

Governance Strategies for the XXI Century



CHALLENGES FOR CHINA

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Chinese Challenges



New Growth Drivers

Fiscal and Financial Reforms

Consolidating Welfare Economy

New Innovation Economy

Greater competition for value added

Greater costs and risks for primary innovation, less benefits from secondary innovation

International Links

Intensifying technological position

Adapting to low growth economy

Asian Geopolitics in Flux

Rising without hegemonic conflicts

Maximizing participation in Asian economic space

Questions on Present Challenges

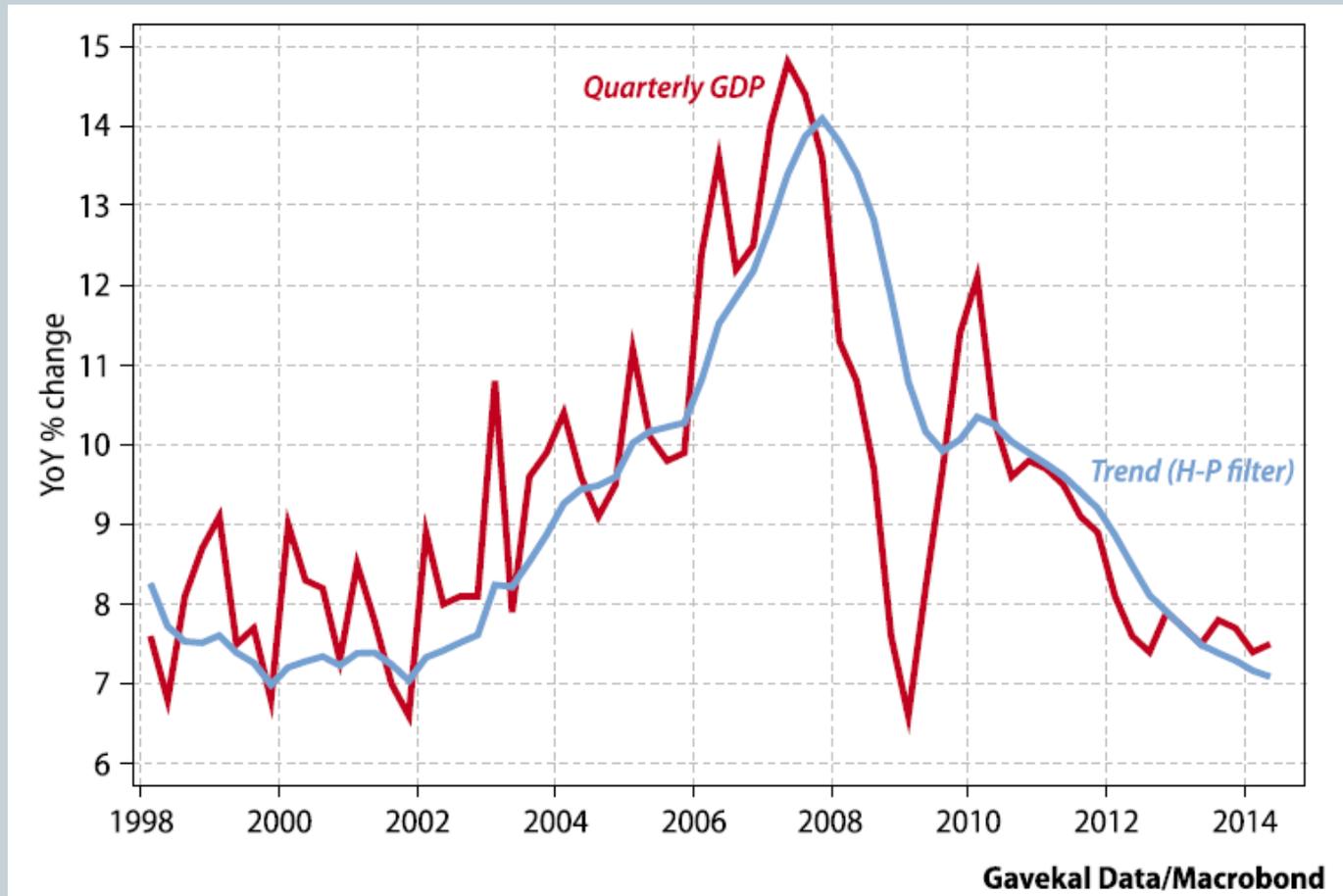


- End of Chinese singularity?
- Limits to model of governance: strong State and globalized market?
- China: alternative catching up and innovation economy models
- Unanticipated difficulties, timing, contradiction in policy demands
- Multiple exit scenarios

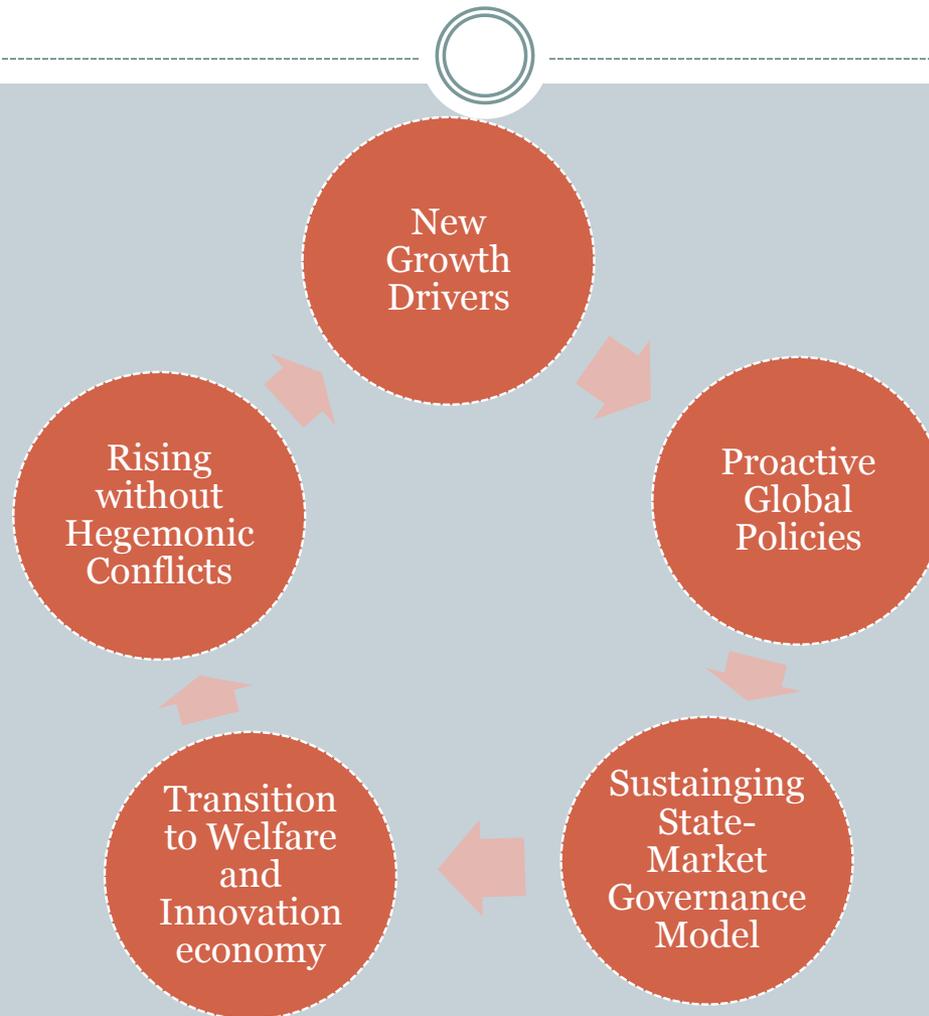
Slowing Down



China's Growth Pattern



New Policy Bets: New Normal and Silk Road



Goals of the New Normal



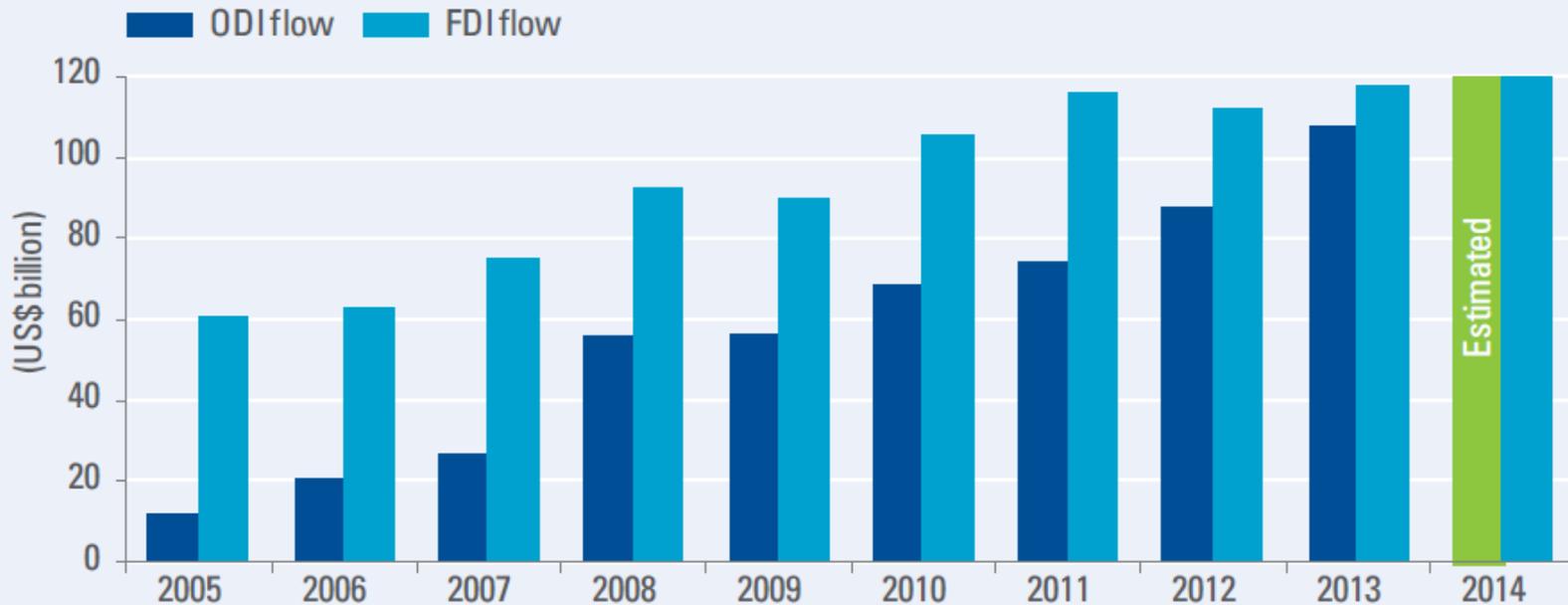
- ❑ Growth of internal market
- ❑ Elimination of investment barriers: going from savings to investments
- ❑ New comparative advantages in production beyond low wages
- ❑ Increase in quality of industrial production and services
- ❑ Sustaining innovation
- ❑ More transparency in fiscal incentives (end of speculation on land)
- ❑ Transition to a low carbon economy
- ❑ Better risk management in the credit and housing markets
- ❑ Macroeconomic policies appropriate to post crisis

New International Strategy



- Increase in Foreign Investment: ODI in parity with FDI – from U\$ 12,26 billion in 2005 to 117,76 billion in 2014
- Directions of ODI:
 - 2005-2012: improve competition of export industry and guarantee of natural resources
 - 2012-present: intensifying links with the global economy
- Creation of New Multilateral Funds: varying institutional format and resources from 50 to 150 billion of dollars
 - NDB, AIDB, Silk Road Financial Facility and Financial Arrangement for Shanghai Cooperation Agreement
- Expansion and transformation of trade agreements
 - New varieties of trade agreements: FTZ Japan, Korea and China and New Asia Free Trade Zone proposed in APEC 2014

FDI and ODI



Source: '2013 Statistical Bulletin of China's Outward Foreign Direct Investment', Ministry of Commerce, 21 January 2015, <http://www.mofcom.gov.cn/xwfbh/20150121.shtml>, 27 October 2014, <http://www.mofcom.gov.cn/article/i/dxfw/gzzd/201410/20141000773143.shtml>; '2014 China Statistical Yearbook', NBS, <http://data.stats.gov.cn/english/easyquery.htm?cn=C01>; KPMG Analysis

Internal and External Dynamics



Economy

WTO entry:
internal economic
reform

New international
context: proactive
foreign economic
policy

International

ODI: increasing
industrial density

Solving excess
capacity issue:
new value chains

Geopolitical

Intensifying ties
with Asia

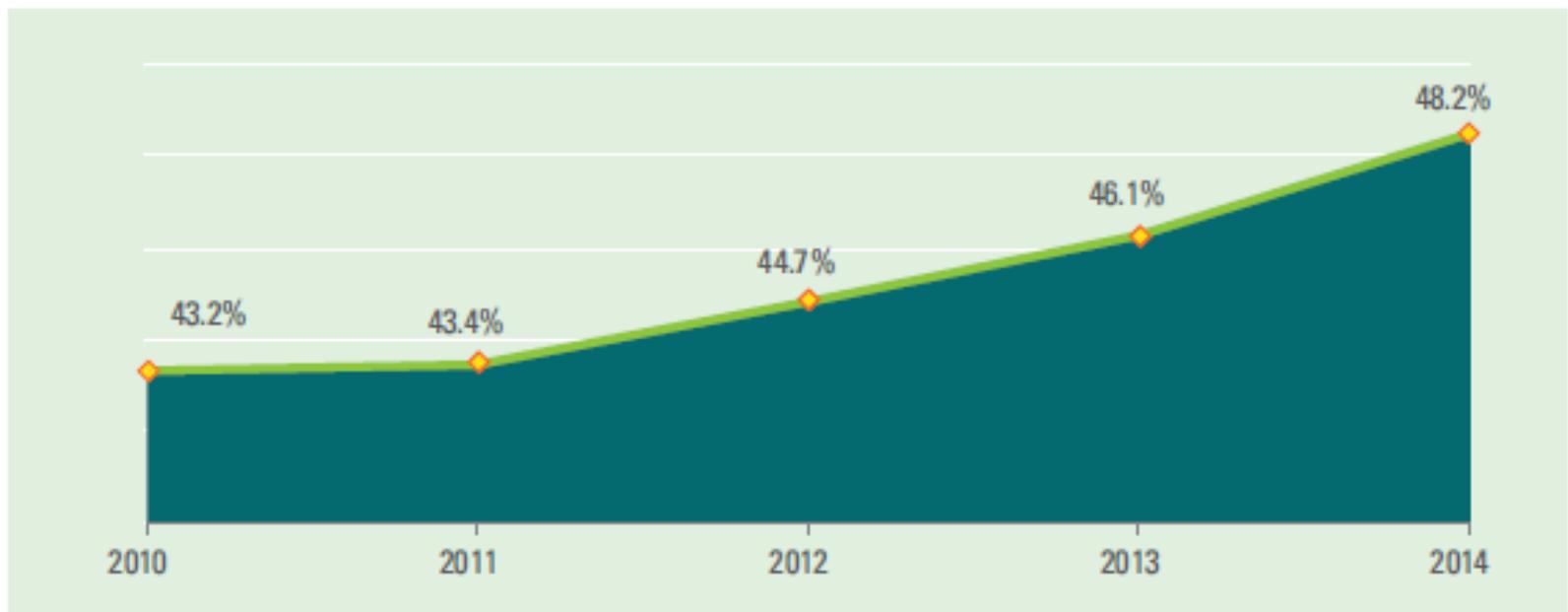
New multilateral
game

Mixed Results



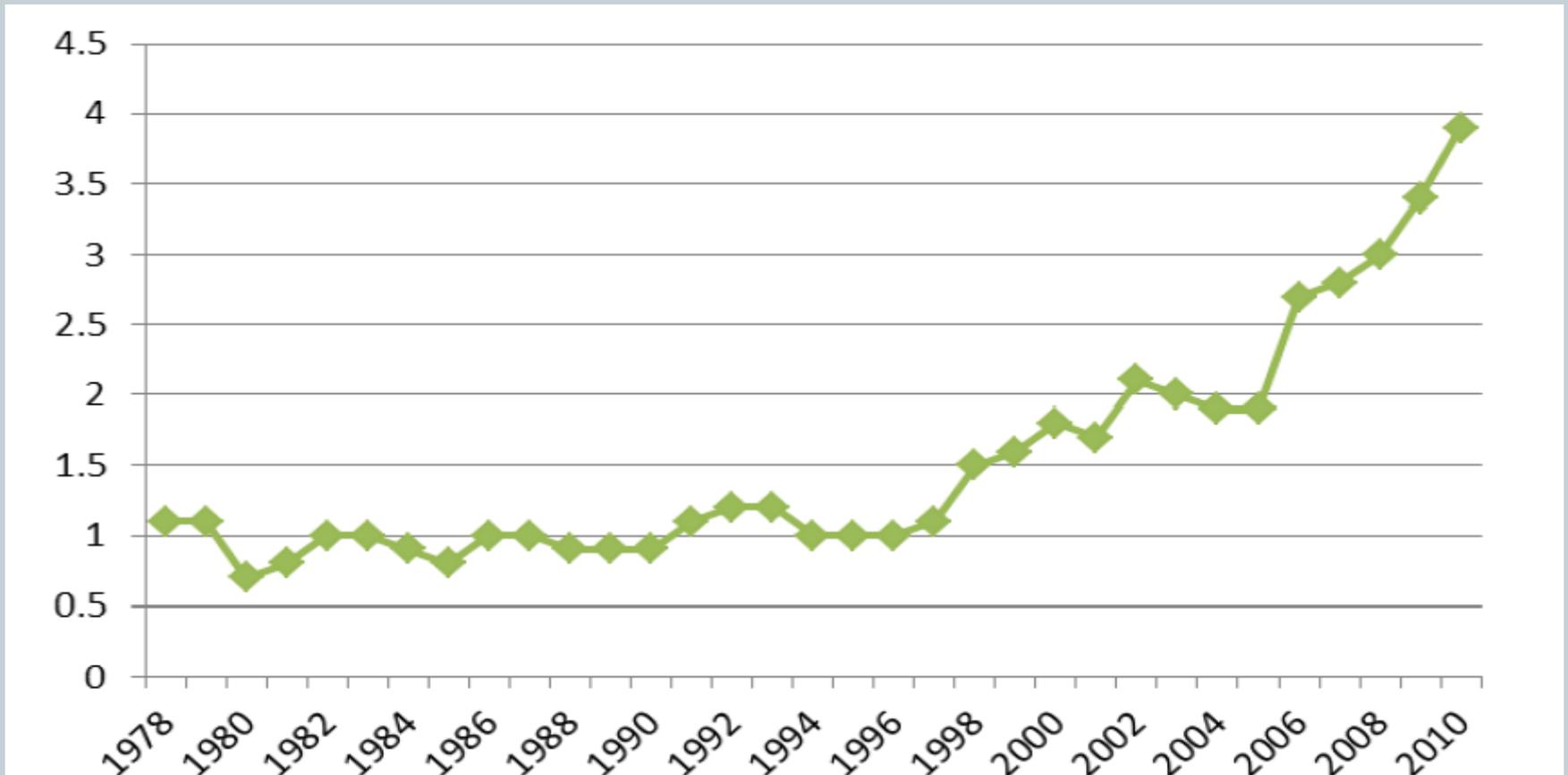
- Growth below 7% target
 - Difficulties in managing aggregate demand
 - Volatility in stock market and change in the exchange rate
- Change in GDP composition: increase in participation of services – 48% in 2014
- Incentives to green and innovation investments – 2% of GDP in 2012
- Fiscal discipline: recycling of regional debt and liberalization of bank credit
- Development of new FTZ

Service Sector in GDP



Source: NBS, 20 January 2015, http://www.stats.gov.cn/tjsj/zxfb/201501/t20150120_671037.html, KPMG analysis

Green Economy– Investiments (%GDP)



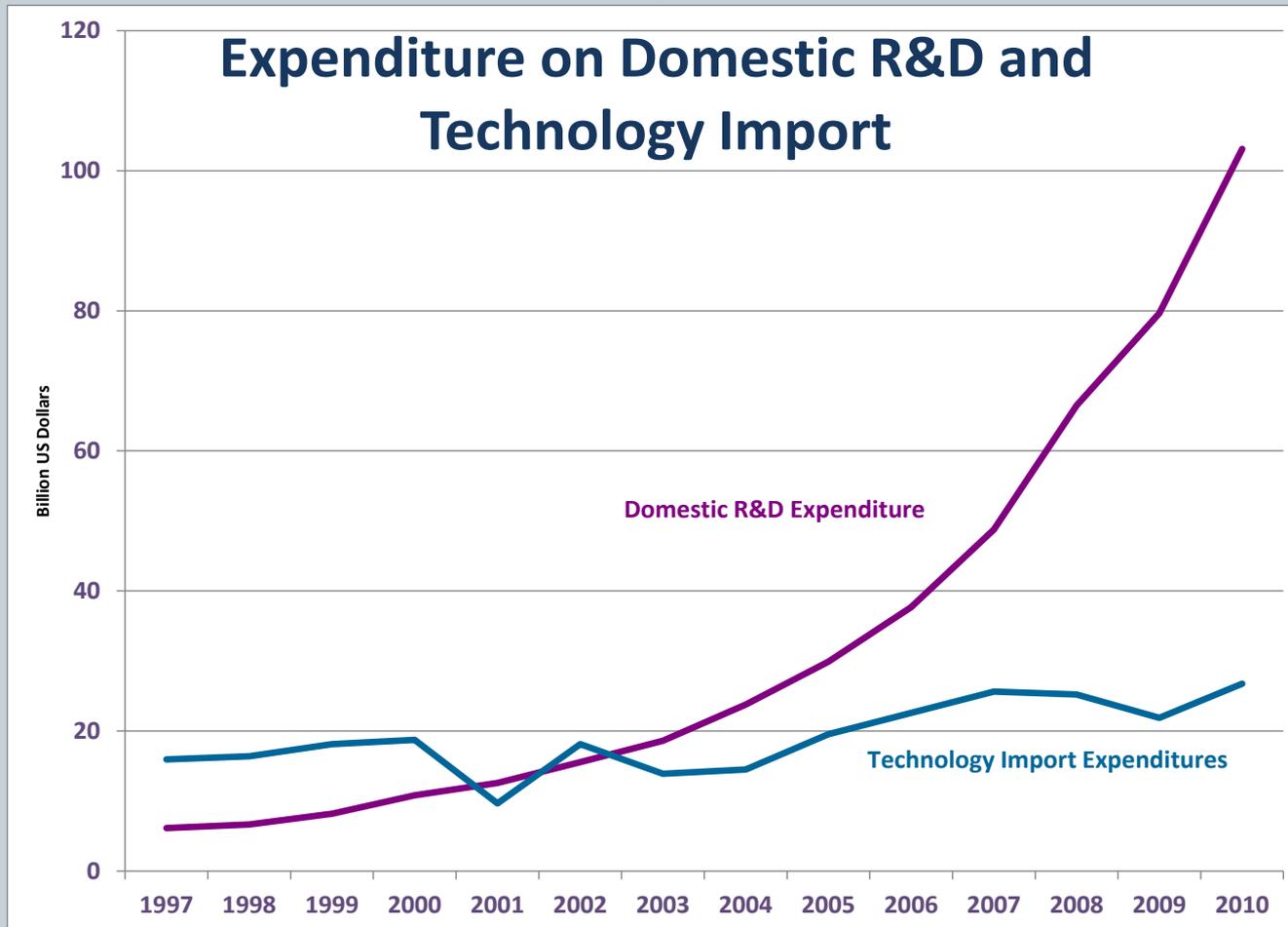
Fonte: Hu Angang– Tsinghua 2015

Betting on Innovation



- ❖ New Normal bets on innovation
- ❖ 2004-2014: consolidation of a singular techno-industrial policy paradigm
 - ❖ Strategic and sectoral planning
 - ❖ Constant investments – 2% of GDP in 2012
 - ❖ Focused on enterprise R&D
 - ❖ Consensus over objectives
 - ❖ Global foresight
 - ❖ Ministerial coordination
 - ❖ Experimentation at the regional level
 - ❖ Megaprograms and strategic industries

R&D Expenditure and Technology Import



Fonte: Naughton, 2013

Investment in Megaprojects



Table 3: Megaprojects and Central Budget S&T Outlays

	Central Budget Science & Tech (billion RMB)	of which: Mega-Projects	Megaproject share of Central S&T	Central S&T Share of GDP	Megaproject Share of GDP	Other than Megaproject S&T Share GDP
2003	61.0	--	--	0.45%	--	0.45%
2007	104.3	0.0	0.0%	0.39%	0.00%	0.39%
2008	128.5	6.0	4.7%	0.41%	0.02%	0.39%
2009	164.9	32.8	19.9%	0.48%	0.10%	0.38%
2010	172.8	30.2	17.5%	0.43%	0.09%	0.34%
2011	194.4	43.5	22.4%	0.41%	0.11%	0.30%
2012	221.0	45.6	22.6%	0.43%	0.10%	0.33%

Fonte: Chen Ling – Tsinghua 2015

Governance Process - Modus Operandi



- Strategic planning and long term view
- Structured consensus on objectives
- Horizontal institutional coordination vs fragmented authoritarianism
 - Resource availability
 - Vast reserves
 - Sharp increase in ODI
 - National budget increasing from 10,8% of GDP in 1995 to 22,6% in 2012

Political Dynamics

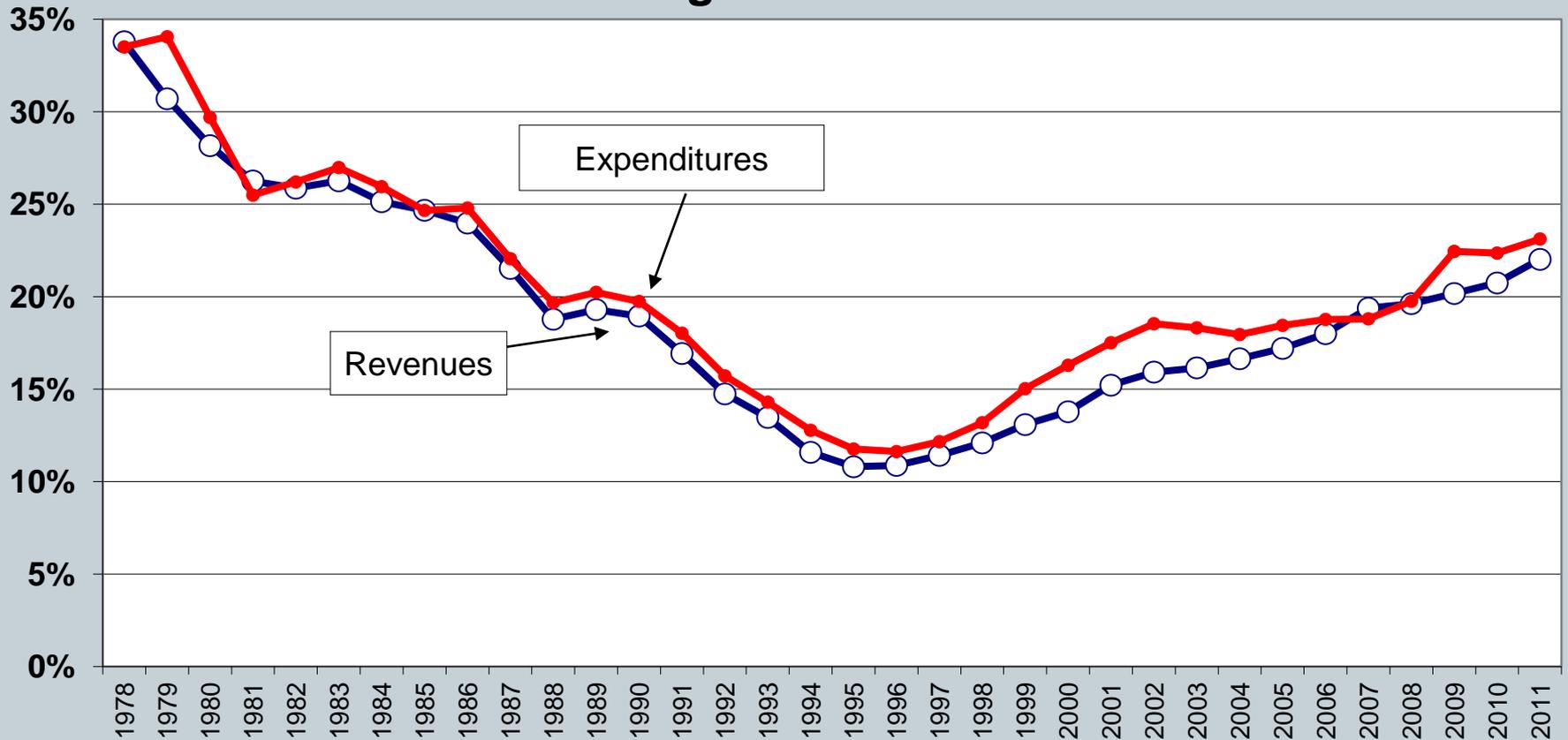


- Avoid imposing structural obligations to the State
- Consultative governance, rule of law and centrality of the party
- Transforming political conflicts in economic negotiations
- Forging an architecture variable political alliances

Room for Manoever



China: Budget in % of GDP



Will It Be Possible To Manage Reforms With Such Different Time Frames?



- Buiding diverse capacities: risk culture, financial flexiblity, experimentation and diversity of mind sets
- Less structured consensus, more complex dynamics of coordination and greater administration of conflicts
- Possible effects of discontinuities of growth on the reform process?
- Trial and error for institutional change? Balance between centralization and autonomy
- Designing future models: what criteria for success?