

China's Economy and the Opportunities to China-Russia Economic Cooperation

Speech for Gaidar Forum 2015, By Dr. Xu Hongcai

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Ladies and Gentlemen:

It is honored for me to give a speech today at the prestigious Gaidar Forum. I am Xu Hongcai, the Director of the Information Department at China Center for International Economic Exchanges (known as CCIEE). CCIEE is one of the top think tanks in China. I would like to share my views regarding China's economic outlook, structural reforms and the opportunities to China-Russia bilateral economic cooperation.

In 2014, China's economy continued to realize sound growth at around 7.4%. Meanwhile, China's inflation slowed down, job market remained stable, and international balance of payments improved. China's economy has gradually slid into the so-called "New Normal" stage. I would like to highlight the four aspects of China's economy in 2014.

First, China's economic growth achieved its goal in 2014 but in the short-term, still facing downward pressure. China's economy continued at subdued pace in 2014 and the year-on-year GDP growth rate for the first three quarters of 2014 were 7.36%, 7.42% and 7.4% respectively, and GDP growth for the entire year is expected to be 7.3%, which is very

close to the government target of around 7.5%, set at the beginning of 2014. Nevertheless, China's economy is still facing downward pressure. Three GDP drivers, including fixed asset investment, consumption and net exports, all weakened in 2014. Fixed assets investment, especially real estate investment slowdown exerted substantial influence over China's economic growth. In 2014, the so-called Keqiang Index (an index named after China's Premier Li Keqiang) decreased from 9.2% at the beginning of 2014 to 4.37% in November, indicating a weak economic growth. This index comprises indicators of industrial electricity consumption, railway freight volume growth and increase in medium and long-term bank loans.

Second, inflation remained low and there is an increasing risk of potential deflation. In 2014, China's CPI decreased from 2.49% in January to 1.5% in December. PPI has experienced a decline for 34 consecutive months, dropping to -3.3% in December from -1.64% in January. While it is premature to say deflation has occurred according to the CPI trend, CPI year on year growth continued to trend downward despite that CPI rebounded on month on month bases in the third quarter of 2014. Nevertheless, we can observe that there is a slight trend of deflation in real economy based on the trend of PPI.

Third, the overall employment status stayed stable. Thanks to the "stabilizing economic growth and employment" policy, China's job

market was relatively stable in 2014. The government target of creating jobs for ten million urban workers achieved earlier than expected. By the end of October, new jobs were created for 11.82 million people, including 160 thousand new jobs compared to 2013. Moreover, 4.76 million unemployed people were re-employed and 1.48 million people who have serious difficulties in finding jobs also managed to find jobs. In the third quarter of 2014, the registered unemployment rate in urban areas remained at a relatively low level of 4.07%.

Lastly, China's international balance of payment improved, as the result of increasing trade surplus and expanding outflows under capital account. Last year, the size of "double surplus" was narrowed, while the growth of foreign exchange reserves was slowed down notably. In the first three quarter, China's foreign exchange reserves reduced by 148.15 billion US dollars, while the surplus of current account was 152.66 billion US dollars, rising 13.84 billion US dollar year on year. As for capital and financial account, the surplus was 68.73 billion dollars, reducing by 130.43 billion US dollars year on year. As China continues liberating its financial market, such "Double surplus" is likely to further narrow down.

In 2014, Chinese government has started implementing structural reforms, which were formulated at the third Plenary Session of the 18th Communist Party. Chinese government has adopted some proactive fiscal policies and stable monetary policies, emphasizing the flexibility and

perceptiveness of its policies. With hindsight, Chinese government not only ensured a steady macroeconomic environment but also achieved great progress in various reforms.

First, reforms on governmental administration system are speeding up. Chinese government implemented “three important lists”, the “negative list”, “power list” and “responsibility list”, which were used to urge governments at different levels to streamline administration and encourage decentralization, so as to bring vitality to the market. In 2014, Chinese central government either cancelled or delegated 398 administrative procedures, representing a reduction of 76% items that have to gain permissions.

Second, urbanization process is accelerating. The state council released the “National New Urbanization Plan 2014-2020” and “Views on Further Promoting Household Registration Reform”, which ended the half-century-long differentiation between agricultural and non-agricultural residents. Moreover, it also launched reform on peasant homestead system and started allowing the transfer of rural land’s management rights.

Third, State-owned enterprise (SOEs) reforms including mixed-ownership reform for SOEs are deepening. Private capitals are allowed to invest into certain industries, which have been monopolized by SOEs for a long time. Apart from that, Chinese government aims at

improving corporate governance in SOEs and reforming the compensation system of SOEs leaders, adopting new incentive scheme in SOEs, such as allocating shares and stock option to senior managers. Chinese government also aims at encouraging SOEs to increase investment in R&D and technological innovation.

Fourth, the establishment of free trade zone has achieved expected progress. One year after launching the Shanghai Pilot Free Trade Zone, China's central government has initiated more projects to optimize China's economic development, apart from the Beijing-Tianjin-Hebei Integration and the construction of Yangzi River economic belt projects. Three more free trade zone in Tianjin, Guangdong and Fujian were approved by the end of 2014.

Fifth, remarkable improvements in fiscal reforms have been observed. The state council released "Guidance on Innovating Investment and Financing Mechanisms in Major Fields and Encouraging Private Investment", which aims at attracting private investment to areas like ecological construction, important irrigation projects, urban infrastructure, railway, water carriage and civil aviation. Based on the modification of the "Budget Law", the state council released "Views on Strengthening the Management of Local Government Debt", which clarifies the qualifications, rights and responsibilities for local governments for the very first time.

Sixth, China has achieved sound progress in deepening financial reforms. For instance, the fluctuation of RMB exchange rate increased to 2% from 1%. China issued the first RMB-denominated bond in the UK, the Deposit Insurance Regulation was released, the marketization of interest rate has been accelerated, the connection of Shanghai-Hong Kong Stock exchanges was launched, and the opening RMB capital account was accelerated.

Lastly, China initiated the proposal of “One belt, one road”. Last year, China, Brazil, Russia, India and South Africa jointly established the BRICS Development Bank. Also, China initiated the Asian Infrastructure Investment Bank, which includes 22 founding members. As an important outcome of the “One belt, one road” proposal, the China-Pakistan Economic Corridor was launched by the end of 2014. At the same time, China is negotiating high-speed railway cooperation with more than 20 countries, hoping to build a global free trade network.

Despite of the complex internal and external environment in 2014, China and Russia have made new progress in economic cooperation. From January to October, the total amount of Russia’s foreign trade was 664.7 billion US dollar, decreasing by 3.4% year on year. In contrast, the trade between China and Russia continued to rise. By the end of November, China-Russia trade volume amounted to 86.76 billion US dollar, increasing by 6.9% year on year. China has become Russia’s

preferred partner after the west closed its door of cooperation with Russia. In terms of energy cooperation, the two nations also achieved significant progress. “The Sino-Russian east gas purchase and sales contract”, which lasts for 30 years and involves 400 billion US dollars, was signed by China National Petroleum Corporation and Gazprom in May 2014. On the heel of that, the two nations signed the Framework Agreement in order to facilitate the supply of natural gas from Russia to China along the west line of the pipeline by the end of last year. At the APEC summit, held in Beijing, Russian president Vladimir Putin pointed out that the use of local currency settlement will help China and Russia to enlarge their trade cooperation. In 2014, the trade volume between RMB and Ruble increased significantly. The next step is to expand the RMB-Ruble settlement and prepare respective payment platform and credit rating system.

Ladies and Gentlemen,

China’s economy achieved steady development in the past years. Going forward, we are confident in sustaining China’s sound economic growth fueled by our comprehensive structural reforms which will transform China’s growth model over the next 5-10 years. I predict that China’s annual economic growth will remain strong at 7.2% in 2015. Chinese government aims at achieving sustainable economic growth together with promoting reforms and improving people’s living standard.

The government is shifting its policy focus from seeking the quantity to the quality of economic growth by implementing reforms. I sincerely hope that China and Russia will strengthen their economic and trade cooperation at different levels, especially in the areas of innovation and cooperation between think tanks. China welcome Russian companies conduct business in China while Chinese companies also desire to expand investments in Russia, particularly in infrastructure and natural resource areas. China and Russia have great potential in cooperation. If Russian technology with Chinese markets can be combined, the two countries will be able to complement each other's advantages, reach common prosperity and development.

Thank you very much!