CHINA

China’s economy remains “mostly unfree,” and there is little momentum for reform. Despite a nominal openness to trade and investment, bureaucratic hurdles and resistance from vested interests in the state sector are substantial barriers to more dynamic economic development. Confronting a period of economic slowdown, the government has increased expansionary fiscal and monetary interventions.

Deep-seated structural problems, including a state-controlled financial sector and regulatory inefficiency, have become more acute. Accumulating debt at various levels of the economy increases long-term risks. The legal system’s vulnerability to political influence and Communist Party directives undercuts the rule of law and adds uncertainty to economic activity.

BACKGROUND: After more than three years in power, Communist Party General Secretary Xi Jinping’s regime has failed to produce any significant progress in economic reform. State-owned enterprises still dominate the financial sector and many basic industries. Total national debt (household, corporate, and government) has approached 300 percent of GDP, a level comparable to crisis-ridden southern Europe. The anticorruption campaign is popular with the public but has reduced provincial spending and economic growth. The slowdown in economic growth, which may be more severe than reflected in official statistics, poses serious challenges for a government whose legitimacy, more now than in the past, depends on its ability to increase living standards throughout the large population.

ECONOMIC FREEDOM SCORE

WORLD RANK: 111
REGIONAL RANK: 24
ECONOMIC FREEDOM STATUS: MOSTLY UNFREE

57.4 (▲5.4 POINTS)

60.4
REGIONAL AVERAGE
(ASIA-PACIFIC REGION)

60.9
WORLD AVERAGE

NOTABLE SUCCESSES:
Trade Freedom

CONCERNS:
Investment Freedom, Financial Freedom, and Rule of Law

OVERALL SCORE CHANGE
SINCE 2013: +5.5

FREEDOM TREND

QUICK FACTS

POPULATION: 1.4 billion

GDP (PPP): $19.4 trillion
6.9% growth in 2015
5-year compound annual growth 7.8%
$14,107 per capita

UNEMPLOYMENT: 4.6%

INFLATION (CPI): 1.4%

FDI INFLOW: $135.6 billion

PUBLIC DEBT: 43.9% of GDP

2015 data unless otherwise noted. Data compiled as of September 2016
The state owns all land, and protection of foreign intellectual property continues to erode. Xi Jinping’s anticorruption campaign accelerated in 2016, but corruption remains endemic, and the leadership has rejected more fundamental reforms such as requiring public disclosure of assets by officials, creating genuinely independent oversight bodies, or lifting political constraints on journalists and law enforcement agencies.

The top personal income tax rate is 45 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax and a real estate tax. The overall tax burden equals 18.7 percent of total domestic income. Government spending has amounted to 30 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.5 percent of GDP. Public debt is equivalent to 43.9 of GDP.

Elimination of the minimum capital requirement has made it easier to launch a new business, but the overall regulatory framework remains complex, arbitrary, and uneven. The labor regime continues to be repressive. The government props up numerous inefficient state-owned enterprises and funds a vast array of subsidies for manufactured exports, energy, agriculture, and consumer goods.

Overall, trade is only moderately important to China’s economy; the value of exports and imports taken together equals 41 percent of GDP. The average applied tariff rate is 3.2 percent. Numerous state-owned enterprises distort the economy, and the state maintains its tight grip on the financial system. The government controls almost all of China’s banks, which are facing a rise in the number of nonperforming loans.