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Uncertainty Persists

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China's Urbanization Seminar

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On Two Overheatings of China's Economy

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Executive Vice President Dr. Guo Wanda Attends "Brainstorming for Macau" Symposium

On June 19, Dr. Guo Wanda, Executive Vice President, Mr. Zhang Yuge, Director of Hong Kong-Macau Economic and Social Research Center, and Ms. Carol Feng, Director of Office of External Affairs, attended the "Brainstorming for Macau" Symposium. Dr. Guo delivered a keynote speech entitled "Macau Learning from Shenzhen's Innovation-driven Development". He fully explained the innovative practices and experience of Shenzhen. Hosted by Macau Development Strategy Research Center, the event is aimed at offering suggestions and opinions with regard to social issues of Macau.



Ms. Carol Feng Attends the CCF 2016 Seminar in Japan



On June 27th, Ms. Carol Feng, Head of Office of External Affairs of CDI, attended the China Charity Fair (CCF) 2016 Seminar in Japan which is co-hosted by The Japan Association of Charitable Organizations and Shenzhen Development Center of China Charity Fair. Mr. Tatsuo Ohta, President and CEO of The Japan Association of Charitable Organizations and other charity representatives from the two countries held discussions on China's first charity law and charity trusts to enhance research on charity policies by drawing experience from Japan.

- ▷ Executive Vice President Dr. Guo Wanda Addresses the 5th China Southern Think Tank Forum
- ▷ CDI Holds Roundtable on Intellectual Property Strategy
- ▷ CDI Holds the 2nd Shenzhen's Eastern Development Strategy Seminar
- ▷ CDI Holds Jinan's Development as a Regional Financial Center Forum



Uncertainty Persists

Fixed asset investment growth slowed significantly in April, rising by 10.1% y/y, down 0.6 pps from Q1. Value added for major industrial firms was likewise weak, at 6% y/y, down 0.6 pps from March - and a break from the previous recovery. We expect private investment to pick up after industrial output shows clear signs of rebound - rising above 10% y/y, for example. More actions need to be taken to boost growth, and the Chinese government is advocating structural reforms, by encouraging more innovation. But we hope China does not deviate too much from its old path of investment.

Retail sales of social consumption goods were up 10.1% y/y in nominal terms, down 0.2 pps from Q1. Exports in dollar terms fell -1.8% y/y, up 7.8 pps from Q1. Imports fell -10.9% y/y, 2.6 pps more than in Q1. Both indicators are still in the negative zone, though narrowing to the zero line. We do not expect trade to improve in the short term.

Prices are stabilizing, with CPI up 2.3% y/y in April, flat on March. In April, the ex-factory price index rose 0.7% m/m and fell -3.4% y/y. PPI rose 0.6% m/m and fell -4.4% y/y. The two indices' y/y decreasing magnitudes fell by 0.9 and 0.8 pps, respectively.

M1 rose 22.9% y/y, up 0.8 pps from March, showing accelerated growth. But other major financial

indicators are all declining. The broad money supply, M2, was up 12.8% y/y, down 0.6 pps from March. In April, total societal financing plunged by -28.9% y/y.

The People's Bank of China made special announcements in response to the decline of financial indicators, emphasizing irregular factors underlying the drops. The Bank stressed that the general direction of monetary policy hasn't, and wouldn't, change.

China's tax system underwent a major shift on May 1st, when the VAT system was extended to all sectors of the economy. Previously, firms paid tax based on their revenue; they'll now enjoy a large tax reduction. We estimate that business taxes will fall by over RMB 300 billion. But the VAT reform will also generate enormous growth opportunities, especially for mid-sized firms that are mostly private, and will generate more jobs. The government budget won't suffer, as VAT reform will attract more firms into business, and raise the output of existing firms - which will all increase government revenue.



China's Urbanization Seminar

Editor's Note: Over the past 20 years, China has witnessed millions of migrant workers leaving their hometowns to work in the city. Such an unprecedented scale of population flow draws worldwide attention from scholars both at home and abroad. On June 18, the "China's Urbanization Seminar", jointly organized by China Development Institute (CDI), East Asia Research Center of Cornell University, and Shenzhen Soft Science Development Foundation, was held in Shenzhen. Experts and scholars, including Professor Fan Gang, President of CDI, and Robin McNeal, Director of East Asia Program from Cornell University, had in-depth discussions over issues of China's urbanization.

Two Major Issues Facing China's Urbanization

President Fan Gang pointed out that there are two major problems facing China's current urbanization: first, can rural migrant workers stay in urban areas? This is the most fundamental question; second, the relationship between large and small cities. "Research shows that migrant workers usually spent 8-9 years working in the city and then returned home for whatever reasons, such a phenomenon is called "Early Withdrawing", which means migrant workers drop out very early from urban labor forces." said Fan Gang. He thinks that China's labor shortage should not be attributed to the decrease of birth rate or population, but the fact that migrant workers find it hard staying in the city.



How to deal with "Early Withdrawing" of migrant workers? Fan suggested a progressive and gradual equalization of public social services is the way out. Government should solve such issues as migrant workers' employment, pension, health and housing, and their children's education. With regard to the relationship between large and small cities, Fan Gang holds that at this stage, people will continue flooding to coastal regions and central cities. The most important effect of urbanization is the cluster effect. If this rule is ignored, there will be insufficient planning in large cities, leading to various kinds of "city diseases". What's more, there will be excess housing in small cities.

Problems and Solutions for China's Megacities

Chinese megacities are generally facing the problems of traffic congestion and rapid rise of house prices. With regard to the future solutions for Chinese megacities, Dr. Hu Caimei from CDI suggested taking the "Metropolitan Area development approach". In this "Metropolitan Area", there should be an inter-connected rail transit system, administrative



zoning should be decentralized, and a Metropolitan Area statistical system should be established. Bi Yalei from Shenzhen Advanced Technology Institute of the Chinese Academy of Sciences suggested using big data to solve the urban traffic problems, and provide a smart transportation solution that improves travel efficiency.

Tidal Labor Market and Urban Villages

CDI research fellow Zhou Lin approached the issue of urban villages from a global perspective. Zhou noticed the labor demand in Pearl River Delta economy is featured by regular rises and falls. Let's take iPhone as an example. Before the launch of a new product, there will be a huge amount of orders, which requires a large amount of labor for highly intensified production. However, when this production peak is over, many migrant workers

will resign and hunt for their next work. This highly episodic mode of production calls for a tidal labor market to match with. The urban villages in the Pearl River Delta are where the tidal labors live and gather. For example, in Xiufeng Industrial Town, Gankeng Village, Shenzhen, a lot of dormitories have been built in the factory, but they are completely vacant. The vast majority of employees choose to live in Gankeng Village. From

the perspective of the tidal labor market, dormitories are not good for the flow of labor, although they are free of charge. In contrast, living in urban villages gives migrant workers a lot of freedom in choosing where to work. They can work in Factory A in the first half of the year, and change to Factory B in the second half of the year while still live in their urban villages, saving trouble of moving out all the time.

It is exactly the demand of the tidal labor market that has led to the rise and transformation of urban villages in the Pearl River Delta. In turn, urban villages have become an important element of the tidal labor market. Without



an urban village, there is no tidal labor market. The existence of the tidal labor market and urban villages is very important for the Chinese manufacturing industry to participate in the global competition.

Recently, there has been a debate in the US concerning why Apple does not move its production back to the US. A supply chain research by Massachusetts Institute of Technology, shows that most of iPhone parts are produced in China, while only a few in the US.

Zhou Lin, however, took the issue from a global perspective. He believed that the US might not have a highly flexible labor market to adapt to such a highly elastic production mode.

Reflection on Urbanization: No Confrontation between Cities and Nature

Nick Admussen, from Department of Asian Studies, Cornell University, gave a presentation on Modest Proposals for the Reform of Green Narratives, and redefined the relationship between cities and nature. He opposed discussing environmental issues with old narratives, and advocated using new narratives to design public spaces. In Nick Admussen's opinion, traditional narratives define nature as the opposite of



human beings. For example, the tourism advertisements, nowadays, encourage people to go to less-populated places, and bring money from the city to the country to initiate new economic activities. The result is that, as tourism becomes more successful, there is more pollution caused by man. He believed that in the future, we need to focus on the big system consisting of air, land, water, weather, animals, plants, and man, as man is only a part of this big system.

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On Two Overheatings of China's Economy

If we draw a trend chart for China's economy in the past ten years, we will get two wave crests, which are "two overheatings".

The first overheating appeared during 2004 and 2007. The US underwent the great real estate plus financial bubbles, resulting a overheating all over the world. China's export volume increased by 30-40% on a yearly basis. After housing system reform, the

local government tended to be keen on land finance. Enterprises invested in real estate, and so did the local government. Consequently, the economy was overheated quickly.

The second overheating lasted from 2009 to 2010. With the widespread outbreak of the global financial crisis in September 2008, China's economy slipped badly, experiencing negative export growth. Large

quantities of migrant workers returned home, and its economy was faced with the threat of a hard landing. Under this circumstance, the Chinese government launched ten measures to further expand domestic demands and boost a steady and relatively rapid growth of its economy in November. It was estimated that a total of 4 trillion yuan was invested as of the end of 2010. It was interpreted as the “4 trillion yuan stimulus package” by the foreign media. With the fast promotion of various measures, Chinese economy stopped its downhill tumble, and even realized growth against the trend which stunned the world. Within the half year from the end of the first quarter to the third quarter of 2009, the Chinese GDP growth had a rebound, growing 8.9% from the valley bottom of 6.1%. One year later, its economy began to overheat, which was obviously characterized by the explosive growth of housing price. The government turned round to throw cold water on it. In April 2010, the government issued the house purchase quota policy, continuously suppressing the growth of housing price.



The after-effects, excess capacity in particular, continue up to now after the overheatings. Behind excess capacity stand the bad debts, and behind these debts distressed enterprises. Why did the Chinese economy tend to overheat? The most important reason lies in the local government. When the economic crisis emerged in 2009, the local government borrowed a lot of debt. More debt means more investment, and the economy began to overheat. The underlying cause is that the local government doesn't need to control the macro variables. Inflation, asset bubble and national level

of employment all fall into the responsibilities of the central government, while the debt problem of the local government will be solved by the central government in the end. This mechanism led to a special phenomenon for the Chinese economy: If we let it be, there will be a mess; and if we handle it, it will come to a deadlock. This circulation has been under way for so many years.

We have laid a good foundation over the past ten years. But because of the two overheatings, we have to take time handling the after-effects. If we continue reform and prevent an overheated economy, it is entirely possible that we can maintain a sound economic growth in ten to twenty years. Certainly, this growth should be normal, at the growth rate of 7%, 8%, or 6%. Only when China has stepped over the stage of middle income, can it really become a great power, with its people's living standard being at the international advanced level. The most important move is the reform of the market economy system to identify the dividends as far as possible. Education development is the priority. The Chinese people have huge latent knowledge capacity. Previously, we fell far behind, we didn't innovate, and we had to follow others. But now we have learned a lot, we are increasingly getting closer to the leading edge, there are great possibilities for us to realize true innovations.



Prof. FAN Gang, President of CDI

Events >



The 5th China Southern Think Tank Forum, co-hosted by Guangdong Social Sciences Association and four renowned think tanks in South China including CDI, was held in Guangzhou on July 14. On behalf of CDI, Executive Vice President Dr. Guo Wanda attends the forum and delivers a keynote speech on Guangdong's new role in China's strategy of two-way opening-up. Themed on “Further Opening-up and China's Future”, the forum gathered more than 200 economic experts and business representatives to discuss Guangdong's innovative moves to expand its opening-up.

On June 17, CDI and Shenzhen Soft Science Development Foundation jointly held the “Roundtable on Intellectual Property Strategy”, which was hosted by CDI President Prof. Fan Gang. Dr. Song Liuping, Senior Vice President and Chief Legal Officer of Huawei, was invited to give a speech on Huawei’s global innovation and intellectual property management. More than 70 attendees, including representatives from Tencent, BYD and other famous enterprises, together with CDI research fellows, had a practical discussion on intellectual property issues.



The 2nd Shenzhen’s Eastern Development Strategy Seminar hosted by CDI, and organized by Shenzhen Pingshan New Area Management Committee, was held in Shenzhen on June 25. Building on the first seminar, the second seminar further discussed the theme of “New Concepts and Pathways for the Development of Shenzhen Eastern Area”, with the aim of comprehensive implementation of the Eastern Development Strategy. Prof. Fan Gang, President of CDI, Dr. Liu Thai Ker, Chairman of the Advisory Committee of Singapore Livable City Research and Development Center, as well as leading domestic and overseas experts from organizations such as Nomura Research Institute (NRI), World Bank, Development Research Center of the State Council, Chinese Academy of Social Sciences and National Development and Reform Commission also spoke at the meeting. In addition, more than 200 government, enterprise and media representatives attended the meeting. The signing ceremony for the first four key industrial projects of Pingshan New Area in cooperation with Overseas Chinese Town, Neptunus Group, Nanjing King Long Bus, and BYD was also held in order to implement Shenzhen’s Eastern Development Strategy.

On July 5, Jinan’s Development as a Regional Financial Center Forum hosted by People’s Government of Jinan Municipality and organized by Jinan Municipal Financial Service Office, CDI and Qilu Bank was held in Jinan, Shandong Province. Themed on the “Breakthrough Development of Jinan as a Regional Financial Center”, the forum explored the goal and pathway of Jinan as a regional financial center with Prof. Fan Gang and Dr. Guo Wanda from CDI, Mr. Cao Yuanzheng from BOC and Dr. He Jie from Shenzhen Stock Exchange analyzing the opportunities and challenges for Jinan in the context of domestic financial innovation and reform. More than 400 representatives from government, financial institutes and media attended the forum.



Based in Shenzhen and founded in 1989, China Development Institute (CDI) is a non-governmental think tank that develops solutions to public policy challenges through broad-scope and in-depth research to help advance China’s reform and opening-up. Based on rigorous research and objective analysis, CDI is committed to providing prospective, innovative and pragmatic reports for governments at different levels in China and corporations at home and abroad. In December 2015, CDI was designated as one of top 25 national leading think tanks in a pilot project of central government which is aimed at promoting the building of new-type think tanks with Chinese characteristics.



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Editor-in-chief: Carol Feng, Wendy Zhang

Email: carolf@cdi.org.cn, wendyzhang@cdi.org.cn

Tel/Fax: +86-755-8241 1011