

Risks and opportunities in transition of China's economy

Jie Tang

Former Deputy Mayor of Shenzhen

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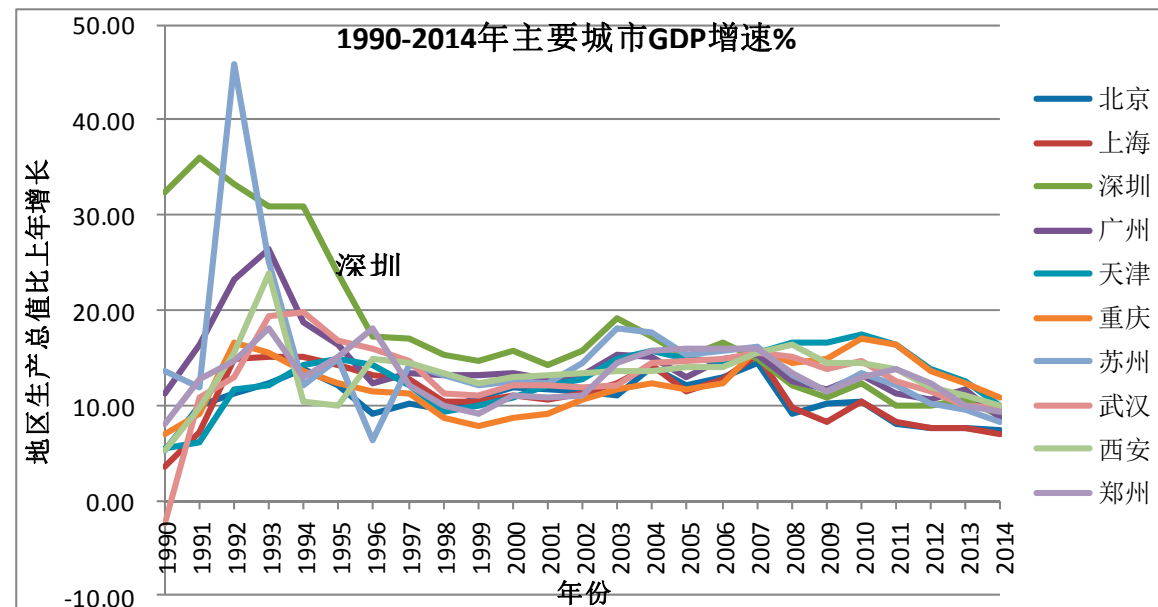
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Risks and opportunities in transition of China's economy



- The growth rate of China's economy is lasting to be going down, it is not a short term issue, is a significant sign of catching up growth to be finished which has lasted over 3 decades with near 10% annual growth rate.
- No body really belief that China will be hard landing in the near future, most of us will agree that to slow the growth rate is important but is not enough for the transition from the quantitative growth to an innovation growth.

Right figure shows 10 cities' growth rate comparing with the national one, including Beijing, Shanghai, Shenzhen, Guangzhou, Tianjin, Chongqing, Suzhou, Wuhan, Xian and Zhengzhou, 10 cities from coastal to inland China take 1/3 GDP of China.



We assume there are five risks in the transition procedure:
The first, to avoid unstable falling down in short term will encourage more fixed investment.

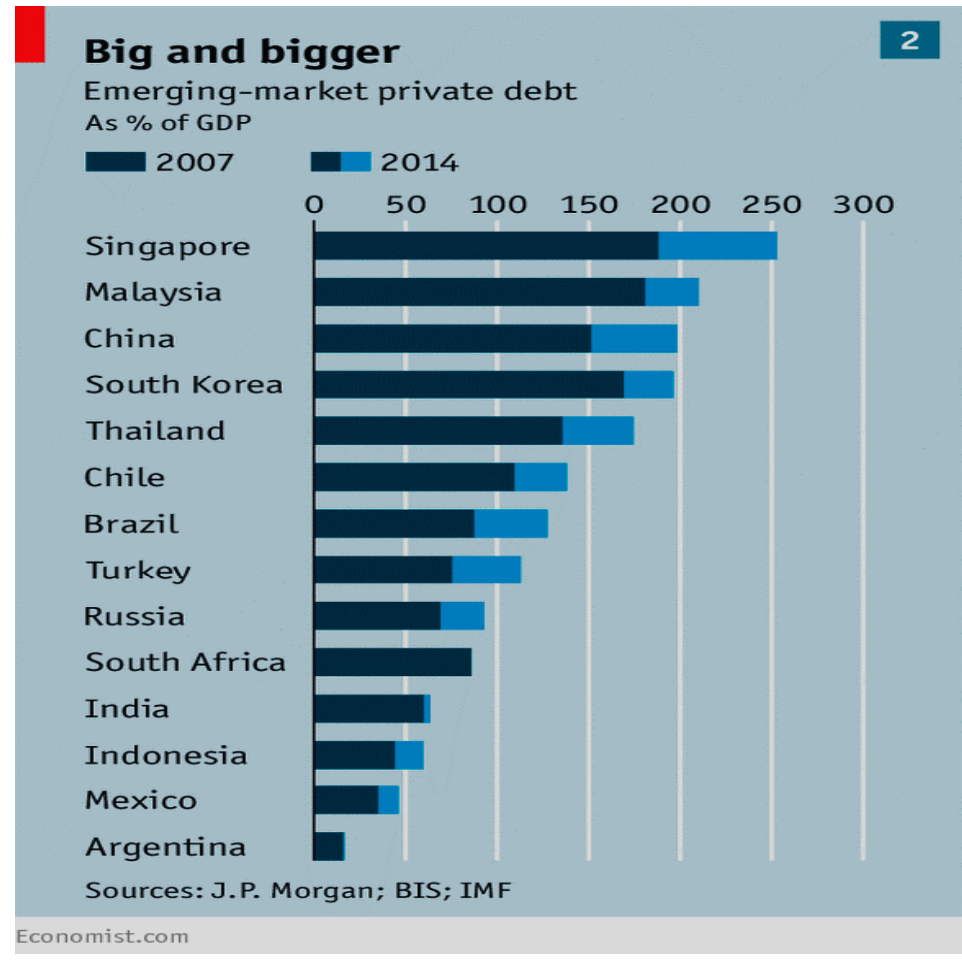
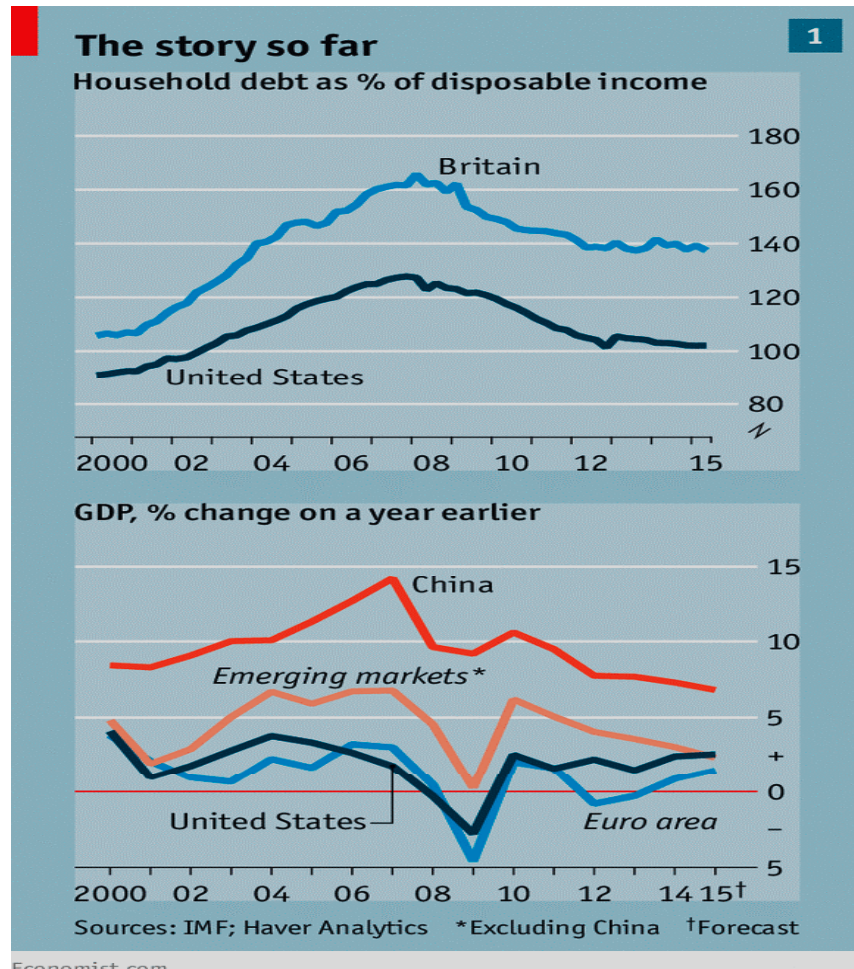
The risk 2, the more investment, the faster marginal return diminishing.

The risk 3, the faster marginal return diminishing, the heavier debt burden.

The risk 4, the more fixed investment, the less R&D.

The risk 5, the dilemma of government intervention denying the market clearing automatically could be more common.

The never-ending story. First America, then Europe. Now the debt crisis has reached emerging markets. Nov 14th 2015 Economist.



- Last 5 years, the ratio of fixed investment to GDP of China is increasing obviously, Tianjin is still relying on more investment as a developed city, Beijing , Shanghai & Shenzhen have transformed significantly.
- The higher investment ratio, the higher the debt ratio, and the lower ratio of R&D to GDP from table2.
- So, we can make a hypothesis the possibility of dynamic inefficiency of China's economy is very high and will be higher.

Table1. The ratio of Fixed investment to GDP

	2010	2014
China	0.62	0.81
Tianjin	0.71	0.74
Beijing	0.40	0.35
Shanghai	0.31	0.26
Shenzhen	0.18	0.17

Table 2. The ratio of R&D to GDP

	China	Beijing	Shenzhen	Shanghai	Tianjin
2010	1.73	5.50	3.50	2.81	2.50
2014	2.09	6.03	4.02	3.60	3.00

2010-2014 National ratio of finance revenue & Tax to GDP
10,000Yuan & %

	2010	2014	2014/2010	Ratio of 2010	Ratio of 2014
Tax	77394	103768	34. 1	18. 9	16. 3
Finance revenue	83102	140350	68. 9	20. 3	22. 1

The gap between Tax and finance revenue equals to non tax revenue , the figures of national balance sheet include the central and provincial government. As an important statistic index, an quick increasing of the ratio of non tax revenue to finance revenue means that the intervention of government is being stronger , it is opposite to the marketization reform.

What is Shenzhen doing right?



1、 Shenzhen is being a leader of IT in the whole world

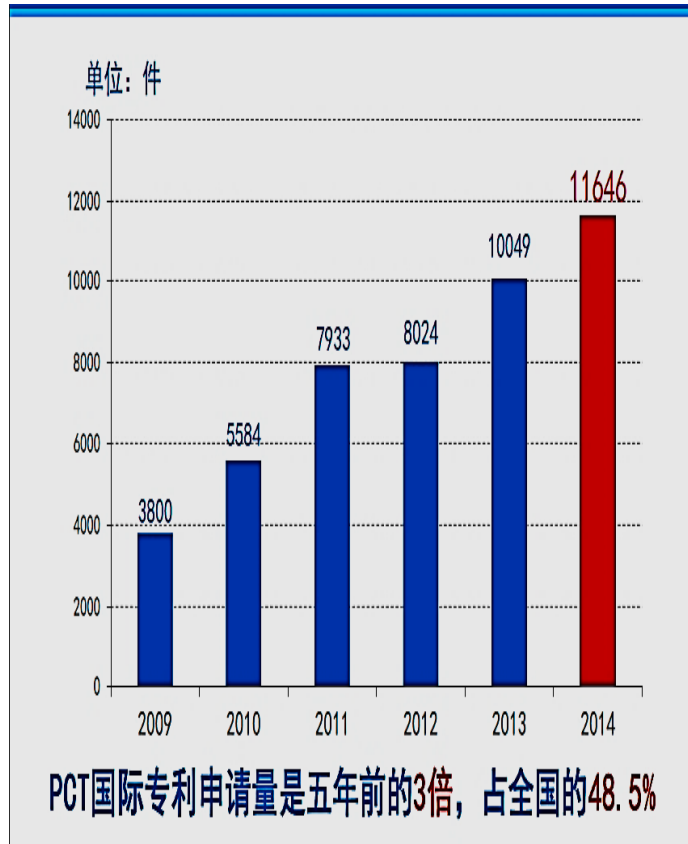
2014 TOP25 of PCT

the USA		PR China	
QUALCOMM	2,409	HUAWEI	3,442
INTEL	1,539	ZTE	2179
MICROSOFT	1,460	TENCENT	1086
UNITED TECHNOLOGIES	1,013	CHINA STAR OPTOELECTRONICS	904
GOOGLE	914	HUAWEI DEVICE	420
HEWLETT-PACKARD	826		
	8,161		8,031

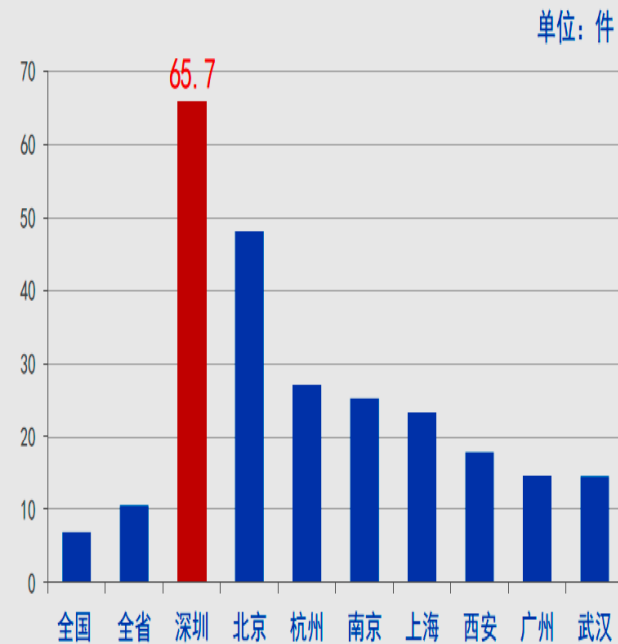
Who filed the most PCT patent applications in 2014?
WIPO(World intellectual property organization)



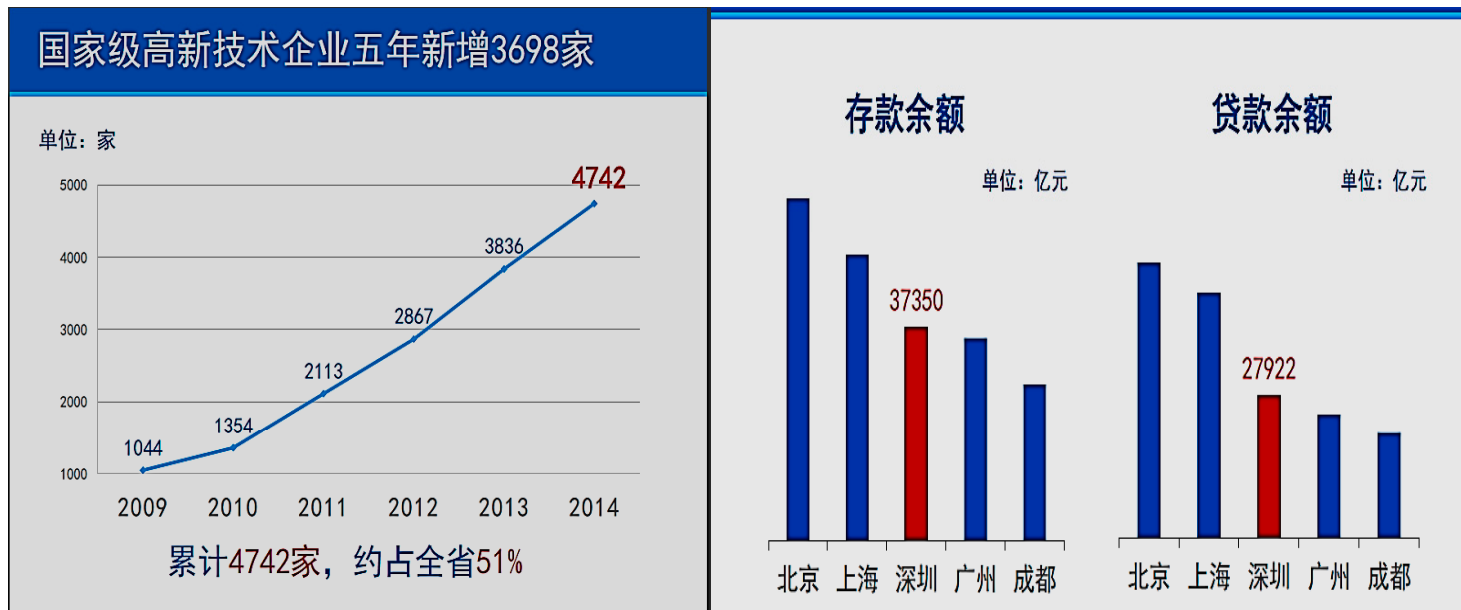
2、Shenzhen is being an innovative & creative c



每万人有效发明专利拥有量是全国平均水平的13.4倍



3、Shenzhen is engaging the innovation both manufacture and finance industry



Shenzhen is ranking about 20 in the whole world finance cen

4、Shenzhen is rising as an science city

北京时间2015年11月9日上午，2016年“突破奖”颁奖仪式在美国加州圣何塞举行。中国科学家王贻芳作为深圳大亚湾中微子项目的首席科学家获得“基础物理学突破奖”，这也是中国科学家首次获得该奖项。

《自然》杂志对2014年在68个自然科学期刊上的中国论文发表情况进行分析。深圳华大基因名列中国科研机构第48，在生命科学领域则名列第15名。在《自然》和《科学》的发表指数排名中，华大基因位列第五名。《自然》专题文章评价深圳从一个曾经的小渔村发展成为中国科技发展的奇迹，成为了基因组学，细胞学和生物信息分析领域的领头羊。

5、 Shenzhen is gradually transforming from the OEM to innovation

Phase one, 1985-1995, 3F strategy, focusing on foreign direct investment , focusing on OEM, focusing on export oriented, based on OEM to be an assemble line economy with much higher growth rate.

Phase two, based on cheap copy(shanzhai) manufacture, Made in SZ (Shenzhen) ,was to be a world class manufacture centre .

Phase three, engaging to be really made in SZ, Huawei, ZTE and so many innovating medium and small enterprises waved then waved to rise and to be a stronger supply chain in world.

Phase four to be an innovation city, particularly in the frontier industries and technologies, such as new generation wireless communication equipment, gene sequencing and sequencing instrument, new material, new energy and new energy vehicle etc.

6. Insisting more reform of market orient

- 1. to form an comprehensive law system;
- 2. to supply high quality public good;
- 3. to develop education and science research;
- 4. to explore the reasonable industrial policy with curbing monopoly and promoting competition.

Thanks for your attention

