative marks a new idea and a new model of US-China economic cooperation.