

QIAO YIDE

Vice-président et secrétaire général du Shanghai Development Research Foundation

PARK In-kook

Our next speaker will be Professor QIAO Yide. He is Vice Chairman and Secretary General of the Shanghai Research and Development Foundation. After he graduated from the John F. Kennedy School of Government at Harvard University, in 1987, he worked in many US-related companies or institutions. That is why he is the most well-known scholar in the outside world. He is a well-known speaker and interpreter on the future of Chinese security market so I hope everybody in this room will enjoy listening to his view on what has been going on in Chinese financial market since last year and the recent economic trends, trade issues, etc.

QIAO Yide

Thank you, President Park. A while ago, I checked the exact time that President Xi Jinping used for reading the report, which was 204 minutes, the equivalent of three hours and 24 minutes. It took such a long time for him to read the report, but we are asked to summarise the main points in 10 minutes, which is very challenging for us.

I decided that I preferred to concentrate for a moment on economic interpretation. What is the outcome for the National Congress for the Chinese Communist Party? One thing I wanted to mention at the beginning is that the purpose of the National Congress for the Communist Party is not to solve the problem now; they want to design a blueprint for the next five years and beyond. That is very important. The purpose of the National Congress is not to solve the current problem ; they want to look toward the future.

I decided to use the format for my presentation of putting a number plus keywords to summarise the main points from an economic perspective. First are the two unchanging things; that is a basic judgement on the current position of the Chinese economy. The first unchanging is based on the national condition . That means that Chinese is still and will remain for a long time, in the initial stages of socialism. That is basically unchanging.

The second unchanging is China's international status as the world's largest developing country. It is very important that it is unchanging, because its implications are that economic development is and will be the priority for the Chinese Communist Party. That is the foundation for all the objectives of our plan in the future. That is beyond five years, maybe 10, or the next three decades.

Then there is one change: the terminology describing the main contradictions China is facing. That is something that is changing, and I guess that Jia Qingguo also mentioned. Here I wanted to give some explanation about what contradiction means. It is kind of a meaning of ideology. You can interpret it as the major challenges China is facing. Previously, the description of the major contradiction was between the ever-growing material and cultural needs of people and the backward level of production. When I say previously here, I mean after the end of the Cultural Revolution and up until now, that you can describe it as the Deng Xiaoping era. But before that, under the Mao Zedong era, that was different and the class struggle was regarded as a major contradiction. After the end of the Cultural Revolution, under Deng Xiaoping, that is the description of the main challenge. Now the Party Congress is changing that to it between people's ever-growing needs for a better life and unbalanced and inadequate development. Here, the implication is, first, to recognise that we have already achieved economic progress, because previously we had a low or backward level of production. Now, it says that we have already reached a certain level, but it is unbalanced. Second, we will pay more attention to quality than to quantity. That is very important, because, originally

only certain people had a material and a cultural need. Now, it says a better life, which contains more meaning: for example, the environment, green line, etc.

There are one plus two stages, which are the tasks for the future objective in the next three decades. The first stage of three or four years is from now to 2020. The target is to finish the building of a moderate, prosperous society in all aspects. In Chinese we always say *Xiaokang* (小康), which means that in this period, we have the target for government of guarding against any financial risk. Then, at the end of 2020, it has to eliminate poverty. Then we have to make a great effort to solve pollution in production. All of these three tasks have to be done perhaps in the next four years. Very importantly, if you read the Chinese newspapers, they always say that we have two steps to a goal. Sometimes, I even find it confusing. I read a report and I decided to say one plus two. If you only say two steps, people ask: what is happening from now until 2020? That is why I say one plus two. The part you want to emphasise is the two steps.

The first step from 2020 to 2035 is 15 years, and the target is basically realising the socialist modernisation. The next step from 2035 to 2050 is then building China into a greater, more than socialist country, which is a prosperous, strong, democratic, advanced culture, harmonised and beautiful. That is the whole goal. The very important implication is that we have to take note: no more GDP growth target. That is different from previous one, when people always said we had to double the GDP growth rate, or in 10 years, etc. Now, there is no mention of a GDP target. In addition, as I previously mentioned: quality over quantity. That has very important implications.

Continuations are also very important and related to the main context of our future development strategy, what the CPC supposedly will do in the next two or three decades. The first continuation is that the Chinese government decided that it will still continue to carry open-door policy. It is also very important that the report specifically indicated that the Belt and Road Initiative will become the focus of the open-door policy. I do not want to go into details on the initiative, because I have already talked a lot. Secondly, now the open-door policy is a two-way opening-up. Previously, China paid more attention to attracting foreign direct investment. Now China will also make overseas direct investment, which is a two-way opening-up. Then, China has started to use the negative list to attract foreign direct investment. What does negative list mean here? It means that you can make investments in any item that is not on this list, without advanced approval, which is international standard. China has experimented with the negative in the Chinese Free Trade Zone and now wants to promote it nationwide, making it more open to foreign direct investment.

You probably know that four years ago the Chinese started an experiment in Shanghai, called the Free Trade Zone. Now free trade zones have already expanded to 11 cities or areas, but now Xi Jinping also asks that they explore another possibility, what they call free trade port, copying some other model, maybe Singapore or other free trade ports. That means that we will be more open to others, give more facilities for foreign trade. That is something I summarised from the open-door policy.

The second continuation is that the CPC wants to continue to carry through domestic economic reforms. Here is a list of some very important items for economic reform. First, we will continue to carry out structural supply side reform, paying more attention to the real economy. We will move Chinese industry to the middle and high-end of the global value chain while production is currently at the low-end. Now, the Chinese government wants to push it to the middle and high-end of the global value chain. In addition, there will be a more focus on innovation and new technology, but we still lag behind advanced countries. Now, we will catch up with some new technology and we also have great companies like Alibaba and Tencent, which are trying to catch up with some high-tech companies in the US.

The second item is that they want to improve market economic systems. That means that we will continue to do SOE reform. I mentioned two pillars of the macroeconomic adjustment framework. The first pillar is a monetary policy and the second is MPA, macro prudential administration. That is new terminology and it is the first time that the Chinese have said that they want a two-pillar macroeconomic adjustment.

We will also pay more attention to countryside development, mainly to reduction of poverty. I guess that you are familiar with the land system in China: the land in the city belongs to the government, while the land in the countryside belongs to what we call the collective. These systems will be kept intact, but at the same time some part of the land operating and constructing land can be used to build up houses for renting. That means the farmer can get more



benefit from this kind of thing. Originally, the governments took away farmland at a very cheap price so that they can sell them to developers at high price. The difference between buy and sell can be used for infrastructure in the city. In some way, it is good and it is why people are amazed at how fast China can do infrastructure in the city. I guess that is a major reason. However, on the other side, the farmer cannot get a major benefit from this type of system. Now, China wants to pay more attention to the benefits for the farmer. As a first step, some land can be used to build houses for renting, which has two purposes. One is to reduce the price of housing in the city, which is now very high particularly in the largest Chinese cities. Therefore, the government is trying to provide some houses for rent to reduce the high price and make it affordable for the younger generation to live in the city. Other purpose is to give more benefit to farmers.

Another one is that we pay more attention to cooperation of regional development. Firstly, the cooperation between coastal area with inland area. Usually the coastal areas are very prosperous and now we try to pay more attention to development of inland. The second is the city and the countryside. We have to improve the infrastructure in the countryside. That is also the new term, the first time in an official document. We want to develop a city cluster with the largest city as a core for small and medium sized cities. The Chinese government said previously that they wanted to build up small and medium sized cities, but they have changed and are using city cluster, with the largest city as a core. We should take note of that.

I will finish very quickly. If all the above goals are accomplished, obviously a conclusion can be reached. *The conclusion is that China is moving towards the centre of the world stage. The detail is that we will continue to make a great contribution to the global GDP growth; in the past five years, China contributed a 30% share to the total. We will also become a more important source of direct investment in the world, which will be beneficial to other countries. The last one is that we will play a more active role in global economic governance.* Obviously, it will not be easy to achieve these goals. There is a big challenge ahead and we will have to overcome many challenges, but I am confident that we can accomplish that. I can share one episode with you. I arrived in this city two days ago and took a taxi to look around. The taxi driver asked me where I came from and when I said China, he told me that China was good and that 'you guys' always work and work without sleeping. Without sleep, how can I survive! At least, Chinese people do work very hard and that is a very important factor in supporting previous success. That is something that is not mentioned in the document, so I mention it here. I will stop there.

PARK In-kook

Thank you. Last year, your presentation was much more market-oriented and focused on what happened in the Shanghai stock market. This year, you gave a more hypothetical, symbolic and conceptual presentation but I enjoyed both of these diverse elements. I have some questions for you. As mentioned at the outset, Moody's and S&P downgraded China's sovereign rating for the first time in 22 years. Last year, you mentioned that even though China's debt to GDP ratio is a little higher than other countries, it is still manageable. How would you explain the downgrading? In Xi Jinping's new guidelines, you do not need the GDP concept any more. Yes, the concept of GDP is challenged even in the Western economic circle, but for different reasons. However, if you disregard the GDP concept, how can we figure out the trend of China's national debt, government debt, corporate debt, and shadow financial institute debt? I think you should at least provide the minimum basic data so that outside investors can easily figure out what is going on in China. Maybe, in that sense, I think that the GDP concept is still valid. Those are two questions and you can answer them right now or later.

QIAO Yide

I can answer now. Yesterday, you did not come and I said something in the preliminary session on the world economy. Regarding the downgrade of S&P and Moody's, I would probably say that they made a mistake.

PARK In-kook

They made a mistake?

QIAO Yide

They made a mistake. If you are interested, I can send you something, because one of my best friends has done some research and the methodology that S&P uses is incorrect. I can give you details. How does IMF forecast? I personally asked the deputy director of the research department of the IMF on how they calculate the debt, and they are just forecasting according to the data, it is just a straightforward line. The IMF, at least, is not using a model. I can show you the email if you want. You probably did not pay attention but one week ago, the Chinese government issued US dollar debt, sovereign debt, of USD 2 billion in Hong Kong, and there was a very positive response. The yield of this bond was only a little bit higher than the US Treasury, high 0.125%. This disagreed with the evaluation of S&P. That is an evidence, so I am not going to say that data is not important. Of course, year in and year out, the Chinese government I guess will still disclose the growth rate. What I tried to say is that the Communist Party does not want to set the GDP as a goal, which is different. Of course, we will still make the announcements.

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I will give you another chance, because there might be another counter argument from others.