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Session Summary (No. 37)

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March 23 , 2016

Session 23

A Conversation with Economists: Rethinking Growth Drivers

Time: 17:30-18:45 , March 24 , 2016

Venue: ICC , Level 1 , Dong Yu Grand Ballroom D

Moderator: HAI Wen , Vice President , Peking University ; Dean of Peking University HSBC Business School

Panelists:

- CHEN Zhiu , Professor of Finance , Yale School of Management
- Bibek DEBROY , Economist and Permanent Member , National Institution for Transforming India Aayog (Formerly the Planning Commission of India)
- Nicholas R. LARDY , Anthony M. Solomon Senior Fellow , Peterson , Institute for International Economics
- Justin LIN Yifu , Professor and Honorary Dean , National School of Development , Peking University ; Vice Chairman of the All-China Federation of Industry and Commerce
- Gabriela RAMOS , Chief of Staff and G20 Sherpa of the OECD
- Ajit RANADE , Senior President & Chief Economist , Aditya Birla Group ; Member , CII China Core Group

**Key points:**

- The “Tri-Engine” methodology and discussions on the reform on the supply side.
- Government intervention and market determination cannot be lumped together.
- Fluctuation in the Chinese stock market and the prevention of real estate bubbles.

Synopsis:

When analysing the macroeconomic trend, the government and the academic circles tend to apply the “Tri-Engine” methodology, which holds that the economic growth rate is determined by the demand intensity of consumption, investment and net export. Economist WU Jinglian thought that this methodology has a major flaw in that it applies the analysis on short-term demand to resolve the long-term problem of economic growth. The panellists held hot discussions on the “Tri-Engine” methodology and the reform on the supply side. The media on site also asked for the views of the experts with regard to the hot issues in the Chinese stock market and the real estate market.

Right and Wrong of the “Tri-Engine” Methodology

The “Tri-Engine” of consumption, investment and net export will pull economic development in China into a fast traffic lane. However, with respect to the current economic situation in China, the panellists expressed their views on whether the “Tri-Engine” methodology is still of guiding significance.

Justin LIN Yifu noted that the so-called economic growth, consumption growth and export growth were the same in the past and in the future. The slowdown of economic growth in China was largely due to the financial crisis that developed countries have been experiencing since 2008. These



countries have still yet to recover from the crisis and their growth demand is slow , which slows down the export growth in China.

CHEN Zhiwu held the view that the government should leave more space and time to the market. China depended too much on the “Tri-Engine” methodology in the past. The market and the government are both tools for realizing economic development , which should be properly used to realize economic stability. Economists should focus on how to improve the efficiency and effectiveness of government intervention and should not generalize government intervention.

Ajit RANADE noted that the economic base in China has seen tremendous growth as compared with that two decades ago. Therefore , the economic base of China should also be taken into consideration in discussions on the economic growth rate in China. Ajit RANADE also expressed his concerns about the government’s continuous provision of subsidies for State-owned Enterprises with deficit.

China’s Reform on the Supply Side

As to the reform on the supply **Side** , Justin LIN Yifu noted that we should focus on addressing the issue in “making up for shortcomings”, such as high-end manufacturing. On this basis , we should reduce the institutional cost of enterprises by means such as streamlining administration and delegating power to the lower levels. Economy will grow further ; inventory and excess production capacity and leverage ratio will be reduced as a result.

Bibek DEBROY noted that he understood the concept of the “supply side” from the perspective of necessary structural reforms. Against the backdrop of China’s national conditions, to implement the reform on the supply side , we should reduce government intervention. Government decisions should not become major drivers for consumption and investment.

Nicholas R. LARDY noted that how to more effectively distribute fund and resources is a problem that should be considered in reform on the supply side.



Compared with the reform on the supply side for “reducing and abating taxes” in the 1980’s in the United States, the current reform on the supply side in China is more comprehensive.

Gabriela RAMOS noted that the problem of overcapacity in traditional industries not only troubles China but also confronts the whole world. The government should play its due role in supervision. But the entrance and exit of enterprises in the market should not be the focus of government efforts. Meanwhile, the government should also focus on improving the quality of public investment and optimizing resource allocation.

Stock Market and Real Estate

After the panellists completed their discussions on the main issues in the session, reporters asked them about their views on the stock market and real estate market in China.

CHEN Zhi Wu thought that a fundamental challenge confronting China is to develop a reliable capital market with depth. Meanwhile, he expressed his worries about the real estate bubbles in China.

Justin LIN Yifu thought that the early development in the stock market of any country was full of fluctuations, and that we should tolerate such fluctuation and maintain the healthy development of the stock market by improving regulation and enhancing transparency. As far as the real estate market is concerned, we should support the development of real estate on one hand and prevent speculative house purchasing and the emergence of real estate bubbles.