

# Chapter 6

## Comments and Discussion

### 6.1 Professor Liu Shucheng, Member of the Chinese Academy of Social Sciences: Ideal Path and Growth Potential of the “New Normal”

I sincerely congratulate the 18th press conference held smoothly. This conference has become an international and domestic brand. We can foresee that today's announcement will have a significant impact during the “Two Sessions.” The predictions and analyses of the report were completely consistent with my view in recent years. Therefore, I extremely support the overall conclusion of this report.

Outlooking the economic trends during the period of 2015–2020, we can imagine four different scenarios: all the way down, all the way flat, returning to high growth, or just like the view of this report and mine, the economy fluctuates in the reasonable interval which follows the economic law. The economy of China has shifted gear from the previous high-speed to a medium-to-high-speed growth today, that is, “new normal.” Some people take the “new normal” as economic growth all the way down, which is not right and may cause some problems. For example, it will be difficult for the urban residents to achieve the goal of doubling the income by 2020 and thus cause social problems; enterprise investment will be affected and then encumbers the goal of doubling GDP, also procrastinating the technology innovation of enterprises; revenue will be reduced, making it difficult to support public utilities like reform.

We need some countermeasures for it is inadvisable to be all the way down. We have to change the way of thinking, which means we should take the positive strategy, transforming the strategy from holding the “lower limit” to grasping the “medium limit,” for the purpose of providing more space. We should also reform the operating mode of macroeconomic regulation, transforming the emergency response to global response. The “three national strategies” is a bright spot of the Central Economic Work Conference held at the end of 2014, which played an important role

to promote the economic development in medium and long term. By taking the “three national strategies” as an engine, the economy growth will bottom out in the year of 2015, and the speeding up of the economy from 2016 to 2020 will stop from a downward trend and become stabilized and pick up moderately.

## **6.2 Professor Gao Peiyong, President of Strategic Finance Academy, Chinese Academy of Social Sciences: We Should Think Over Reduction of Adverse Effects as well as Prevention and Control of Risk While Pulling the Economy**

We must deal with two contradictions when pulling the economy. One is about pulling the economy and reducing the side effect. The basic path of operating a fiscal policy is nothing more than reducing income or increasing expenditure. To avoid the economic structural distortions caused by the strong stimulus policy, we have to focus on the reducing income rather than the increasing expenditure. Reduction is about tax and fee, but what tax or fee should be reduced? The main categories of taxes need to be reduced to make the policy work, which means we should put tax cuts on the process of replacing the business tax with a value-added tax. The public figures suggest that the number of reduced tax from replacing the business tax with a value-added tax was 191.8 billion last year. If the policy is implemented in all industries this year, the number will be 400–500 billion. If we can reduce the value-added tax rate further more after 2016, the number will increase to 900–1000 billion. It is much larger, more direct, and more effective compared to reducing tax on small and micro-businesses. There are two parts of dropping charges: one is from nontax income of the general public budget, which is relatively normative. The other part is from the governmental fund income, which is also reported into budget but is not officially included in the scope of the National People’s Congress for approval; thus, it cannot be coordinated, and in other words, it is a case dough of the government and should be cut down. The emphases of dropping charges should be put on the cleaning and reduction of the government fund income.

The other is about pulling the economy and preventing risk. Pulling the economy will certainly increase the issuance of government bonds. The deficit risks in China are immense today because there are a lot of risks out of our field of vision; for instance, the bonds are issued and repaid spontaneously by the local government. We should try to bring this part into deficit monitoring. In addition, under the current system, the local government scarcely plans to pay the debts when issuing bonds. Or it does not have enough money to repay when the bonds mature. It is mainly because the fiscal relation between central and local governments is not

normative, and the revenue and expenditure system of local fiscal is unsound. We have to give back to the local government the sound willingness and capital, which they deserve owning to repay the debts, so that they could have the debtor's personality on the aspect of issuing and repaying uniformly or spontaneously.

### **6.3 Professor Zhang Yansheng, General Secretary of the Academic Committee, National Development and Reform Commission: Replacing the Old with the New, the Dangers and Opportunities Coexist in Constructing the Open Economy**

I am going to talk about three issues.

Firstly, we have not completed the expected targets and missions in the past three years in foreign trade and economic cooperation. What does it reveal? In my opinion, the past 35 years have passed, the new 35 years are coming, and we are paying the debts of the transition. As a matter of fact, it is a period of adjustment until 2020; therefore, the quality of adjustment will decide whether foreign trade can play the role of the engine in the coming 35 years. The sooner to exit the small countries' mode of export-oriented economy in the past 35 years, the better result can be achieved from the big countries' mode of open economy in the new 35 years. In the past, we talked too much about speed and growth. In the future, we should talk more about quality and efficiency of growth. In addition, foreign trade and economy of China need to be transformed from domestic vision to global vision. Short-term stability is important; however, the medium-term structure adjustment and long-term mode transformation are more important.

Secondly, low or negative growth of processing trade will probably continue in the next few years, and the growth of general trade will be difficult. The cultivation of the new trade structure is not in a short term but in a medium and long term. Therefore, the trade policy aimed at growth is wrong, which may delay the adjustment of structure and the transformation of economic development. The foreign enterprises are also faced with the transition from speed to quality and efficiency.

Thirdly, foreign exchange reserve declining may become a long-term trend, and double surplus change also will be a long-term trend. We can no longer expect it to maintain old normal growth, regardless of foreign trade, foreign capital, and foreign exchange. We must adapt to the coming 35 years the new normal, which is the basis of competition. Mode, principle, and policy will all change completely.

How will the finance and taxation policy affect foreign trade and economy? OEM, low-end, and simple imitation mode will exit, and middle-high-end modes and innovative mode will enter, which cannot be solved by the market or enterprises. We need fiscal and taxation policy. It must be admitted that the government should have worked better in this part. We should pay attention to this point while talking about tax cuts.

#### **6.4 Professor Wang Luolin, Ad Hoc Consultant and Former Executive Vice President of the Chinese Academy of Social Sciences: Sufficient Attention Must Be Paid to the Promotion of the Role of the Opening up Policy to the Comprehensive Deepening Reform**

The previous speeches are very enlightening. I want to make some supplement to Professor Zhang Yansheng's speech. I am thinking about an issue, which is related to the effect of international economy change on our foreign trade. Now, China's economy has been deeply involved into the international economic system. The report is well written; however, there is only one of the ten policies that is about opening to the outside world. Should it be enhanced? Opening to the outside world has played a great role in both development and reform of our economy. Reviewing the past 35 years since the Third Plenary Session of the Chinese eleventh CPC Central Committee, we had generally experienced three climaxes of reform and opening up. Suppose the current reform is the fourth one, how much impact do they have on our whole macroeconomy? Take One Belt and One Road as an instance; it has two direct effects on our economy. One is promoting the China Western Development, and the other one is helping some countries in Central Asia and West Asia to build the infrastructures and it can drive our iron and steel production at the same time. What influences will these strategies, policies, and measures of the opening to the outside world have on our macroeconomy during the current and coming period?

Professor Zhang Yansheng said that the foreign exchange reserve might not grow so substantially in the future. One reason is that I heard the central government plans to take a piece of foreign exchange reserve for outbound investment. So opening to the outside world makes China integrate into the international economic system with a greater extent. If we use it to promote the reform, could it be studied with more effort?

For decades, opening is often faster than reform because opening is easier and offends less vested interests than reform; furthermore, opening can boost reform. So we should consider opening when studying on the macroeconomy. It is difficult to calculate, but we should make efforts to achieve it, for the development of the situation is not allowed to only consider the domestic situation.

These are my suggestions

#### **6.5 Yang Ruilong, Professor of School of Economics, Renmin University of China: Emphasizing the Bottom-Line Management While Facing New Challenges Under the Conditions of the "New Normal"**

Thanks for the invitation, and congratulations to Xiamen University for hosting the macroeconomic conference report continuously.

"New normal" is, in fact, to describe a state of decline of potential economic growth rate. There is a little comfort though the economy turns down. On the one

hand, employment deterioration is not serious. On the other hand, the service industry remains robust. But the economic indicators of the second half of 2014 suggest that there are also problems with the two following factors.

Let us begin from the service industry. The PMI of nonmanufacturing industry is more mutational than the manufacturing industry. The PMI of nonmanufacturing has reached 56.7 % in October 2008 but descended to 45.4 % in November. We should not be confused by the data of more than 50 %, for it may reverse rapidly in 2015. Furthermore, China is in the postindustrial period, and the development of the third industry is heavily dependent on manufacturing and consumption. The current indices of GDP are going all the way down, manufacturing industry is relatively receding, and per capita income growth is slowing down, so the service industry lacks foundation for rising. We can suggest that the service industry may encounter serious challenges in 2015.

Then let us talk about employment. Analyzing the employee's index, the demand for employment is shrinking, especially the nonmanufacturing industry. As the employment statistics have some problems, employment quality has not been well reflected. According to the current aperture, removing the false of employment and entrepreneurship, enterprise talent reserves, and local government repression, the quality of employment has some problems. The third industry which is the construction industry that employment heavily depends on will fall back in 2015; therefore, the employment will be unavoidably under pressure.

The uncertainty of two supporting elements presents the macroeconomic policy as a dilemma. Strengthening the stimulus will aggravate the structural distortion and increase the financial risks. But it is obvious that China excessively depends on high economy growth. The unnecessary growth speed may cause economic system crisis. In addition to the decline of potential growth rate, cyclical factors are also the reasons of economic downturn. So it is a daunting problem for the macromanagement and decision-making departments to balance growth with restructuring. In order to avoid the negative effects of excessive stimulus and economic decline cliff, we should have a bottom-line management consciousness, holding the bottom line of unemployment and risk, making prearranged plans. For instance, aiming at the excessive declines of the real estate and service industry investment, we should prepare for the hedging policy and build a social safety net to hedge the impact from the macroeconomic deterioration on the economy.

## **6.6 Jia Kang, President of China Academy of New Supply-Side Economics and Professor of Research Institute for Fiscal Science, Ministry of Finance: The Reform of the Fiscal and Taxation Policy Should Be Done in Lots of Ways Simultaneously**

The People's Bank of China has further loosened monetary policy, which makes the situation very serious. We should further explore how to regulate and control the economy in the acceptable range. The central economic work conference has made

a clear tone. The economic operation should take account of the medium-long-term general blueprint, such as modern state governance, modern market system, modern legal system, and comprehensive implementation and governance of the country by law. The Treasury should ascend some expansion aggressively as far as possible to serve the overall situation and stable market expectations and grasp the bottom line. It is possible to discuss the proper improvement of deficit rate.

In addition, the fiscal policy should clearly do something to optimize the structure adjustment. We cannot simply expect the slowdown of economy to bring structure optimization naturally. Because of imperfect competition, if the government simply reduces investment, it cannot shoulder its responsibility well. The first is to cut tax. Tax credit on enterprise innovation activities has been discussed for several years, and barriers of operation should be resolved. Responsibility should not be postponed again and again. The second is to use the available space in the financial expenditure as far as possible. We should emphasize the structure, mechanism, and performance rather than the total amount and growth. Meanwhile, we should increase effective supply selectively to support the new normal. As far as livelihood is concerned, we need a further movement on mobilizing government funds, stimulating the nongovernmental capital cooperation, and increasing investment in order to make everything go well. The third is related to redistribution, which links to reform more explicitly. Xiamen University emphasizes direct taxes, which is consistent with the policy of the Third Plenary Session. However, the difficulty is here as well. For example, the real estate tax, NPC and CPPCC have made it clear to legislate as soon as possible last year, but there is no movement so far. In addition, the personal income tax is at the bottom of the current scheme. There is no way to take the inheritance tax into the scheme of reform task if there is no policy to make officials' assets known to the public, which causes the lack of confidence to undertake the act. The distribution should be improved in this respect.

Above all, total amount, structure, redistribution, and reform should be improved collectively. Thank you!

## **6.7 Jia Yandong, Researcher and Deputy Director of Macroeconomic Analysis Division of The Research Bureau, People's Bank of China: Development and Research of Economic Models Help to Enhance the Accuracy of Policy**

Thanks for the invitation of Xiamen University, this is my first time to attend this conference. I used to be a student of Xiamen University, and it is my honor to exchange our experience in People's Bank of China with you. My job in the Research Bureau of PBC is to develop macroeconomic models. As it takes a lot of manpower and material resources to develop and maintain the models and it also costs a lot of money to buy foreign models, thus, in my understanding, it is a miracle that our university can develop models continuously in so many years.

The PBC's demand for macroeconomic models is very strong, and it has undertaken the task of working out the 13th five-year development planning. Our leaders hope we can conduct policy simulation and various estimates by some scientific tools, then provide a benchmark for medium-long-term planning, and provide some policy recommendations for the short-term economic fluctuations. We also organize various business scenario analyses and predictions about the macroeconomic trend. This report is of great significance to us. Since 2000, the PBC has begun to develop various models. In addition to the large-scale econometric models, there are some special models, which construct a model library and provide support and help for the decisions. Our models emphasize the balance between financial variables and pay less attention to the government's fiscal revenue. Since fiscal policy is a theme this year, this model is an excellent supplement to ours.

Currently, we also try to release the model results by publishing papers. The leaders hope that the market expectations would be influenced through this way. We have a long way to go, and I hope, entrusted by the leaders, that we can strengthen the strategic cooperation with Xiamen University in the future. It is a strong cohesion force to combine the models together, and it can make more contributions to the development in the future.

At last, I wish our models can be improved and perfect. Thank you!