

The Road to the Market-oriented Economy for China

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Structure problem

- government-led/investment-driven/ resource-intensity growth
- over-supply of liquidity and inflation pressure
- unemployment situation
- inequality of income distribution
- state sector overstretch and private sector squeezed
- ecological crisis

Structural reform

- de-regulation
- de-centralization
- the rule of law
- transparency
- strengthening of governance
- compliance

What is socialist market with Chinese characteristics?

- **Government**=decrees, intervenes, participates and involves market activities in a direct and discretionary ways
- **Agents**=interact with governments, treated differently by policies and officials
- **Capitalism**=
 - ***State capitalism:**
Banking; Energy; Telecommunication; Infra....
 - ***Crony capitalism: Financial service;**
Real estate; Natural resource...
 - ***International capitalism:**
Export-oriented manufacturing...
 - ***Competitive capitalism:**
General manufacturing; Exports; Service...

Does SOE still play major role in China?

- Last decade is lost decade under the Hujingtao administration. Almost all of the reforms were postponed in Hujingtao era. The result is state sector advanced; but the private sector retreated.
- Likonomics=Premier Likeqiang is trying to improve the deregulation and liberalization. The effort is correct, the problem is how to get consensus in the government. To realize the goal Li needs to take much more strong leadership, it is Li's weakness.
- The government announced to remove the invisible hurdles for private companies to access the Market and business. The hurdles are invisible, are difficult to be remove.
- It is necessary to sustain the economic growth in order to privatized the SOEs and build a real market-oriented economy. But the economy has turned to slow down. Any kind of reform is minus sum game. It is hard for reformers to improve the reform under the process of slowing down.

SOE is still major player?

(Unit, 100 million Yuan)

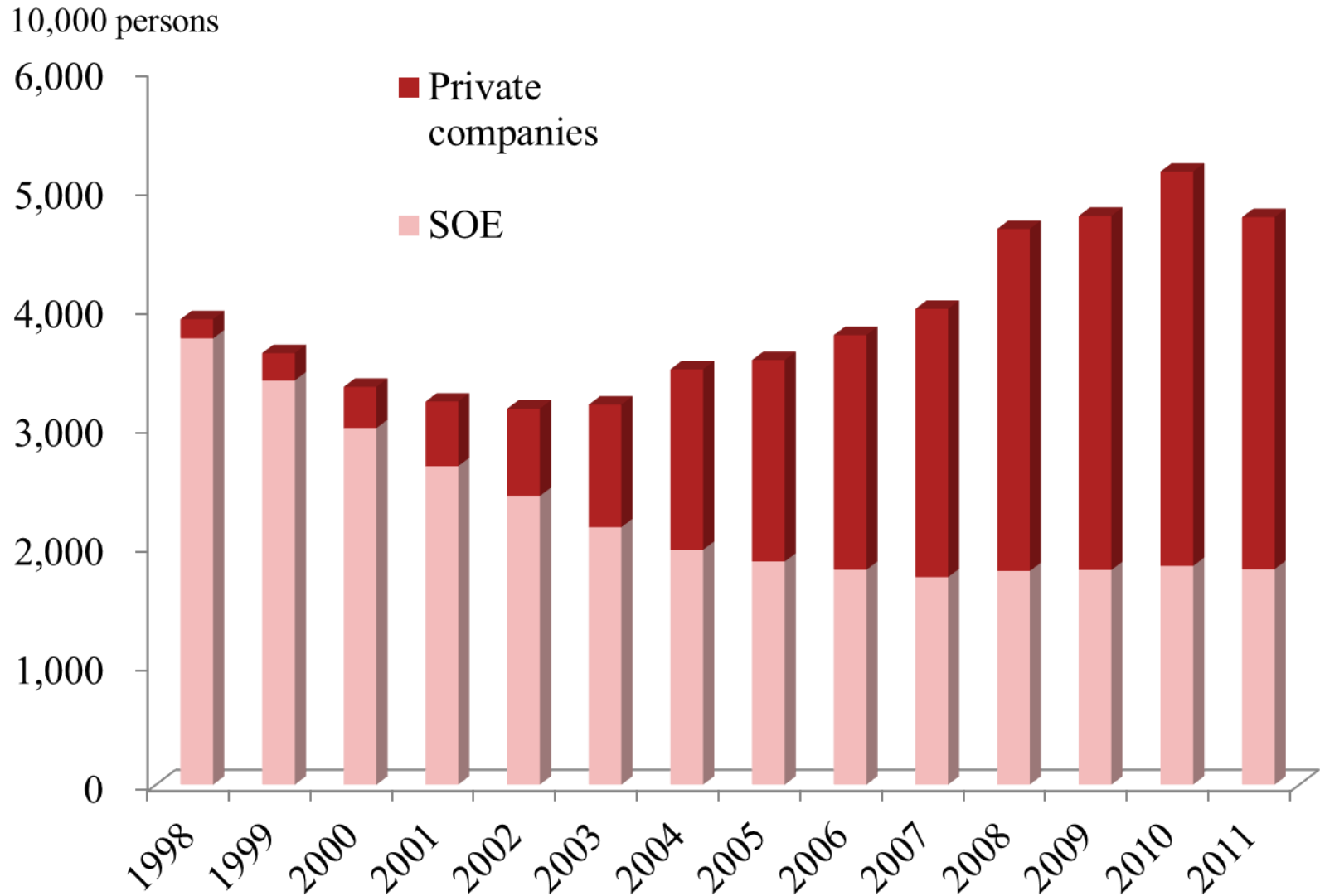
	Number of SOEs	Gross output	Asset	Profit
1999	61,301	35,571	80,472	998
2000	53,489	40,554	84,015	2,408
2001	46,767	42,408	87,902	2,389
2002	41,125	45,179	89,094	2,633
2003	34,280	53,407	94,519	3,836
2004	35,597	70,229	109,708	5,453
2005	27,477	83,749	117,629	6,520
2006	24,961	98,910	135,153	8,485
2007	20,680	119,685	158,187	10,795
2008	21,313	143,950	188,811	9,063
2009	20,510	146,630	215,742	9,287
2010	20,253	185,861	247,759	14,737
2011	17,052	221,036	281,673	16,458

What is the role of private companies?

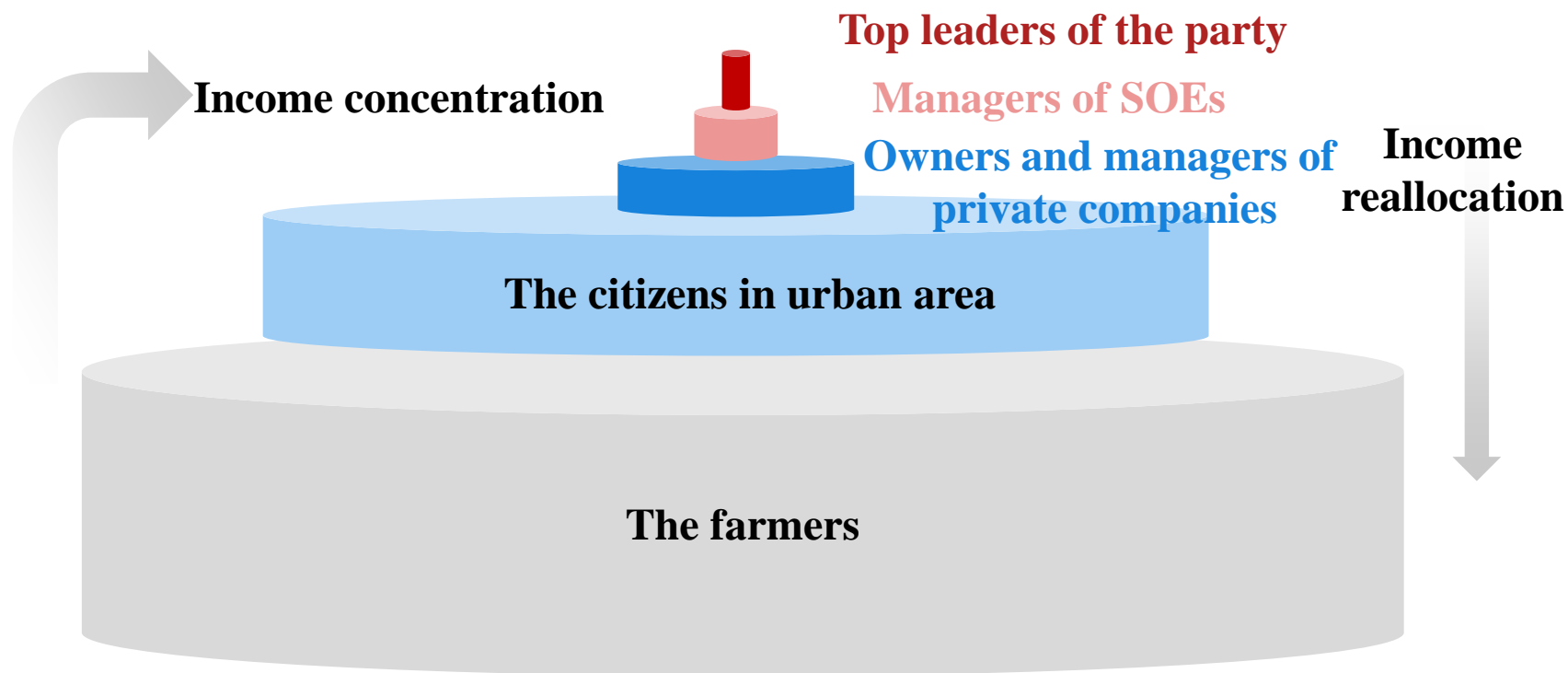
(Unit, 100 million Yuan)

	No. of private comp.	Gross output	Asset	Profit
1999	14,601	3,245	2,289	122
2000	22,128	5,220	3,873	190
2001	36,218	8,761	5,902	313
2002	49,176	12,951	8,760	490
2003	67,607	20,980	14,525	860
2004	119,357	35,142	23,725	1,430
2005	123,820	47,778	30,325	2,121
2006	149,736	67,240	40,515	3,191
2007	177,080	94,023	53,304	5,054
2008	245,850	136,340	75,880	8,302
2009	256,031	162,026	91,175	9,678
2010	273,259	213,339	116,868	15,103
2011	180,612	252,325	127,750	18,156

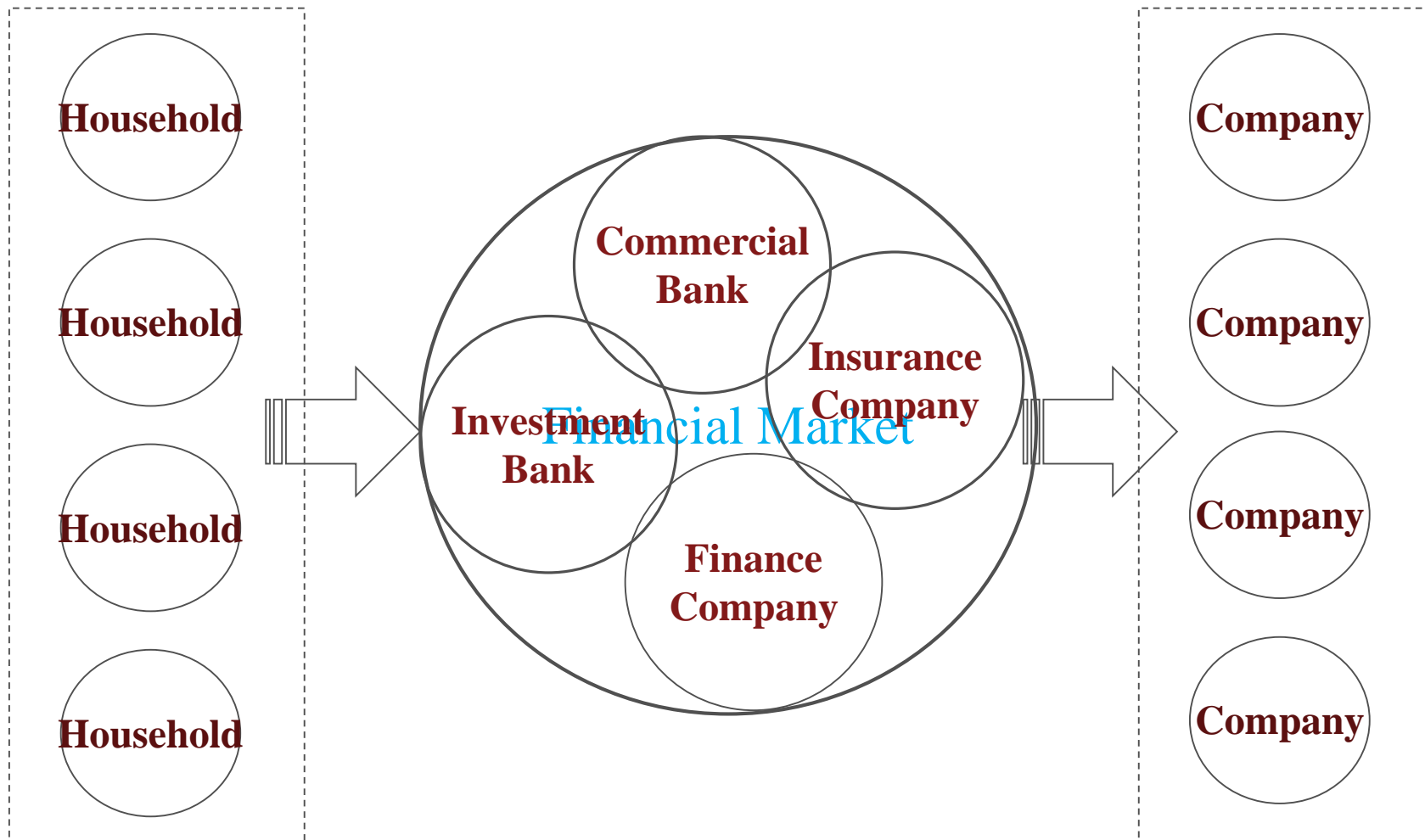
The contribution to employment



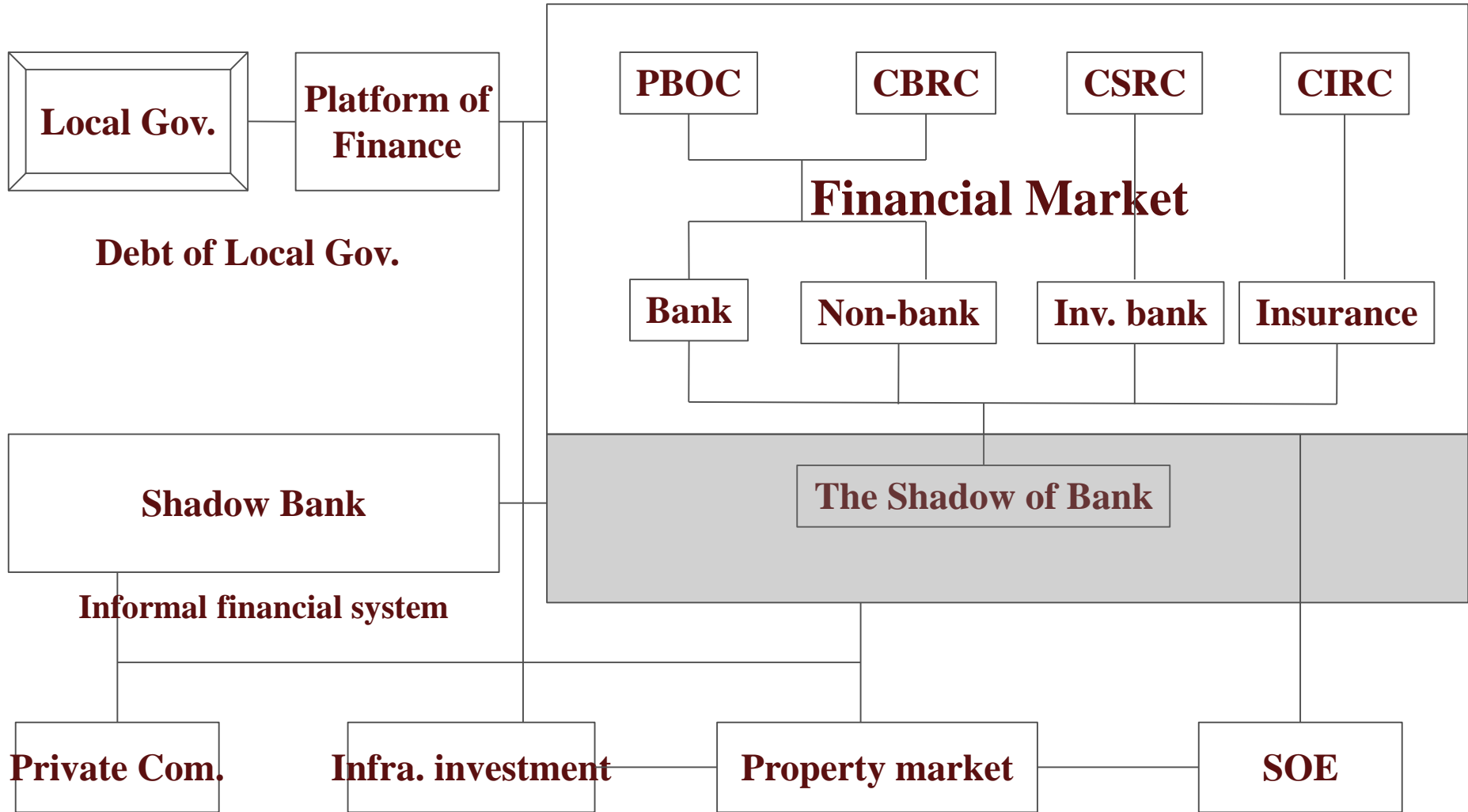
China is not flat!



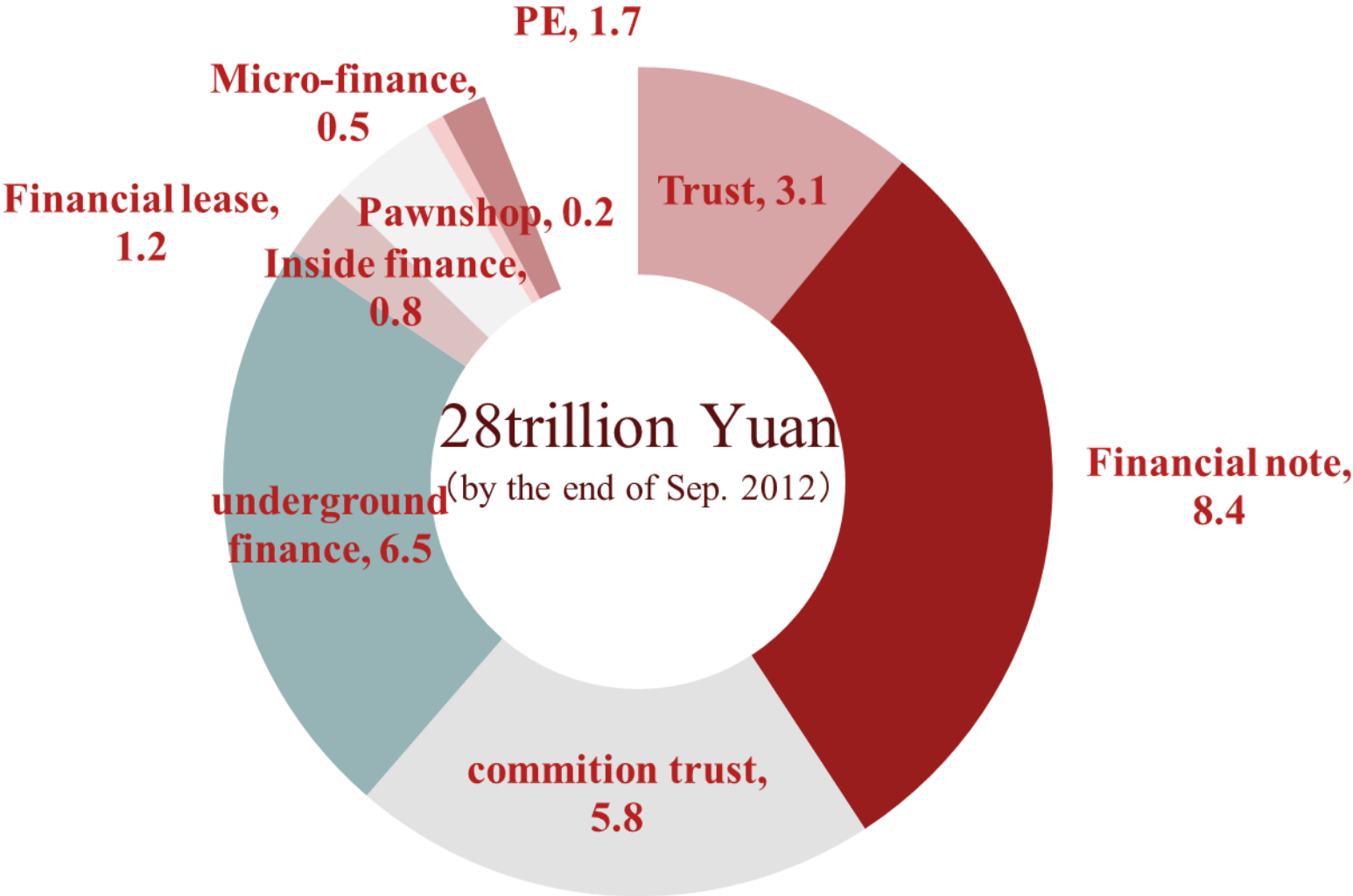
Financial intermediation in China



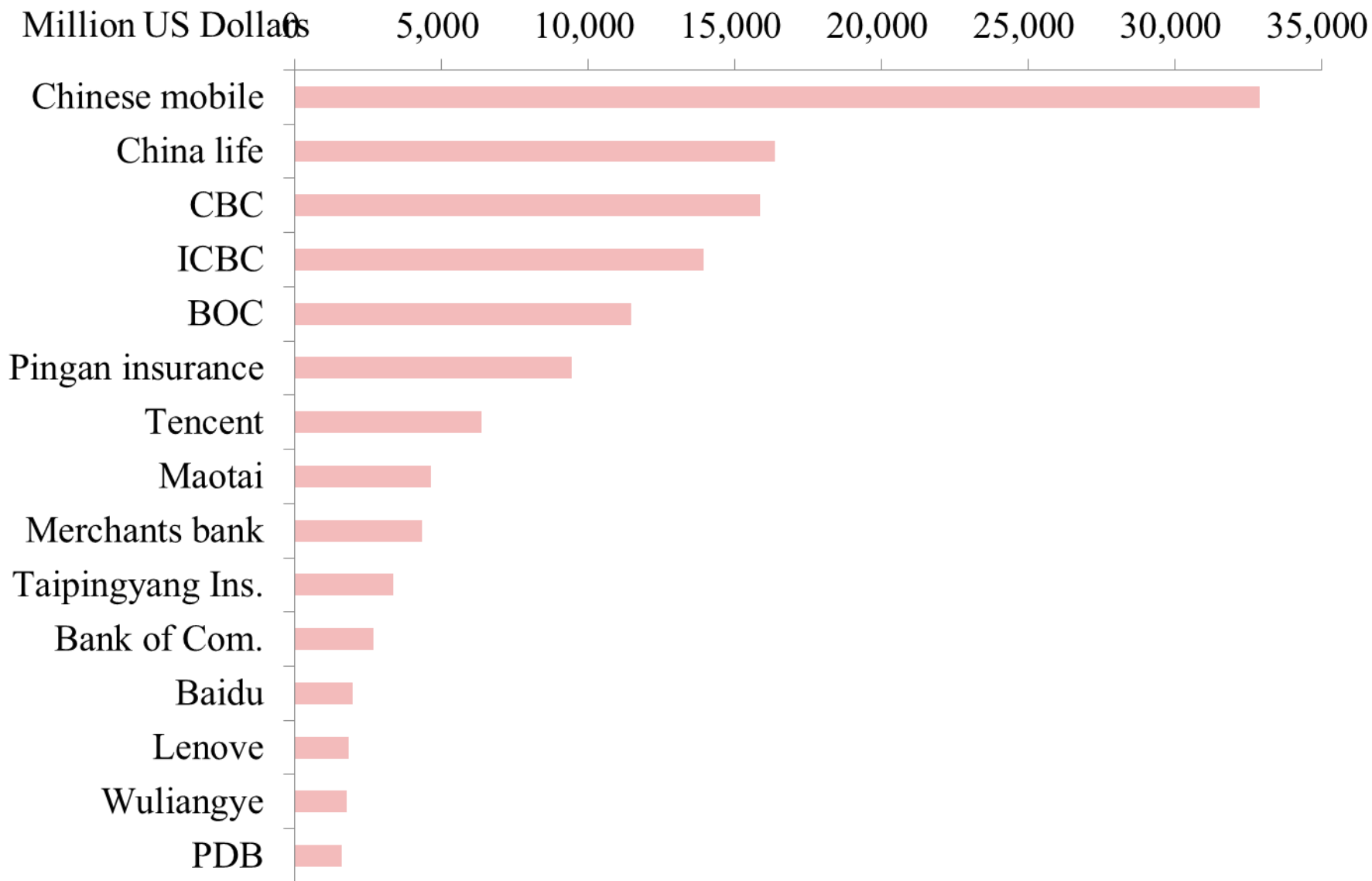
Shadow Bank and the Shadow of Banks



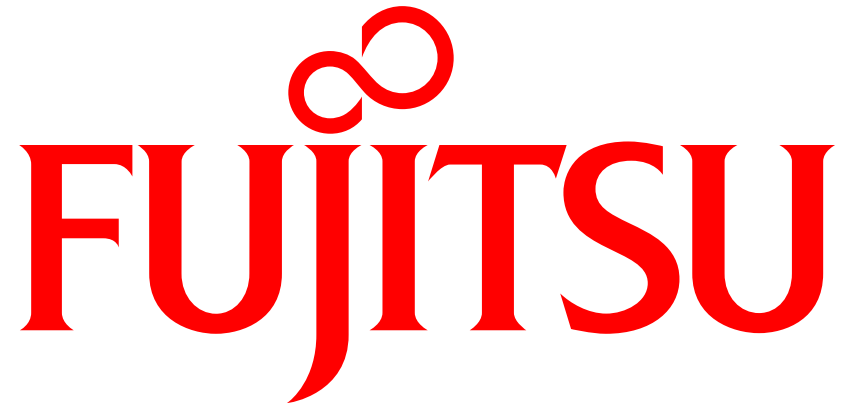
Shadow bank and the Shadow of bank



All the top brands in China are SOEs



- Liconomics: No stimulus; deleveraging; structure reform
- The goal—to build justice in Chinese society and economy.
- How to do that?
 - (1) to iron the volatility for economic growth
 - (2) to enlarge economic freedom
 - (3) to improve market competition
 - (4) to privatize SOEs
 - (5) to bottom up the low income class
 - (6) to promote growth of middle class
 - (7) to change government role
 - (8) to recast public governance, governing government officials
from bottom to top



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