



How Can the EU Help China to Adjust Its Pattern of Economic Growth

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China's remarkable progress

- *President Barroso:* “China ...has transformed beyond recognition, raising living standards and pulling hundreds of millions of people out of poverty and becoming a global economic player, following the reform and opening up policy launched by Deng Xiaoping. ” *(Tsinghua University, Beijing, 30th April 2010)*

The other side of the rosy picture (1)

- China's pattern of growth depends too heavily on the external market.
- Total GDP in 2009:
- 33.5 trillion yuan (or \$4.9 trillion)
- Foreign trade: \$2.2 trillion
- Dependence ratio: 45% .

The other side of the rosy picture (2)

- Exports are low value-added
- Bo Xilai, former Chinese Minister of Commerce: “China needs to sell 800 million shirts to buy an Air Bus A380.” .

3\$ out of 40\$

- The Wanda wireless mouse is sold at around 40 dollars for each in the US.
- Logitech takes away 8 dollars, wholesalers and retailers take 15 dollars, and Logitech's material providers take 15 dollars too.

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- China only earned 3 dollars out of it, and the money must be used to cover workers' wages, energy, transportation and management costs.
 - The total income of Logitech's 450 sales persons in California is much higher than that for the 4,000 Chinese workers in Suzhou plant.

The other side of the rosy picture (3)

- The economy is driven by not only exports, but also by heavy investments.
- It is jokingly said that, in order to absorb the over-capacity of steel production, new steel plants have to be built.

The other side of the rosy picture (4)

- Remarkable economic achievements have been accompanied by rapid degrading of the environment.
- As the joke goes, by the mid-21st century, China might be the only super-power in the world, but everybody in China will die of air pollution, water pollution and other kinds of pollution before then

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The other side of the rosy picture (5)

- The economy is also energy-intensive.
- Energy consumption per unit of GDP in China is reported to be three times higher than that in the developed countries.
- This situation has led to increasing reliance on imports, causing concern over China's economic security.

The other side of the rosy picture (6)

- **The service sector accounts for 40% of GDP, around 20 percentage points lower than the countries at similar development level.**

What's to be done?

- For many years the Chinese leaders and scholars have been talking about the necessity of adjusting the patter of growth.
- The government policies regarding this adjustment can be summarized as:

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- To stimulate domestic demand;
 - To speed up agriculture modernization;
 - To improve infrastructures for energy, transportation, irrigation, information, etc.;
 - To upgrade technological level of the production process;
 - To encourage acquisition and merges so that the better enterprises can take over the “backward” ones;

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- To develop “new strategic industries” in such areas as energy, materials, environment, bio-medicine, IT, transportation, etc.;
 - To establish more world-renowned brand names;
 - To promote the development of the service sector;
 - To create a recycling (or circular) economy.

Challenges

- **Comparative advantage vs. adjusting the pattern of growth;**
- **Central government's policies vs. local interests;**
- **Maintaining social stability vs. closing down the enterprises with low-efficiency;**

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- **GDP first vs. sacrificing the environment;**
 - **Stimulating domestic demand vs. improving income distribution;**
 - **Use of high-tech vs. low quality of the labor force.**

How can the EU help China?

- ***Ten suggestions:***
- Transfer more high-tech to China (high-tech for market share);
- Guard against protectionism by refraining from using more anti-dumping practices;
- Make use of its comparative advantages in services, clean energy, environment, etc;

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- **Set up more R&D centers in China;**
 - **Make more investments in the service sectors;**
 - **Help China to stimulate its domestic demand by producing more products whose price, quality, design, etc., are more suitable for the Chinese consumers;**
 - **Encourage cooperation between the small- and medium-sized enterprises;**

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- Seize more opportunities in the western region;
 - Strengthen coordination and dialogues with China on climate changes and other global issues;
 - Undertake more social responsibility. (*In the link below some European companies in China were named for polluting the environment.*)
 - http://news.xinhuanet.com/newscenter/2007-08/18/content_6555587.htm
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Thank you.