

# Research on Deepening Supply-Side Structural Reform to Promote High-Quality Economic Development

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**Abstract.** Deepening supply-side structural reform and focusing on improving the quality and efficiency of the supply system can promote the quality, efficiency and driving force of economic development, and is of great significance in coping with changes in the principal contradiction and building a great modern socialist country. In 2015, China began to advance supply-side structural reform. Remarkable achievements have been made in cutting overcapacity, destocking, deleveraging, reducing costs in the real economy, improving the quantity and quality of public goods and services, and fostering new drivers of growth. However, there are still some problems in China's economic development, such as supply structure not adapting to changes in demand, insufficient supply of factors, weak innovation capacity of science and technology, and great pressure on resources and environment. The main contradiction of these problems is still supply-side structural. We will deepen supply-side structural reform through the eight-character principle of "consolidating, strengthening, upgrading and unimpeded", promote high-quality economic development and build a modern economic system.

## 1. Introduction

Since the founding of the People's Republic of China 70 years, especially in the past 40 years of reform and opening up, China's economy has developed rapidly and now has become the second largest economy in the world. However, with the excessive consumption of resources and the reduction of demographic dividend, the economic growth rate began to decrease and the economic structure became unbalanced, and China's economic development entered a new normal. President Xi pointed out supply-side structural reform in November 2015. At present, great achievements have been made in supply-side structural reform, effectively maintaining the speed of economic growth and improving the quality of economic development. President Xi stressed: "we must put quality first and give priority to efficiency. We must take supply-side structural reform as the main task, and promote reform in the quality, efficiency and driving force of economic development." Deepening supply-side structural reform is the main means to promote high-quality economic development and accelerate the construction of a modernized economic system.

## 2. Data

### 2.1 Effectiveness of de-capacity

In cutting overcapacity, the problem of excess capacity has been greatly improved. Ineffective supply has decreased while effective supply has increased. In 2016, China removed over 65 million tons of outdated and excess steel capacity and over 290 million tons of excess coal capacity. In 2017, China completed the task of removing about 50 million tons of steel capacity and more than 150 million tons of steel capacity proposed in a government report two months ahead of schedule. By the end of September 2018, the production of pig iron, crude steel and steel in China had increased by 1.19%,

6.07% and 7.12% respectively. China's new coal-fired power generation capacity decreased by 9.54 million kilowatts [1]. The improvement of overcapacity has accelerated the clearing of the market, and improved the profits of the industry and the benefits of enterprises. Data shows that from January to September 2017, the profit margin of China's large steel enterprises has increased to 4.18%.

## **2.2 Effectiveness of destocking**

In destocking, destocking mainly refers to the removal of real estate inventory. According to the data, the real estate inventory has achieved obvious results. By the end of 2015, the unsold area of commercial housing was as high as 718 million square meters. By the end of 2016, the unsold area of commercial housing dropped to 695 million square meters. By the end of 2017, the unsold area of commercial housing had dropped to 589 million square meters. In addition, since March 2016, except for February 2017, the floor space for sale of residential buildings has generally declined month by month. The implementation of destocking policy alleviates the pressure of urban inventory, reduces industry risks and promotes sustainable economic development.

## **2.3 Effectiveness of de-leveraging**

In terms of deleveraging, the real effect of deleveraging was shown in 2017, when the leverage ratio increased rapidly from 2008 to 2015, during which the leverage ratio increased by 86.2 percentage points, and the average annual leverage ratio increased by more than 12 percentage points. At the beginning of the implementation of the deleveraging policy, the situation did not improve quickly. In 2016, the macro leverage ratio still increased by 12.4 percentage points, and the increase rate still maintained over 12 percentage points. However, in 2017, the deleveraging policy achieved initial results. The leverage ratio of the real economy only increased by 2.3 percentage points compared with 2016, and the target of partial deleveraging was achieved. In addition, in 2018, China experienced its first decline in macro leverage ratio since 2011. The reduction of leverage ratio has improved the debt structure, reduced financial risks and promoted high-quality economic development.

## **2.4 Effectiveness of cost reduction**

China mainly reduces costs in transaction and logistics by reducing tax burden and promoting the policy of "streamlining administration and service", so as to achieve the goal of reducing costs and increasing profits for enterprises. Also China has obtained the remarkable result, cost reduction in industrial enterprises above designated size, for example, in 2016 industrial enterprises above designated size per one hundred yuan in the main business revenue cost is 85.52 yuan, in 2017 industrial enterprises above designated size per one hundred yuan in the main business income cost reduce to 84.92 yuan, in 2018 industrial enterprises above designated size per one hundred yuan in the main business revenue cost has dropped to 83.88 yuan [2]. Costs are falling year by year, and relative profits are rising year by year. In 2016, the total profit of industrial enterprises above the designated size in China reached 6.8803 trillion yuan, an increase of 8.5% compared with 2015. In 2017, the total profits of industrial enterprises above the designated size in China increased by 21%, reaching 7,518.7 billion yuan, a sharp increase compared with 2016. In 2018, the total profits of industrial enterprises above the designated size in China increased by 10.3 percent compared with last year.

## **2.5 Effectiveness of short-board**

In strengthening areas of weakness, we will intensify efforts to strengthen areas of weakness, improve public facilities and services, speed up the training of personnel and the quality of education, foster new drivers of growth at a faster pace, and build a modern agricultural and ecological civilization. At present, China has made outstanding achievements in improving people's livelihood, infrastructure, ecological environment and agricultural development. Construction has started on 130 of 172 major water conservancy projects, and the investment under construction has exceeded 1 trillion yuan. We will accelerate the development of high-grade farmland and promote modern agriculture. A number of major railway projects have been completed and put into operation. By the end of 2017, the length

of expressways in service had reached 136,000 kilometers. We carried out a project to rebuild rundown urban areas and greatly improved the living conditions of a large number of people living in poor housing conditions. In addition, China has made remarkable achievements in technological innovation and fostering new drivers. By the end of September 2018, the added value of the high-tech industry and the strategic emerging industry in China had increased by 11.8% and 8.8% respectively.

### **3. Discussion**

#### **3.1 High-end capacity in short supply**

At present, the fundamental reason of imbalance between supply and demand in china lies in the shortage of effective supply and the surplus of invalid supply. On the whole, there is still much room for improvement in the quality of products and services. In the manufacturing field, the traditional manufacturing fields such as steel and metallurgy still have excess capacity, while the manufacturing capacity of high-end equipment such as aviation industry, satellite and application industry, intelligent manufacturing equipment industry is insufficient, and there will be a loss of consumer demand to foreign countries. In the field of public services, the current supply of public services in china is insufficient, the overall level is low, and the development is unbalanced. First, in education, the total investment in education nationwide in 2017 was 4.256.201 billion yuan, an increase of 9.45 percent over the previous year [3].

#### **3.2 Labor in short supply**

First, the working-age population has declined. China's total population is still in a state of steady growth. At the end of 2018, China's total population was 139,538 million, a net increase of 5.3 million compared with the end of 2017. Since 2012, however, China's working-age population has declined for seven consecutive years, by more than 26 million. Second, the aging population is serious. The population age structure changes, the aging population increases, the population aging trend is prominent. By the end of 2018, 249.49 million people were aged 60 or above, accounting for 17.9 percent of the total population [4]. Third, the overall level of labor productivity is low.

#### **3.3 Technological innovation capability needs to be improved**

First, the contribution rate of technological innovation to GDP is not high. In 2018, the contribution rate of scientific and technological progress to GDP is 58.5%. China's comprehensive innovation capability ranks 17th in the world, while the contribution rate of developed countries' scientific and technological progress to GDP is mostly above 70%. There is also a certain distance. Second, the proportion of researchers in technological innovation is insufficient. In 2017, the number of researchers per million people in China is only about 1,000, far lower than the level of 4,000 researchers per million people in developed countries. Third, the quality of patents needs to be improved. China's patents are mainly divided into three types, namely, invention patents, utility model patents, and design patents. Among them, invention patents are the most capable of technological innovation.

#### **3.4 High resource consumption and serious ecological damage**

China's resources are still in a state of shortage and the ecological environment is still bad. First, energy consumption is large. In 2017, China's total energy consumption reached 3132.2 million tons of oil equivalent, up 2.8% year-on-year, accounting for 23.2% of global energy consumption, accounting for 33.6% of global energy consumption growth. China's energy consumption growth has been 17 years. Ranked first in the global energy growth list. Second, energy dependence is high. Taking oil as an example, in 2017, the dependence of China's oil on foreign countries reached 67.4%, an increase of 3% compared with the previous year. In 2018, China's dependence on foreign oil has reached 69.8%, up 2.4% year-on-year. Third, the problem of ecological and environmental pollution

is serious. In 2017, 239 cities in 338 prefecture-level cities and above had excessive air quality, accounting for 70.7% of the total, and the proportion of acid rain cities was 18.8%.

#### **4. Conclusions and recommendations**

At present, China's economy has shifted from a high-speed growth stage to a high-quality development stage, and deepening supply-side structural reform is the fundamental way to promote high-quality economic development. The ideas for deepening the structural reform of the supply side to promote the high-quality development of the economy include: consolidating the achievements of "three to one, one reduction and one supplement", enhancing the vitality of the micro-subjects, improving the level of the industrial chain, and smoothing the national economic cycle. The countermeasures of deepening supply-side structural reform to promote high-quality economic development include three major points.

##### **4.1 Enhance the ability of scientific and technological innovation**

First, we should increase consumer spending on scientific and technological innovation and research [5]. Second, we will establish an incentive system for scientific and technological innovation. Third, accelerate the industrialization and marketization of scientific and technological innovation.

##### **4.2 Improve and upgrade the industrial structure**

First, an industrial structure should be formed with the tertiary industry (service industry) as the main industry [6]. Second, high-end manufacturing and service industry should be developed. Third, an export structure should be formed with the upgrading of industrial value chain as the core.

##### **4.3 Enhance system supply**

First, we need to deepen reform of the administrative system to streamline administration, delegate power, and provide services [7]. Second, deepen reform of the financial system and build a modern financial system at multiple levels. Third, deepen reform of the fiscal and tax systems.

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