



Towards a new economic order with Chinese characteristics

The new order will make the Chinese authorities more outward looking, more assertive and more power centric, Deepanashu Mohan argues

The process of adopting a conscious, gradualist approach in aligning economic incentives to maximize efficiency for better resource allocation, while protecting interests of the ruling political groups, remains one of the most difficult policy conundrums to resolve for any developing economy, except in the Chinese case.

From President Xi's 19th People's Congress address, China *seems* to have embarked towards a 'New Order' or a new economic system that aims to abolish absolute poverty (by 2020), curb inequality to build a moderately prosperous Chinese society (by 2035) and become a Great Power by 2050.

To achieve these long-term goals, the political economy of reform in China (across legal, economic areas) is undertaking some key structural reforms, with the government attempting to deviate from its traditional state-led cohesive capitalist strategy (adopted since the late 1970s) towards a more private-friendly, market-oriented, contract-based economic system.

Since the late 1970s the Communist Party in China has successfully managed the operationalization of a market economy with socialist objectives, especially in the areas of agriculture, industrial production and infrastructural development. During this *transitional* phase (up until the 1990s), China adopted a dual-track approach to create market-based incentives for producers (including farmers) while maintaining planned, public rationing schemes.

This *approach* (reflected via reforms undertaken by the Party in China), was not only unique in its outlook and implementation style, but a win-win for the government-producer relationship in developing a product based economy, allowing the government agencies to meet its targeted planned goals while allowing producers to get more incentives to maximize production capacity.

A new economic system

However, as a leader of the developing world today, China seems to be restructuring its dual-track approach in moving towards a new economic system. A system that is seeking to shift the government's role as an investor and investment planner (seen under the *dual-track* approach) to becoming an overall investment regulator. A closer scrutiny of the Party's long term economic vision presents a repositioning of the government as an institutional innovator that seeks to promote private investment while regulating the overall economy by laws and regulations.

The new order and economic system in China appears to make the Chinese government more outward looking, more assertive and more power centric

A recent text (published by the Chinese Foreign Language Press) titled *Chinese Economy in Disequilibrium* by Li Yin-ning (an economist with a huge impact on China's path economic transition) offers some useful insights into the governing dynamics of reforms been undertaken now in planning for the new economic system:

- **Rule by law:** in China the process of drafting a law and implementing has more or less been a technocratic exercise, allowing agencies of the government to ensure optimization of policy goals that are previously built by the Party's core group, and this rule-based consensus is governed under specific laws (to implement the goals). A rights-based approach to law (and its jurisprudence) is rarely accommodated in such a technocratic legal system, qualifying its case as a *rule by law* than a *rule of law*.

In the case of property rights too, the power of the state has remained quite absolute. The new economic approach however, seems to gradually change this. The shift in economic decision-making away from the State Council's National Development and Reform Commission (NDRC) toward Party-based Leading Small Groups is particularly important who are building consensus across provinces to develop differential tax rates, credit allocation schemes, reform contract laws to encourage more private investment. Also, a law-based approach to addressing issues of corruption; reducing government debt; heightened internet censorship; and implement new regulations on non-governmental organizations (NGOs) and their foreign funding reflects the government's might of power using law as an instrument.

- **Policy experimentation:** at first, there is a clear policy move towards the establishment of a commodity-based economy (from a product-based manufacturing system) facilitated by a crowding-in effect of more private investment that is validated, regulated by new laws and regulations. The government across provinces is keen to experiment with different policy alternatives using differential tax rates, financial credit schemes particularly in areas such as services like e-commerce, telecommunications etc. to promote more private in-

vestment across sectors and open these up to more domestic private enterprises. While earlier, under limited private property rights, this was quite difficult to achieve (across provinces), new reforms in private property laws are now being deliberated (within the party).

- **Use of data analytics:** tapping into the global data analytical revolution through advancement of artificial intelligence, big data and real time analysis, governing agencies are now keen to use these techniques in minimizing corporate fraud, contract disputes while complimenting these with a prompt judicial compliance mechanism. Albeit, in a labour-surplus economy, it would be interesting to observe though how the future of work and employment structures (across sectors) are likely to change with the adoption of automation (in manufacturing) and artificial intelligence.
- **Reforming contract laws:** initiating a robust contract-based, market-oriented system pertinent for a commodity economy to improve private investor sentiment both, within the domestic economy and outside it. With new regulatory provisions in place, private enterprises shall have an incentive to invest and protect their investment across different sectors, facilitating an easier entry and exit of firms. The Chinese government thus, instead of *sub-contracting* (used earlier as an investment technique during the 1980s, 1990s) will have to ensure compliance with pre-defined regulatory measures (as done in other industrialized countries like the US) and maintain the sanctity of a binding contract.
- **Normalizing property rights:** in transforming China towards a commodity-based economic system that combines market forces of production, consumption and distribution in alignment with the needs of the Chinese society (across provinces), normalizing property rights, for example, in favour of the private enterprise remains a key reform for the Party to undertake. One can see this happening already in areas such as real estate investment (across provinces), hotel and accommodation, e-tail, telecom etc. in China. Being cautiously

optimistic, a friendlier outlook towards private investment backed by private property rights (and its implementation) will scale capital accumulation levels and improve China's quality of growth.

The new order and economic system in China thus, appears to make the Chinese government more outward looking (pushing for private investment); more assertive (via a rule by law approach) and more power centric. ■

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