

Chapter 5

Comments and Discussions

5.1 Professor Shucheng Liu, Academician with Chinese Academy of Social Sciences

It is an outstanding report on macroeconomic forecasting and analysis that has been done very meticulously and seriously, and its policy suggestion is also feasible. I basically agree with the basic conclusions of the report and analysis.

The issues what I want to discuss are:

1. Whether the current economic growth rate is below the potential growth rate? I think the potential economic growth rate still remains in 8 %–9 %. Therefore, the growth rate in the first half of the year is still below the potential growth rate, which caused the difficulties of the enterprises, the decline in the growth rate of fiscal revenue and the problems of employment.
2. Is the decline of potential growth rate a mutational process or a sequential process? I think it will be a sequential process dropped from 10 %. It will maintain in 8 %–9 % from 2013 to 2017, and then down. The role of consumption is on the increase, but whether it is a trend or cyclical growth? I think it is still a cyclical increase.
3. when the potential economic growth rate moves down, the economic growth rate will be high sometimes and low sometimes. I agree with the forecast of the report, the economic growth rate in 2013 may be slightly higher than 2012. This shows that the economic growth of China will present as the shape of zigzag, which may be high 1 or 2 years and low 1 or 2 years.
4. the problem of the demand structure. We should rely on consumption in long run. Urbanization will become the breakthrough of economic growth in future, and it is also a key factor to maintain growth. In the process of urbanization, both investment and consumption will grow, but we merely improve the investment rate at present. Therefore, in the next period, we still need to rely on the investment, but what to be invested, by who, how to improve the efficiency of investment etc., these issues need to be further discussed.

5.2 Professor Yansheng Zhang, Secretary-General of the Academic Committee of the National Development and Reform Commission

The main views of the report are quite distinctive. The report is very well, so I have no different opinions. Today what I want to talk about is the significance of the GDP growth rate below 8 % in the second quarter of this year.

As the growth rate goes below 8 %, there are two choices provided to China now. One is to stimulate economic growth and continue to chase high growth rate. But whether it will lead us to reach the upper bound of growth in next 5 years, and then the potential economic growth rate make a steep drop while the economy of the United States, Japan and Europe may significantly rise and quickly pull a larger gap with China? The other is to promote the structural adjustment and institutional transformation which is shackling the China's long-term growth potential capacity. In my opinion, the latter will make the economic growth rate remain around 8 % in 5 years, but the growth potential of China economy can continue to sparkle.

This year, the total number of China's enterprises in the world's Fortune 500 companies exceeds Japan. But almost all of them are traditional industries, which are large but not strong enough. And now, the enterprises are facing with the lack of orders, workers and technologies. In this context, it's useless to these problems if we continue raising the export tax rebate rate and speeding up the process of tax rebate rate. It's not a gross problem. It's a structural and institutional problem to a large extent.

Is the growth rate below 8 % a short-term or long-term phenomenon? If we believe that it's a short-term case, the response strategy of enterprises should be short-term. Then it may ignore the urgency of long-term transformation, which will gradually and finally lead to serious bad results. Conversely, if we think what China need now is a transformation revolution, called creative destruction, then to strengthen the adjustment will win a long-term growth potential.

Now, it's the crucial stage to the transformation of real economy. Government should timely push-off the supply management policies. In order to maintain a long-term growth rate of 7 %, we need a large adjustment in supply side, including large-scale tax cuts that make enterprises adjust easily, significantly reduce of government intervention in the economy, and the need of joint R&D among enterprises, universities and research institutes; among large, medium and small enterprises; among domestic and foreign; among military and civilian, to overcome the plight of technological transformation. These are very urgent.

5.3 Professor Liqun Zhang, Development Research Center of the State Council Researcher

The report provides some important conclusions and judgments. It is very helpful for us to understand the current situation. My basic opinion is that China's economy is at an important transition period now, and it may result in the decline of potential

economic growth rate of China temporarily. Macroeconomic policies should strive to prevent the economic growth decline sharply. The aim of steady growth, which is the most important task, should be maintained for a long time, so as to create the necessary environment and produce the reverse pressure for economic transformation.

The importance for economic transformation of China mainly lie in following: First, the need of market demand change. The high economic growth rate of China since 2002, completely depend on the vigorous domestic and foreign demand. But from the year of 2008 to 2011, the annual growth rate of China's exports had dropped to 9.9 %. The external market environment that the labor-intensive products from China has occurred a profound change. Second, the sustained and rapid growth of automotive and housing market due to the structure upgrade of domestic consumption. With rapid growth of civilian vehicles in the past years, and the improvement of traffic, the demand growth will be turned from quickly to steadily; the speculative and investment demand of housing in the real estate market, are very harmful to the development of real estate industry and the coordination to the income distribution. Since the system construction has speed up and been adopted, the investment role of housing will disappear basically. In addition, with the excess capacity of production, the high growth rate of investment based on capacity expansion is beginning to slowdown. The change of growth rate of "troika", due to the temporary major factor, may significantly affect the potential growth rate of China.

In addition, the change of factor cost. The rapid expansionary speed of enterprises depended on high input, high consumption, high pollution, and low efficiency, which is low factor cost in the past. In recent years, the factor cost had being change. Because of rise of cost, the enterprises must improve technological competitiveness, and make an effort to improve the capacity of R&D and brand competitiveness. The change of factor cost also made the expansion capacity of enterprises decline. So changes in market supply and demand and factor cost, decide the change of economic development mode, and the transformation and upgrade of enterprises also cannot be prevented. Therefore, the temporary decline of potential growth rate is inevitable.

5.4 Professor Ruilong Yang, President of School of Economic Renmin University of China

Since 2011, China's economic growth rate has been declining, and surprisingly fallen to below 8 % in the second quarter of 2012, the situation is no better than that in 2008. Several characteristics in this economic downturn are as below: (1) external factors have played an important role in the economic slump, especially the sovereign debt crisis in the euro area, leading the growth rate of China's import and export to go down. (2) Previous stimulus plan has caused a decrease in the government investment. On the other side, bubbles of asset prices have started to shrink, resulting from the "new regulations in the real estate purchase and loans policy".

What's more, by de-leverage and de-stocking, factors bringing down the economy have turned from exogenous to endogenous. (3) China's potential growth rate has taken on a stepped falling, and started to enter a new period of second-high economic growth rate due to decays of traditional advantages, such as marketing bonus, globalized bonus, traditional industrialization, as well as the high saving rate, and the new growth advantages are yet to develop. (4) Declining in the confidence of investment and consumption is triggered by pessimism.

I have to admit that, the high economic growth rate has brought lots of benefits to China. However, in the established development mode and economic mechanism, China is over-dependent of high economic growth, which I may call "dependency on high economic growth". In this circumstance, however, once the economic growth rate goes down, the unemployment rate would raise, hence a plunge in the local finance revenue, and eventually cause many social issues.

It is usually not a problem that, China's economy is expected to rebound in a short term, as the economic policy is improving. But you should not place too much hope on the revival, since the measures for boosting the economic are still severely limited. At the same time, the external demand is weak, and the consumption is hardly to grow significantly in a short run without an increase of income, therefore the only effective measure may be the investment. Moreover, at present, there is a banking credit crunch towards private enterprises and although, investment in the real estate would be spurred through loosening up the relevant policies, it would trigger retaliatory price rise. Hence, the optimal measure would be the government investment. And so long as the fixed capital investment gain increases, the economic growth rate would bottom out.

Stabilizing the investment is still the core in stabilizing China's economic growth, which is mainly investment of government, including local governments. However, government investment would bring about a series of issues, provided there exists no corresponding structural adjustment and system reform. The fundamental way out for preventing another economic slip remains further deepening reform. For example, when talking about stabilizing investment, we mean, why not open up some relevant fields in the monopoly industries and transit benefits to residential enterprises? On the other hand, transformation of development mode, together with reforming the income distribution system, would allow a raise in the labor income share. Meantime, it is vital to reform the financial system, and improve the price system through further opening up factor markets as well.

5.5 Professor Yunzhong Liu, Researcher of Development Research Center of the State Council

The report from Xiamen University and the speeches the previous experts made indicates that, we almost agree on the current economic situation as well as the medium-and-long-term growth trend. I agree the conclusions resulting from the policy simulation in the report, including some policy proposals.

First of all, I would like to talk about my understanding towards the theme. As a matter of fact, I believe, the theme of this conference not only fits in with the key issues China's economic development faces, but also goes to the core of macro economy. Instead of splitting the short term economic fluctuation from the long term economic growth, it integrates the two in the research. In policy, by doing this, it could prevent a contradiction between short-term policy effects and long-term growth. In doctrine, it is part of Schumpeter's theory framework, making it possible to analyze the influence of short-term monetary policy on innovation investment, and furnishes a better explanation of economic growth and fluctuation.

It's really a great pleasure to be here, to recommend three recent relevant researches from our center. The first one is named "China's economy in 2030", done by Professor Shantong Li in 2009, and its outcome has been published by Economic Science Press in 2010. The second one is concerned with "middle-income trap", done by the vice director of the center, Shijin Liu, and the finding has come off the press in 2011. The third one is in regard to "China 2030", a cooperative research by the Development Center and the World Bank. Actually, if we have a careful look at the conclusions in the three researches, we will find that, for many opinions, the economists have almost reached an agreement.

Back to the conference agenda, I believe it would be no problems for China to meet its economic growth target in the short term. However, for structural reform, there are several aspects needed to be considered: (1) Urbanization. The period, with the rapidest growth in China's urbanization, has already passed. So, it is necessary for us to think about the policies and measures to further support urbanization. (2) The relevant land system reform, including the reforms of land requisition mode and scope. (3) Local government. How to check on the debt capacity of local governments? How to restrain the behaviors of local governments to make investment and financing be more transparent? (4) The reform of capital market. More and more investment and financing activities will be run via capital market; therefore, more drastic supervision is needed, especially the behaviors of the financing body. And many reforms concerning this aspect should be accelerated.

I hope issues as below would be considered in the modification of the report: (1) Predictive data, especially consistency of the internal logic in the predictive data. (2) Change of the proportions of short-term loans and long-term loans. Which one is the normality? (3) Whether we can use the model to simulate the difference between cutting interest rate and lowering the deposit reserve ratio? (4) Whether we can simulate the policy implication of structural tax reduction?

5.6 Professor Luolin Wang, Ad Hoc Consultant of Chinese Academy of Social Sciences

The report is concise, and its prominent merit is fully considering both the subjective and objective factors of the economic development trend. From the aspect of subjective factor, it has taken the fact that China's economy is dominated by the

government into consideration, as well as simulated the policy implications of the “two trillion Yuan stimulus package”, which is a feature of this report, and so on. However, since the conference aims at offering comments, I would like to put forward a piece of advice on the report.

My advice contains the followings: First of all, what on earth cause the economic downturn in the first half of the year? There are two factors included in the report, one is external demand, and the other one is the real estate market. Nevertheless, is it possible that, there are others more fundamental or deep-seated factor? And as to external and domestic demand, which one is principal? It seems that, the key factor is the influences of the global economic situation, however, when you have an in-depth look, it is our real economy, especially an explosion of the issue, for several years, of the excess capacity in the manufacturing industry, that cumpers our economy. Secondly, I want to talk about the growth trend of the second half of 2012 and the next year. I assent to the forecast that, it would be no problem for China’s economy to grow at a rate of 8 % in this year, and at a higher rate in the next, since there are a number of subjective factors sustaining the economy, such as the government who is not willing to see a continuously declining growth rate. However, the report is too optimistic about it, and I’m afraid the prospect is not as bright as the report points out. The main reason is that the slump in export is not a short-term trend. Thirdly, it is about the stimulus policy. It is true that, in this year, our government has adopted measures to stimulus the economy, and is expected to take more drastically. Therefore, an overall analysis is needed that, how large are the positive and negative effects on the economy when the stimulus is continuously strengthened? Fourthly, it is concerned with the economic growth in the next year. Except from some favorable factors mentioned in the report, is it likely to predict some negative factors that are just temporarily not so apparent, such as employment? Maybe, it does not seem to be that bad in the employment market at present; however, from the aspect of the development trend, it would be a problem in the second half of 2012 and the first half of 2013. Another adverse factor may be the price, I maintain that, the risk of inflation should be taken into a fully consideration. Lastly, it is about the situation of the global economic in this year and the next. I’m afraid we have to consider the drop in demographic dividend. Some experts think the effects of the drop in demographic dividend and aging would be bigger and faster than what we estimate.

I believe that, through effort, the economic growth rate at around 8 % can be achieved. However, is it a potential growth rate? On the other hand, I think the biggest problem in China’s economy is the medium term instead of short term. The negative effects appear to be more and more apparent, as the aging is deteriorating, the demographic dividend is declining, and there exist little progress in the structural adjustment. Hence, I am not quite optimistic about the economic growth rate in the medium term. As to the long term, provided that we make obvious achievement in the structural adjustment and the transformation of the mode of economic development, the prospect in the long term would be quite optimistic.