China’s Opening-up in the New Normal

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Main contents

• China’s new position in the world economy
• Rationale for further opening strategy
• Goals and priorities
I. China in the world economy

- IMF research in 2014 arouse debate:
  - whether China becomes the No.1 in the world economy?
- China entering the new normal: its implications to the world?
- China's initiative of AIIB attracts global support: a challenge?
China is an emerging economic power
- GDP contribution: important growth engine for the world
- Overseas investment: third in the world ($2.85 bn in 2003 → over $100 bn in 2014)

Figure: Contribution ratio of major economies to world economic growth

Source: report by a DRC research group
Export:
- biggest exporter since 2009, and its market share increased to 12.2% in 2014, close to the peak of Germany, Japan & the US in 1980-1990s.

Proportion of major ec.’ export in the world
- Market: potential to big in reality
  slow down but remarkable, over $1000 bn. in the next five years
- Great effects on export to China by China’s FTA partner

figure: dairy export to China
Contribution of demand from the US and China to major APEC economies (Value added, 2005~2011)

1) China’s impact increased greatly in the past 10 years
2) For most APEC economies, the contribution of China’s demand > that of US

Sources: a DRC research
Need to realize:

- Even if China’s overall GDP surpasses the US (by whatever measures), the two economies will maintain very different levels of sophistication:
  - GDP per capita
  - fewer groundbreaking inventions
  - financial markets
  - RMB denominated trade
  - challenge the dominant role in rule-setting?
II. The changing situation: Rational of further opening-up

- **Domestic**

  - China’s economy enters into the new normal
    slow down requests further restructuring
    scale and speed (investment driven) ➔ quality and efficiency (innovation driven)

- **Comparative advantages:**
  low labor and land cost
  increasing dramatically
External – challenges and opportunities

- Post-crisis global recovery: Weak / uncertain?
  - Downward readjustment of forecast on world GDP growth:
    - IMF in July: 3.8% -- 3.3%; OCED in June: 3.7% -- 3.1%; ADB on Asia
      (divergence among the advanced countries + slow down of emerging economies)

- World trade:
  - 2 times of world GDP growth rate in the first decade ➔ equal or lower now
  - * Intensifying protectionism: more trade frictions show by “Global Trade
Intensified competition along with deepening globalization
- market, resources, capital, innovation and new technology

- benefits distribution: new round of rule-setting in world trade & investment

1) Mega-FTAs: TPP (Asia-Pacific) + TTIP (US–EU)
   - “exclusive”+ high standard+ wider coverage(WTO plus rules & “behind border” issues)

2) Focus of market openness shifting to: service sectors & investment liberalization

3) pivot to plurilateral: TISA + ITA + GPA (the like-minded get together)
opportunities

- **external**
  - infrastructure construction: restoring the manufacturing and pushing forward
  - ODI: needs for capital input and M&A for technology and management
  - regional integration and cooperation

- **domestic**
  - market scale: great potential into big reality
  - competitive edge: low comprehensive cost + better business environment
  - more development needs and potentials
    - still a developing country with lower level of GDP per capita + in the process of industrialization and urbanization
Figure: key factors behind US firms’ decision-making on FDI to China

Source: Goldman Sachs Global Investment Research.
III. Strategic options for China

- General goals
  - to build a more favorable external environment for peaceful development
  - to accelerate economic restructuring and improve position in global value chain by better use of external market and resources
  - to shoulder more responsibilities as an emerging power

- China’s efforts:
  - comprehensive reforms: creation of a supportive institutional arrangement
  - further opening up: we should ➔ we will
Priorities for further opening-up

**Trade:** improve competitive advantages and position in global value chain

**Services:** further opening-up and institutional reform (become a new growth engine and improve business environment)

**FDI and ODI:** reform of investment management system (to allocate global resource and cultivate China’s own TNCs)

**International collaboration:** better external environment + sustainable development through win-win cooperation
改进研究方法

xuhongqiang, 6/9/2014
Concluding remarks

- Internal and external context
  - new normal + more complex

- Logic for opening strategy
  - greater contribution ➔ greater influence ➔ more responsibility
  - catch ➔ create ➔ share opportunities
• **To strengthen mutual beneficial cooperation:**

  - **participation of rule-making and global governance**
    to build a fair, open, inclusive and sustainable world economic order
  - **regional cooperation**
    FTAs + one belt one road + functional cooperation
  - **international development**
    to provide more public goods
Thank you!

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