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National People's Congress and Structural Reforms in China

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National People's Congress of China was opened on March 5th and is expected to continue up to March 16th. So far, the congress has come up with measures of not only promoting the adjustment of excessive supply structure, but also sorting the demand by selective fiscal stimulus. The adjustment of excessive supply means, the excess of production capacities in steel and coal industries, the excessive inventory of real estate, and the excess of credit. Fiscal stimulus means, they would move forward in cutting tax and addressing the infrastructure investment such as railways and roads up to the budget deficit at 3% against GDP.

They seem to make a difficult handling of promoting structural reforms while avoiding a significant economic slowdown.

Brief history of growth and reform since early 1990s

Speaking roughly about the current Chinese economy so far, the age of Jiang Zemin (1993 – 2003) was the period to achieve a high growth with surviving from the Asian crisis. After that, the age of Hu Jintao and Wen Jiabao (2003-2012) was the period tried to modify the environmental destruction and inequality. With a slogan of “harmonious society”, they tried to address these problems caused by the past high growth. But, this course correction was derailed by the global financial crisis in 2008. In this year, 4 trillion yuan of fiscal policy was issued, and the Chinese economy had driven back to the growth-at-first again. Policy at this time was focused at first to the short-term demand generation, and the decision whether the new investment is conducive to the sustainable growth was postponed. The entire world was also largely dependent on emergency evacuation to Chinese investment-led growth which was accompanied by credit expansion.

Present structural reform

The purpose of the present structural reform is the elimination of the variety of domestic oversupply which was accumulated after 2008, like excess of housing stock, and excess production capacity. Particularly, the reform of “zombie-like” state-owned enterprises, which

are the major role of excess production, should be noted. In the place of the National People's Congress, it has been advocated to restructure them. But, it seems there are varieties of opinions in the back. In Japan, also, in the downturn after the collapse of the bubble economy, there was a time that worked on the shutdown of zombie companies, and structural reform of the old regime that supported their survival. At that time, the reformer shouted "No Growth without Reform". On the other hand, the anti-reformer emphasize on pain of society. It was questioned further depress by such structural reform in a weak economy after the collapse of the bubble. It seems that the same argument has been made in China.

Speaking a by the textbook, if the factor of economic downturn belongs to the cyclical lack of demand, public investment will be justified to some extent. On the other hand, if it belongs to the supply side, such as the management of the company is rigid, and the ability to dig the potential demand of the market is degenerated, public investment cannot cope with continuing creation of demand. Even if GDP of that year is raised by the fiscal stimulus, the growth rate of the next year will go back to zero. Moreover, government debt will be swollen by that amount.

It is correct that China is seeking to advance the structural reform of the supply side, such as state-owned enterprises. No China's sustainable growth in the future can be expected without today's reform. However, looking at the supply side structural reforms of the past of overseas, we need one big consideration. That is, you must have an allowance of demand in somewhere.

What we can say from the overseas' structural reform

In Japan, the big structural reforms to city banks had happened about 10 years since 1996. During this time, the consolidation proceeded, and thorough management rationalization had been achieved. The number of banks has been aggregated into 7 groups from 21 banks. The number of employees was also reduced to about half from 160 thousand people. However, at this time, there was a chance for employees to transfer to foreign banks which newly expanded its business into Japan at that time, and also in the labor market of university graduates, such as information and communication industry which had been expanding at the same time, had become a saucer of the reduction of the financial industry.

Korea experienced a large-scale conglomerate reform in the late 1990's after the Asian crisis. Many of the conglomerates performed a large-scale employment adjustment. During this time, the automotive industry contributed to some extent to the employment deterioration of the pawl of the group as a whole. Only car companies expanded employment by extending the export in the benefit of significant currency depreciation.

In recent years, the labor market reforms of the Schroeder government from 1998 to 2005 in Germany, has been praised as a successful case of structural reforms. Certainly, it is worthy of praise of increasing the flexibility Germany economy. However, Germany had also revived from the large demand effect of the Eastern European's EU accession in 2004. The introduction of the Euro, along with the ending of the Marc height of history, Germany won a new market of Central and Eastern Europe by the EU accession. Germany took advantage of maximizing its

own recovery by the adjacent deep historical area's growth.

Demand creation is also essential

In short, although there is no doubt that structural reform of the supply side will raise a certain effect, there is no close example that accomplished an economic recovery only to promote that utmost. Perhaps, society cannot endure the pain. With that in mind, on the supply side structural reform of China, they need some sort of demand measures too. Moreover, considering the Chinese economy scale, it must be equivalent to a big thing. I will not deny for seeking the outside of the country demand like infrastructure projects named "One Belt - One Road". But, it is probably the favorite to prompt a free and vigorous corporate activity by deregulation, and dig a new demand that will be born by the urbanization and the service economy. In order to determine the success or failure of the reform of zombie companies, we would like to watch the whereabouts of the policy, such as domestic deregulation, innovation, and start-up support.

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