

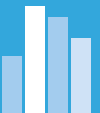
# China's structural reform agenda and its international impact

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Presentation at Financing the future – international conference in honour of Niels Thygesen  
Copenhagen, 5. December 2014



# A few words of appreciation



# China's structural reform agenda and its impact outside China

- Presentation based on China's G20 Brisbane commitments
- Not based on any official/IO assessment of commitments
- A personal and judgmental interpretation of the Comprehensive Growth Strategy for China
- With all the associated caveats



# G-20 Brisbane comprehensive growth strategy: structural reform in China

Category	Quotation	Impact	Remark
Extending the social safety net			
	Accelerate construction of urban and rural social security system	+	
	Raise coverage and level of social insurance	+	
	Strengthen services of elderly care	+	
Labour market flexibility			
	Promote collective negotiations of wage	-	
	Adjust minimum wage standards	-	
	Introduce system of annual leave with pay for employees	-	
	Support and assist residents who have difficulties finding jobs. Carefully manage reemployment of workers laid off. Strengthen vocational training. Strengthen employment service.	+	Implies boost to ALMPs.



# G-20 Brisbane comprehensive growth strategy: structural reform in China

Category	Quotation	Impact	Remark
Domestic financial liberalization			
	Interest rate liberalization reform	+	
	Private capital setting up private banks and participating in setting up of village and town banks	+	Pilots only.
	Allow qualified private capital to set up financial leasing and consumer financing companies	+	
	Develop equity market, bond market, futures market. Cultivate private equity market.	+	Not so clear what this implies
	Sound, standardized and well-functioning modern insurance sector with high capability of service provision, innovation and global competition.	+	Do.



# G-20 Brisbane comprehensive growth strategy: structural reform in China

Category	Quotation	Impact	Remark
External financial liberalization			
	Market-based RMB ER formation mechanism	(+)	Unclear what new will happen
	Facilitate overseas investment, domestic enterprises' extension of credit to external counterparts. The approval process of overseas investment will be reformed.	+	
	Further encourage foreign investment in China [e.g. by] management model of pre-establishment national treatment and negative list, [easier] business registration, improve market opening in [specific] sectors.	+	



# G-20 Brisbane comprehensive growth strategy: structural reform in China

Category	Quotation	Impact	Remark
Liberalisation of product markets			
	Apply anti-monopoly measures. Maintain the order of market competition, while allowing market entities to concentrate their businesses on the basis of fair competition.	+	
	Further streamline and decentralize the approval process	+	
	Allow more SOEs to establish mixed ownership. Enhance supervision of SOAs through capital management [i.e. arms length]	+	
	Refrain from regional blockades and trade monopolies	+	
	[Lower] tariff rates on certain goods	+	Already done.
	Streamline non-tariff [barriers], simplify import procedures	+	
	Develop new competitive advantages for exports. Encourage the imports of commodities, expand imports of advanced technology, reasonably raise imports of consumer goods. [Promote] processing trade.	?	Means unclear. Interventionist in spirit. Domestic impact unclear.
	Encourage employment through starting new business [e.g. by] enhanced training, fast lane for registration, support for college graduates starting new businesses, preferential tax policies	+/-	Seen as employment-boosting measure. To be supported by government funding. Very selective in nature.
	Promote trade liberalization and facilitation		Global or regional agreements hardly qualify as Chinese policy



# G-20 Brisbane comprehensive growth strategy: structural reform in China

Category	Quotation	Impact	Remark
Efficiency enhancing tax reform			
	Enhance role of excise tax for [environmental aims]	?	Taxing externalities may be good for welfare but not obviously good for growth
	Replace business tax by VAT	+	
	Accelerating legislation on the Real Estate Tax	+	
	Small low-profit enterprises subject to [low] corporate income tax at 20 %	+/-	Distortion expanded but also cut in effective business tax
	Levying price-based [as opposed to volume based] resource tax on coal	?	
	Consolidate [low] VAT rate for particular [sectors, including water and small hydropower]	-	Expanding a distortion





# G-20 Brisbane comprehensive growth strategy: structural reform in China

Category	Quotation	Impact	Remark
Other reforms raising investment			
	Foreign capital to set up wholly-owned medical institutions	+	
	Speed up 4G mobile communications networks	+	
	Trial program allowing local governments to issue bonds and repay debt on their own	(+)	
	Strengthen construction of public transportation, energy and communications, water supply and drainage, waste disposal [etc. in support of human-centered urbanization]	+	
	Provide finance channel for acceleration of shanty town redevelopment [as part of human-centered urbanization]	+	
	Improve the property rights system in rural areas	?	
	Improve the approval system for corporate investment projects	+	
	Increase investment in railway construction, support the construction of incomplete national expressways [etc. etc. under headline that government investment should play a leading role]	++	



# G-20 Brisbane comprehensive growth strategy: structural reform in China

Category	Quotation	Impact	Remark
Other reforms raising saving (and other reforms in general)			
	Transfer some SOAs to support the finance of social security fund	-	
	Raise the ratio of [SOE] profits surrendered to public budgets to secure and improve social welfare.	-	
	Promote safe and worry-free consumption	?	
	Contributions to enterprise annuity or occupational annuity deductible for tax purposes	?	May shift more than raise saving. Effectively already done
	Refrain from regional blockades and trade monopolies	(-)	
	Extend urban public service from the local registered to unregistered population	-	Should reduce precautionary saving
	Resolving production overcapacity through market mechanism	?	Presented as the key of industrial structural adjustment. Means and impact unclear.



# Impacts outside China...

- ...occur through multiple channels, including
  - Changes in comparative advantage and trade specialisation
  - Flows of labour and capital
  - Saving and investment decisions
- Focus here is narrow: on impacts via the external balance
- Narrow focus chosen not least because there is empirical evidence – to a large extent from OECD
- Empirical evidence to a large extent based on pooled cross-country/timeseries regressions of reduced forms – with associated caveats



# Estimated effects of structural reforms on output and external balance

## - Synthesis of a range of (mostly OECD) studies

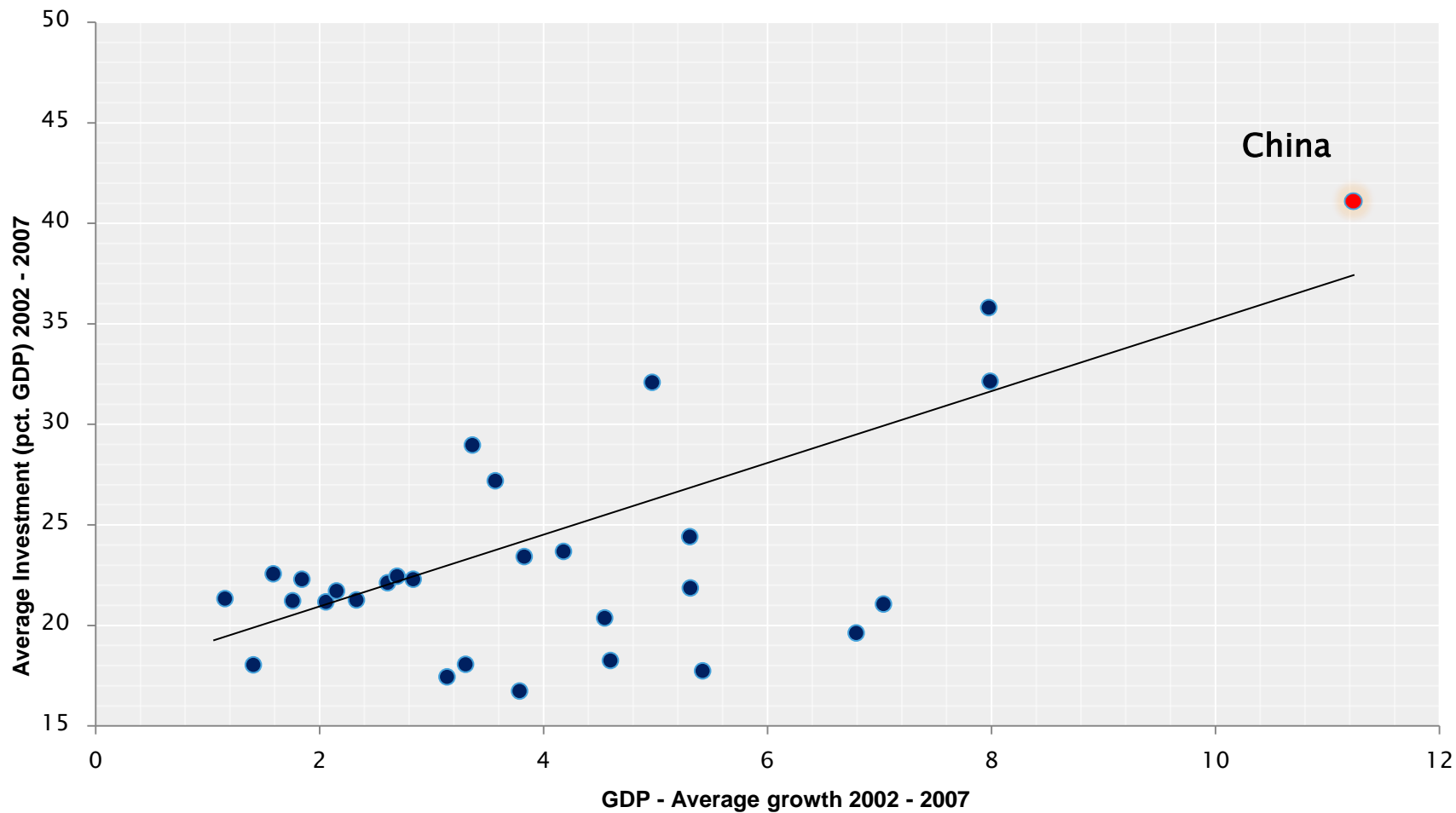
Category	Effect on output	Effect on external balance	Remarks
Extending the social safety net	-	-	Strong effect from health spending on saving, especially with low initial spending. More modest effect of pensions.
Domestic financial liberalization	(+)	-	Growth effect empirically unstable. External balance effect stronger for low-income countries.
External financial liberalization	?	?	No estimations available
Labour market flexibility	+	+	Results based on EPL indicator. No effects identified for minimum wages, collective bargaining.
Liberalisation of product markets	+	(-)	Short-term effect on external balance, fading after a few years.
Efficiency enhancing tax reform	+	?	Results for external balance weak and unstable and effects contrasting between personal and corporate taxation.
Other reforms raising investment	+	-	Not based on estimation
Other reforms raising saving (and other reforms in general)	+	+	Not based on estimation



# Estimated effects of China's structural reforms on output and external balance

Category	Effect on output	Effect on external balance	Remarks
Extending the social safety net	-	-	
Domestic financial liberalization	(+)	-	
External financial liberalization	?	?	Unclear whether inward or outward easing is strongest
Labour market flexibility	-	(-)	Regulatory commitments not on policies with strong impacts on external balance
Liberalisation of product markets	+	-	Export promotion not taken into account.
Efficiency enhancing tax reform	+	?	If anything, the relative weight on lower corporate taxes could point to higher investment and a weaker external balance
Other reforms raising investment	+	-	
Other reforms raising saving (and other reforms in general)	(-)	(-)	Individual commitments in this category not easy to interpret

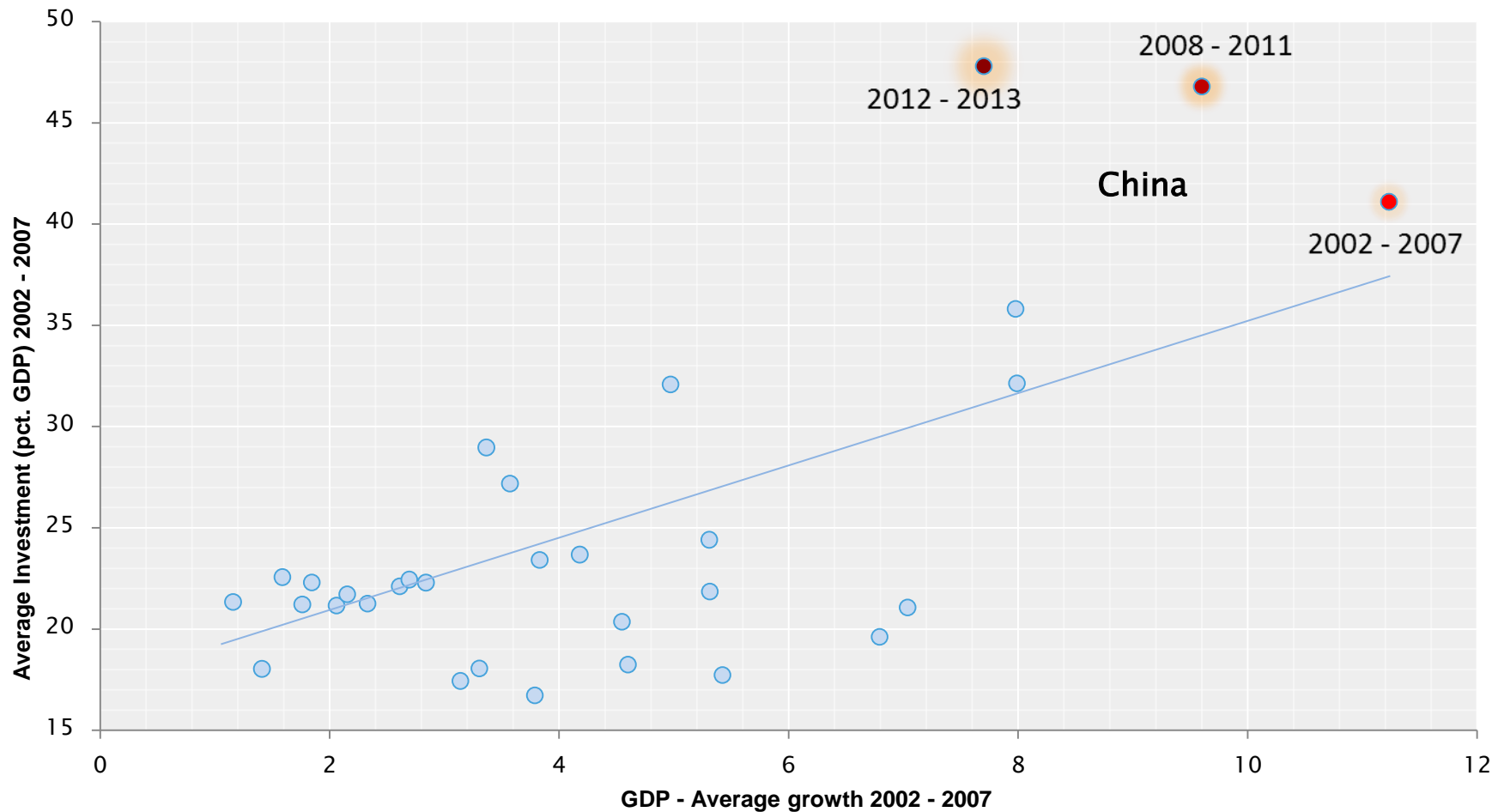
# Growth and Investment ratios across countries – average. 2002 -2007



# Growth and Investment ratios across countries – average 2002-2007



# Growth and Investment ratios across countries – average 2002-2007





Thank you

