

## Current Policy Options to Promote Economic Transition in China

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**Abstract:** From the perspective of economic development history for most countries, it is a common phenomenon that industrialization starts from extensive mode. Under the background of current new urbanization in China, economic transition faces more severe challenges from the population, resources, regional development and other aspects. How to rapidly shift from extensive mode to resource-saving mode is the urgent task of present economic works. Unfortunately, considering China's actual situation, it is unlikely to be achieved in the short term. Based on the analysis of difficulties and obstacles in economic transition, this paper puts forward strategy options to accelerate economic transition and reasonable suggestions on institutional innovation.

**Keywords:** New urbanization; Economic transition; Strategy options; Structural innovation; Resource saving

### INTRODUCTION

The traditional mode relying on massive government investment to drive economic growth, couldn't meet economic requirements any more. Long-term extensive mode at the high costs of resources consumption consistently lead to environmental deterioration. Because of the continuous rising price of raw materials and labor force, extensive mode is no longer able to produce enough economic impetus under the background of new urbanization. On the surface, economic transition only refers to the change from extensive mode to intensive mode. Actually, it has much deeper meaning, standing for the transition from high-investment, high-consumption, high-discharge and low-efficiency mode to low-investment, low-consumption, low-discharge and high-efficiency mode. This is known as resource-saving mode which regards environmental protection and resource saving as primary mission in the pursuit of economic development.

Foreign studies on economic transition about China is not too many. Charistopoulos and Tsionas pointed out that financial factors had the greatest impacts on economic growth after the unit root test and cointegration analysis of 10 countries' data, and they assumed that economic transition should be concentrated on financial reform [1]. Kjetil Storeslettern et al. analyzed China's economic transition problems in terms of high-output growth, internal distribution of manufacturing industry and abundant trade surplus[2]. At last, they concluded that unfounded enterprises had to achieve self-investment by high internal reserve.

Domestic researches are mainly qualitative studies. Wu suggested that China's economic growth at present

existed three main issues, namely low contributions of technical advancement, unbalance of investment and consumption needs as well as irrational industrial structure [3]. To realize fruitful transition, these problems should be paid close attention. Compared with Wu's study, Jin preferred to take notice of resource price [4]. Under current situation, he supposed that only thorough notion transformation and major initiatives could expedite economic transition. However, as the most effective measure to optimize resources allocation, the increase of resource price might turn to be a big obstacle for enterprise competition and low-income group. Moreover, local government would face more pressure coming from grassroots. Han believed that developing labor resources in rural areas could facilitate economic transition in current urbanization setting[5]. With the progress of non-agriculture industry as a starting point, rural labor could be partially absorbed and urban stresses could be alleviated at the same time.

Some scholars choose empirical analysis to precisely discuss economic transition problems. Based on the investigations of characteristics and actual conditions of China's economy, Li built up a series of index system and found out main factors, covering government behaviors, economic structure, stages and structure of economic development, which influenced economic transition after analytic hierarchy process [6]. Likewise, through the estimation of total factor productivity during 1979-2004, Guo concluded that economic transition didn't achieve remarkable performance and its principle constrains are low technical level as well as unreasonable resources allocation[7].

## **DIFFICULTIES AND OBSTACLES IN ECONOMIC TRANSITION**

Since the reform and opening up, economic growth mode has obtained the phrased achievements. But under the background of current new urbanization, economic transition faces more serious obstacles and calls for much more operation work. In-depth analysis of its constrains is beneficial to further guidance of practical operations as well as rapid transition of long-term extensive mode.

### **Population pressure**

Rural population is gradually swelling up along with the development of total population. Nevertheless, public data shows that average education period in rural areas only hits 6.5 years, equaling to primary graduation level. This severely restricts job options of labor force during the process of new urbanization. For this reason, low-quality and excessive labor force has no choice but stay in low-level industries which could easily form over-competition and employees would face vast obstacles in the transition to non-agriculture industry. Quality of rural labor directly influence not only job options in different industries, but also promotion of technological outcomes and agricultural productivity.

Population pressure also includes employment difficulties of labor force. Employment problem is more and more prominent in recent years. With the addition of imperfect social security system in China, plenty of unemployed workers couldn't get adequate relief to guarantee basic needs. As a consequence, this kind of group might give rise to social instability.

### **Transition of governmental functions**

Economic transition relies on the transition of governmental functions, referring that the technical investors would change from the government to enterprises. In a long run, technology input comes from fiscal expenditure of local governments. In consequence of its high risk and long return cycle, local governments prefer to invest in infrastructure construction, local enterprises and other similar areas which could speed up the development of local economy immediately.

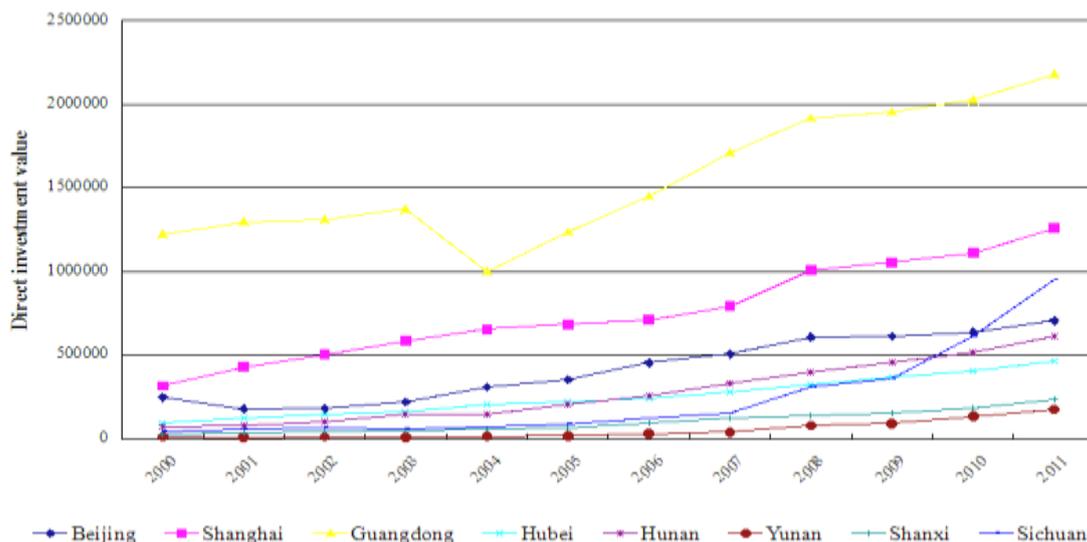
This is partial reasons that technology input is always insufficient and economic transition is lack of internal impetus. Due to the imperfection of external institutional mechanism, enterprises don't want to replace old commodities with high-quality ones by improving production technology but to reduce commodity prices. As it is, the transition of governmental functions is unlikely to be feasible in a short term. But in the process of economic transition, it is vital to find a way that could combine functions transition with enterprise reform for the sake of technological progress.

### **Uneven economic development**

Uneven economic development is mainly reflected in uneven regional development and uneven industrial development, referring to the giant economic gap between regions and industries [8].

#### *Uneven regional development*

Uneven regional development is the big obstacle of economic transition. During 2000-2011, direct investment value of each province keeps a rising tendency. But there exists obvious disparity between western and eastern provinces. Resources allocation still concentrates to eastern regions. As the rapid economic development, the disparity of growth rate is constantly expanding. The direct investment of coastal provinces, dominated by Guangzhou province, is apparently higher than central and western provinces and presents a high growth rate all the time. Compared with Guangdong, Yunan, Shanxi and other west-southern regions keep a flat state with a relatively low growth rate, even without big rise and fall in last 12 years. Direct investment gives a brief profile of economic potential in the region. Not hard to see, depending on superior geographic location and technical level, western areas successfully attract abundant foreign capital. By contrast, investment environment in central and western regions is still not intriguing enough. Limited foreign capital is not inadequate to elevate direct investment. Therefore, central and western regions are usually under-investment.



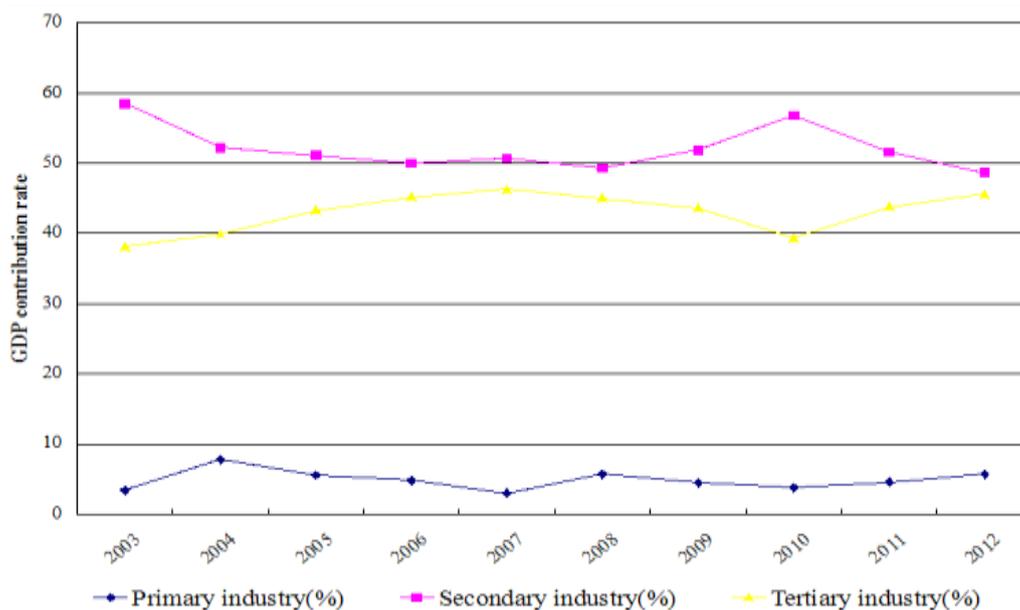
**Fig. 1 2000-2011 Direct investment value of 8 provinces**  
 Data resource: CNKI database <http://www.cnki.net/>

*Uneven industrial development*

GDP contribution rate of secondary industry constantly stays at the highest level and negatively relates with tertiary industry. In terms of primary industry, its contribution rate keeps the smallest on account of low productivity and slow agriculture modernization. Despite the government calls upon developing tertiary industry, the fixed structure of contribution rate doesn't alter a lot. At the moment, economic development still mainly depends on industry. Industrial departments, taking dominating responsibility of economic development, count on massive labor inputs in a very long time. In the last 10

years, pulling effects of industry is apparent. Thus, economic transition won't be short-term accomplishment. Extensive mode easily leads to environmental deterioration in the passionate pursuit of high GDP growth rate, which already becomes a big obstacle.

In a word, the transition of industrial departments actually has no time to delay. Relative government departments should actively promote upgrading of industrial structure and emphasizes on the development of tertiary industry to create new growth points.



**Fig. 2 2003-2012 GDP contribution rate of each industry**  
 Data resource: National Bureau of Statistics <http://www.stats.gov.cn/>

### Resource constraints and environmental pressure

It is widely acknowledged that China is short of arable land. What's worse, arable land keeps decreasing with the pushing on of industrialization. According to the data of the World Bank, arable land always stays at a low level on a global scale with a descending trend, far behind of the U.S.. With the aggravation of urbanization, arable land might keep diminishing and primary industry has to get rid of stronger shackles. Repeated inputs of production factors are incapable to meet the development requirements under new urbanization. Traditional agriculture must regard

improving productivity as main job to expedite structural adjustment of primary industry. In addition, environmental pressure covering environmental pollution and ecological unbalance, has become staple challenges and constraints which need to be paid close attention to release productive forces.

With the gradual decrease of natural resources, optimizing resources allocation is the only way to keep a long-term development without aggravating environment deterioration.

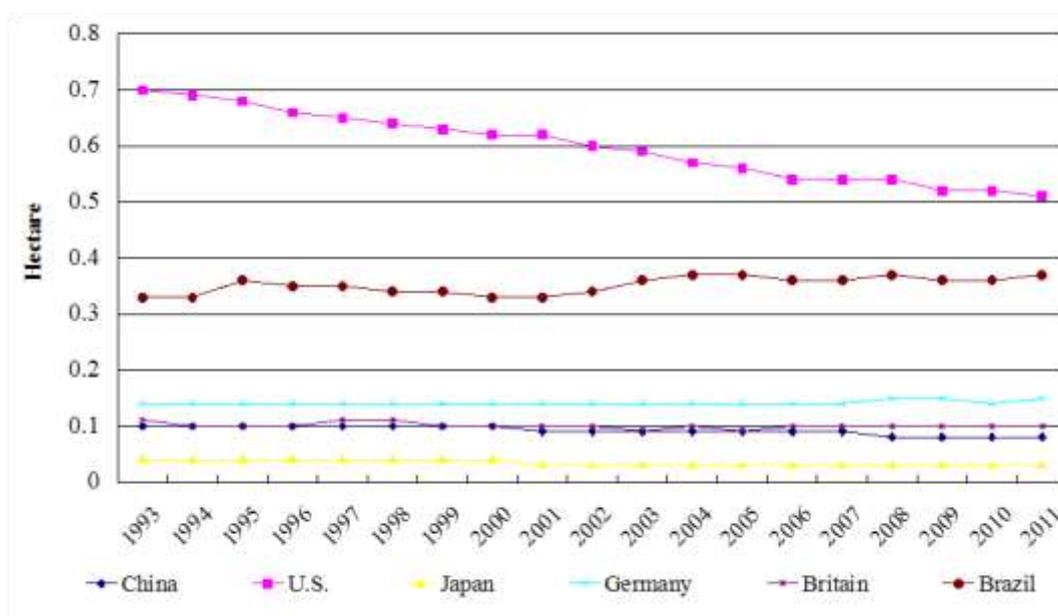


Fig. 3 1993-2011 Average arable land of each country

Data resource: The World Bank <http://data.worldbank.org/>

### STRATEGY CHOICES OF ECONOMIC TRANSITION

On account of difficulties and obstacles in the process of economic transition, how to effectively accelerate the transition needs sufficient and comprehensive strategic guidance.

#### Complementary strategy

Under the advantages of abundant materials supply, the resource prices in central and western regions basically maintain steady. At present, low productivity is the major problem which leads to unfruitful improvement of resource exploitation and processing. On account of inadequate capital input, backward production technology and low coverage rate of machinery production, comprehensive exploitation degree of resources still are not high enough that seriously restrains the further development of central and western regions. With regard to those areas, the promotion of economic transition should play emphasis on implementing supportive policies. By fiscal transfer payment of the government, production environment and allocation of production factors could be

ameliorated. At the same time, development gap with eastern regions would be efficiently narrowed down. With predominant geographic locations and favorable economic foundation, the transition in eastern regions has better conditions. The breakthrough lies in the adjustment of industrial structure and technological structure. Through the elevation of GDP contribution rate in high-technology areas, resources utilization could be correspondingly optimized. In the transition process, western and eastern regions could make the most of each one's advantages to achieve resources complementation and capital complementation at the same time. Maximum remedy of shortages could promote economic development in the regions with a better utilization of respective resources.

#### Strategy of capital input

Capital shortage is another obstacle restraining economic transition. In resource-saving mode, economic growth majorly depends on technology and productivity improvements that need heavily advanced technical equipment. All equipment renewals require massive capital inputs. In recent years, enterprises,

especially middle and small ones, have difficulties in loaning. Without enough capital support, development pattern of companies maintains the old extensive mode. Compared with continuous labor input, updating technological equipment and production technology means higher operating costs. This is partial reasons that companies are hard to achieve transition even under the active advocacy from the government [9].

Even though capital shortage couldn't be solved in a short term, utilization efficiency of capital can be improved very quickly. If input could ameliorate organic composition of capital and labor productivity, the capital input is regarded as intensive increase. If capital input are just repeated input of same factors, this is deemed as extensive increase which should be cut short. For large companies of strong competition, the former-type capital input should be increased to lay the foundation of technical improvement in the future and to realize structural transition as soon as possible. Because technical investment won't be returned in a short time, not all of the companies have capability to fulfill the investment by themselves. To overcome this kind of difficulty, enterprises should take full advantage of preferential policies to accumulate enough capital.

#### ***Strategy of institutional reform***

The key point of institutional reform is the transformation of governmental functions. For a long time, the government engages in direct and indirect control of prime economic resources and production factors as well as political interference in market along with company competition. To some degree, these actually twist resources allocation of market itself and cause excessive resources waste. Only the transition of governmental functions could prompt the transformation from government-dominant pattern to market-dominant pattern. Besides, the Green GDP, a new assessment system of government performance, doesn't only take GDP growth rate but also some environmental factors such as environment protection, resource saving into performance appraisal. By the change of evaluation system, growing environment problems could be relieved to some extent and accelerate the transition of governmental functions in the meanwhile [10].

#### **INSTITUTIONAL INNOVATION IN ECONOMIC TRANSITION**

Even under the guidance of reasonable strategies, the promotion of economic transition won't be successful without feasible policy suggestions for institutional innovation.

#### ***Full attention to structural adjustment and economic transition***

In order to smooth economic transition, structural adjustment and economic transition should constantly occupy important position in economic work. In the rising phrase of economic growth cycle, the government

would pay close attention to transform extensive mode. Otherwise, in the falling phrase of economic growth cycle, the government is more inclined to economy development rather than economic transition which would increase hidden danger of the transition in the rising phrase. To achieve fruitful performance, economic transition should be a long-term prior job whether in the rising or falling phrase. Indexes like resources consumption and pollution discharge should be taken into consideration of macro-economic operation system. Meanwhile, information system and social monitoring system should be consummated. What's more, government supervision and public supervision could form a integrated regime to make sure that the objectives of macro control and economic transition would be conform in the long run.

#### ***Expediting the transition of governmental functions***

In the current economic development of China, government-dominated management is still very prominent, and characterized by too much government intervention on the allocation of resources, government actually makes decisions on the allocation and usage of production factors such as land and mineral resources. This phenomenon is exactly a result of government's offside and also an important factor leading to the low efficiency in resource allocation as well as extensive economy in China. Thus, it is essential to accelerate the change of government functions from economic construction to public service. What's more, government behaviors must be optimized which should take macro-control, market supervision, social management and public service as priorities rather than direct intervention to economic operation. In practice, the primary goal is to straighten out various relationship in resources development and utilization and to clear resource ownership along with right of use.

#### ***Reform of resource management***

At first, the government should build up resource price system which could reflect scarcity of resources as well as supply and demand conditions in the market. It's a decisive step to strengthen pricing mechanism in monopolized industry and government regulation. Competition could be brought in electricity, gas, water and other monopolized sectors. For products whose price regulation can't loose, the government should take the major responsibility of cost supervision and properly adjust price according to the international fluctuation [11].

Reform of resource management means improving the paid-use system of natural resources to make sure that ownership interests of resources could be sufficiently realized. In addition, wasteful mining must be suppressed by charging mining fees according to mining yield and reserve amount. During this series of reform, economic leverage of finance and tax could help develop circular economy and elevate comprehensive utilization of resources.

**Developing modern service industry**

Expanding new areas of modern service industry is indispensable to expedite the adjustment of industrial structure. With a wide range, service industry, covering financial industry, tourist industry and so on, could easily and rapidly pull GDP up. Tertiary industry is generally valued by lots of countries. Under current background, the first step is to expand service outsourcing business of enterprises, institutional organizations and the government to improve marketization level of service industry in the whole society. Followed step is to promote the opening progress to improve quality of service. In addition, knowledge-intensive service industry could play a leading role in technical improvements which should obtain enough attention in government departments. Led by modern service industry, integrated development of service industry could produce new growth point of national economy.

**CONCLUSION**

Economic transition is a complex system engineering and also a long-term dynamic process. Due to the significance and complicity, economic transition demands a combination of multi-aspect measures.

In order to expedite rapid and effective transition, the government must attach great importance to structural adjustment and match the macro-control with the objectives of economic transition to create a good policy environment. At the same time, the government should gradually transform from dominant management to service-oriented management. Innovation ability of China's enterprises is the significant part of economic transition, which has to improve more or less through the technical investor changing from the government to companies. Factor price reform is the most efficient measure to accomplish resource saving. However, this requires cautious treatment on account that factor price could easily influence production and strike national economy. The adjustment of industrial structure is requisite to economic transition as well. Based on

industrialization, service industry should seize every opportunity to expand and create new growth point to quickly accelerate economic development.

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