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SMU launches China Forum

Professor Justin Lin
Former Senior Vice President
& Chief Economist, World Bank
Honorary Dean and Professor, National School of Development,
Peking University, China

China can sustain 8% growth through reforms, says Professor Justin Lin

Written by Narendra Aggarwal

China has the potential to grow at about 8 per cent annually for the next 20 years if it follows the path of sustained reforms and transitions to a well functioning market economy, says top Chinese economist, Professor Justin Lin. Noting that China's near 10 per cent growth over the past three decades had produced distortions in the economy like concentration of wealth in the hands of a few and high income inequality, he stressed that China needs to remove them, otherwise there could be social discontent in the country.

Scan this QR code to find out more about the SMU China Forum

Professor Lin, who is confident about China's economic growth prospects going forward, was speaking at Singapore Management University's (SMU) inaugural China Forum in Singapore on 13 November. A celebrated author, Professor Lin delivering his keynote address on *Demystifying the Chinese Economy* stressed that a deeper understanding of China's highly successful development process was necessary to forecast its growth trajectory.

Professor Lin highlighted the encouraging signals from the just concluded Third Plenum of the Central Committee, the closed-door policy summit of the ruling Chinese Communist Party, which pledged to let free markets play a more decisive role as the leadership seeks better quality growth over the next decade.

Looking ahead, he said the goal should be to deepen economic reforms and open up the Chinese economy to the world economy, as it is through continuing reforms that the remaining distortions in the domestic economy will be removed.

At the same time, there has to be continuing investment in industrial upgrading and innovation for productivity growth to drive economic growth. And if China can maintain high growth, it will be good for both regional and world economic growth, Professor Lin added.

Themed *Be China Ready*, SMU's China Forum has been launched to foster a deeper understanding of the trends and influences shaping the growth and development of China, now the world's second largest economy.

The China Forum aims to serve as a platform for the business and academic communities to come together to share, discuss and debate ideas and issues about China's growth and growing role on the global stage.

Deputy Prime Minister and Minister for Finance, Mr Tharman Shanmugaratnam, delivered the opening address as the guest-of-honour. SMU Chairman, Mr Ho Kwon Ping, SMU President Professor Arnoud De Meyer and China's Ambassador to Singapore, Mr Duan Jielong, joined the more than 300 business leaders, entrepreneurs, policymakers, researchers and academics at the inaugural China Forum.

The scholars and thought leaders who shared their insights on China included Professor Peng Xizhe from Fudan University; Professor Gan Li from Southwestern University of Finance and Economics; Ms Diana Tsui, Head of Corporate Social Responsibility & Diversity, KPMG China & CEO of KPMG Foundation; and Mr Lim Ming Yan, President and Group CEO of CapitaLand Limited, who participated in a panel discussion on *Major Trends in China: The Challenge of Success.*

Mr Tharman Shanmugaratnam
Deputy Prime Minister
& Minister for Finance

DPM Tharman said in his address that the package of reforms China is embarking on are the most complex that any country had pursued in the last 50 years, and would not be without risk. They were interdependent, as it is not possible for instance to have sustained urbanisation without both land reforms in the countryside and reforms to household registration and distribution of social services in the cities. Further, China was still tackling the problems caused by its stimulus package four years earlier. DPM Tharman was however strongly optimistic on China's future growth potential and the opportunities for rest of the world. While it has exhausted labour force growth, it still has significant upside for productivity, with continuing urbanisation and internal convergence between its provinces, more efficient allocation of financial resources, and the country's catch up with global leaders in both manufacturing and services.

SMU President, Professor Arnoud De Meyer, in his welcome said the China Forum is a part of SMU's China Initiatives aimed at raising its profile in China as a research university. SMU wants to contribute to Singapore-China collaboration in business, government and civic society by nurturing China-ready and bicultural graduates who are able to function effectively in China.

Another major undertaking of the SMU China Initiatives is to actively drive and strengthen collaboration with existing and new partner universities in research and postgraduate education. The aim is to play a key role in creating and sharing knowledge and thought leadership that will benefit both Singapore and China, Professor De Meyer added.

Professor Arnoud De Meyer
President
Singapore Management University

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One of the best markets in the world

Mr Lim Ming Yan: China is a complex market because of its size and pace of change. To succeed, it is critical to differentiate the business so that it can add value to customers and other stakeholders. To do so, having a strong team with a spirit to overcome challenges is instrumental. Hard work, relevant on-the-ground experience and continuous learning are fundamentals of a successful business in China.

It is also extremely important that businesses build a reputation of unwavering integrity. Not just at the leadership level, but drilled down to all staff.

These are the key pillars that CapitaLand embraced since we began our operations in China in 1994. Scaling the China wall was not easy. We were constantly challenged, but tenacity and belief in the goals we set out to achieve spurred us on. From developing mainly residential projects in Shanghai in our early days, 'CapitaLand is now known in China for its quality Raffles City mixed development projects.

China is a fast changing market. A successful business approach or product may quickly become irrelevant as competition intensifies and customers' preferences shift. This is most obvious in the retail sector where, as owners of shopping malls, we work closely with retailers. We have seen how successful retailers improve their operations, marketing and their product ideas, while those who are slow in adjusting to the changing environment usually do not last very long.

China is not a homogeneous market. Rules and regulations, as well as customers' preferences differ across provinces and cities. In Shanghai, for example, apartment buyers are particular about efficient layout and would not want to waste a single sq m of space, whereas in Beijing, buyers prefer a more generous living room. Overall, it is important for companies to remain nimble and keep their investment strategies flexible.

We remain very positive about China as it remains one of the best places for business in the world. In the next 10 years, we expect further economic reforms in China. This will allow it to strengthen its foundation for more sustainable and quality growth.

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Lim Ming Yan, President & Group CEO, CapitaLand Limited

Risk of housing bubble bursting

Professor Gan Li: The China Household Finance Survey, the first major household survey of consumer finances, has uncovered some striking facts about China's household wealth. One of them is the substantial household wealth on average and its unusual unequal distribution. A notable characteristic of Chinese household wealth is the importance of housing as 70% of household wealth is in the form of housing, much higher than the 40% level in the US.

Therefore, here comes potentially the biggest risk for the Chinese economy and for the world within the next five years: bursting of the housing bubble in China. In terms of household wealth, the key trend to watch is the housing market. Given the very high homeownership at 86% in cities, and rising housing prices, the Chinese government should focus on soft-landing the over-heated housing market. A major finding is the reason for the high household savings rate in China. Over the last 20 years, the Chinese government has been making economic policies to encourage consumption but with little success. The key reason is not insufficient consumption incentives, it is income inequality.

Almost 44% of Chinese households spend equal to or more than their income in the survey year. So a key policy needed is to raise the income of the relatively poor. Since these households face liquidity constraint, they would certainly spend most of their incremental income. If their income is raised substantially enough, we think it is sufficient to lower the savings rate in China.

Raising income of the relatively poor must be done by large-scale government income transfer programmes in the short run. We suggest using incentive compatible programmes such as conditional cash transfer and earned income tax credit that have proved to be successful in many other countries. We believe that money will be well spent if right programmes are implemented.

Without substantial change in income transfer policies, economic growth would not generate enough domestic demand to push the Chinese economy from an investment and export driven economy to domestic consumption driven economy. Without such transition, economic growth will undoubtedly slow down in the near future.

"Given the very high homeownership at 86% in cities, and rising housing prices, the Chinese government should focus on soft-landing the over-heated housing market."

Gan Li, Professor of Economics at Texas A&M University and Dean of Research Institute of Economics and Management at Southwestern University of Finance and Economics

Declining working-age population needs urgent policy response

Professor Peng Xizhe: There is little awareness that China is at a turning point in its modern history as its working-age population is on an irreversible decline that started in 2012. The long-term implication of this significant demographic change is that abundant cheap labour will no longer be able to drive China's economic growth. Together with the government's plan to raise incomes, the falling labour supply will affect the competitiveness of industry and result in higher costs. The declining labour supply accompanied by a rapid increase of the elderly population will inevitably put great pressure on China's old-age social security and long-term care systems. The rural-urban migration of young people will result in further shrinking of labour force in China's agriculture sector.

While the implications of these demographic changes will be more visible in the future, China should take action now even as its economic growth may not be affected by the new demographic trends in the short-run. The labour intensive and export oriented economic growth will lose ground and China will be pushed to restructure and upgrade its economy through more investments on innovation and new technologies to increase labour productivity.

To achieve sustainable development, China should reform its social security system. It should also reform its education system to provide better education to not only the young, but also to the middle and old aged population through life-long learning. The Third Plenum of the Central Committee has already approved the relaxation of the current one-child policy, the full implementation of this policy change should be carried out without further delay, and universal two children per family policy should be allowed in the near future. This will not reverse the demographic trend but can slow down the ageing process and give time for required system and policy reforms. Smart urban growth combined with rural development should be seriously considered so that the urbanisation process can become a new engine for China's further economic growth in an era of rapid demographic changes.

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Peng Xizhe, Professor & Director, State Innovative Institute for Public Management and Public Policy Studies at Fudan University

NGOs have a vital role to play in China

Ms Diana Tsui: The growing number of non-governmental organisations (NGOs) in China – close to half a million registered and an estimated 1 to 3 million unregistered – shows the need for solving critical social problems such as poverty, unemployment among university graduates, wealth inequality, education, migrant workers, food safety, environmental issues, and many more. Therefore, it is clear that the commitment from the civil society sector is there. The challenge is how sustainable their efforts can be in the long-run. The power and influence of civil society is growing and should be harnessed to create trust and enable action across sectors – business, governmental, public institutions and NGOs. As civil society enablers, organisations like us should take the initiative to partner different stakeholders to make changes in this increasingly challenging global environment.

To some degree, what is holding back social investment is the perception that these issues should be dealt with and led by the government. There is still a lack of vision and commitment from the business sector to make a social and environmental impact. My belief is that civil society is the glue that binds public and private activity together to strengthen the common good. The business sector aims for financial sustainability from day one, and encourages efficiency and innovation. Similar thinking should be encouraged for building sustainable NGOs. The business sector should aim to transfer its knowledge to help build the capacity of the civil society sector.

The core of CSR encourages more accountability and transparency in business practices. Companies must take a proactive role by being socially and environmentally responsible. However, the perception of CSR in China is still very much related to philanthropic contributions, especially for many Chinese companies. There is a need to find new frameworks and collaboration among business, governments and traditional NGOs to further promote transparency and accountability among all sectors, and to find solutions in addressing big societal challenges. A step forward is to use the key business competence to help create shared social and economic values that would also make good business sense, and can simultaneously help create social and environmental impact.

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Diana Tsui, Head of Corporate Social Responsibility & Diversity, KPMG China and CEO, KPMG Foundation