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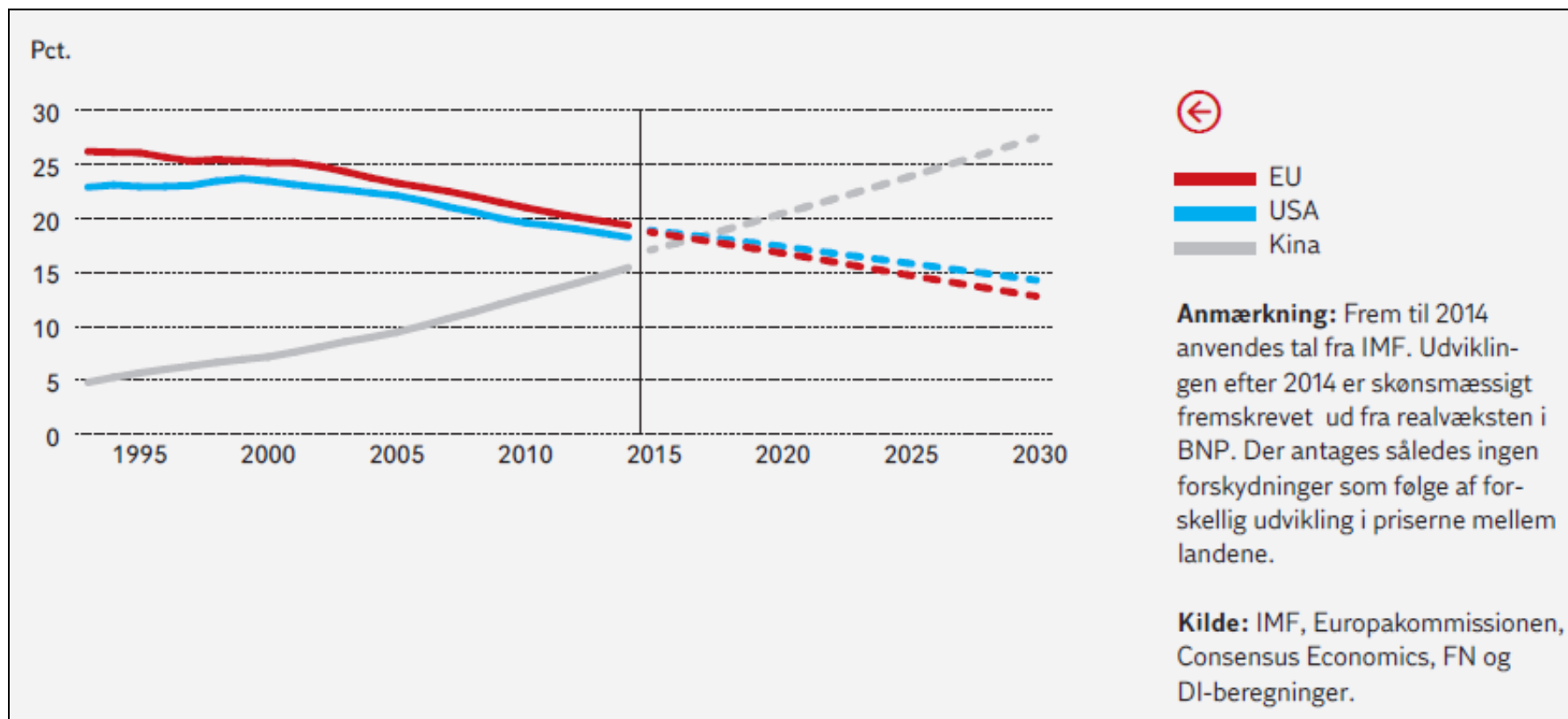


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# China's Economic Development: Challenges Ahead

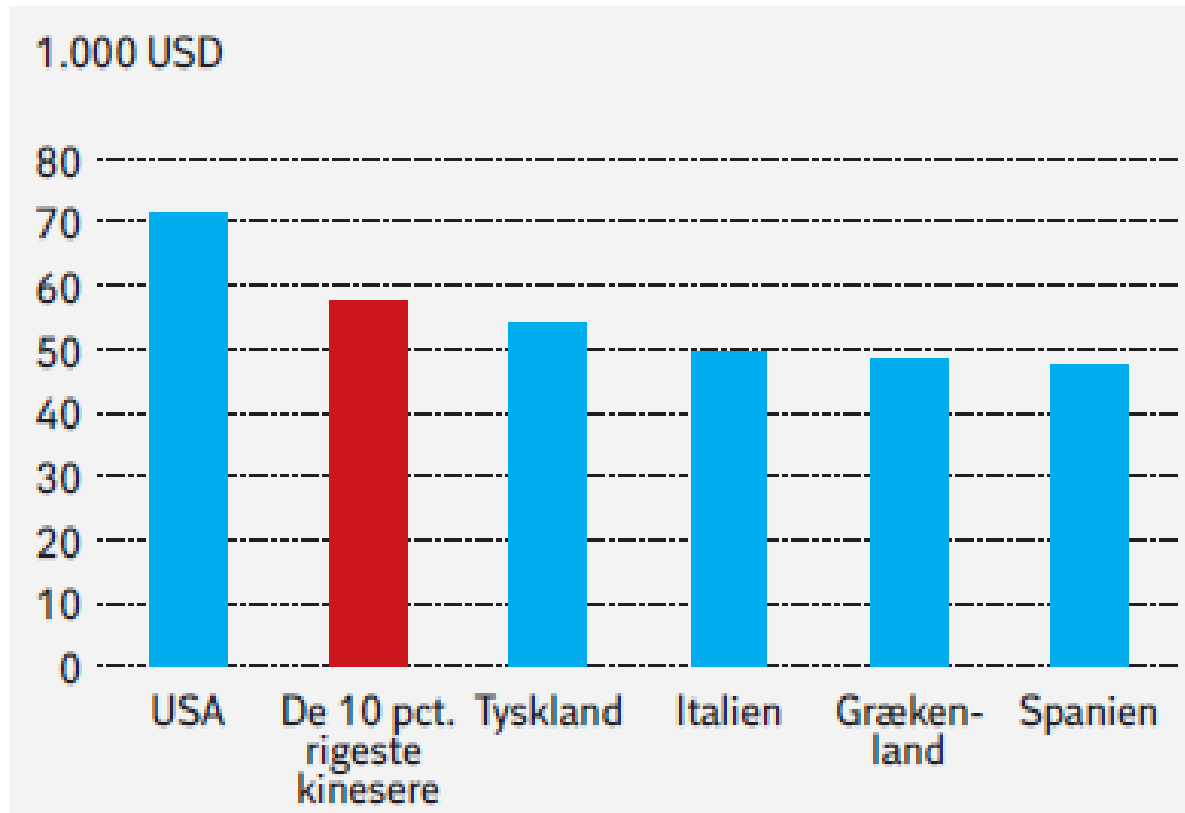
**Nis Høyrup Christensen, MSc (political Science)**  
**Ph.D. Fellow, Copenhagen Business School**  
**Former Advisor on Chinese Affairs, DI**

# China's increasing share of the world economy



# Huge Chinese purchasing power

## GDP per capita in 2030 (USD)





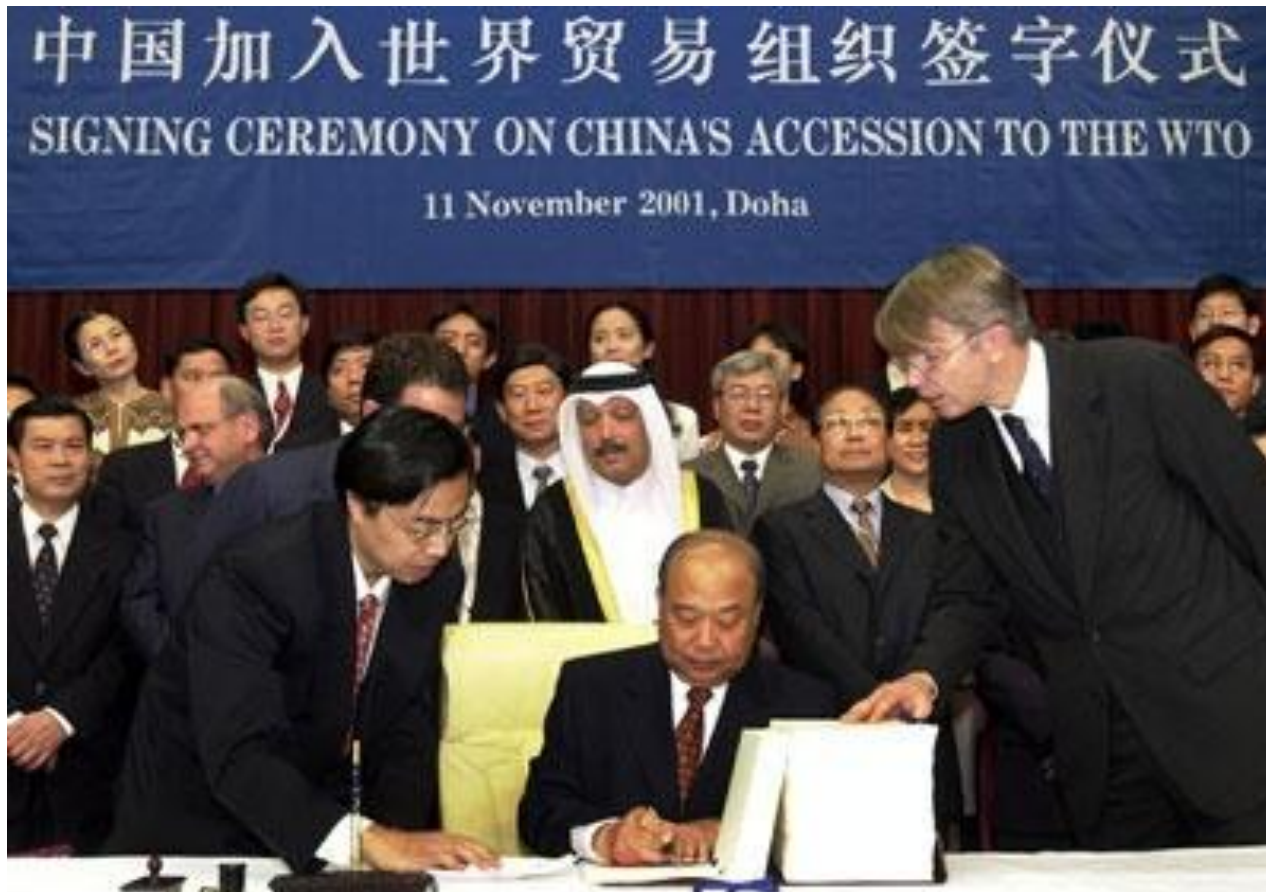
# Danish export markets

1993		2008		2030	
1	Tyskland 25,3	1	Tyskland 18,0	1	Sverige 13,6
2	Sverige 10,2	2	Sverige 14,9	2	Tyskland 12,2
3	UK 9,6	3	UK 8,3	3	Kina 8,7
4	Norge 6,8	4	Norge 6,3	4	UK 7,5
5	Frankrig 5,4	5	USA 5,8	5	USA 6,2
6	USA 5,0	6	Holland 4,7	6	Norge 5,0
7	Holland 4,6	7	Frankrig 4,5	7	Frankrig 3,8
8	Italien 3,9	8	Italien 3,2	8	Holland 3,6
9	Japan 3,9	9	Spanien 2,7	9	Rusland 3,1
10	Belgien 2,0	10	Finland 2,6	10	Spanien 2,5
17	Rusland 0,8	13	Kina 2,0		
30	Kina 0,4	14	Rusland 1,9		
38	Indien 0,3	29	Indien 0,5	15	Indien 1,6
39	Brasilien 0,2	30	Brasilien 0,5	24	Brasilien 0,8
	BRIK-landene 1,6		BRIK-landene 4,9		BRIK-landene 14,2

# Radical shift in the agenda from 2001 to 2010



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# Industrial Policies

- The hallmark of the Communist Party of China
- Political priorities are clearly stated
- "National Champions" are being nurtured within:  
Automotive, electronics, machinery, energy supply, iron and steel, pharmaceuticals, aviation and aerospace

- The tool box is overloaded:

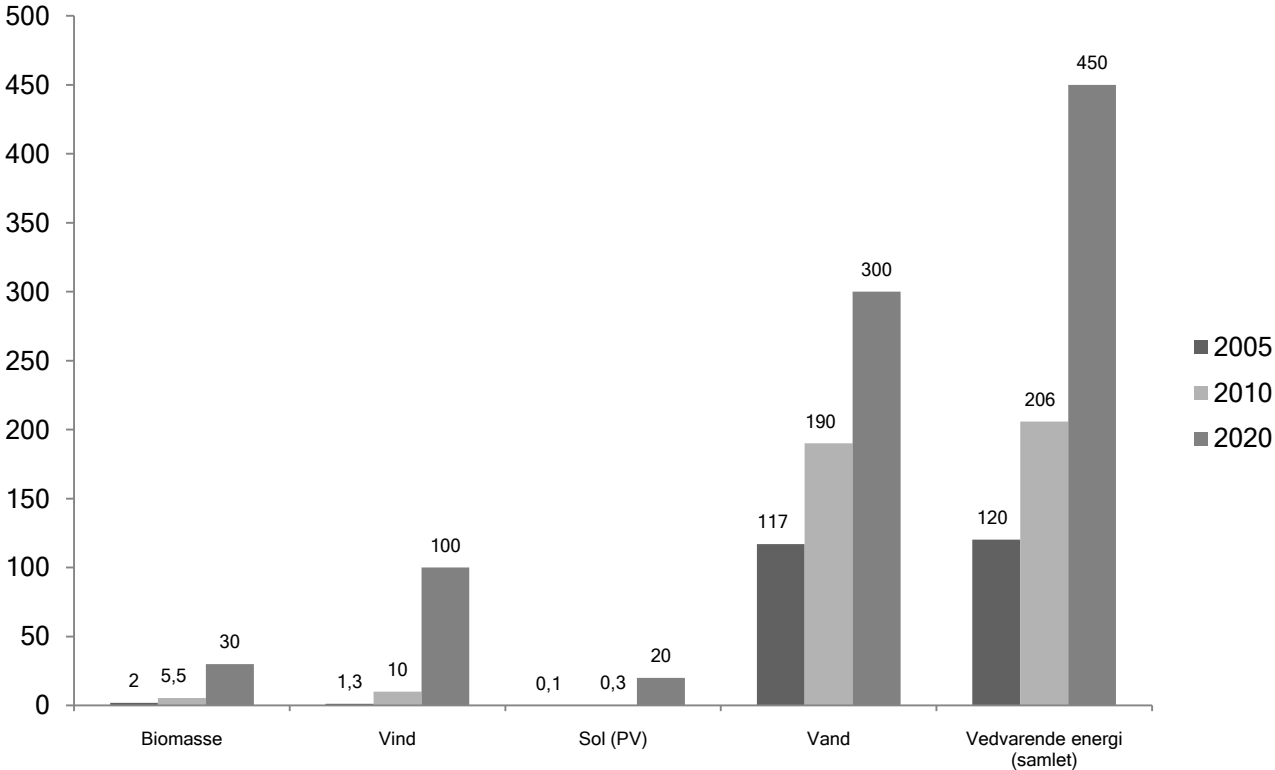
**Debt-to-equity swaps      Equity infusion      State bond-financed projects**  
**Subsidized provision of raw materials      Subsidized provision of land**  
**Policy loans      Science & technology development subsidies**  
**Subsidized loans for technology renovation**





# Establishing markets

## Renewable energy in China





# Public procurement

- Public procurement is a major market in China
- Characterized by ambiguous rules and intransparency
- It is used as a tool for achieving political objectives
- The latest example:



## **National Indigenous Innovation Products**

New energy and equipment  
Computer and application devices  
Communication products  
Highly energy-efficient products  
Software  
Modernized office equipment



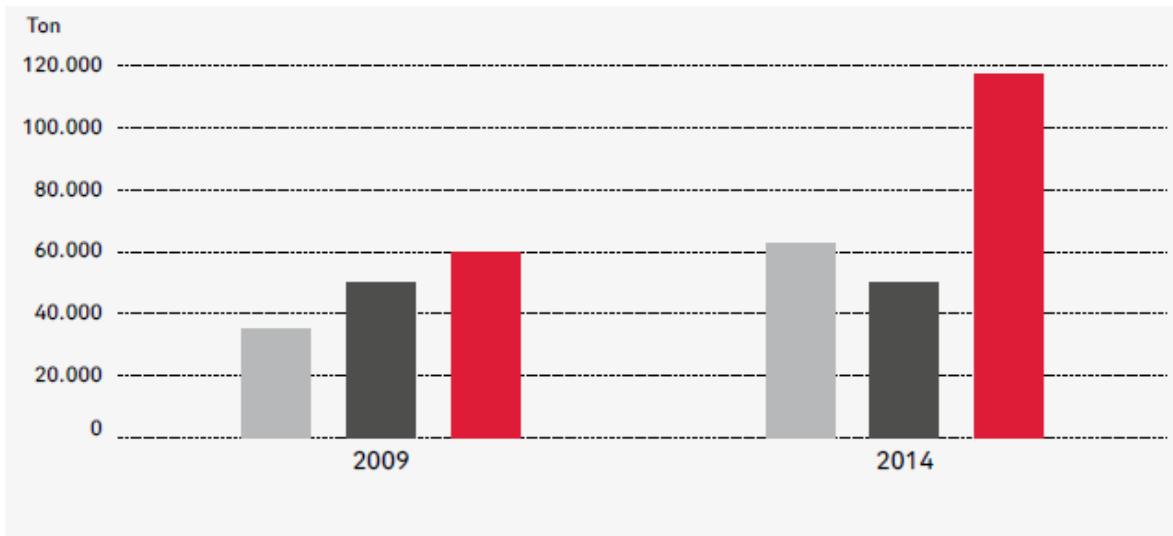
# Trade barriers

"There is oil in the Middle East; there is rare earth in China"

- China has established a monopoly on rare earth and is using its market position aggressively



## Chinese export restrictions on rare earth



World demand (excl. China)



China's export quota



China's own demand

Source: IMCOA & OECD

# State owned enterprises (SOE's)

Jiang Zemin: "Grasp the large, let go of the small"

- Remaining SOE's have been modernized, merged, reorganized, and listed on the stock market
- 87 of China's 100 biggest companies are state owned
- SOE's are used by the Party to achieve political objectives, and they enjoy preferential treatment in the state owned banks
- In 2008 investment from SOE's made up as much as 64% of China's total outbound investments

# State owned enterprises entering the european market



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The bid from Chinese  
Overseas Engineering  
Group was 30% below  
the second lowest!



State owned business  
conglomerate:  
46 subsidiaries  
280.000 employees

Constructions for the Chinese  
market:  
50.000 km of railway  
22.600 km of electrified railway  
3.000 mega-projects  
4.230 km of bridges  
3.900 km of tunnels  
3.400 km of expressways



# State and market in China

- History matters: The market plays a very different role in China
- The market was introduced as a way to strengthen the Chinese state - not the Chinese as individuals
- If the market does not deliver, the Communist Party of China is *obliged* to intervene
- The market is a mean to an end - not an end in itself
- The state - market relation is fundamentally different in China, and it will continue to produce conflicts, when China meets the West

Market

State

# State interventions

## - China's competitive edge?



- **China's particular history has left the Chinese state with deep influence on market operations**
- **This makes China more flexible in times of crisis**
- **It means less reluctance to use state subsidies to support or create markets**
- **Chinese state interventions put western countries and our companies under pressure, because it challenges existing rules**



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Thanks!

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