

Structural Change, Industrial Upgrading and China's Economic Transformation¹

Introduction

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After more than three decades of opening up and reforms, China has moved from a low to an emerging middle income country. The main challenge face the country is how to sustain the momentum and grow the country into a high income country and avoid the middle income trap. In order to achieve this, industrial upgrading

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and structural change is crucial. This is not an easy process given the fact that only very few countries in the world succeeded to do so in the past 50 years. What are the challenges for this transformation? How to develop the innovation and technological capabilities and upgrade the Chinese industries into one of the world's innovation leader? These are important questions to address for policy makers and academics, and are the main theme of a TED conference held at Fudan University in 2015.

Every two years, China Center for Economic Studies (CCES), Fudan University, organizes an international conference on Transition and Economic Development (TED), with the objectives of strengthening scientific collaborations and connecting China scholars around the world. The previous conferences have attracted wide-ranging attentions from academic institutions, government organizations and industries, alongside the media in China.

This special issue the Journal of Chinese Economic and Business Studies contains a selection of papers originally presented at the 6th conference, which was held in Shanghai, China, on September 7 and 8, 2015, sponsored with a research grant by China National Natural Sciences Foundation, in collaboration with China Center for Economic Studies, Fudan University, Technology and Management Center for Development (TMCD), University of Oxford, and Japanese Association for Chinese Economy and Management Studies (JACEM).

A wide range of papers (from over 100 delegates) were presented at the conference. These papers were grouped into topics ranging from demographic change and industrial upgrading, to the role of financial markets in industrial upgrading, to industrial agglomeration and technology innovations, to future prospects of China and the world economy.

This issue is comprised of papers that exhibited special insights or area of interest. Authors were invited to submit these papers after the conference and told that the papers would be reviewed by at least two reviewers, who were instructed to hold the papers to a journal-level standard for scholarship. Of the papers that were presented in invited sections or contributed sections, six papers were selected for publication.

The first paper in this special issue is by Fang Liu, Jun Zhang and Tian Zhu. Investment is one of the most important engines of economic growth. China's growth miracle has often been regarded as investment driven. However, at the same time it is also often claimed that China's statistical data is flawed. Therefore, the accuracy of China's investment data is very important for macro-economic policy making and for the evaluation of China's model of economic growth. This paper investigates the quality of China's investment data, and shows that the official gross capital formation figure is more or less a residual item obtained by subtracting final consumption and net exports from the official GDP figure that is

calculated based on the production-cum-income approach. This implies that the underestimation of China's consumption expenditure automatically translates into overestimation of investment expenditure. Accordingly, they conclude that China's official consumption and investment statistics cannot be trusted as the basis for policy discussions and academic research.

China's surge into global middle-income status over the space of three decades has been spectacular. However, in the second paper, Garry Jefferson argues that, in addition to extensive environmental degradation, China's surging growth has come with other social costs. A potentially large and burdensome cost has been imposed on a generation of young rural residents, who abandoned the countryside, and with it access to basic education, in order to seek the anticipated advantages of jobs in the country's burgeoning urban-industrial sector. This large swath of off-farm migrants propelled China to the status of the "world's factory," and created the scale and accumulated learning-by-doing to begin the transition from an imitation economy to an innovation economy. However, to make this contribution, this generation that came of age during 1985-2005 forewent the schooling that could equip it to acquire the skills needed for a dynamic economy.

Existing literatures on the competition between local governments highlighted the competition of growth rate through the performance evaluation system, or the tax competition for the attracting companies. However, in China, the system of

property tax is still underdeveloped and the local government cannot independently set the tax rate. In the third paper, Kai Kajitni and Daisuke Fujii focus on the dumping activity by local governments in the auction of land use rights, to attract industrial companies, and empirically test this hypothesis by the spatial lag model.

The fourth paper is by Wen Xiao, Jiadong Pan and Jiangang Jiang. Ownership level is one of the common strategy adopted by MNEs in the host country, and is widely studied. However, limited attention has been paid to the relevant studies on the ownership structure of China's foreign-funded enterprises. This paper examines the impact of institutional environment and market scale competition on foreign-funded enterprises' ownership structure in China, and then shows some interesting findings. For example, the improvement in legal property rights protection and openness significantly increase the ownership levels of foreign-funded enterprises, whereas the positive effect from the reduction of government intervention in business is relatively limited.

The fifth paper is by Erbiao Dai. With significant rise in income disparity / income inequality among regions and households, Chinese policy makers began to pay high attention to the issues of equity and how to make growth more inclusive in recent years. This paper focuses on China's inclusive development strategy and tries to answer (1) what are the background, goals and main tasks of China's

inclusive development strategy? (2) What changes have taken place in China's regional development strategy under this inclusive development strategy. (3) What impacts has the recent regional development strategy given on the regional disparity in China?

The self-employed sector is a representative informal sector of the employment market, and it influence on the income inequality as noted in previous studies. Transition economists believe the rise of self-employment to be a sign of the growing importance of markets. In the sixth paper, Xinxin Ma conducts two hypotheses testing and provides evidence on the determinants of self-employment for local urban residents and migrants in urban China. First, utilizing the imputed wage premiums, she finds that the business creation hypothesis is rejected for both the local urban residents and migrant groups in 2007. However, in 2013, the business creation hypothesis is supported when a worker choice to become a self-employed employer. Second, this paper indicates that the business creation hypothesis is supported for older generation group, whereas this hypothesis is rejected for the younger generation group for both the local urban residents and migrant groups.

Findings from this special issue can be briefly summarized. China's transformation to a high income country faces considerable challenges that the government policy should address.

First and foremost, the underestimation of China's consumption expenditure automatically translates into overestimation of investment expenditure. China's official consumption and investment statistics cannot be trusted as the basis for policy discussions and academic research.

Secondly, in China, where the system of property tax is still underdeveloped, discounting of land use price is a powerful tool for local governments to attract industrial companies. However, the dumping of land use price might disturb the price mechanism of the real estate market, and induce a short supply of land suitable for residential, and commercial use and a steep rise in prices. Therefore, it is advisable for central government to start reform for the land market, and break down the monopoly system of land supply by local governments.

Thirdly, the business environment should be improved for China to continue to attract high quality Foreign Direct Investment. For example, the improvement in legal property rights protection and openness significantly increases the ownership levels of foreign-funded enterprises, whereas the positive effect from the reduction in government intervention in business is relatively limited.

Fourthly, if the Chinese government wants to fulfill a more inclusive and sustainable development, policy-makers should pay more attention to the issues

of low growth of Total Factor Productivity and the low growth of labor input in the less developed provinces, which can be significantly raised by institutional innovation, technology progress, investment in education and skill training, and the development of service industry.

Last but not least, in order to promote more new business for greater economic growth in the future, the Chinese government should establish and implement financial support policies for small firms. In addition, to diminish the segmentation of the informal sector and the formal sector in the urban area, the Chinese government should realize the integration of the social security system.