

Webinar #1, 5th April 2024: Economic transition and industrial upgrading

“Building the so-called ‘modern industrial system’ is always rated number one under the title of ‘high quality development’”

This text is transcribed from a webinar hosted by CMG on 5th April and edited for clarity and brevity

Markus / CMG: Good morning in Europe, good afternoon in Asia and in China. A very warm welcome to the third edition of the “Staying in Dialogue with China” webinar series.

It is our great pleasure to host you today for the discussion of economic transition and industrial upgrading with Professor Wang Yong. For this year's webinar series, we chose the concept of structuring the webinars along six structural transitions, which are inspired by the academic work of Professor Wang. So, I will shortly also kick off the discussion by asking him to first introduce the structural transitions.

Today's webinar focuses on economic transition and industrial upgrading. Further, we will discuss market-oriented reforms and market governance, economic security, social rebalancing, economic globalization, and the domestic demand system in the subsequent webinars of this series. This is also CMG's political economy framework which you can find on our website.

We are very thankful to all the partners that are collaborating with us on this webinar series.

I want to briefly draw your attention to a short opinion piece that Alicia Garcia Herrero, a leading European economist and specialist on China's economy, has published with CMG in advance of the webinar. I will read her core tenet, she writes: “China's model of economic transition and industrial upgrading, putting strong emphasis on supply-side policies and ‘new quality productive forces’ at the expense of the demand side, will face headwinds in the form of protectionism as this will lead to overcapacities and trade frictions and is therefore an inherent contradiction.”

In terms of webinar logistics, we will have about 45 minutes with Professor Wang Yong. I will leave time for about 15 minutes of Q&A. You may have heard that we are recording the session, but this is recorded not for publication, but for a transcript. We will send out the authorized transcript via Zoom account to all participants.

Now let me introduce Professor Wang. He is the Associate Professor of Economics and the Academic Deputy Dean and Director of Domestic Development Corporation Department of the Institute of New Structural Economics at Peking University (PKU). Before PKU, he worked at Hong Kong University of Science and Technology, HKUST, and at the World Bank. He obtained his PhD in economics from the University of Chicago.

I specifically asked Wang Yong about his policy advisory experience, and he shared with me that about 70% of the policy discussions on economic planning and industrial upgrading that he is involved in are on the central government level and 30% with local government, especially with Ningbo and Shaoxing.

He is actually physically right now in Ningbo, so he will be speaking from a local government municipality that he has been interacting with closely. Also, as a last point I want to mention, Professor Wang Yong has very recently published a book on the topic of “new quality productive forces”. I know there is a lot of attention on this new concept that became prominent at the NPC, so I will make sure a question on this is raised to Wang Yong.

Having done this introduction, I would like to raise the first question and then hand over to you. My first question is very general. You have seen that we have these six structural transitions, and you have done extensive academic work on them. So, can I ask you to introduce this concept? And then also, to what extent are structural transitions policy-steered, or are they simply “economic phenomena” that we need to factor in when trying to understand the Chinese economy?

Wang Yong: Thank you, Markus. It is my great pleasure to have this opportunity to share my views with you. Yes, in my academic work, I mentioned that China is experiencing these structural transitions. I am very glad that you expanded them to six. I typically mention just four. In my view, China is simultaneously experiencing four structural transitions. The first is economic transformation and industrial upgrading.

As GDP per capita increases, the share of agriculture in total GDP declines and the share of industry, particularly manufacturing, rises in the form of a hump shape, first increasing and then declining with the service share increasing – this is at the level of the three economic sectors. If you look at it in more detail within each of these three sectors, you also see a transition from labor intensive to more capital-intensive technologies, products and services, which is industrial upgrading. So, this is the first structural transition.

The second one that China is experiencing is the institutional transition from a centrally planned to a market-oriented economy. China has adopted a dual track approach that is still ongoing. The third transition that China is experiencing is globalization. This has three cross-border flows: first, the flow of commodities and services, the second is capital flows, and the third is ideas flows, mainly technology. The fourth transition is about geopolitics and China's rise from a weak state to a stronger and more powerful actor on the global stage.

So, if you look at human history, China is perhaps the first and only large economy that experiences all these transitions simultaneously. I am glad to see that you add the domestic demand system and put more structure into it. In my view, to understand the policies or economic structures for China, we have to consider all these transitions together to figure out a complete picture of what is going on in China.

Markus / CMG: Thank you, Yong. We are also here to debate our framework, which, as I said, was inspired by you. We added ‘social rebalancing and market governance’ and also ‘economic security’ that we will also discuss with some of your colleagues in dedicated webinars.

Now, a quick follow-up, because when you say structural transition, it sounds passive, but my question is, to what extent are these reforms? Is this actually about policy steering?

Wang Yong: Well, if you think about China's economic transition, China is compelled to move in that direction so long as the economy continues growing. Economic growth requires the first three transitions to move forward, and the fourth transitions is basically the consequence of economic growth. In that sense, it is indeed a little passive. But at the same time, the government still needs to play an important role in all these transitions to deal with the key policy bottlenecks. So, I think it is not just 100% policy oriented. I think it is both a picture of the economic reality and also, for some part, the policy going in that direction. Using the terms of new structural economics, we need both an efficient market and a facilitating state.

Markus / CMG: You also emphasize that China is the largest economy that is facing these four structural transitions simultaneously. Can you talk about the complexity from a policymaker perspective, or whether there are trade-offs involved in actually managing or at least guiding these structural transitions?

Wang Yong: Yes, a case in point is industrial policy. If we think about the second transition, which I refer to as the institutional transition from a centrally planned to a market-oriented economy, China needs to weaken the role of the government. But China is also in the fourth transition, the complicated geopolitical environment. When you talk about industries that are related to economic or national security, solely relying on the market is not enough. You also need to think about the active role of the government, including, for example, how to respond to foreign technology containment policies. Therefore, you need to balance the role of state and market when formulating effective industrial policies.

The appropriate boundary between state and market is likely to be different across different industries, across different regions, and over time. China is a large country with all kinds of industries and with tremendous heterogeneity across regions. China is also one of the fastest growing economies in the world. As a result, it is always very complicated for policymakers to figure out what the most suitable policy is. There is no one-size-fits-all solution. This is true not only for industrial policies, but also for almost all other policies. It is the simultaneity of the structural transitions and the super-large scale that really make China unique.

Markus / CMG: So, if you put the emphasis again on the complexity of having these different policies, not just industrial policies, what is the platform inside the China's state bureaucracy to coordinate all of that? Is this the State Council, or the NDRC? Who is able to provide the horizontal alignment on how to manage trade-offs?

Wang Yong: It is quite complicated. The NDRC is part of the State Council. In terms of formulating the overall strategies of policy coordination, I think the NDRC plays a major role at the national level, and local DRCs play a major role at the subnational level. Let me add that there are five new development concepts: innovation, coordination, green, openness and sharing. Policymakers now also highlight the ‘balance between development and security’. So, actually, there are six important concepts. As I understand, the NDRC does not touch national defense, which is under the purview of the Ministry of National Defense under the State Council, so eventually the State Council is the more comprehensive platform at the national level. Ultimately, I think that it is still the Party that assumes the most decisive and fundamental role.

Markus / CMG: You already raised industrial policy. That is a topic I want to come back to because you follow the topic both academically and in practice, including how they evolve over time and what outcomes they achieve.

Now, I want to add another general question. I have heard you speaking in multiple instances and you speak very differently on China's economy, or let's say political economy, than many economists who pay attention mostly to cyclical factors. Having had the NPC just last month, how do you look at the state of China's economy today? Where do you see key pain points, challenges or opportunities by applying your lens of structural transitions?

Wang Yong: I think China now faces many new and important challenges as it reaches today's stage of development. China has not yet escaped the middle-income trap, although it is highly likely to escape it. As a middle-income country, China is “sandwiched” by high-income countries, which are more innovative, and low-income countries, which are more abundant of cheap labor and land. China has to work well on both fronts to avoid the hollowing out of its industry. At the same time, China is technologically very unbalanced across sectors. Some sectors actually are at the global technology frontier, but most of the sectors still lag behind quite far.

This heterogeneity makes policymaking very complicated. For example, how to protect intellectual property rights effectively when imitations are more important than innovations in certain sectors? How to transition from an investment-based mode of growth to an innovation-based mode? And how to reduce regional inequality when sectors and technologies are so drastically different across regions?

Another important issue is that China in terms GDP per capita is still quite low. I think it is less than 20% of the US level, but on aggregate, the whole economy is the second largest economy in the world. So, it faces extra geopolitical challenges in its economic growth process such as foreign technology containment policies. It would not have these troubles if China were a small economy like Singapore. Globalization, the third structural transition I mentioned earlier, is now encountering adverse forces: trade flows, capital flows and idea flows are all politically contained. All these domestic and international issues make China's growth a more challenging task.

Markus / CMG: If you look across some of the factors that people are paying attention to, including the real estate sector or local government debt, would you say this is just part of structural transitions and will be resolved? How optimistic are you at this point? And what are the levers to get the necessary cyclical performance back on track?

Wang Yong: I think one complicated thing about China's economy is that the cycles and the trends are mixed together along the structural transitions. The real estate sector flourishes naturally as the result of the first structural transition, that is, industrialization expedites urbanization, especially as China grows so fast. Globalization, the third structural transition, facilitates industrialization and urbanization, further boosting the boom of the real estate sector, which is a non-tradable sector. The second structural transition, namely, market-oriented reforms, also plays an important role. Factor markets including the labor market, capital market and land market are not fully integrated domestically and the allocation of some factors is not thoroughly determined by pure market forces. Urban land is owned by the state, so local governments have high incentives to develop the real estate sector as it brings huge revenues of rents.

The recent drastic decline of the real estate sector is largely due to tight government regulations that aim to boost the real manufacturing sector and prevent premature de-industrialization. To reduce the systemic financial risk behind the seeming housing bubble is another important justification for the harsh government regulations. As you see, the fluctuation of the real estate sector in China is more of a structural than a merely cyclical issue as most Westerners think. The same is true for the local government debt problem. So, I believe that these issues are deeply rooted in the structural transitions. Meanwhile, I also believe that they will be resolved.

Overall, I am still quite optimistic about China's economic future. The most important reason is that China's aggregate productivity level is still quite low. So, there is still a lot of room for China to reduce resource misallocation to obtain further growth. As you mentioned, China experiences a lot of problems, debt and so on. Some are symptoms of underlying structural inconsistencies, that's why China needs institutional reforms to make the policies more consistent with the state of the economy. The policy priority for the government today, as I see it, should be still to increase GDP. Only by doing so will China be able to carry forward market-oriented reforms to reduce misallocations and distortions. The economy will get back to the normal track.

Markus / CMG: We have now spoken generally about structural transitions. Now let us enter into the one that we are focusing on today. We talk about economic transition and industrial upgrading. If we zoom in a little bit on industrial upgrading, can you speak about what you think are the ultimate goals of industrial upgrading? We realize that the Chinese government, also from the 14th Five-Year Plan, puts a strong focus on the real economy and manufacturing. How would you characterize goals, state of industrial upgrading and key challenges?

Wang Yong: In theory, industrial upgrading is the key backbone of aggregate economic growth. In practice, the Chinese central government indeed makes it very clear that industrial upgrading is the most important part for what they call “high quality development”. If you read central government policy documents, building the so-called “modern industrial system” is always rated number one under the title of “high quality development”. In other words, the ultimate goal of industrial upgrading is to achieve high-quality development. This is something I want to highlight.

Also, under what they call the “new quality productive forces”, the central government mentioned explicitly that they have to build on the deepening of industrial transformation and upgrading. So, if you put all this together, the Chinese government makes it very clear that industrial upgrading and structural transformation plays the key role.

And let me add that in standard economic theory, when we talk about structural transformation, the share of industry eventually declines as the economy moves to the middle-income status. When you move from middle-income to high-income status, the economy experiences de-industrialization and the service share will increase. So, it is also about how to prevent premature de-industrialization. I think the Chinese government sent a very, very clear and strong signal to maintain a sufficiently high share of manufacturing, because a strong manufacturing basis is not only important for technological innovations but also crucial for the resilience of supply chains.

Markus / CMG: Professor Wang, I think you brought us now to a very interesting point, because you mentioned the “modern industrial system”, one of six pillars of the Dual Circulation, has been introduced with the 14th Five-Year Plan and is relatively more important. And then you mentioned the fact that from middle- to high-income countries the share of services would grow. Today's discussion is actually both on economic transition and industrial upgrading. So, if China's economic transition is towards services, but industrial upgrading is the overriding priority, isn't that conflicting? And second, why do Chinese policymakers choose this path of not only retaining industrialization, but fully betting on a modern industrial system?

Wang Yong: Let me take the second question first. Why does the Chinese government now pay so much attention to maintaining the manufacturing share? Because it saw the problems that occurred in the US and in some other countries like Japan. If a country, in particular a large one, experiences too rapid de-industrialization or the service share is very large while the manufacturing base becomes weak, that creates problems.

First, when you are facing, say, a crisis like the COVID-19 public health crisis, then, like in the US during COVID-19, it is difficult to even produce masks in a short time, because all this manufacturing had been outsourced. So, even though it is not really high-tech, it is still simply “outside” of your economy. So, domestic production cannot meet the urgent demand. That is one thing.

And the second, if the manufacturing base is moving abroad, then that will also impact the security of supply chains. So, when you are facing geopolitical challenges, it would be better if you still have control and thus keep an important share of the manufacturing base domestically.

And third, if you look at technological progress, you will find that if you do not have a sufficiently large manufacturing base in your domestic economy, then technological progress slows down. Progress moves much faster if you have a manufacturing base within your country. So, putting all these factors together, I think it makes sense for the Chinese government to emphasize maintaining a leading role in manufacturing.

Now let's come to your first question. The fact that the share of services will increase does not conflict with the policy goal of industrial upgrading. Upgrading manufacturing requires more production services, and when people become richer, service consumption as share of their consumption expenditure will rise – this is called Engel's Law in economics. What government wants to prevent, as said, is “premature” de-industrialization. For example, the housing bubble hurts incentives of entrepreneurs to invest in manufacturing. There is a lot of potential for China to upgrade its industries, but it requires very hard work. How to incentivize entrepreneurs to continue working on manufacturing is difficult, especially when it shifts from imitation to innovation.

Markus / CMG: Thank you for these clear considerations. I would like to approach it from an angle that reflects this also in a global trading system considering overcapacities. So, given the security considerations you mentioned, have risk perception and assessment of economic globalization by China's leaders turned so pessimistic that building the “modern industrial system” has become an overriding priority?

Wang Yong: This is a very good question. I think it is different between a small country and a large country. For a large country like China, as GDP per capita or total GDP grows, the domestic market is naturally going to increase its share. This is also true for the United States. If you look at exports in percent of total GDP in the US, it is also relatively small. This is different from a small country like Singapore.

Second are economic relations with the world, the international market. As I said, for China, this is still very, very important. I believe even the central government made it very clear it is not purposefully reducing international trade in order to make the domestic market share larger. The government always emphasizes that China should do both, expanding the international market and boosting domestic demand. Still, for a large country, as long as it is growing, the domestic market share is going to rise. But this also means that in China policymakers have to kick-off the process to activate domestic demand to absorb some of the new capacity.

Third, and this is what you are getting at, is what I call the fourth structural crisis, or geopolitical challenges. Due to trade frictions and an anti-globalization trend, China's policymakers want to strengthen domestic demand and even officially emphasize the need to rely more on the domestic market. So, it is not about deliberately decreasing the importance of the external market. This is more a result of above trends and so they have to, as a response, adjust to both these domestic and external changes.

Markus / CMG: Is there a risk that the current primary policy focus on manufacturing and industrial upgrading will hamper the strengthening of the consumption-side policies? Because, as you mentioned, there are trade-offs built in all these discussions. Where do you allocate your limited fiscal resources, to social welfare or industrial policy? How do you see that interrelationship right now?

Wang Yong: Yes, as you rightly point out, in the past, China focused on producing and let the world economy deal with the demand. But now, as China is developing, its production capacity expands rapidly. And, also due to the new trade frictions, external demand is weakening. In fact, I think the whole global demand has been weakening after the 2008 global financial crisis. It hasn't fully recovered yet, after so many years. So, it is reflected by the quite low GDP growth rate of the whole world. Against this backdrop, China has to figure out how to balance the domestic supply in view of the international aggregate demand. In this process, a lot of hard reforms have to be conducted and policies to be adjusted. I think the Chinese government makes it explicit that boosting domestic demand in the short term is the highest priority. But it is not just a short-term thing.

Over the long run, China still needs to figure out how to activate the whole demand. And I think some policies are already in action, including how to reduce the severe income inequality, because the demand structure for rich and poor people are very different. To boost aggregate demand, you have to ensure that the demand or the consumption structure captures the whole society. Otherwise, poor people only consume necessary goods and rich people only high-quality goods, mostly imported ones. Then, where does the demand for domestically produced medium-quality goods come from? China experiences this situation. Many policies try to work towards boosting both domestic consumption and domestic investment. I think this is a long-term question for China.

Markus / CMG: Thank you for laying it out clearly. Briefly on income inequality, we will discuss this topic as a dedicated webinar with Professor Li Shi from the Institute for Common Prosperity at Zhejiang University. I would like to bring in another question from a participant who zooms in on industrial policy and asks that if it is so

important to build a “modern industrial system”, what is the role of SOEs? And, what are the criteria or the right reform preferences by Chinese policymakers to keep them relevant in for China’s industrial upgrading?

Wang Yong: That is an excellent question. I have done research on SOEs and I have been demonstrating that China has a vertical structure. If you look at China’s economic structure, some key upstream industries like telecommunications, energy or raw materials are monopolized by SOEs. While downstream, consumption services or consumption commodities for daily use are mainly produced by competitive private firms. So, SOEs and non-SOEs are not evenly distributed across sectors. They are asymmetrically allocated along the supply chain. And most exports come from the private sector downstream.

But now, facing the issue of economic security, say in computer chips, China wants to have its own supply. So, SOEs now play a more important role than before in guaranteeing these supply needs. It is really SOEs that are moving faster in investing in strategically important sectors and in particular those sectors that face technology containment by Western countries.

So, compared with the period when China did not face these geopolitical challenges, SOEs now play a more important role. It is not just a matter of national but also of economic security. But this also poses challenges when China is moving toward a more innovation-based growth model. And innovation really needs deregulation, really needs the market to play a more important role. So, in balancing innovation with economic and national security, there are always tensions. And that really makes China’s SOE reforms and how to balance SOEs and the private sector an even more challenging problem than say 15 years ago.

Markus / CMG: *Another question I am receiving is about total factor productivity, TFP. What are the obstacles that technological resources are not diffusing into the Chinese economy and thereby instilling more productivity gains in breadth, beyond the leading companies?*

Wang Yong: TFP is determined by two things: One is technological progress. So, if you have better technology for the same inputs, you can produce more, which raises TFP. The second source of TFP is about allocation. Here, even if the technology remains the same, if you can reduce the factor allocation distortions and for instance reallocate capital from a low to a high efficiency sector that as generates a higher output on aggregate, you raise your TFP. For China to improve the TFP, these two ways exist.

And when I mentioned China’s simultaneous structural transitions, the second transition is the institutional transition from a centrally planned to a market-oriented economy. This transition aims to reduce misallocation and the inefficiency of central planning. And that is an important transition to improve TFP. At the same time, China still needs to advance its technology, adopt, develop better technology and so forth. So, for China, as a large transition economy and the largest developing country, to increase its TFP, both technology innovation and reforms are important. By reforms, I mean to reduce resource misallocation.

You asked what obstacles China faces when boosting its TFP. Well, your question can be further divided into two: obstacles of technology improvement and obstacles of resource allocation efficiency. China needs a more effective innovation system as it departs from the traditional imitation-based growth mode. China also needs all kinds of market-oriented reforms, such as domestic integration of factor markets, SOE reforms, and intellectual property rights protections to boost allocation efficiency.

Markus / CMG: *We will dedicate an entire webinar with Professor Lu Feng, one of your colleagues at PKU, to the discussion of allocation of factors of production and how the market should play an increasingly “decisive” role. I*

want to move to the topic on which you just published a book, on “new quality productive forces”. The question I am getting is, broadly paraphrased, what is the government doing and why this concept?

Wang Yong: I think the “new quality productive forces” is the key term in China's policymaking and academia now. President Xi Jinping coined the term last September. If you look at the new concept, it makes it very clear that today's focus is more on disruptive innovation. So, first and the most important idea behind it is still that innovation is important, not just the incremental innovation, but how to make China more capable of producing disruptive innovation. This is a very different from the past because in the past, China mainly relied on imitation and gradual technological improvement. Now, China, at least the central government, hopes to gain the ability for disruptive innovations in new areas and new fields.

Second, the policy makes it explicit that TFP is how we measure the “new quality productive forces”. So, in that regard, both technology and how to improve the resource misallocations, again, play an important role.

And third, Xi Jinping explicitly mentioned that another important aspect of the “new quality productive forces” is to deepen industrial upgrading. In other words, this concept is not obscure, it is about industrial upgrading. It is very concrete. While it is still more about the supply side, the “new quality productive forces” are consistent with the new development concepts I mentioned earlier. And because China's GDP per capita is increasing, the consumption demand also shifts in that way. Consumers want more green products and higher quality products.

In terms of the requirements for “new quality productive forces”, I believe Xi Jinping has the demand side in his mind, although the concept is more framed about production. It is about producing things that are desirable to people at affordable price levels. So, it focuses on both the demand and the supply side.

Markus / CMG: *How does industrial policymaking differ by type of sector from a government perspective in terms of instruments that are being deployed?*

Wang Yong: This is an excellent question. The government also tries to figure out exactly how, but generally for traditional sectors it can be divided into two categories. One is traditional sectors that are already at the global frontier. For example, in China, the textile industry and home appliances. These sectors are already at the frontier, and to further upgrade, they need to do in-house R&D to raise productivity.

The second category are traditional technologies that lag the global frontier. For those sectors, industrial policy emphasizes the need to adopt better technologies by attracting foreign investment, by inviting foreign experts to help shorten the technology gap and also to improve the allocation efficiency and thus have a higher TFP.

For the strategic emerging sectors, these are technologies that really determine the potential aggregate GDP growth rate for the next decade or so. So, they are new and have not reached their peak yet. A lot of effort is undertaken to facilitate growth of those sectors. And since they are still emerging, tech advances play a more important role. That is exactly mentioned in the policy about the “new quality productive forces”. It is about how to improve the institutional arrangement of education, talents and science. It is also about how to attract global talents and how to develop your own talents through education, this is the basis for strategic emerging sectors.

For future sectors, technology is even less mature. It is just at the beginning, but we see that it will become a strategic emerging sector someday. Actually, many countries are taking serious steps to support and incubate future sectors. China as a large country also finds it imperative to make preparations ahead of time, including for instance on how to support R&D in those technologies and how to innovate the education system to have more talents prepared, and how to cultivate institutions to help incubate those sectors. They have to think long-term.

Markus / CMG: Thank you. Leveraging on the fact that you are in Ningbo. Can you give one concrete example of a policy conversation that you are observing or advising in a local municipality?

Wang Yong: Sure. Ningbo is an interesting city because it is one of the first model cities for ‘Made in China 2025’ because of its large manufacturing base. And Mr. Zheng Shanjie, the current Director of NDRC, used to be the Party Secretary of Ningbo. And when he was Party Secretary here, he had a policy called “two, four, six”, which means that Ningbo needs to have two industry clusters that reach each one trillion RMB, four clusters that each reach the scale of 500 billion, plus six clusters with the scale of 100 billion.

The two leading sectors in Ningbo are petroleum refining and car manufacturing. So, Ningbo City really wants to build strong manufacturing industrial clusters. I think Ningbo is still moving in that direction and they are making progress. Ningbo is also in the Yangtze Delta region, one of the richest areas in China. It is the national strategy to expedite the market integration of the Yangtze River Delta region. This region includes cities like Shanghai, Hangzhou, Suzhou, Nanjing and other major cities. They all have a very clear industrial vision. Central government hopes this region can be better integrated so that it will be able to become an even larger industrial base.

Markus / CMG: An interesting example, and I can see the “portfolio thinking” in terms of having different sectors at different life-cycle stage while being clear in needing all of them. I want you to close on a foreign business lens. What is the role of foreign business in all of this?

Wang Yong: If you look at what China's government is doing, the current administration clearly welcomes foreign business. You can see that, particularly since Mr. Li Qiang has become Prime Minister, the State Council has been issuing a series of new policies, trying to attract foreign investment and foreign business. And China needs more capital investment, but more importantly it needs better technologies, and not just scientific “hard” technologies, but also in terms of management capacity and business model innovation. China does not want to be decoupled. China wants to be more integrated into the world system.

So, the Chinese government now realizes that in the past few years, the foreign business has not really been coming anymore. They know that something is wrong. So, we do see local governments trying very hard to attract foreign business. And so, I see China's policy strategy is still about trying to be part of the global community, to maintain good relationships. I think the signal is very, very clear.

But how to convince foreign business that China's market is a desirable place to do business in? I think a lot needs to be done, but I firmly believe that it is in China's own interests to have foreign business working in China and maintain partnering with China. Otherwise, I don't think China can sustainably upgrade its industry. I simply don't think it is possible and I believe the central government also thinks this way.

Markus / CMG: This is a strong closing word, Professor Wang, I know you typically stand in classrooms in-person with students and colleagues and debate. Thank you very much for joining our webinar format. This has been a very interesting conversation. Thank you very much for taking the time and I wish you a good weekend in Ningbo.

Wang Yong: Thank you very much, Markus.

For reference: CMG’s political economy framework: six structural transitions

Political economy: China’s pursuit of ‘high quality development’ taking place amid six structural transitions

Key structural transitions	Key policy goals	Key issues	Key policies
Economic transition and industrial upgrading	<ul style="list-style-type: none"> Transition to innovation-based economy Climb industrial value chain Digitalization and decarbonization 	<ul style="list-style-type: none"> Service sector contribution to GDP low Manufacturing struggling at mid-end products, low industrial value-added 	<ul style="list-style-type: none"> <i>Made-in-China 2025</i> <i>Opinions on High-quality Development of Service Industry 2019</i> 14th FYP 2021 Ch. 8, 10.
Market-oriented reforms	<ul style="list-style-type: none"> Institutional transition Factor of production liberalization SOE reform and “SSSR” 	<ul style="list-style-type: none"> Low TFP Lower efficiency of state capital Monopolies and overcapacity 	<ul style="list-style-type: none"> <i>Building Market-Oriented System for Allocation of Factors 2020</i> 14th FYP 2021 Ch. 19-22.
Economic globalization	<ul style="list-style-type: none"> Integration into global flow of goods, services, capital, talent and ideas Continued opening-up 	<ul style="list-style-type: none"> Comparatively weak trade of service Comparatively low outbound FDI stock Geopolitics and decoupling policies 	<ul style="list-style-type: none"> 14th FYP 2021 Ch. 40 <i>Opinion on Increasing Efforts to Attract Foreign Investment 2023</i>
“Domestic demand system”	<ul style="list-style-type: none"> Consumption-boosting policies Business environment policy Rebalancing of public investments 	<ul style="list-style-type: none"> Low consumption share to GDP Demographic shift to aging population Imperfect social security system 	<ul style="list-style-type: none"> 14th FYP 2021 Ch. 12-14. <i>Strategic Plan for Fully Expanding Domestic Demand 2022</i>
Social rebalancing and market governance	<ul style="list-style-type: none"> Equality and poverty reduction Social fairness and protection Balanced regional development 	<ul style="list-style-type: none"> Inequality: top 1% holds 30% of wealth Vulnerability of social groups (e.g. youth) “Disorderly expansion of capital” 	<ul style="list-style-type: none"> 14th FYP 2021 Ch. 23-32.
Economic security	<ul style="list-style-type: none"> “Coordinate development and security” 	<ul style="list-style-type: none"> Import dependencies and perceived supply chain risks China’s weaker geoeconomic power 	<ul style="list-style-type: none"> 14th FYP 2021 Ch. 41-42, 52-53

Longer-term transitions

Trade-off / rebalancing processes



China moved from linear economic development model of reform and opening up under Deng to dealing with strategic trade-offs