

Striving for Quality

As China's economy shifts gears, more value is being placed on quality of development than on rapid growth By Deng Yaqing

Two months after the conclusion of China's twice-a-decade national Party congress, in October 2017, the nation convened its most important annual economic meeting from December 18–20, and announced that the world's second-largest economy is entering a new phase of development, shifting its focus from high-speed growth to high-quality development.

Attended by President Xi Jinping, the General Secretary of the Central Committee of the Communist Party of China (CPC), the annual Central Economic Work Conference reviewed the nation's economic performance over the past five years, outlined current economic realities and made plans for 2018, which marks the 40th anniversary of China's reform and opening-up policy.

By declaring that the country's economy will be characterized by innovative manufacturing, a more open and green economy, a secure financial system, affordable housing and improved standards of living for the people, the conference mapped out a blueprint for China's development over the next 30 years and beyond.

Development philosophy

Over the past five years, Xi Jinping Thought on Socialist Economy with Chinese Characteristics for a New Era has taken shape, primarily based on the new development philosophy put forward by Xi in 2015 that features innovative, coordinated, green, open and shared development.

A statement released by the conference described this thought as the theoretical crystallization of the past five years of practice in pushing forward China's economic development, the spiritual wealth of the CPC and the country.

"Xi's concepts provide solutions for the deep-seated structural problems that China is facing and will face in the future over the course of economic and social development," said Wu Qi, a senior research fellow with Pangoal Institution, a Chinese public policy research body.

More specifically, Xi's thought provides answers on which actions to take, encompassing the continuation of supply-side structural reform and the pursuit of high-quality development, while clarifying how to achieve these goals through measures such as deepening the reform of economic institutions and administrative management systems, and expanding market access, said Wu.

A shift in focus

At present, as well as in the period to come, high-quality development is the fundamental factor that will determine China's future economic path, along with government policy and macroeconomic regulation, said the statement.

"When a person grows from a child into an adult, the standards used to assess his or her personal development are adjusted, adding indicators such as knowledge and work experience to the list including weight, height and health. In the same way, when a country reaches a certain development level, the mechanisms dominating its future growth should also be changed," said Jia Jinjing, Director of the Macro Research Department at Chongyang Institute for Financial Studies, Renmin University of China, in an interview with *Beijing Review*.

At the micro level, it means that people will be able to access higher-quality products and services, Xu Hongcai, Deputy Chief Economist of the China Center for International Economic Exchanges, told *Beijing Review*.

"People are no longer satisfied with just having the basics of food and clothing; they have higher requirements for the products and services they are exposed to in daily life. Given this, supply-side structural reform is inevitable," said Xu.

Xu added that inclusive growth and green development are the predominant features on the macro level of the shifting economy; the gap between the rich and poor has been widening, and the campaign to reduce poverty and improve

the living standards of the low-income population is still an uphill struggle. In addition, China used to favor a development strategy of "getting rich first, cleaning up the environment later," which doesn't reflect the people's aspiration for a better life in the new era of sustainability.

The flipside of this shift in focus is that the traditional industries that have sustained China's economic miracle are slowing down, and new growth generators must now be discovered and nurtured, Sun Jie, a research fellow with the Institute of World Economics and Politics, under the Chinese Academy of Social Sciences, told *Beijing Review*.

Sun pointed to the extraordinary growth recently registered in e-commerce and advanced manufacturing, as well as the progress made in the reduction of excess capacity in traditional industries like mining, iron and steel. "Once structural optimization is accomplished, long-term growth will be in the cards," said Sun.

Jia echoes Sun's perspective on the changing engines of China's economy, and believes that new economic models and technological innovation will breed more growth. "For one thing, urbanization incubates new economic models, such as mobile payment systems and the sharing economy, which has significantly contributed to the momentum of China's growth in recent years. Additionally, technological innovation is becoming increasingly predominant in economic development, with its contribution to the economy standing at 56.2 percent in 2016 and expected to exceed 60 percent in 2020," said Jia.

Challenges ahead

The conference also saw China's central authorities outline the so-called "three tough battles"—three challenges of critical importance that must be addressed while striving to achieve high-quality development, namely the defusing of major risks, targeted poverty alleviation and tackling pollution. To guard against internal risks, China's rapidly expanding financial industry is being placed under greater



Technicians work at the plant of a nuclear power equipment manufacturer in Xuanhua, in north China's Hebei Province, on May 2, 2017

regulatory scrutiny as authorities step up efforts to curb widespread malfeasance in the sector.

"It's difficult to prevent and control financial risks. On the one hand, compared with the real economy, the financial industry is immaterial and intangible, while forces of leverage endow it with amplifying effects. On the other hand, as the lifeblood of the economy, it has a bearing on almost every link and aspect of economic work, and the eruption of financial risks may affect the entire economic situation," said Zhu Ning, Deputy Director of Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University, in an interview with *Beijing Review*.

As to how to effectively control financial risks and curb related illegal activities, Zhu noted that a consciousness of risk should be nurtured in the market. "Chinese investors or companies tend to believe they don't have to bear losses because the government will pay for the failure of a project, which has led them to add leverage or speculate," said Zhu.

"Investors need to know they have to pay for taking risks, but the formation of such a consciousness will take a long time," added Zhu.

The conference statement also said that prudent monetary policy should remain neutral; the floodgates of monetary supply should be controlled; and credit and social financing should see reasonable growth.

"During the period of extensive economic expansion, simple expanded production and market expansion were thirsty for money, and gushing investment into plants and equipment could drive growth. But China has bidden farewell to this way of working, and now what matters most to a country that is pursuing high-quality growth is technology and talent, rather than monetary supply," said Sun.

As for the other two battles, Chinese policy makers have pledged to maintain the quality of poverty reduction efforts, and to focus on helping special groups in eradicating abject poverty. Efforts are also underway to significantly reduce pollutant emissions and to limit the environmental impact of further economic development.

Opening wider

In its role as a pivotal and stabilizing force within the global economy, China will push forward comprehensive opening-up, so as to pursue mutual benefits with the rest of the world, the statement said.

"Objectively speaking, China is the world's largest manufacturer and consumer market. Given its extensive connections with the rest of the world, it should play a leading role in promoting global growth, which will in turn drive the country to intensify its opening-up strategy, initiating another age of globalization," said Jia.

Since China has established itself as a

frontrunner in certain industries, it now needs to mold global value chains and incorporate Chinese standards into the global market. To realize these goals, it's imperative for the country to open wider to the outside world and admit more players into its market system, said Jia.

According to the statement, China will increase imports and cut import tariffs on some products to promote balanced trade, while free-trade-zone pilot areas will be expanded, and effective guidance and support will be given to outbound direct investment. The country will also push for nationwide implementation of a pre-establishment national treatment system, as well as a negative list that determines where foreign participation is prohibited or limited.

"As a leader and promoter of globalization, China has stuck to an open attitude toward both foreign investors who seek opportunities here and Chinese enterprises that hope to go abroad," said Zhu. "However, it is a long and continuous process. Over the course of the coming years, China must factor risk control and the demands of its partner nations into its own opening-up arrangements." ■



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