



THE CHINESE ECONOMY TODAY

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New Pattern of the Economic Development and Reform of China

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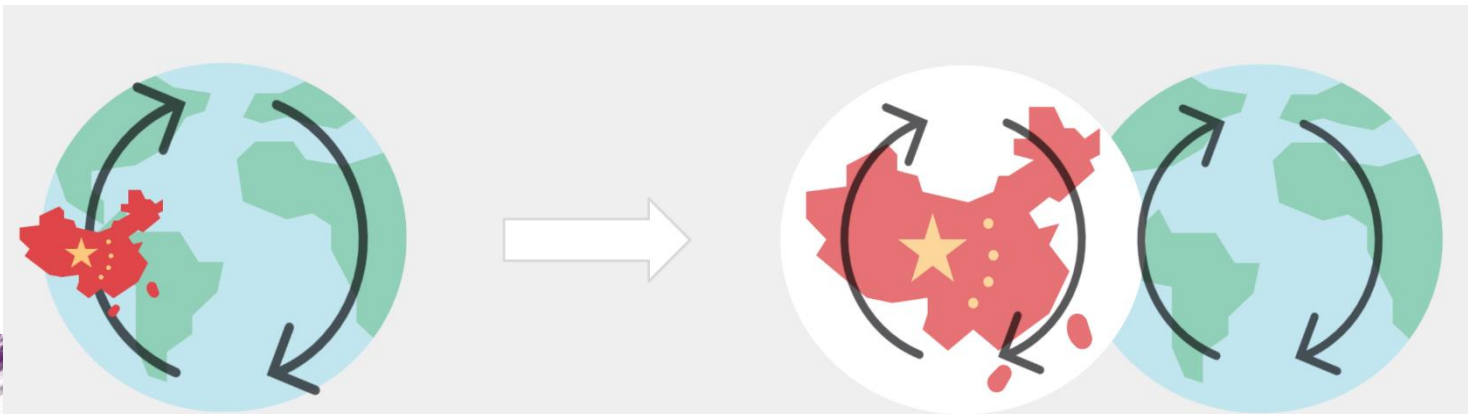
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NEW PATTERN OF CHINA'S ECONOMIC DEVELOPMENT

New Development Pattern

- **Universal domestic market:** advancing supply side reform, enhancing factor movement, strengthening circulating system
- **“Dual circulation”** of international economic linkage: balancing the import and export of goods and services; advancing the inward and outward direct investment level

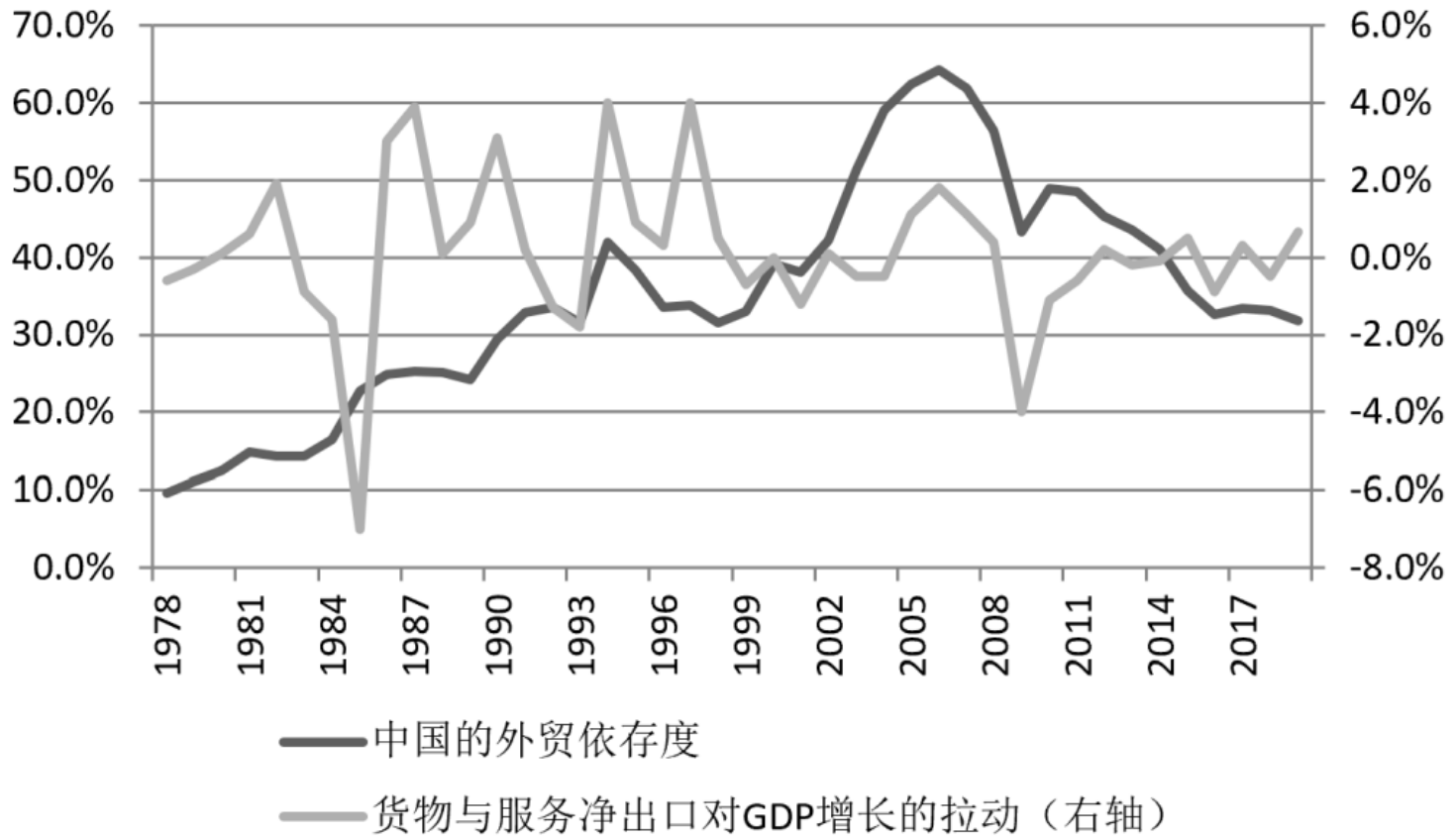


Background to the formation of the “Dual circulation”

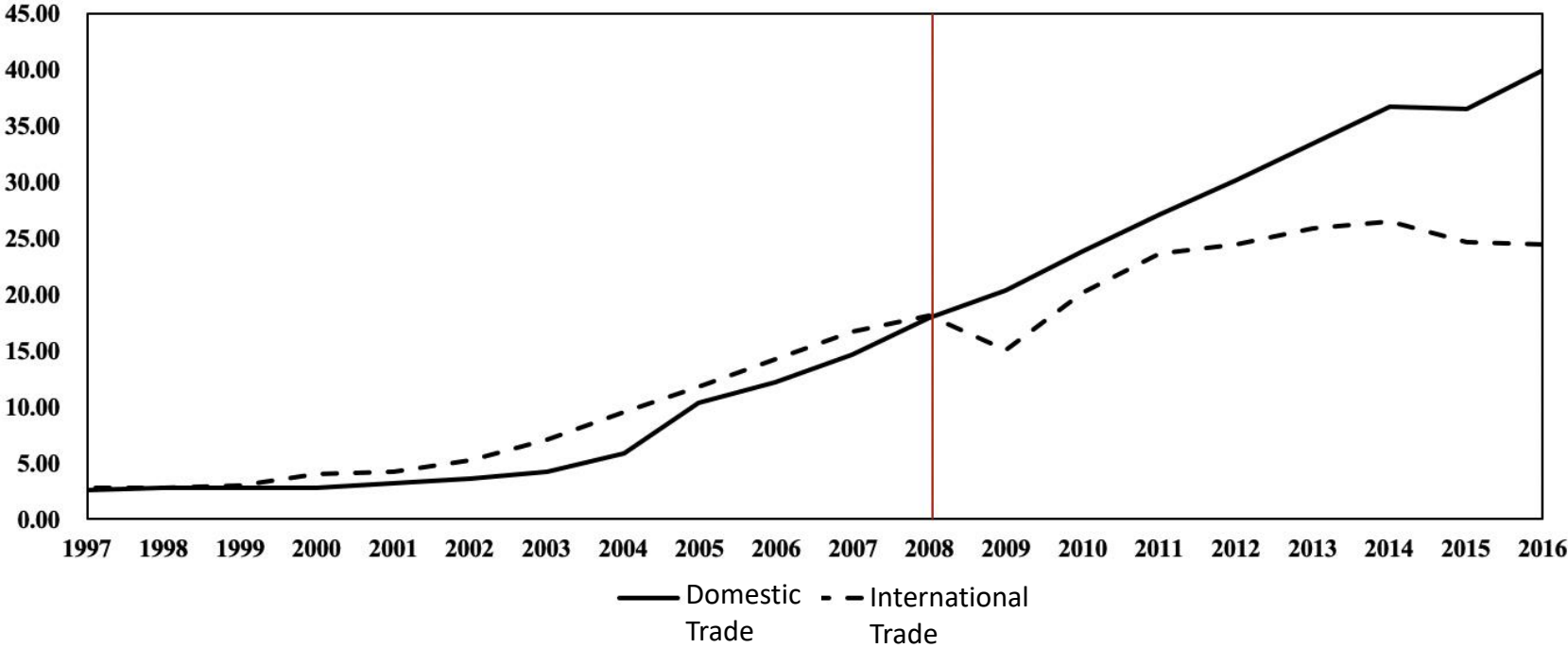
- Constructing a new development pattern with the domestic circulation as the mainstay and the dual domestic and international circulation promoting each other. A new development pattern is a strategic choice to keep pace with the times and shape new advantages in China’s international economic cooperation and competition. Since the reform and opening up, especially after joining the WTO, China has joined the international cycle with markets and resources "on both ends", forming the "world factory" development model, which has played an important role in the rapid upgrading of China's economic strength and improving people's lives.
- In recent years, with the changes in the global political and economic environment, the trend of counter-globalization has intensified. Some countries are engaging in unilateralism and protectionism, which has significantly weakened the traditional international cycle. Under such circumstances, it is important to rely more on the domestic market to achieve economic development. With a population of 1.4 billion and a GDP per capita that has exceeded US\$10,000, China is the world's largest and most promising consumer market, with huge room for growth.



The "external circulation" in the perspective of traditional foreign trade dependence



Shift between international and domestic demand



Realistic significance of the “Double circulation”

- To build a new development pattern, we should uphold the strategic base point of expanding domestic demand, so that production, distribution, circulation and consumption rely more on the domestic market and form a positive cycle of the national economy. We should adhere to the strategic direction of supply-side structural reform, improve the adaptability of the supply system to domestic demand, unblock the economic barriers, and enhance the integrity of industrial chains and supply chains. It is necessary to make the domestic market be the main source of final demand, and form a higher level of dynamic balance in which demand pulls supply and supply creates demand. **The new development pattern is by no means a closed domestic cycle, but an open dual domestic and international circulation.** By promoting the formation of an ambitious and smooth domestic economic cycle, we can better attract global resources and elements, meet domestic demand while upgrading our industrial and technological development, and form new advantages in participating in international economic cooperation and competition.



General external circulation

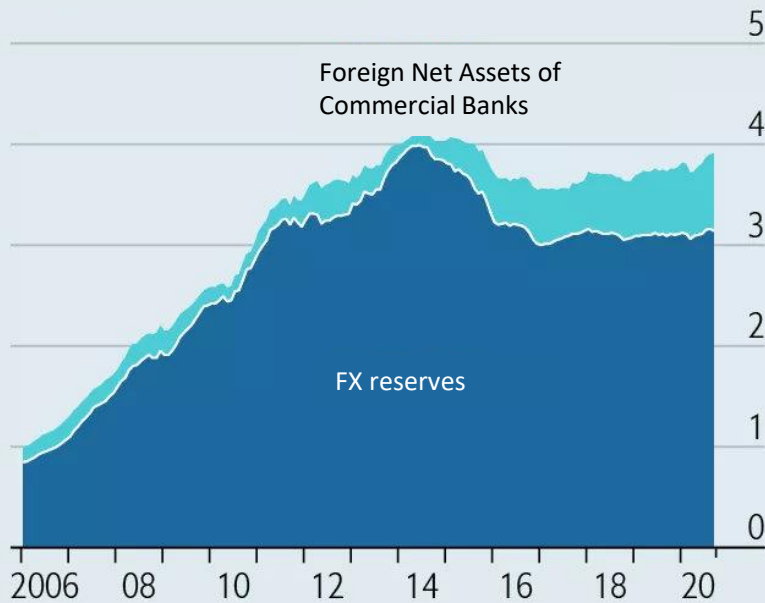
Frameworks of major Asia-Pacific trade deals



Source: Compiled by Nikkei Asia

General internal circulation

Reserve Pool China, trillion \$

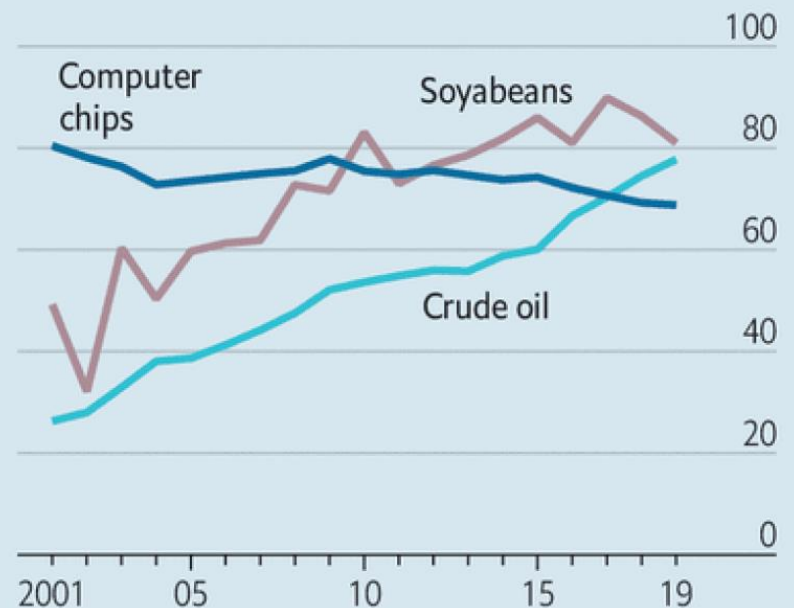


资料来源:中国人民银行;《经济学人》

The Economist
经济学人
商论

Aiming far lower

China, imports as % of domestic consumption



Sources: Wind; *The Economist*



Forming a powerful domestic market and building a new development pattern

- **Smooth the domestic circulation.** Relying on the powerful domestic market, to link production, distribution, circulation and consumption, break the monopoly of industries and local protection, and form a positive circulation of the national economy.
- **Promote domestic and international double circulation.** Based on the domestic circulation, exert our comparative advantages, to promote the dual construction of a strong domestic market and a prosperous national trade. Taking advantage of domestic circulation to attract global resources, while making full use of two markets and two resources in both home and abroad. Actively promote the coordinated development of domestic and external demand, imports and exports, foreign and outward investment, and promote a basic balance of international payments.
- **Enhance consumption comprehensively.** Promote the fundamental role of consumption in economic development. Following the trend of upgrading consumption, improve traditional consumption, cultivate new types of consumption, and appropriately increase public consumption.



Further consumption market in China

- Commodity level: Brand, environmental protection, health, safety, prominent value added
- Industry level: The modern service industry has become more specialized and its scale has grown rapidly
- Spatial level: the emergence of multiple nationalized consumer centers
- Virtual reality level: online and offline integrated consumption further explodes

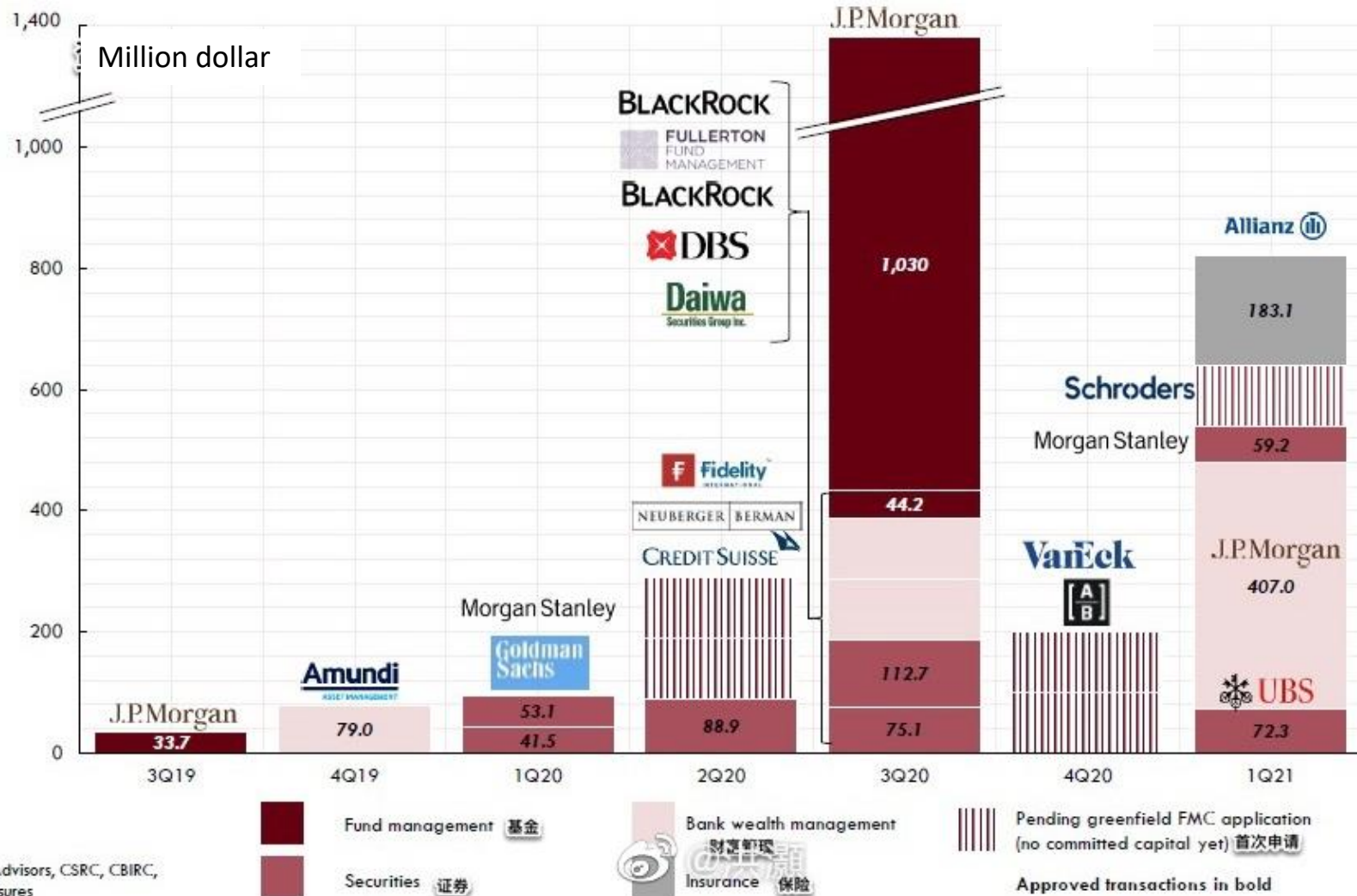


Constructing a new system for a higher level of open economy

- **Comprehensively improve the level of opening.** Promote trade and investment liberalization and facilitation, promote innovative trade development and enhance the comprehensive competitiveness of foreign trade.
- Improve the management system of citizen treatment before foreign investment access and negative list. Open up the service sector orderly, protect the legitimate rights and interests of foreign enterprises, and improve the legal policy and service systems for promoting foreign investment. Firmly safeguard the legitimate rights and interests of Chinese enterprises overseas, and achieve high-quality import and export.
- Improve the layout of free trade pilot zones, grant them greater reform autonomy, steadily promote the construction of a free trade port in Hainan, and build a new high ground for opening.
- **Steadily promote the internationalization of the RMB.** Adhere to market-driven and independent choice by enterprises, and create a new type of mutually beneficial cooperative relationship based on the free use of the RMB. Make good use of important exhibition platforms such as the China International Import Expo.



Foreign Capital Inflow



Source: Z-Ben Advisors, CSRC, CBIRC, company disclosures



NEW TARGET OF CHINA'S ECONOMIC REFORM

The theme of the 14th Five-Year Plan is to promote high-quality development

- The draft proposed that during the “14th Five-Year Plan” period, economic and social development should be based on the promotion of high-quality development. This is a scientific judgment based on our country’s development stage, development environment, and changes in development conditions. Our country is still and will be at the primary stage of socialism for a long time, and it is still the largest developing country in the world. Development is still our party's top priority in governing the country. **It must be emphasized that the development in the new era and new stage must implement the new development concept and must be high-quality development.**
- At present, the main contradictions in our society have been transformed into contradictions between the people’s ever-increasing needs for a better life and unbalanced and insufficient development. The contradictions and problems in development are concentrated on the quality of development. This requires us to place the issue of development quality in a more prominent position and focus on improving the quality and efficiency of development.



The Main Goals of the 14th FYP

Category	Goal	2020	2025	Annual average / Cumulative	Attribute
Economic Development	1. GDP growth (%)	2.3	—	Keep in a reasonable range, and put forward according to the situation in each year	Anticipatory
	2. Total labor productivity growth (%)	2.5	—	Higher than GDP growth	Anticipatory
	3. Urbanization rate of permanent residents (%)	60.6*	65	—	Anticipatory



Modernizing the supply chain of the industry

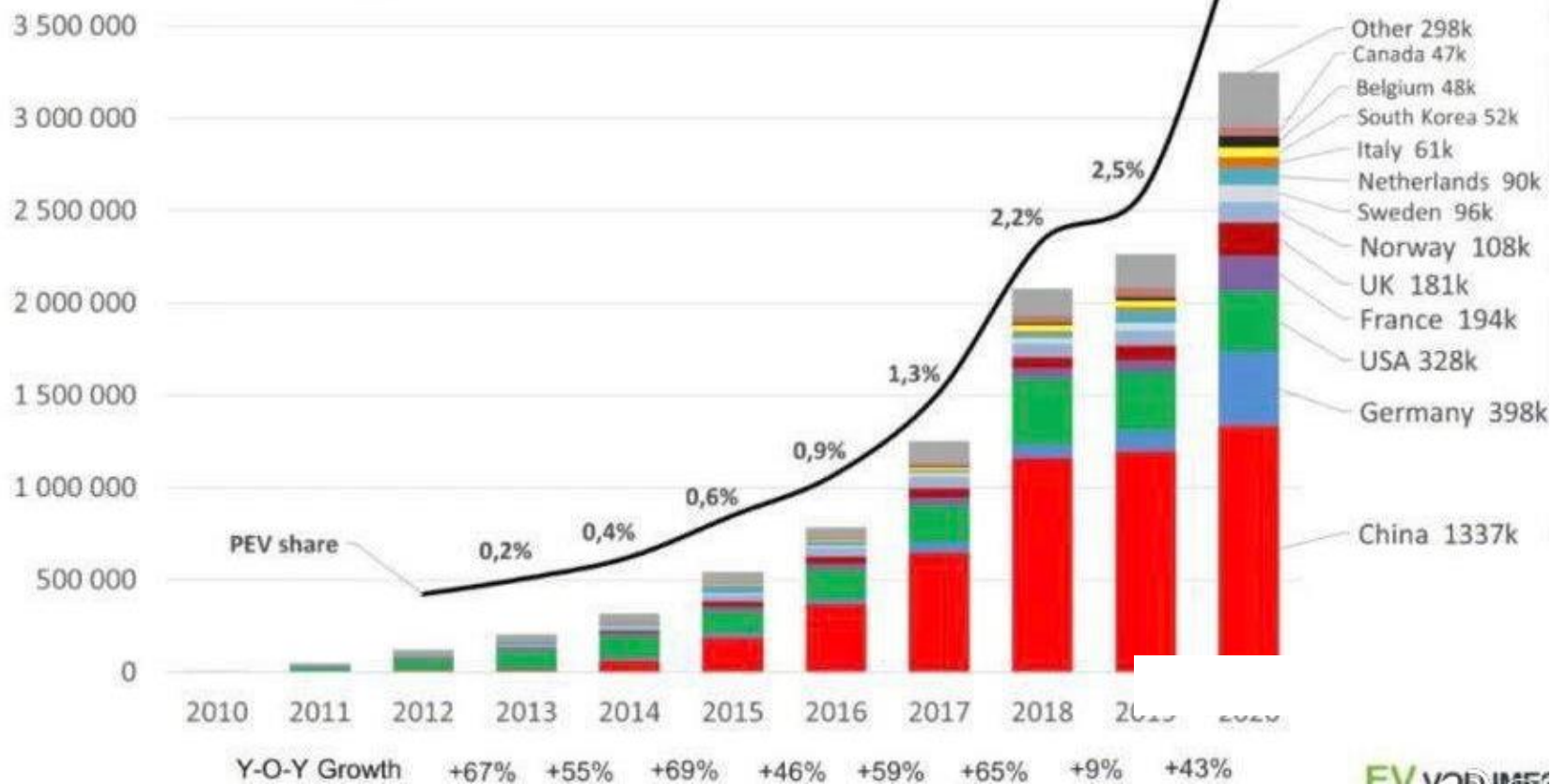
- **Maintain the basic stability of the proportion of manufacturing industries and strengthen the foundation of the real economy.** Adhere to independent and controllable, security and efficiency, making strategic design and precise policy implementation of the supply chain by industry, and promote the optimization and upgrading of the whole industrial chain. Forge advantages of supply chains, based on China's industrial scale superiority, supporting advantages and first-mover advantages in some fields, to create emerging industrial chains, promote the high-end, intelligent and green traditional industries, and develop service-oriented manufacturing...
- Promote the orderly transfer of industries, optimize the layout of regional industrial chains and support the transformation and development of old industrial bases. Make up for the shortcomings of the supply chains, implement the industrial infrastructure reengineering project, increase the research and development of important products and key core technologies, develop advanced and applicable technologies, and promote the diversification of the supply chain and industrial chain...
- Strengthen international industrial security cooperation, and form supply chains with stronger innovation, higher value-added, greater safety and reliability.



- **Develop strategic new industries.** Accelerate the development of a new generation of information technology, biotechnology, new energy, new materials, high-end equipment, new energy vehicles, green environmental protection, as well as aerospace and marine equipment industries. Promote the deep integration of the Internet, big data and artificial intelligence with various industries, promote the development of advanced manufacturing clusters, build a number of strategic new industry growth engines with distinctive features, complementary advantages and reasonable structures, and cultivate new technologies, new products, new business models and new modes. Promote the healthy development of platform economy and sharing economy. Encourage enterprises to merge and reorganize, and prevent low-level duplication of construction.
- **Accelerate the development of modern service industries.** Promote the extension of productive service industries to specialization and the high-end of the value chain, promote the participation of various market players in service supply, accelerate the development of service industries such as R&D, modern logistics and legal services, promote the deep integration of modern service industries with advanced manufacturing industries and modern agriculture, and accelerate the digitization of service industries. Promote the upgrading of lifestyle services to high quality and diversity, accelerate the development of health, elderly care, childcare, culture, tourism, sports, housekeeping and property, and strengthen the supply of public welfare and basic services. Promote the standardization and branding of service industries.



GLOBAL PLUG-IN VEHICLE MARKETS BEV & PHEV - Light Vehicles



EV MARKET



Main Industrial Areas

- **New Manufacture**

- Advanced new materials
- Major technical equipment
- Smart manufacturing and robotics
- Aero engines and gas turbines
- Industrial applications of “Beidou” System
- New energy and smart vehicles
- Advanced medical equipment and innovative medicines
- Agricultural machinery and equipment



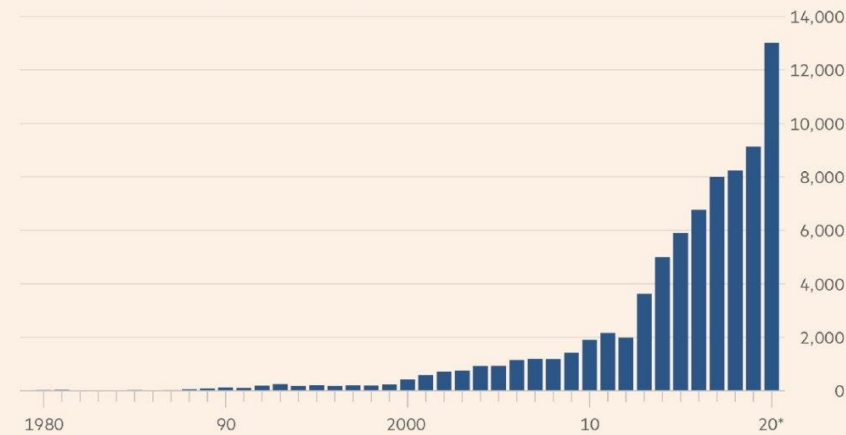
- **Accelerate the development of digitalization.** Develop digital economy, promote digital industrialization and industrial digitization, promote the deep integration of the digital economy and the real economy, and build internationally competitive digital industry clusters. Strengthen the construction of a digital society and digital government, and enhance the digital intelligence of public services and social governance. Establish basic systems and standards for property rights, trade circulation, cross-border transmission and security protection of data resources, and promote the development and use of data resources. Expand the orderly opening of basic public information data, and build a unified national data sharing and opening platform. Safeguard national data security and strengthen the protection of personal information. Improve digital skills for all citizens and achieve full coverage of information services. Actively participate in the formulation of international rules and standards in the digital field.



Chips up, Bitcoin down

China's rush into chips

Number of enterprises registering as semiconductor companies

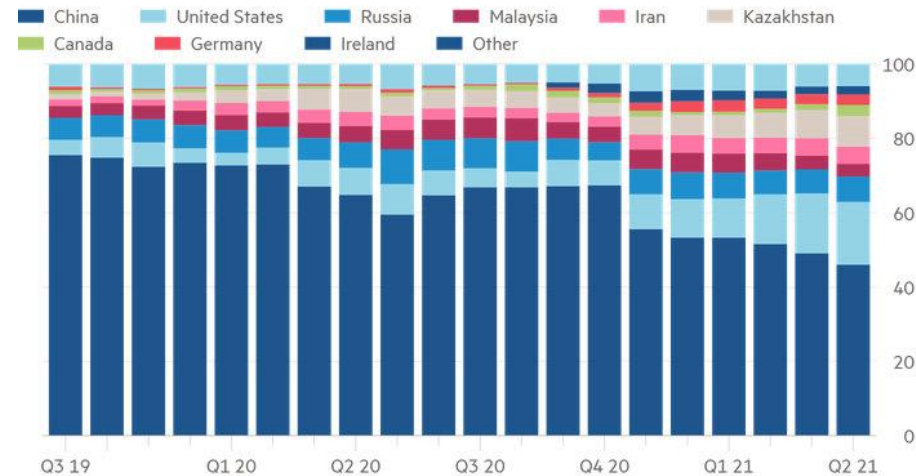


* Year to September
Source: Qichacha
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China's electricity use for bitcoin mining has fallen

Share of global hashrate (%)



Source: Cambridge Centre for Alternative Finance
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The Main Goals of the 14th FYP

Category	Goal	2020	2025	Annual average / Cumulative	Attribute
Innovation	4. Growth of R&D investment in the whole society(%)	—	—	>7%, Strive to make the input intensity higher than the actual growth during the 13 th FYP	Anticipatory
	5. Number of high-value invention patents per 10,000 population	6.3	12	—	Anticipatory
	6. Value added of core industries in digital economy as a percentage of GDP (%)	7.8	10	—	Anticipatory



Main Innovation Areas

- **Innovation Areas**

- New generation AI,
- Quantum information,
- Integrated circuit
- Life and health,
- Brain science,
- Biological breeding,
- Sky and space tech,
- Deep earth and deep sea

- **Digital Economy**

- Cloud computing
- Big data
- The Internet of Things
- Industrial Internet
- Blockchain
- Artificial intelligence
- Virtual reality and augmented reality



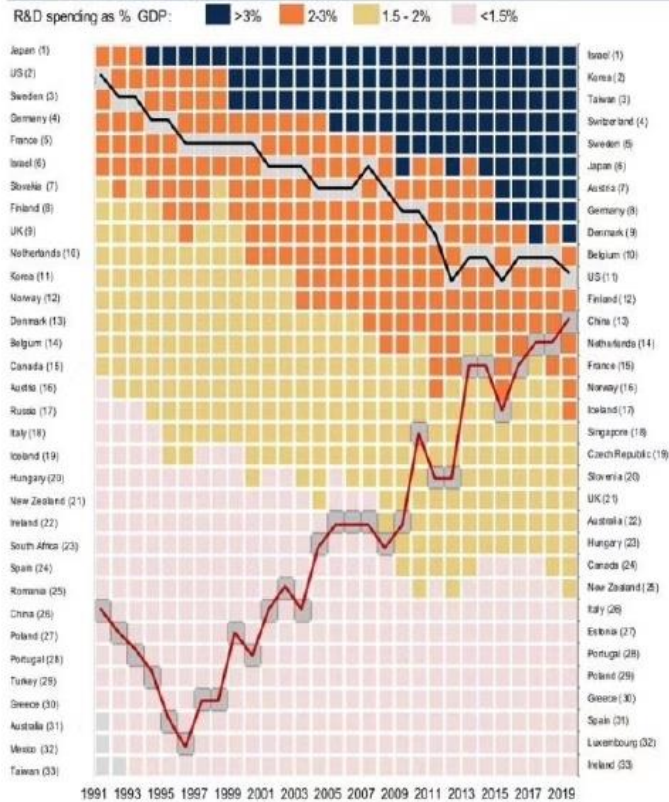
Enhancing the technological innovation capacity of enterprises

- Strengthen the status of enterprises as the main body of innovation, and promote the concentration of various innovation factors in enterprises.
- Promote the deep integration of industry, academia and research, supporting enterprises to take the lead in forming innovation consortia and undertaking major national science and technology projects.
- Play the important role of entrepreneurs in technological innovation, encourage enterprises to increase investment in R&D, and implement tax incentives for enterprises to invest in basic research.
- Large enterprises play a leading and supporting role. Support innovative medium and micro enterprises to grow into an important source of innovation, and strengthen the construction of common technology platforms. Integrate the innovation in the upper, middle and lower reaches of the industrial chain, as well as among large, medium and small enterprises.

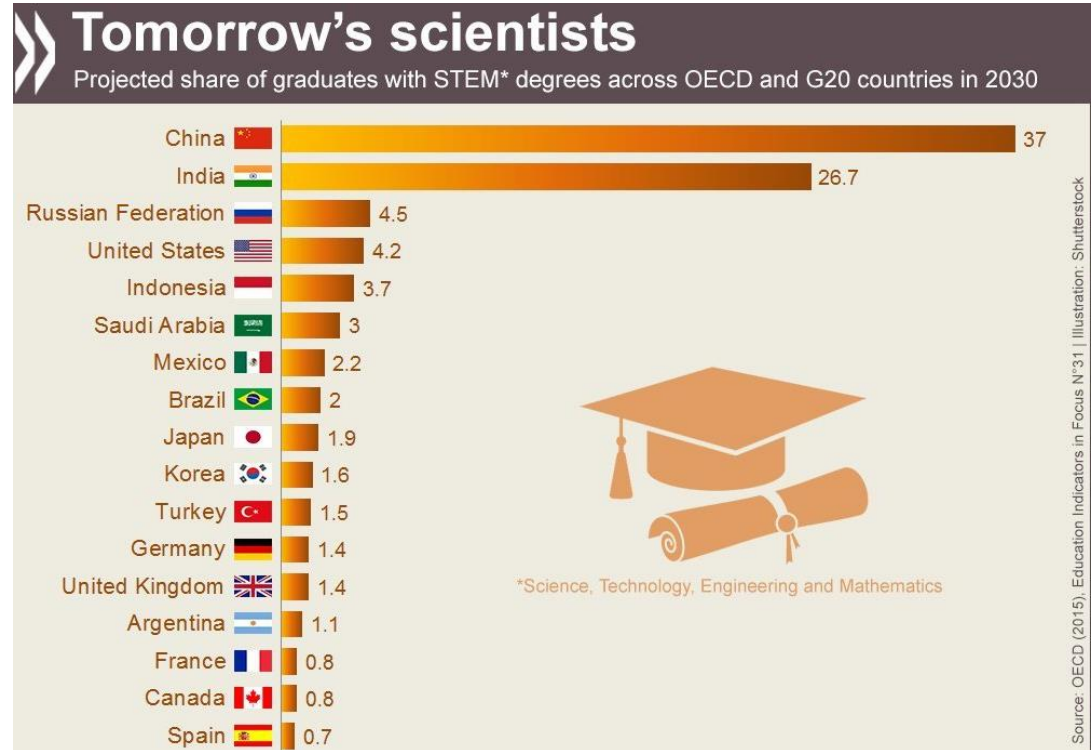


Core factors for innovation competition

Chart 15: The global league table of R&D investment



Source: BoFA Research Investment Committee, OECD



Source: OECD (2015), Education Indicators in Focus N°31 | Illustration: Shutterstock



Top 2500 Global R&D Companies



The Main Goals of the 14th FYP

Category	Goal	2020	2025	Annual average / Cumulative	Attribute
People's livelihoods	7. Growth in per capita disposable income of residents (%)	2.1	—	Basically synchronized with GDP growth	Anticipatory
	8. Urban survey unemployment rate (%)	5.2	—	<5.5	Anticipatory
	9. Average years of education of the working-age population	10.8	11.3	—	Constraint
	10. Number of licensed (Assistant) doctors per thousand population(persons)	2.9	3.2	—	Anticipatory
	11. Basic pension insurance participation rate (%)	91	95	—	Anticipatory
	12. Number of childcare places for infants and toddlers under 3 years of age per 1,000 population	1.8	4.5	—	Anticipatory
	13. Life expectancy per capita (years)	77.3*	—	(1)	Anticipatory



Integrated infrastructure construction

- Build a modern infrastructure system that is systematic and complete, efficient and practical, intelligent and green, safe and reliable. **Systematically lay out new types of infrastructure**, accelerate the construction of fifth-generation mobile communications, industrial Internet and big data centers.
- Accelerate the construction of a strong transportation system, improve comprehensive transportation corridors, integrated transportation hubs and logistics networks, speed up the networking of rail transportation in city clusters and metropolitan areas, and improve the depth of transportation access to rural and border areas.
- Propel the energy revolution. Improve the energy production, supply, storage and marketing system. Strengthen domestic oil and gas exploration, accelerate the construction of oil and gas reserve facilities, speed up the construction of national trunk oil and gas pipelines, build a smart energy system, optimize the layout of power production and transmission channels, enhance the capacity of new energy consumption and storage, and improve the capacity of power transmission and distribution to remote areas.
- Enhance the construction of water conservancy infrastructure, improve the optimal allocation of water resources and the ability to defend against water and drought disasters.



- **New Infrastructure**

- 5G telecom infrastructure
- Internet of things
- Big data center
- Industrial internet
- System of space infrastructure
- Digitization of traditional infrastructure



The Main Goals of the 14th FYP

Category	Goal	2020	2025	Annual average / Cumulative	Attribute
Green Development & Ecology	14. Reduction in energy consumption per unit of GDP (%)	—	—	{ 13.5 }	Constraint
	15. Reduction in CO2 emissions per unit of GDP (%)	—	—	{ 18 }	Constraint
	16. The ratio of good air quality days in cities at the prefecture level and above cities(%)	87	87.5	—	Constraint
	17. The proportion of surface water reaching or better than III water bodies (%)	83.4	85	—	Constraint
	18. Forest coverage rate (%)	23.2*	24.1	—	Constraint



New constraints and opportunities arising from the “carbon neutrality” target

