

A guide to China's economic reforms

China's President **Xi Jinping** believes that **science and technology (S&T) revolutions** determine the global order. Countries that seize these rare opportunities achieve rapid growth and strengthen their national defences.

Xi thinks that China **missed out** on leading **previous S&T revolutions**.

- Technological Revolution
- Industrial Revolution

Many academics in China believe that a **new S&T revolution has begun**. This is because they identify an **unprecedented level of innovation** occurring today.

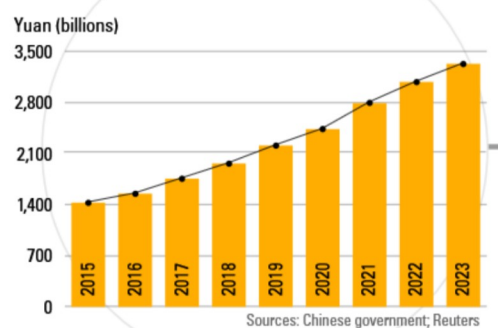
Xi agrees. He has said:

“We must seize this *historical opportunity*, but it definitely will *not be easy*.”

Xi Jinping at the Great Hall of the People, Beijing, 2016



Winning today's revolution is a central part of the Chinese Communist Party's (CCP) economic strategy.



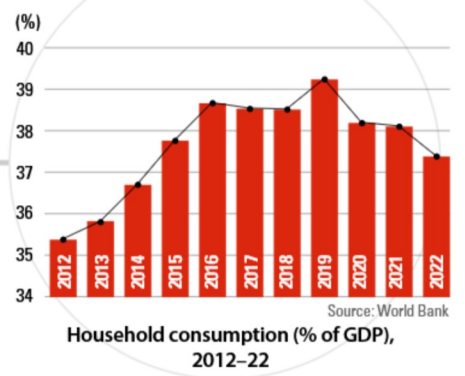
Xi also believes that S&T is **'China's weapon'** – something that companies can rely on to become strong, and that people can count on to ensure better livelihoods.

This is why **China's economic strategy** aims to:

- create **new high-quality productive forces**
- nurture **industrial-academic collaboration**
- allocate **state capital to strategic industries**, including AI and quantum computing
- direct the development of S&T industries according to **national development plans**

新质生产力

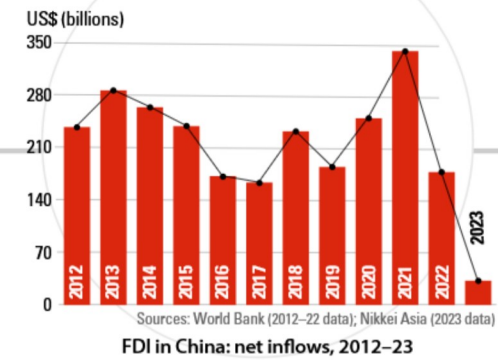
It is also why China's leaders are only making **incremental changes** to help alleviate rural-urban inequalities and low consumption.



These **problems** are partly caused by **structural mechanisms**, like the **Hukou system** and **low interest rates** and **wages**, which were established to subsidise manufacturing and investment by transferring income from households to manufacturers.

China's leaders are **concerned** that **'external threats'** and **'internal hidden dangers'** could stop them from achieving their economic strategy.

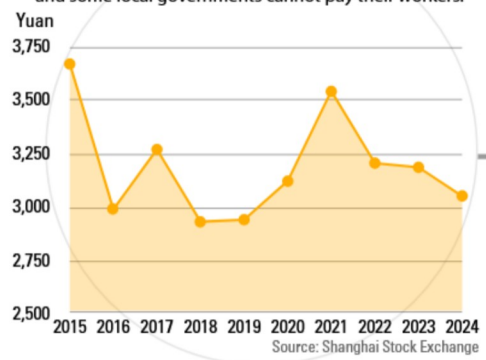
As a result, they are building a **'national integrated strategic system'**. This **increases the CCP's control** and **coordination** of key sectors, plus information that has **negatively impacted FDI**.



It involves **pooling resources** from the civil, military, state and private sectors. This will help to create a **high-tech economy** and a **modernised military**, and ensure **China is resilient** enough to win the next S&T revolution.



China's **lagging economy** threatens its **economic strategy**. Its stock market has been **declining** and some local governments cannot pay their workers.



These challenges **complicate** China's economic-strategy objective because:

- China can **no longer rely on the property sector** to fuel its economy and is more reliant on the **domestic capital market** to fuel its S&T revolution
- China's goals require **social and economic stability**

To fix these problems, China has announced a ten trillion yuan **fiscal package** that aims to reduce local governments' hidden debts from 14.3trn yuan to 2.3trn yuan. **Measures include** increasing the quote for local government special bonds by 6trn yuan to replace their hidden debts.

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China's leaders hope that these measures will **stabilise the economy, boost the stock market, and fix local governments' liquidity crisis**, allowing China to achieve its **S&T revolution**.

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