

China's Economic Development Prospects And New Measures in Opening Up

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Good morning, Ladies and Gentlemen. It's my great pleasure to have this opportunity to address the conference.

As you know, the rising of China is an important event in the 21st Century. As a peace-loving country, with a long history of splendid ancient civilization, China's development will constitute no threat to any country. On the contrary, a prosperous China is not only in the interest of the Chinese people—which account for one-fifth of the total population living on this planet—but also will provide more opportunities to other countries. We will benefit the other countries' development.

With the construction of the Euro-Asia Land-Bridges, especially the expansion of the network of railroads in these two continents, China's connection, and the cooperation with the European countries, has also been intensified.

As you know, the European countries in total, are the third largest trading partner of China, and Germany is China's first trading partner in the EU. Just as has been mentioned, China is involved in getting a lot of technologies, and equipment and capital, from Germany. The first magnetic-levitation rail line in the world has been put into operation in Shanghai, which is a symbol of the cooperation between China and Germany.

You have discussed a lot of things about how to construct Land-Bridges on these two continents; so today, I would like to tell you something about the prospects for China's economic development, and its new measures for opening up.

Measures Against 'Asia Crisis'

Over the past several years, especially since 1997, the internal conditions for China's economic development have changed drastically. So, for the external environment, we have seen the Asian economic crisis, the IT bubble bursting in the United States, the U.S. recession, the slowdown in the world economy in recent years—all these events have made China's external environment worse. At the same time, since China has increased its productivity radically since the initiation of economic reform, most of the products in China's

markets have been in excess supply, since the mid—the later part of the 1980s.

And on the other hand, the economic restructuring, especially the structural adjustments in the state-owned enterprises, also generated a lot of laid-off workers, which added new difficulties for China's economic development. Generally speaking, currently, with the changing environment, the insufficiency of effective demand has been a major constraint on China's economic development.

So, in order to maintain a rapid economic growth, China's government has taken a series of measures in response to this changing environment. From 1998, 1997, the Chinese government has shifted its economic development strategy from focusing on stimulating exports, to expanding domestic demand. During the [Asian] financial crisis, as a responsible country in the world, China insisted on maintaining the stability of the exchange rate of its currency with the other countries, which has not only helped stabilize the situation in East Asia, but also enhanced foreign investment in the Chinese economy. And at the same time, the Chinese government took other measures, such as the tax refund to give some support



Dr. Bi Jiayao: "Can China maintain its rapid rate of growth in the long run—in 10 or 20 years into the future? My answer is yes."

for the export sector.

Most important, from 1998, the Chinese government began to adopt a pro-active fiscal policy, and a prudent monetary policy, by issuing a large amount of Treasury bonds, to put money into the construction of infrastructure. In 1999, the Chinese government initiated another great strategy; that is, to implement the Western Development Strategy to enlarge China's economic development space. So, this western development campaign, combined with the pro-active fiscal policy, put more and more money into construction in the western part of China, especially in railroads, pipelines, power grids and so on.

Besides this, the Chinese government also put a lot of money into strengthening the social security system, to provide basic support for the laid-off workers, and to enhance consumer confidence.

So, generally speaking, over the past five years, the Chinese government has taken a series of measures that have helped China to overcome the difficulties generated by the financial crisis in Asia, and the market changes in China itself.

Eurasian Economic Cooperation

At the same time, China also stepped up its efforts to participate in international cooperation. So, this slide shows some aspects in which China has been involved. For example, in regional economic cooperation, China has established bilateral currency swaps with Japan, South Korea, Thailand, and so on, designed to stabilize the financial situation in Asia. On the other hand, China also has undertaken cooperation with Japan, South Korea, and the ten ASEAN countries, in the "10+3" framework; and now China is negotiating with the ASEAN countries to establish a Free Trade Area in ten years.

In Eurasian economic cooperation, the Chinese government has taken a very active attitude to strengthening the political dialogue between China and the European Union, and also proposed a lot of beneficial suggestions on how to strengthen bilateral trade and economic relations with the European countries. Also, in more broad areas—that means in the Asia-Pacific basin—China has taken some measures to facilitate the environment, and the trade among the Asia-Pacific areas.

On the other hand, the most important thing for China, in recent years, is that China has gone a long way to enter the World Trade Organization (WTO), which means that China has fully integrated with the world economy.

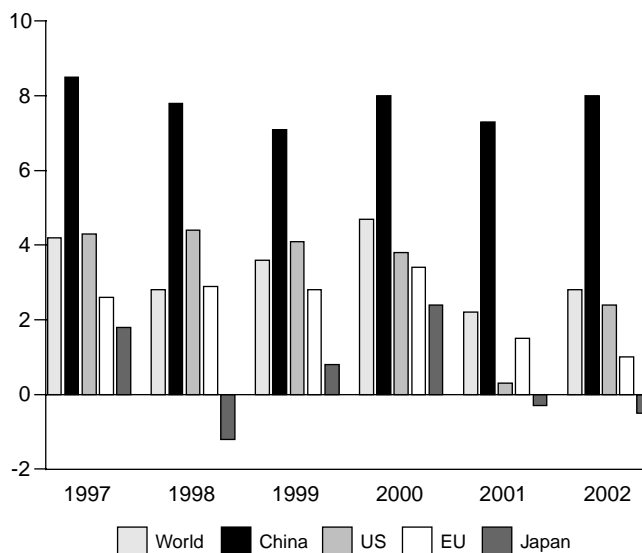
So, this figure (**Figure 1**): As you can see, with these measures, China has maintained a rapid economic growth over the past five years; and over this time, you can see that no matter where the world economy growth rate, or that of Japan, the United States, or European countries—the growth rate has been faltering—but China has largely maintained a quite stable growth rate, between 7% to 8%.

Now, the past year—I mean, in 2002—was the first year that China joined the WTO. The economic performance was quite good, and it exceeded expectations. The economy

FIGURE 1

Maintaining China's Rapid Economic Growth, GDP

(% Change from Previous Year)



Sources: China National Statistics Bureau; IMF; U.S. Commerce Dept; European Commission.

maintained a relatively rapid growth, with GDP increasing 8%; and capital investment registered a historically high increase since 1996, making a big contribution to the GDP growth. Consumer spending also continued to increase: in housing, in cars, telecommunications, tourism has been the spotlight of China's new consumption. Imports and exports also increased strongly, and foreign direct investment (FDI) reached a new high last year.

Now, **Table 1** shows some of the main macroeconomic indicators for 2002. You can see, the economic growth rate is higher—is as high as 8%—and the capital investment increased to 16%. And I must mention that in recent years, the increase of capital construction in the western part of China—as compared with the eastern part—has been much higher. Of course, we also have some problems. You can see the Consumer Price Index (CPI) has been declining, some deflationary pressures are still on our economy. And unemployment, unfortunately, has risen to 4%, which is the registered urban jobless rate. And we still have 4 million laid-off workers from state-owned enterprises, who are waiting for jobs.

So, to summarize, the major factors for China to maintain rapid economic growth, are as follows: The first one is, the correct policies, macro-economic policies, have to be adopted by the government. The second is, with the market-oriented economic reform, the market has played a key role in resources allocation, with non-public-sector investment increasing largely in recent years. The third one, is that the

TABLE 1

China's Main Macro-Economic Indicators, 2002

Economic Activity	Growth/Decline
Real GDP	8.0%
Agriculture	2.9%
Industry	9.9%
Services	7.3%
Fixed Investment	16.1%
Capital Construction	16.4%
Technical Renovation	11.1%
Real Estate & Housing	21.9%
Retail Sales	8.8%
Urban Area	10.0%
Rural Area	6.8%
Consumer Price Index	-0.8%
Urban Area	-1.0%
Rural Area	-0.4%
Employment	1.0%
Urban Regist. Jobless	4.0%
Laid-Off SOE Workers	4.1 Million
Trade Volume (\$620.8 Bn)	21.8%
Exports (\$325.6 Bn)	22.3%
Imports (\$295.2 Bn)	21.2%
FDI Inflow (\$52.7 Bn)	12.5%
Foreign Reserves (\$286.4 Bn)	

Source: China National Statistics Bureau.

economic reform injected vitality to economic activity, especially in small and medium enterprises (SMEs) and the private sector, which has become more and more important in China's economic development.

Outlook for China's Economy

Of course, on the other hand, in the external environment, frankly speaking, the moderate recovery of the world economy, and the U.S. dollar depreciation, also provided some support for China's exports. Because China's currency is pegged to the U.S. dollar, so the depreciation of the dollar to some extent gives some support for China's exports. And lastly, the accession to the WTO improved China's trade environment in general, which is beneficial to China's exports, and also encouraged more inflows of FDI.

We know, in the past, before China joined the WTO, many countries, including European countries, always used the anti-dumping measures to restrict China's exports. When China joined the WTO, to some extent, the number of anti-dumping cases have been reduced.

Even though we have made some achievements in economic development of the Chinese economy, there are still a lot of problems with China's economy. Currently, we have seen the following major problems that should be solved in the near future. One is, that inadequate effective demand still constitutes a constraint on economic growth, with many products oversupplied in the market, which is inconsistent with

China's economic development in the current stage. The reason is, that most of the people, especially the people living in the countryside, have low income. They have no money to buy the goods. On the other hand, the supply structure also has some problems, and cannot meet the diversified demands of the consumers.

The second is that prices, such as CPI, the Consumer Price Index, and the retail price index, are still falling, with deflation trends not being reversed. The third one is that the employment pressures are mounting, not only with over 4 million urban laid-off workers waiting for jobs, but we also have 150 million rural laborers in surplus, who should find jobs in the cities, which requires our government to make a good effort to step up its urbanization process.

And finally, the external environment is also confronted with uncertainties, due to the Iraqi war, the hike in oil prices, the moderate [growth of the] world economy, and the potential financial crisis and turbulence.

In spite of these difficulties, the general outlook for China's economy in 2003 is bright. In the just-concluded Tenth National People's Congress, the new Chinese government proposed an economic growth target for this year at 7%, but many economists and institutions made their projections of over 7% growth for this year. The Chinese government—the Party and the government—have decided to maintain the continuity and the stability of its macro-economic policies, which means that the pro-active fiscal policy and the prudent development policy will continue to be implemented this year. Which will provide the support for expanding the domestic demand.

And the consumption, and the investment, from the non-government sectors, will also play an increasing role in sustaining economic growth.

Fourthly, economic restructuring will add new impetus to growth, with infrastructure improved, manufacturing upgraded, and IT and high-tech sectors developed rapidly in recent years.

Foreign direct investment is expected to pour into China, due the strengthened confidence of overseas investors in China's economy. Last year, China's actual utilization of foreign capital was over \$53 billion, ranking the first in the world. And this year, we expect that the FDI will also surpass \$50 billion.

Finally, foreign trade will also maintain an appropriate growth rate despite the sluggish world economy, because China's exports are mainly labor-intensive products, which are daily necessities for common people. So, no matter whether the world economy is in a boom, or stagnant, I think that people need the goods made in China.

Can China's Growth Continue?

Last year, the 16th Communist Party of China Congress proposed an ambitious plan to build a high-standard, well-off society—in Chinese, we call it a *Xiao Kang Shi Wei*, a well-off society, in the first 20 years in this century. The Tenth

National People's Congress has confirmed this plan, which means that China is to quadruple its GDP by 2020, over 2000, on the basis of optimizing structure and enhanced efficiency; which means that China's economy should maintain at least a 7.2% annual average growth, in order to achieve the well-off society's level of growth.

So, the question, is if China can maintain its rapid rate of growth in the long run—in 10 or 20 years into the future? My answer is yes. Because we have some favorable conditions to support the continued rapid economic growth in China. First, China can maintain its political and social stability, which is a key precondition for economic development. Secondly, as the most populous developing country, China has a huge potential domestic market. Last, the per-capita GDP of China has approached \$1,000. With economic development, the people will get richer, and the purchasing power will also increase, which means China has a huge potential market. We have enough domestic demand to support long-term economic growth.

Thirdly, the infrastructure, which is the basis of economic development, has been improved largely in recent years. Over the past five years the Chinese government issued 660 billion yuan, which is equivalent to some \$80 billion, in Treasury bonds. The money has been put into the construction of the railways, highways, and pipelines, and all such kinds of infrastructure. This is funding from the government, which has also induced a large investment from non-public sectors, so that total capital construction, over the past five years, amounts to 3.2 trillion yuan, which I think is \$400 billion, in the total amount. The large amount of investment in infrastructure has strengthened the basis of China's economic environment in the long run. The other thing is, China has a high-quality and a cheap labor force, which is unique in the country of China. I think we can maintain these advantages over the next 10-20 years.

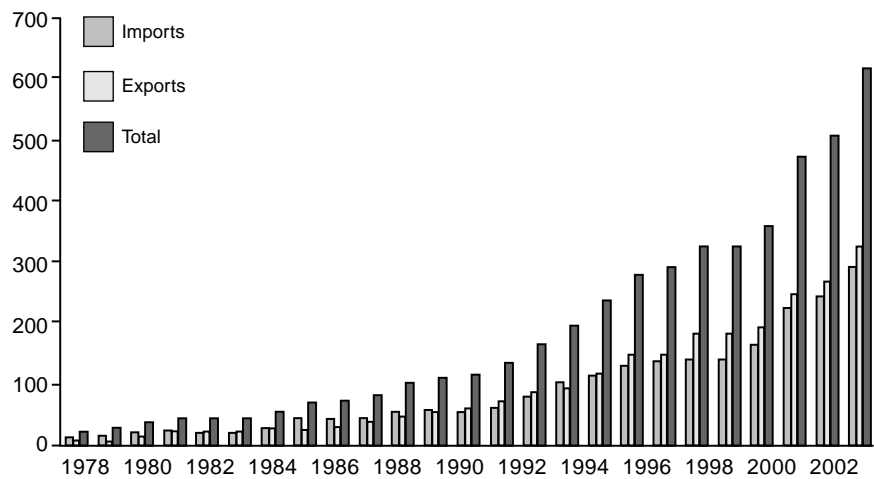
On the other hand, we also have other favorable factors: such as the rapid development of the private sector; acceleration of the urbanization process—which has generated a lot of demand for products and services; further optimization of industrial structures; development of the vast western regions, which can enlarge the space for economic development; and the determination of the Chinese government to implement a sustainable development strategy.

So, in conclusion, I think that the ambitious goal proposed by the Party and the government, that we build a well-off society in 2020, is achievable.

FIGURE 2

China's Imports and Exports, 1978-2002

(\$ Billions)



Source: China National Statistics Bureau. European Commission.

Trade and Investment

Next, we come to the opening-up aspect. Opening to the outside world has been China's long-term national basic policy. The experience shows, that over the past two decades, owing to the opening to the outside world, China has introduced a lot of foreign capital and technologies, which has made a great contribution to encourage China's economic restructuring and development. And the WTO entry marked a new stage of China's opening up. So China will further expand its opening up, and participate in international competition and cooperation so as to optimize resources allocation globally, and enlarge the space of economic development.

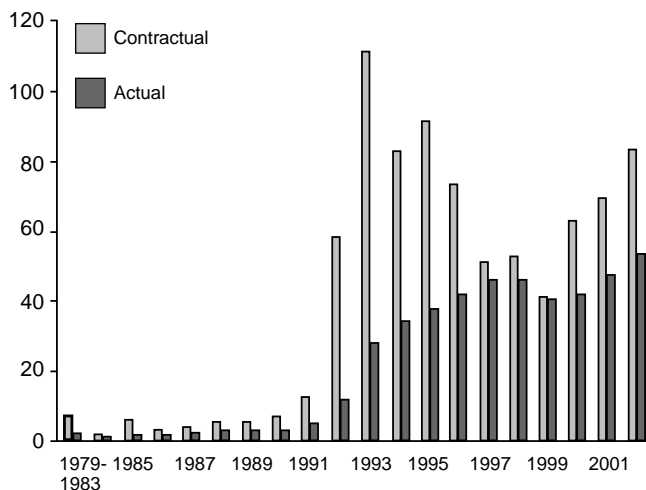
Let's show some results of China opening up. China's foreign trade volume (**Figure 2**)—on this figure you can see that the amount of imports and exports have increased gradually over the past two decades. For example, the total trade volume—that means the exports plus imports—has increased from only \$20 billion in 1978, to over \$600 billion last year. And the ranking of China in the world has also risen from the original 32nd, to 5th. For FDI also, a great achievement has been made over the past two decades. At the end of 2002, there are over 400,000 foreign-funded enterprises which have been established in China, with a total inflow of FDI amounting to \$447 billion, ranking first, for the past 9 years, among the developing countries.

Here are some figures (**Figure 3**), the development of China's investment. You can see, before 1992, the FDI into China was small. In 1992, the paramount leader, the late Deng Xiaoping, made a historic tour to the south of China, and China began to enlarge its opening to the outside world. So, we can see, from 1993 to 1997, the inflow of FDI has

FIGURE 3

China's Foreign Direct Investment Inflows, 1978-2002

(\$ Billions)



Source: China National Statistics Bureau.

increased steadily, and largely. And owing to the financial crisis in Asia, FDI dropped in 1998 and 1999; and in the recent years, the [last] two years, the FDI into China has begun to grow again.

When China joined the WTO, China began to take some new measures to open up its economy. The first one is, to reduce its tariffs, and expand market access. In 2002, China reduced its tariffs on over 5,000 items, with general tariff levels reduced from the original over 15%, to only 12%, and also abolished import quotas on eight items, such as grain, cotton, and fertilizer. From the beginning of this year, China further reduced its tariffs on 5,000 items, with general tariff levels reduced to only 11.5%, and relinquished import quotas on 31 items. So, this step is very big. This means that China has honored its commitment to the WTO.

Besides this, China also took some measures to open up its FDI sectors, including measures such as revising the laws on foreign-funded enterprises in line with WTO rules, promulgating new FDI industrial guidelines, and so on. As for revising laws on the foreign enterprises, China has three important basic laws concerning foreign ventures, or foreign-funded enterprises, which were issued, I think, at the beginning of China's opening up, in the early 1980s. By that time, the most part of China's economy was under the planned system, and in order to give space for joint ventures, China designed the three basic laws. However, because the laws at that time had some aspects which were not consistent with international laws, when China joined the WTO, it had to revise them; and now, it is in full compliance with the general practice of the WTO, on FDI.

In February and March 2002, the Chinese government also issued new regulations on directing foreign investment and the industrial guidelines for foreign investment, which gave some general guidelines for foreign investment. The main gist of these guidelines is, that more and more fields, or sectors, are open to FDI, open to foreign investment. And even the service sectors, such as banking, insurance, trade, tourism, telecommunication, transportation, accounting, auditing, laws, and other professional services, are also gradually opened to foreign investments.

All these measures have increased China's transparency of government policies and regulations. In the past, as you know, our government generally used internal documents to guide the activity of the companies. When we joined the WTO, we have changed these traditional measures, and tried to increase the transparency of policies and regulations. That means that investors, especially overseas investors, now can enjoy a more favorable investment environment in China. So, this shows some specific measures that the Chinese government has taken.

'Going Abroad'

If over the past two decades, our opening up to the outside world was mainly focussed on "bringing in," now China has begun also to "go abroad," to implement a "Going Abroad" strategy—which means we also encourage the Chinese enterprises to go abroad, to participate in the international cooperation with the other countries. This is a new dimension of China's opening-up policy.

This is just the beginning stage of the progress. Only preliminary progress has been achieved in going abroad. By September 2002, over 6,000 Chinese enterprises have some connections and investments overseas, in over 160 countries, with the Chinese contractual investment being \$9.2 billion (official figures). The actual overseas investment of Chinese companies, in the other countries, is larger than the government statistics. China has participated in over 200 cooperative resources development projects, such as petroleum and natural gas exploration, mineral production, in forestry and fishing, in more than 50 countries and regions.

Most of the important aspects of our going abroad is to seek cooperation with other countries, to develop the projects that are important, such as petroleum and natural gas.

In order to adjust to the new situation, the Chinese government is also planning to reform, to simplify, administrative examination and approval procedures on investment overseas, because there currently are still a lot of restrictions on Chinese enterprises when they try to make investments and they engage in international cooperation with other countries. So, the next task is to simplify and reform the management system, so we can also provide a more supportive environment for Chinese enterprises going abroad, and provide them with a more extensive cooperation.

Okay, this is my very simple presentation. Thank you for your attention.