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Introduction to Symposium: Structural Change, Industrial Upgrading and China’s Economic Transformation

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Introduction to Symposium: 
Structural Change, Industrial Upgrading and 
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This symposium of China Economic Review contains a selection of papers originally presented at the sixth Biennial Conference on Transition and Economic Development (TED), which was held in Shanghai, China, on September 7 and 8, 2015, sponsored with a research grant by China National Natural Sciences Foundation, in collaboration with China Center for Economic Studies, Fudan University; Technology and Management Center for Development (TMCD), University of Oxford; and Japanese Association for Chinese Economy and Management Studies (JACEM).

The TED conference focused on the theme of the structural change, the industrial upgrading and China’s economic transformation. Since 2010, China has moved up to be an upper middle income economy after more than three decades of liberalization policies and reforms. The question that remains is whether or not China will upgrade into the high income club. Therefore, industrial upgrading and structural change towards high-tech and scientific knowledge-intensive industries are crucial to China, because the main challenge facing the country is how to sustain the momentum and avoid the middle income trap. In history, many developing economies failed to do so. Then, what are the challenges for this transformation? How to develop the innovation and technological capabilities and upgrade the Chinese industries into one of the world’s innovation leader?

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6 According to the World Bank national accounts data and OECD National Accounts data files, in 2010, China’s gross national income (GNI) per capita based on Atlas method reached $4,340 in current US dollars which was, for the first time since 1978, higher than $3,946 in current US dollars, the current lower threshold of the upper middle income group presented in the World Development Indicator (WDI). For data files, see http://data.worldbank.org/indicator/NY.GNP.ATLS.CD?locations=CN. For historical classifications by income in WDI, see http://databank.worldbank.org/data/download/site-content/OGHIST.xls.
Such concerns intrigued leading economists to bring their acumen to the TED conference. A wide range papers from more than 100 participants were presented at this conference. The papers were grouped into several topics including demographic changes, industrial upgrading, the role of financial markets in industrial upgrading, industrial agglomeration and technology innovations, and future prospects of China and the world economy.

This symposium features papers providing special insights for some key policy areas. After the conference, authors were invited to submit their papers to the symposium. Each paper is reviewed by at least two anonymous reviewers. After a rigorous review process, six distinguished papers were accepted.

The first paper in this special issue is by Keijiro Otsuka, Yuki Higuchi and Tetsushi Sonobe, and proposes a new definition of the middle-income trap. According to the new definition, the middle-income trap is a growth slowdown of a middle-income economy that is aggravated by the inadequate responses to convergence forces. To make this definition operational, this paper has studied what basis should be used to judge whether a slowdown is worsened by either the absence of actions conducive to growth or by the presence of actions counterproductive to growth.

The sluggish development of China’s services industry has attracted considerable attention. One explanation for China’s stagnant services sector is that the sector’s tax burden is still too heavy. In the second paper, Hongsheng Fang, Yuxin Bao and Jun Zhang develop a simple model to explore whether and how the VAT pilot expansion affects corporate total tax burden, and find that it will reduce the corporate total tax burden of small-scale taxpayers, while for general taxpayers, the total tax burden change is uncertain.

In the third paper, Julan Du, Chang Li and Yongqin Wang examine a particular form of shadow banking activities performed by non-financial firms, in which firms borrow in order to lend, acting as financial intermediaries. They find that these particular shadow banking activities are prevalent across Chinese firms, especially in state-owned enterprises, maybe due to better access to financial markets.

The fourth paper is by Xing Shi and Yanrui Wu. The government of China is fully aware of the critical role of innovation in economic performance, especially for sustainable development. However, the information about China’s innovative activities is still very limited, especially at the micro level. This paper investigates both the internal and external determinants that affect Chinese manufacturing firms’ innovative behavior by using a rich set of firm-level data and municipal-level data during the period of 2002-2010.

The fifth paper is by Fan Wang, Lutao Ning and Jie Zhang. Foreign Direct Investment
(FDI) has long been regarded as a key source of new knowledge external to the domestic economy, but relatively little is known about how the host regions’ technological upgrading is affected by the pace and rhythm of foreign firms’ local expansion. Using the panel data of 244 Chinese cities for the period from 2004-2011, their empirical results show that FDI spillovers have a positive effect on local technological upgrading in both local and neighboring cities.

The last but not least paper is by Hao Xu. He investigates the time use and labor supply of the left behind members in response to migration in China, and finds that the time use and labor supply of the left behind spouse and children are not statistically different from the members in non-migrant households with respect to all the three types of work. The finding suggests that the income effect is offset by the substitution effect, and hence the net effect of migration is not significant.

Finally, we would like to thank Prof. Belton M. Fleisher, the executive editor of the special issue, for his dedication. Thanks also go to the organizers and sponsors of the conference for their effort and financial support, to all the discussants at the conference for their insightful and constructive comments, and the invited referees for the papers published in this journal.