

Challenges in China's Economic Policy and System Reform

Wu Jinglian

December 2012

The global financial crisis that unfolded in 2008 had a huge impact on China's economy, causing China's economic growth to slow and exposing many previously hidden sources of social conflict. China must implement further economic and political reforms and establish sound inclusive institutions if it is to overcome these contradictions and maintain economic prosperity, political stability and social harmony.

Reform and Opening Up Allowed China to Prosper

- China established a market economy outside the command economy
- Ordinary people were given freedom to choose and millions of new private enterprises created strong economic growth
- Free flows of land and labor led to more effective use of resources
- Opening up allowed Chinese enterprises to rapidly improve manufacturing techniques by importing foreign equipment and technology

Reforms Have Not Been Entirely Successful

Current system retains many vestiges of old system:

- State-owned economy still occupies commanding heights of the national economy
- Governments at every level retain power to allocate land and other important resources
- Rule of law not yet established and administrative power used to intervene in a wide-range of microeconomic activities

Semi-Controlled and Semi-Market Economy Creates Two Major Problems

- Difficult to move away from relying on investment-driven extensive growth pattern
- Rent-seeking behavior and corruption spread into society as a whole

Two Development Paths for Semi-Controlled and Semi-Market Economy

- Government gradually reduces intervention in micro-economic activities and strengthens functions in public sphere, and economy is gradually transformed into a modern market economy as a result of planning
- Government and state sector constantly strengthen control over and intervention in economy and system moves closer to state capitalism

Negative Consequences of a Pause or Reversal of Reform

- Reforms paused and even reversed since the start of 21st century
- Resource shortages, environmental damage and slowing growth in worker's incomes caused by the extensive growth pattern have intensified social contradictions
- Macroeconomic problems caused by long-term continuation of export-oriented policies have emerged
- The most serious consequence has been the vicious cycle between greater government management and control and increasing corruption

Resurgence of Ultra-Left Ideological Trends

- Amid rampant corruption and a widening wealth gap, a left-wing ideological trend advocating attacking the rich and powerful and promoting equality has emerged
- It is a social movement that reveres Mao Zedong and supports singing revolutionary songs, cracking down on organized crime, restarting the Cultural Revolution and establishing a total dictatorship over the bourgeoisie

Recent Changes for the Better

- The debate over which direction China will move in has made more and more people realize that going backwards is not the answer
- The damage caused by the authoritarian development model is increasingly clear
- The true colors of careerists who have attempted to seize power using populist and nationalist conspiracies have been exposed
- Calls from people from all walks of life to return to reforms are gradually growing louder

Likelihood of Restarting the Reform

- Likelihood of reaching a new reform consensus
- Some central government departments and local governments have already begun exploring new reforms
- Consensus on “top-level design” (the objectives) at the 18th National Congress of CPC
- Next steps are for people from government, industry and academia to cooperate in formulating and implementing an integrated comprehensive plan for economic and political reforms

Significance to the World of the Change in China's Role

- As China's systems improve, its economic growth model changes and domestic consumption increases.
- As a result, its role in the global economy will change from the world's factory and major exporter of manufactured goods to a vast market providing the world with a huge source of effective demand.
- This will play a significant role in maintaining steady growth in the global economy.