

What Is the New Normal in China?

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How the Chinese economy developed

- In Mao's era, the economy could not develop because there was no freedom for the people.
- Deng Xiaoping liberalized the control of government, and gradually the economy has caught up since 1980s.
- Liberalization and deregulation contributed to economic development in Deng's era.
- But Deng never promised to reform the political system.
- Three years ago Xi Jinping's administration began to strengthen its control over the economy and to re-regulate
- No freedom means no development; no democracy means corrupt officials.
- The Chinese economy may find it difficult to rebound and faces "L-shaped growth"

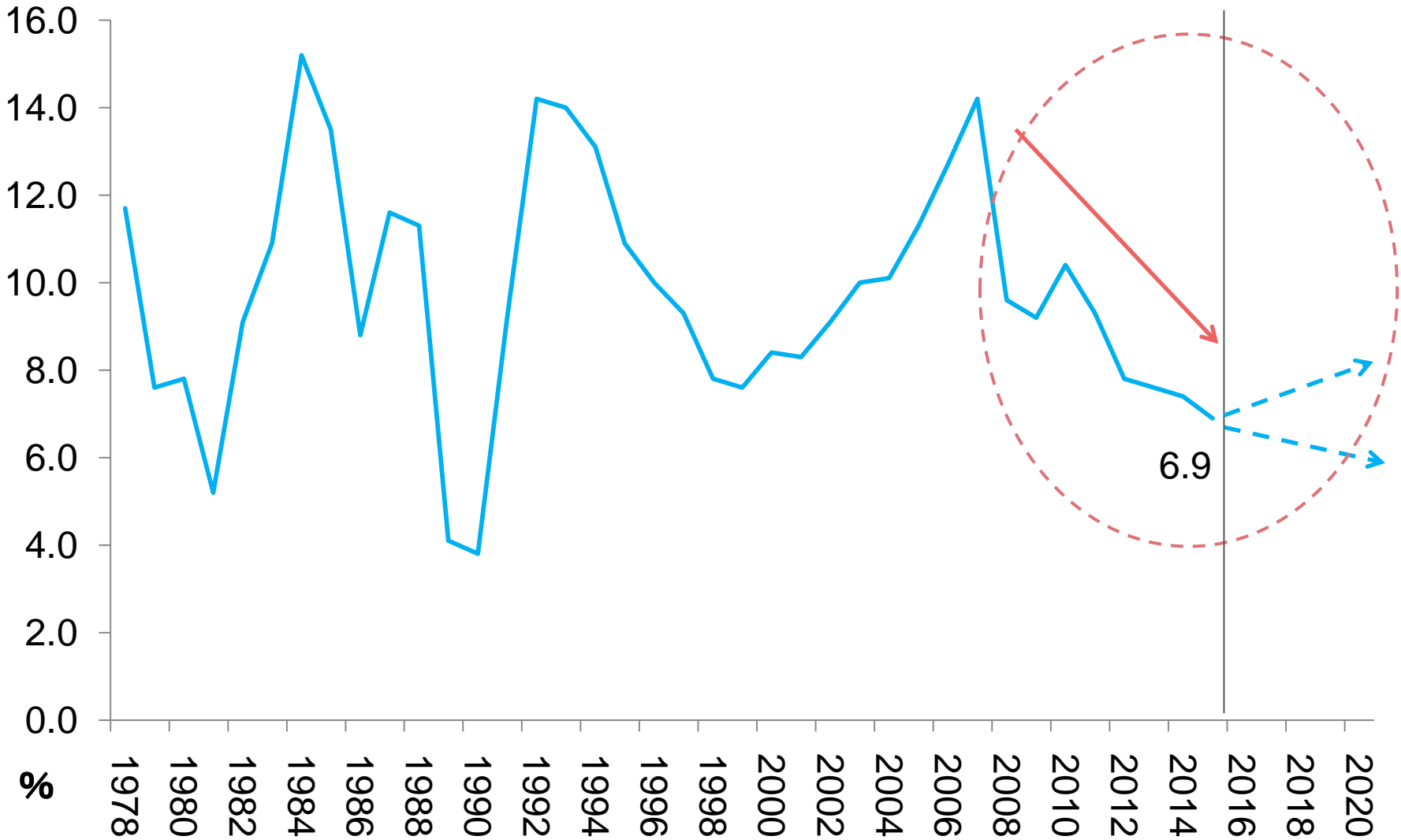
- 1980s: Introduced the production contract system to SOEs. Separated government functions from management function to guarantee the independence of SOEs.
- 1990s: Strengthened corporate governance.
- 1990s: Reformed the ownership of SOEs, making the government into a shareholder. Restructured the SOEs, "seizing the large enterprises and setting free the small enterprises"
- 2009: “The state advances, the private sector retreats.”
- 2014: Improved the M&As of SOEs
- 2015: Restructured “Zombie Enterprises”

- The risk of over-capacity of SOEs: 50% in vehicle manufacturing industry, 40% in heavy industries.
 - How can China reduce over-capacity?

- The risk of over-indebtedness: The debt of the SOEs means non-performing loans for the State-owned commercial banks.
 - How can China recapitalize the assets of the SOEs and SOCBs?

- The risk of the unemployment: China's low-end factories were removed to other developing countries. Millions and millions workers lost their jobs.

The possibility and reality of L-shaped growth FUJITSU



Can China sustain its economic development?

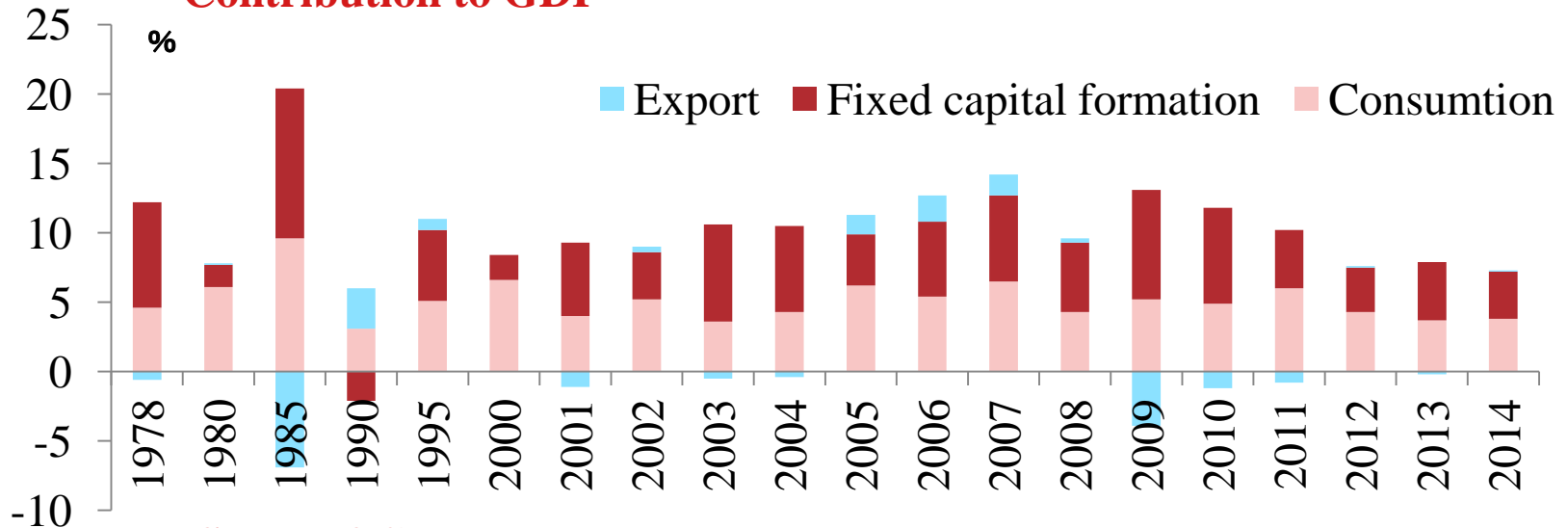
	2011	2012	2013	2014	2015	2016.1-3
Real GDP	9.2	7.8	7.7	7.4	6.9	6.7
Primary	4.3	4.5	3.8	4.0	3.9	2.9
Secondary	10.3	8.1	7.9	7.3	6.0	5.8
Tertiary	9.4	8.1	8.3	8.1	8.3	7.6
Fixed Capital Formation	23.6	20.6	19.6	15.7	10.1	10.7
Property Investment	27.9	16.2	19.8	10.5	2.8	6.2
Consumption	17.1	14.3	13.1	12.0	10.6	10.5
M2	13.6	13.8	13.6	12.1	13.3	13.4

Can China sustain its economic development?

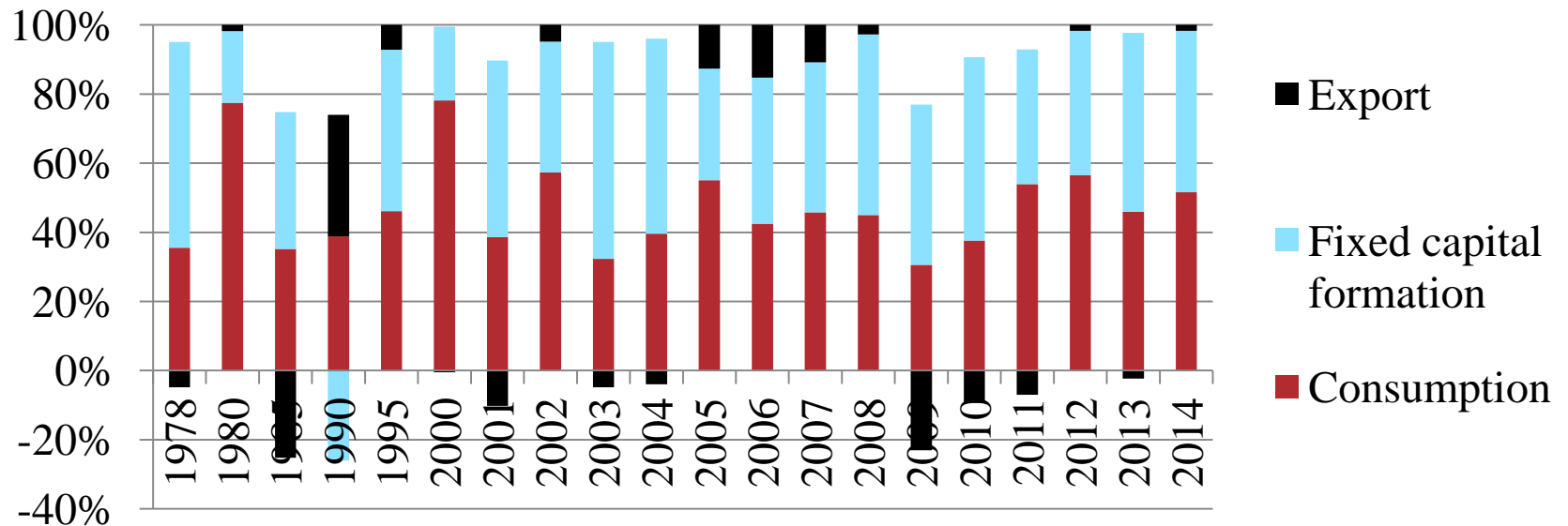
	2011	2012	2013	2014	2015	2016.1-3
External trade	22.5	6.2	7.5	3.4	-7.0	-5.9
Export	20.3	7.9	7.9	6.1	-1.8	-4.2
Import	24.9	4.3	7.3	0.4	-13.2	-8.2
FDI	9.7	-3.7	-2.9	1.7	7.9	19.3
Foreign reserve (Billion \$)	3,181	3,310	3,821	3,843	3,330	3,210
CPI	5.4	2.6	2.6	2.0	1.4	2.1
Jobless rate	4.1	4.1	5.0	5.1	5.1	5.1

What is the structure problem?

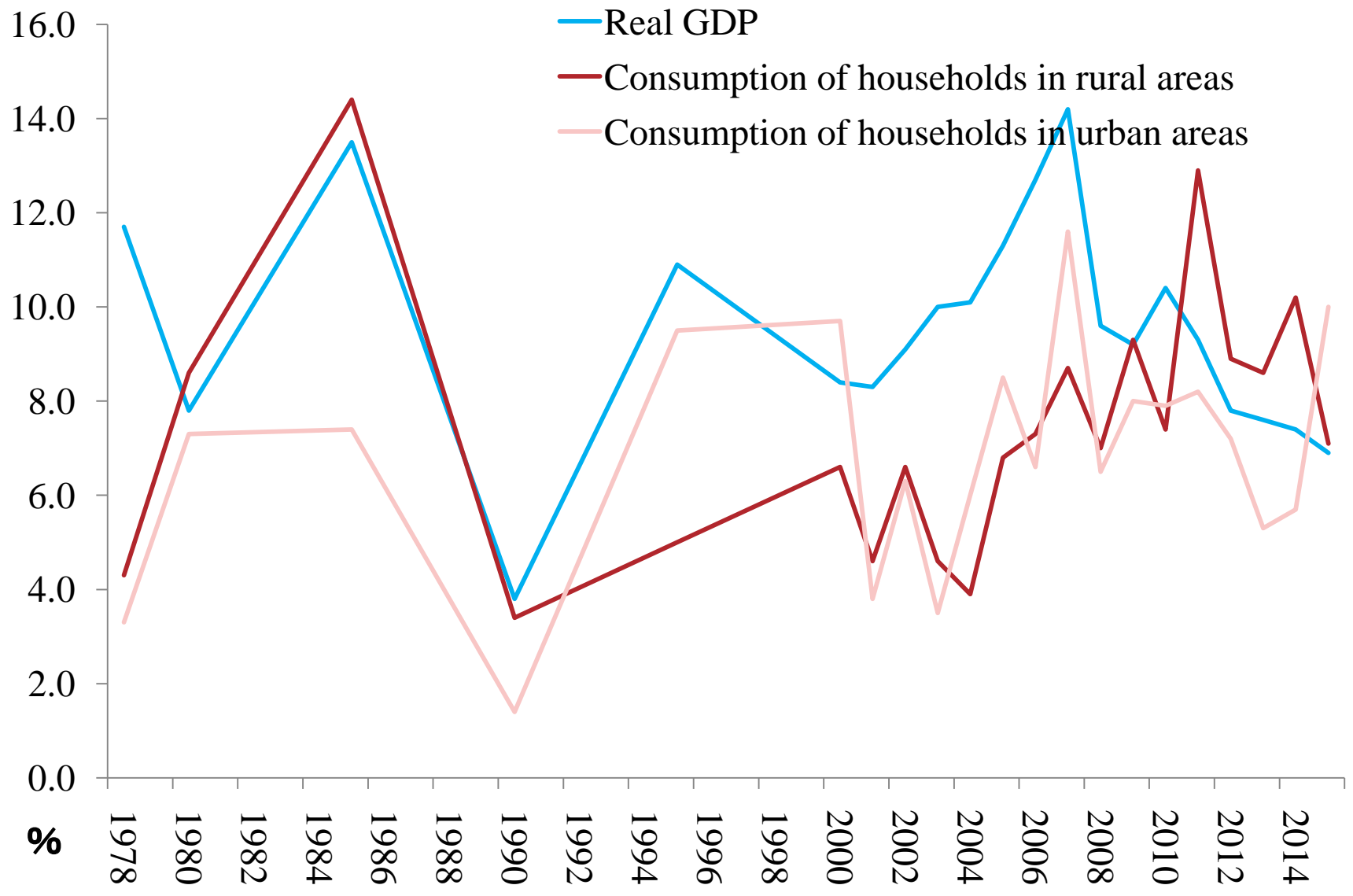
Contribution to GDP



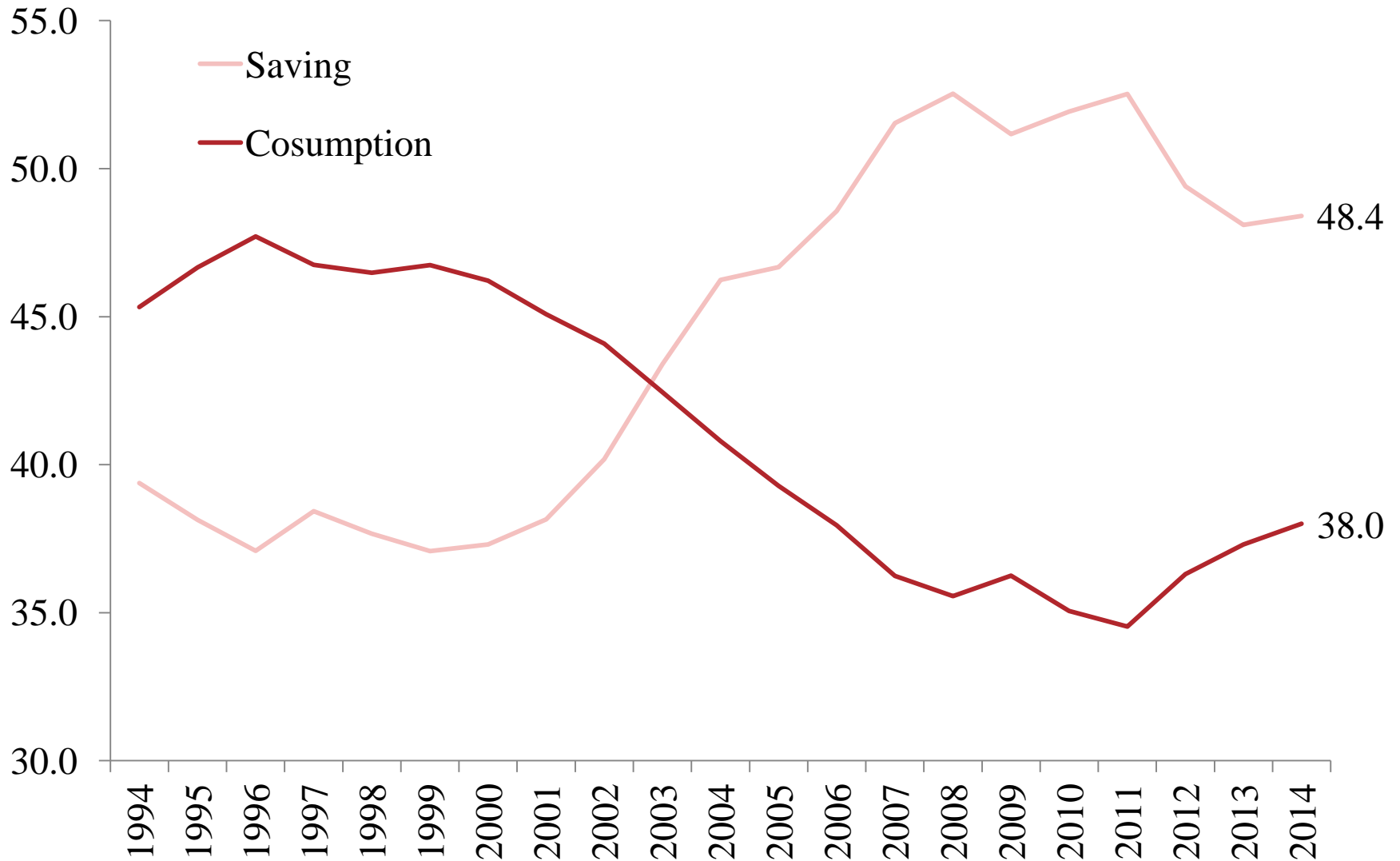
Share of GDP



Strengthening consumption



Rebalancing the economy ①



$GDP = Demand = Supply$

$Demand(Y) = I + C + (EX - IM)$

$I = S$ --- to reduce saving

$S > C$ --- to encourage private consumption

$EX - IM = f(\ell, r)$ --- to strengthen the price mechanism and
to liberalize the control of foreign exchange rate

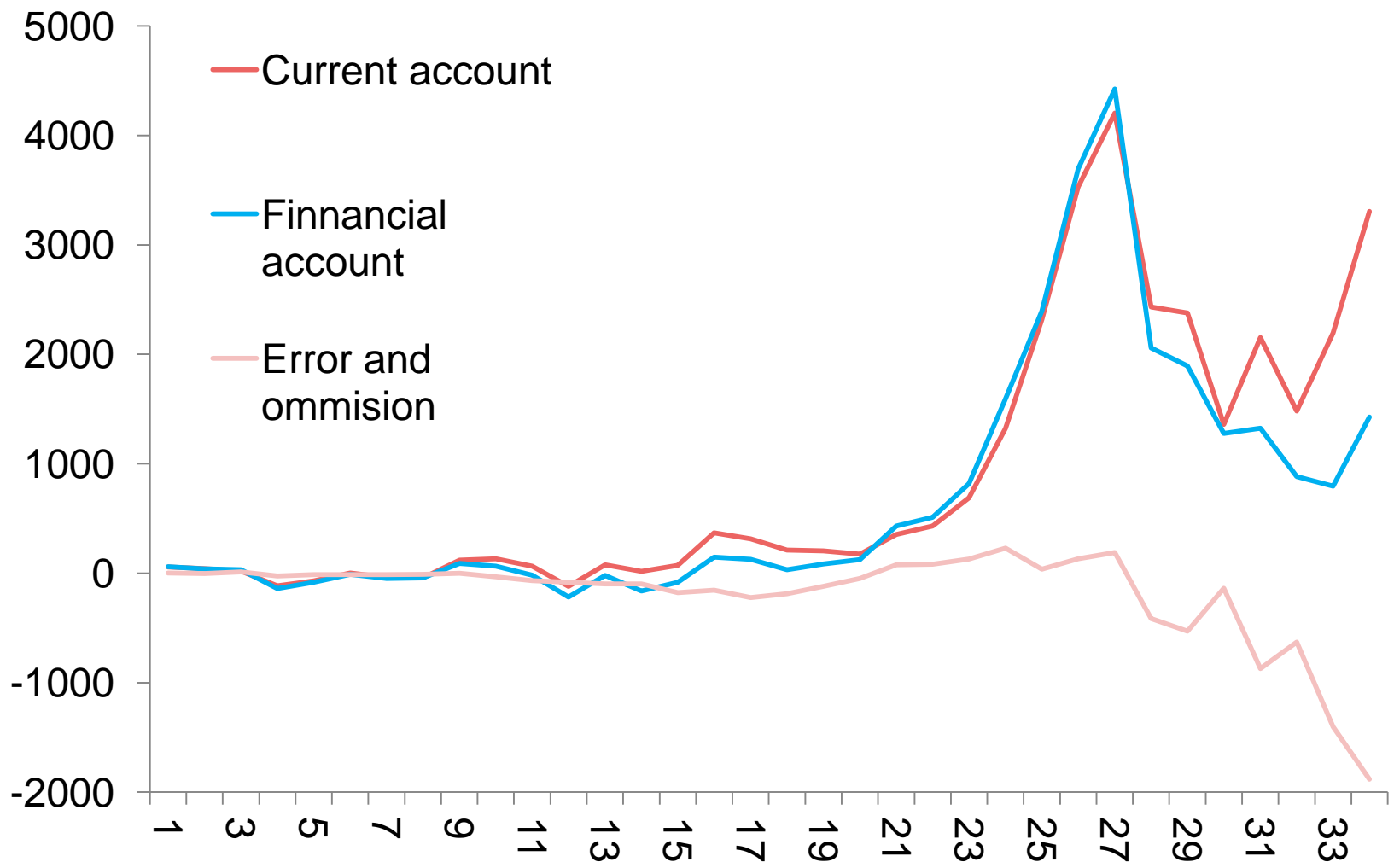
$Y) = K + L + TFP$

K --- Over-capacity

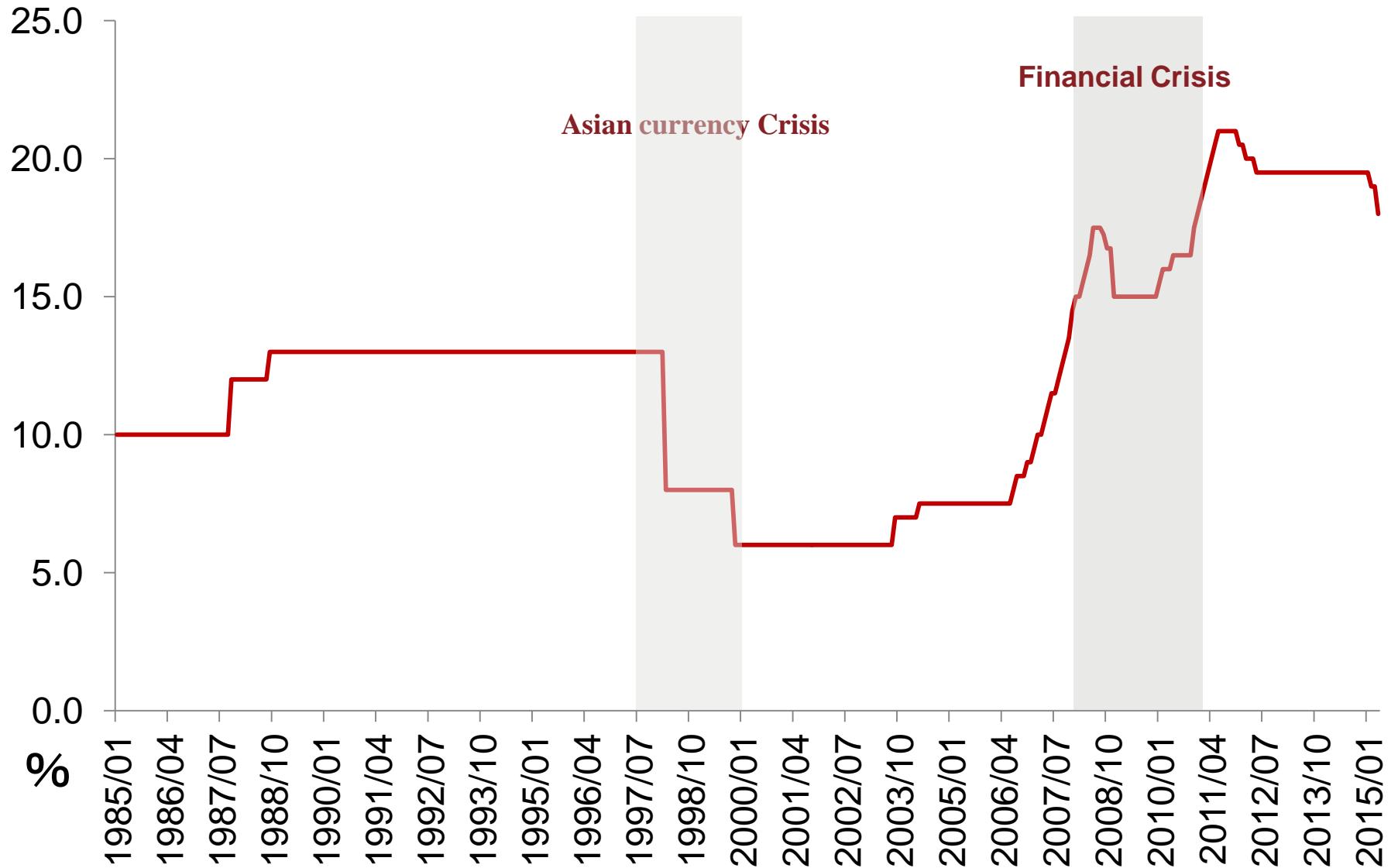
L --- Aging society

TFP --- Innovation and R&D

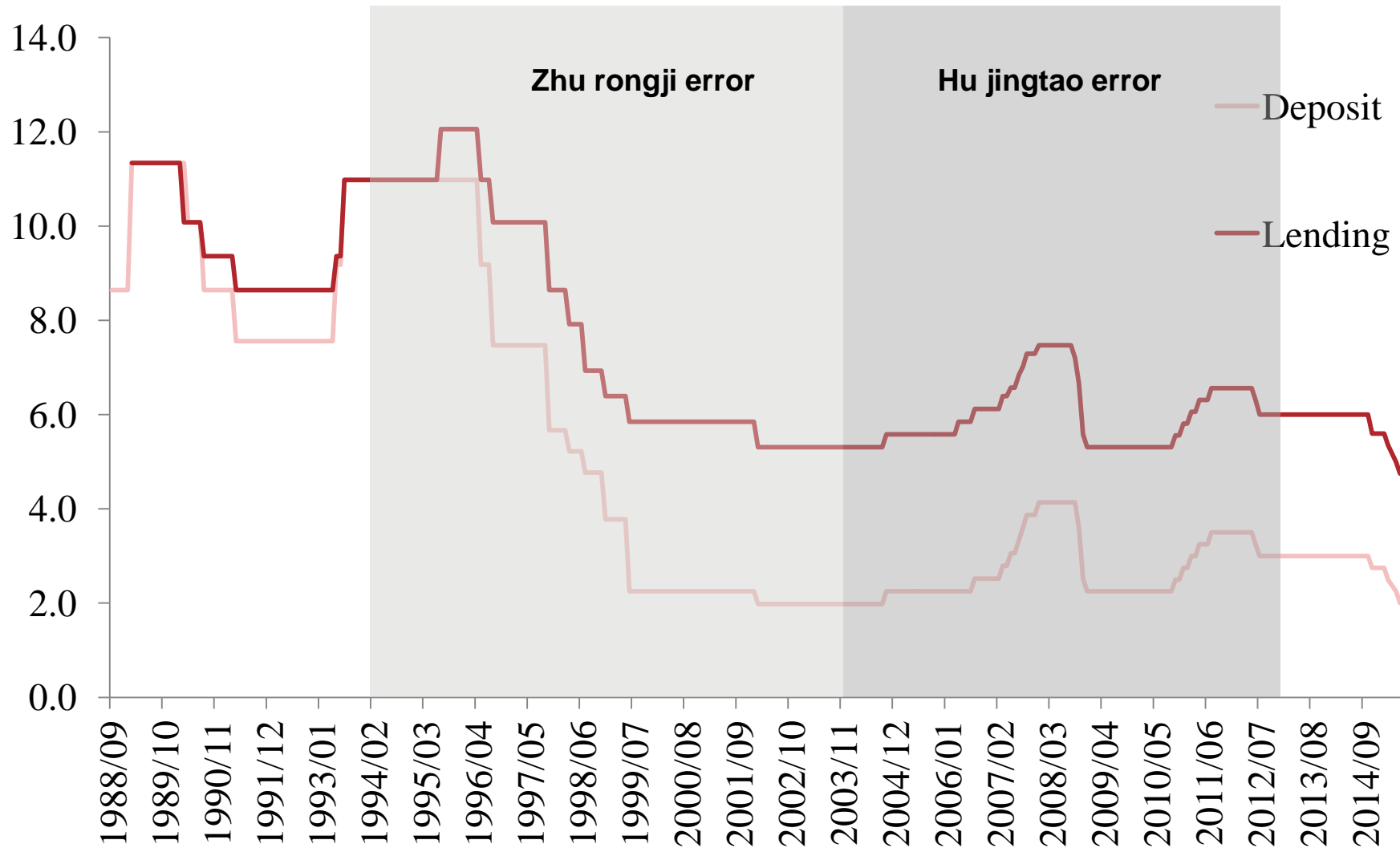
The problem of errors in the balance of payments FUJITSU



Reserve requirements in China



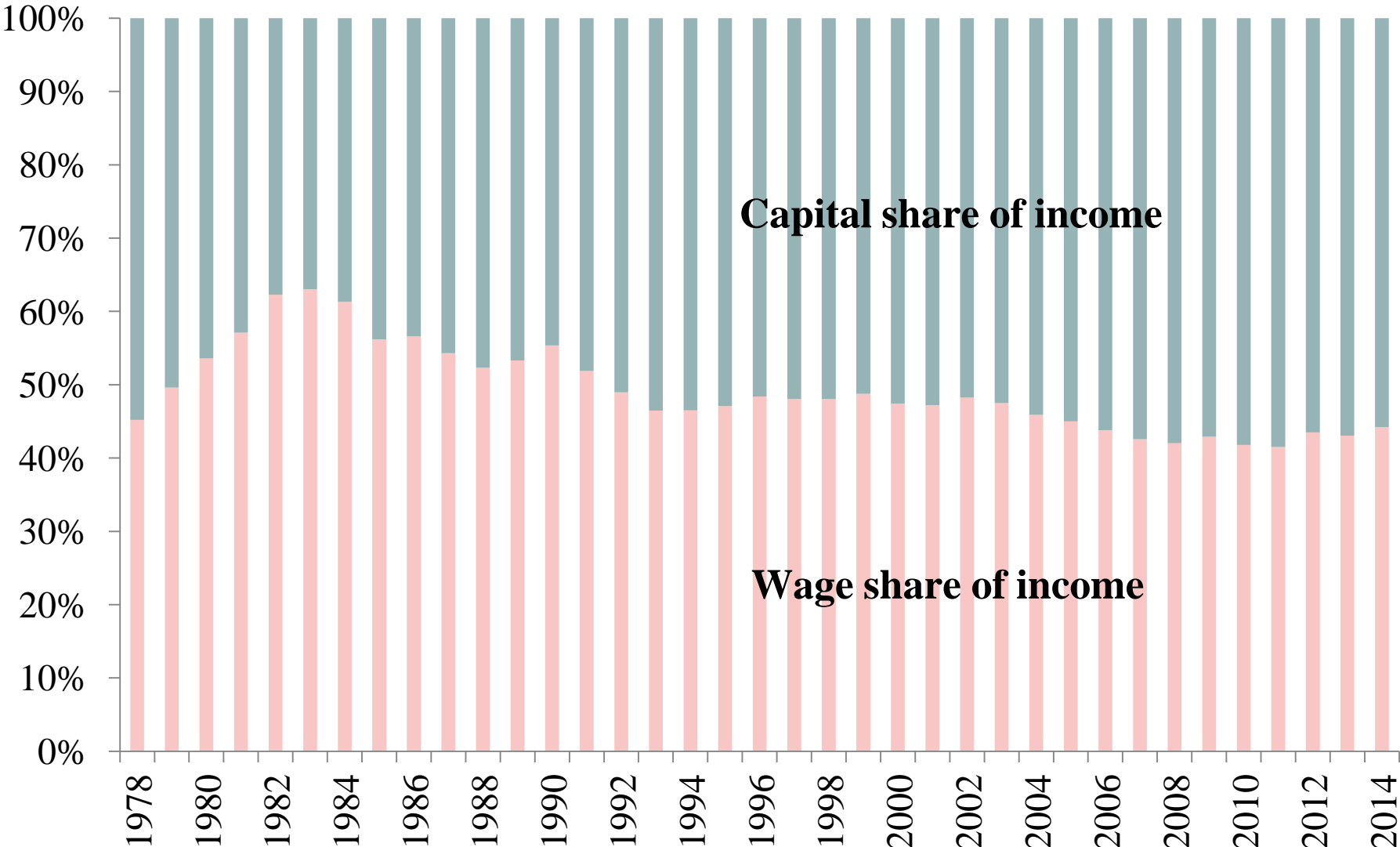
The interest rates in China



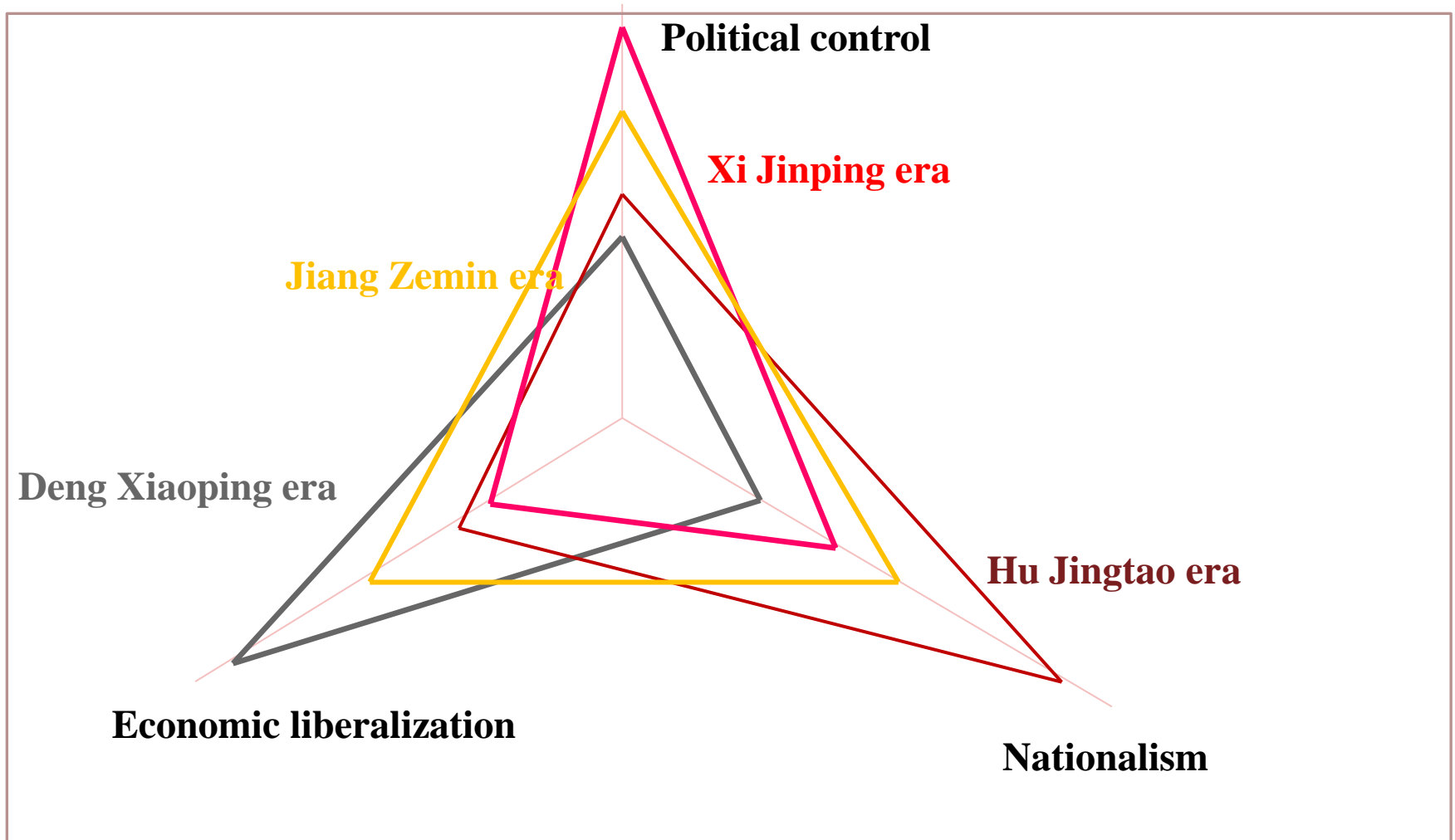
Gini coefficient is still too high



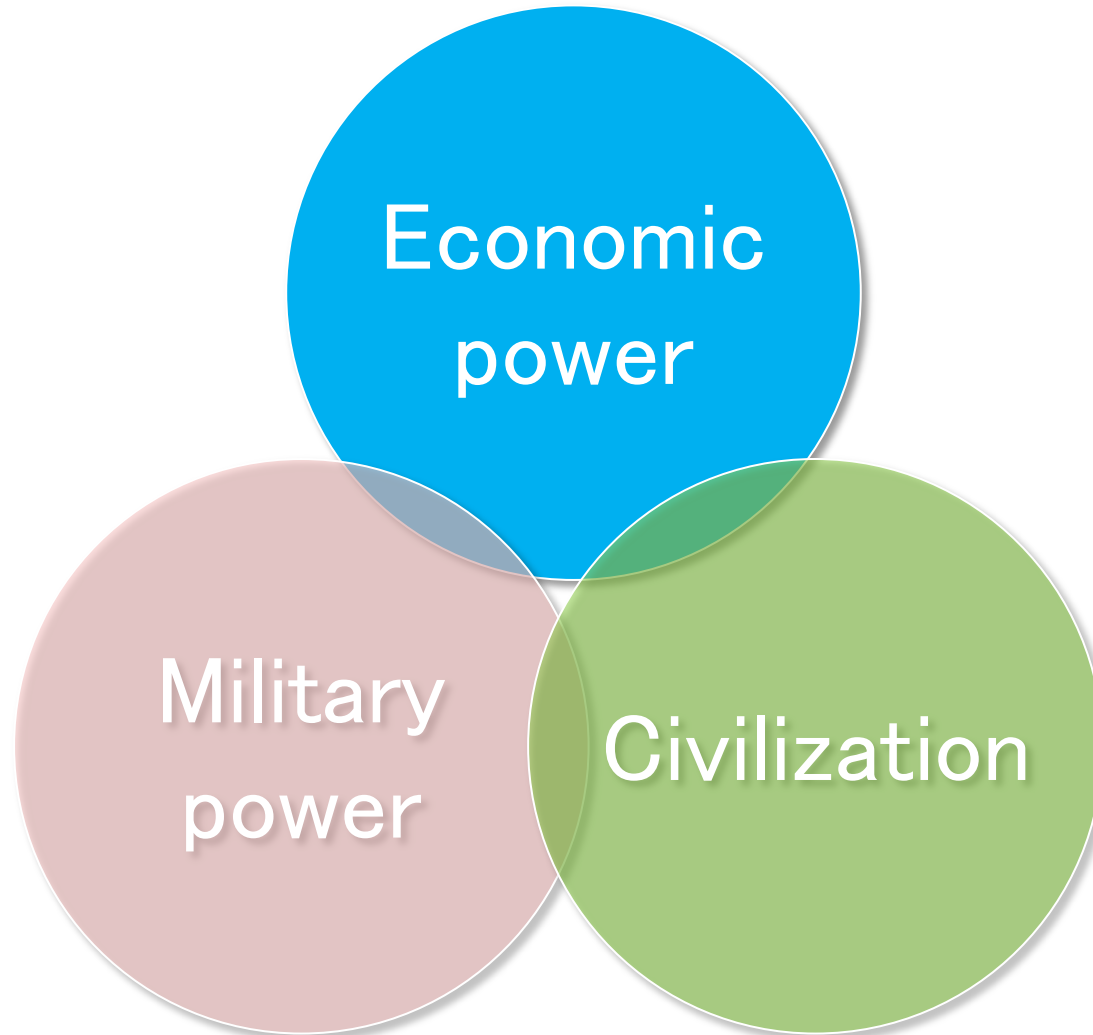
The distribution of income creates inequality



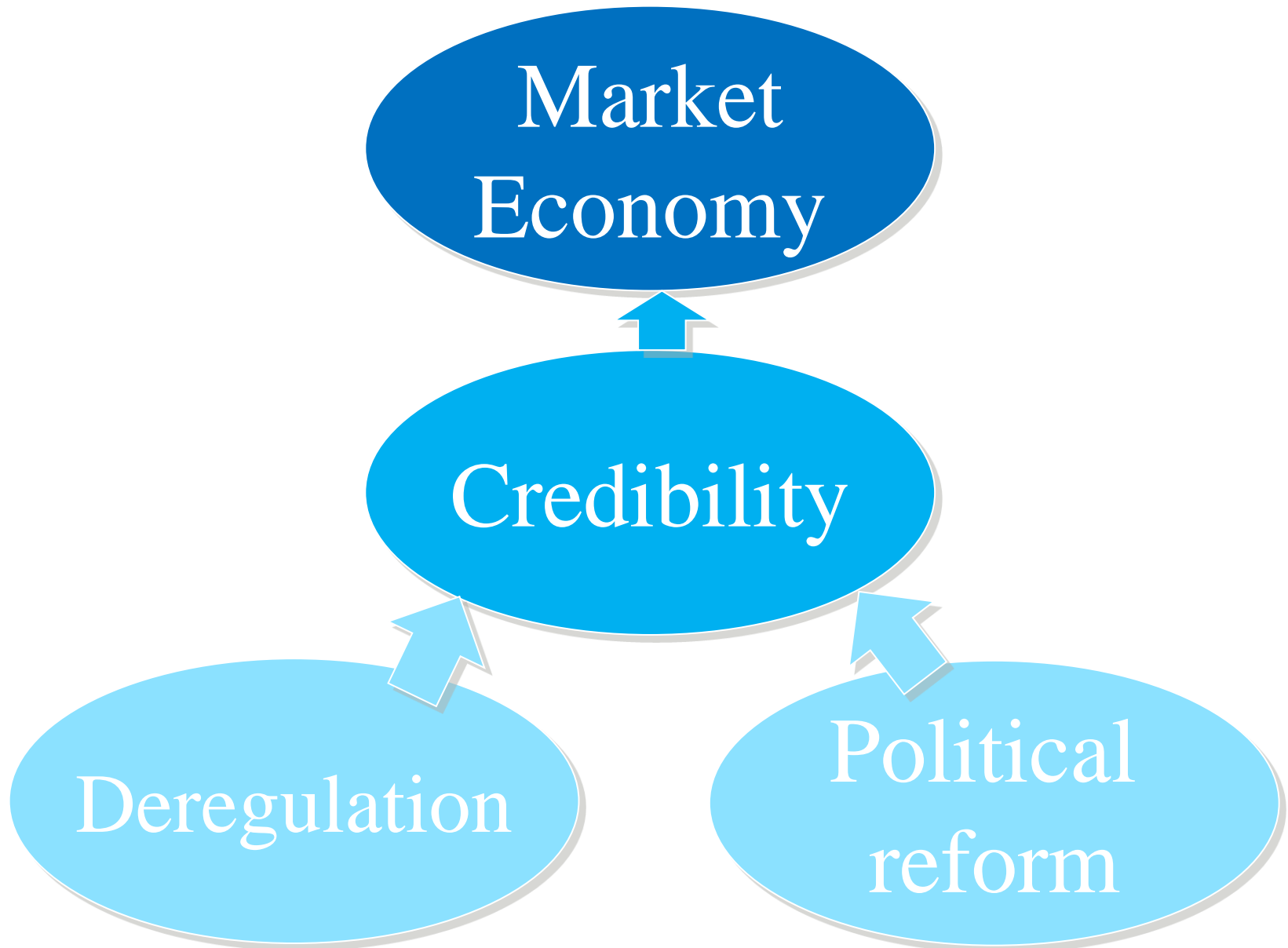
How to recognize the future of China




Can China realize the Chinese dream?



Is the Chinese economy a market economy?





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