

Session Title: Living with single digit growth

Keynote Speakers:

- **Fredrick CHIEN Fu** 钱复, Chairman, Cathay Charity Foundation, Taiwan
- **Victor CHU** 诸立力, Chairman, First Eastern Investment Group, Hong Kong SAR
- **Nicholas LARDY** 尼古拉斯·拉迪, Senior Fellow, Peterson Institute for International Economics, United States of America

Moderator: Claude Smadja, President, Smadja & Smadja, Switzerland

China must adapt to the changing global economic outlook and to single-digit growth while also finding balance between stability and development. These issues, prominent in international media, were the focus of the opening plenary session of the fourth Future China Global Forum 2013.

Both exports and capital investments contribute to domestic production and are greatly influenced by it. In 2010, domestic production accounted for 48% of the local economy; in 2011 this figure dropped by 10%. How can China's economy become sustainable and how can the country manage evolving expectations effectively?

Frederick Chien Fu, Chairman of Cathay Charity Foundation, stated that consistent double-digit growth would be a "*rare miracle*," and stressed that China's growth was at the expense of human development. Like Taiwan in the 1980s, China has encouraged cheap labor for the manufacture and export industries, generating huge reserves of foreign exchange. Such excess reserves are often recycled in the stock and housing markets. In Taiwan, this led to an economic bubble. To prevent this, China must minimize financial waste and concentrate on new priorities including urban redevelopment, infrastructure, new services and the environment.

What kind of structural reform is needed for these new governmental priorities? **Nicholas Lardy**, Senior Fellow at the Peterson Institute for International Economics, said that the high investment rates have negatively affected consumption, and that the Chinese government's approach to fiscal and financial reform has been determined by consumer demand and supply. Taiwan found renewed economic growth by focusing on domestic consumption, a lesson China could learn from. But as in Taiwan, such a shift would require a decade.



What are the likely governmental shifts and economic changes to be anticipated? How will these changes affect investment in China? **Victor Chu**, Chairman of First Eastern Investment Group, stressed that unexplored avenues for double-digit growth remain. The Chinese government needs to carefully explore privatization and urbanization, while utilizing new avenues for growth, including technology. The latter has great potential for business; for example, mobile applications offer new advertising and payment systems options. Chu also said that new avenues for development lie in increasing the number of low-cost carriers that will improve consumption.

However, there are challenges to pursuing these reforms. Disenchantment is growing among the Chinese population, and the educated youth are growing more vocal than ever. The government is aware of these frustrations. In this context, technology is a double-edged sword: it can help address the reasons for the younger population's discontent. Yet, it also empowers youth with the ability to challenge those in power. Disillusionment stems from issues related to social equity and equality: the Chinese people feel marginalized in their own country. The international community must step up and support government as it maneuvers through these changes during this new economic phase.

Lardy acknowledged the government's efforts to address the public's concerns. With improved social safety nets to meet an aging population and a shift from state-owned enterprises to private control, the Chinese government is emphasizing accountability and Western-benchmarking methods to remain competitive in the world economy. With new multi and bilateral agreements, including the recent free trade agreement with Switzerland, China has become more in-tune with a Westernized economic framework, and more marketable to other countries as a result.

However, with single-digit growth, how will China be able to tap into knowledge-based growth and keep on innovating? Chu stressed that research and development do not exist in isolation of a knowledge-based economy and that one of the challenges for the country remains recruiting experts and reforming the education sector. If China focuses on internal reform, it may miss the chance to be a key player in the design of the Trans-Pacific Partnership (TPP).

Energy exporters to China like Australia, Brazil and Chile will be most impacted by these economic changes and will need to adapt as China turns to a more environment-friendly form of economic development.

