CHINA

WORLD RANK: **100**

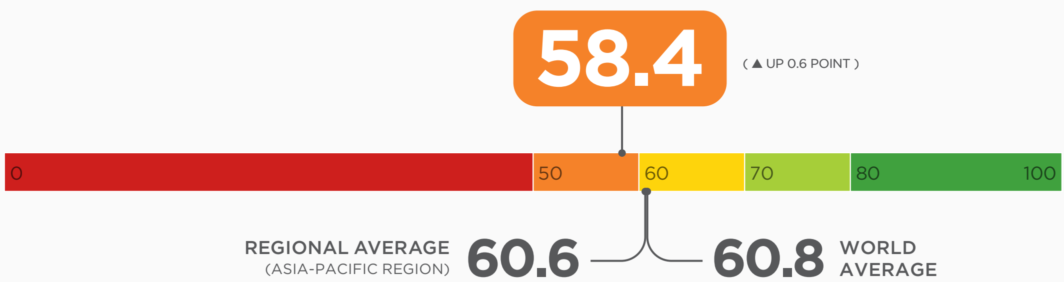
REGIONAL RANK: **20**

ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

China's economic freedom score is 58.4, making its economy the 100th freest in the 2019 *Index*. Its overall score has increased by 0.6 point, with higher scores on **judicial effectiveness** and **labor freedom** outpacing a sharp drop in **fiscal health**. China is ranked 20th among 43 countries in the Asia–Pacific region, and its overall score is below the regional and world averages.

Increasing tensions in the U.S.–China economic relationship have heightened business uncertainties, and despite still impressive growth rates, the government adopted looser economic policies in 2018 to mitigate mounting risks to future growth. China remains "mostly unfree." Non-transparent state-owned enterprises dominate the financial sector and many basic industries. The official ideology of "Socialism with Chinese Characteristics" has chilled liberalization, heightened reliance on mercantilism, raised bureaucratic hurdles to trade and investment, weakened the rule of law, and strengthened resistance from vested interests that impede more dynamic economic development.

ECONOMIC FREEDOM SCORE

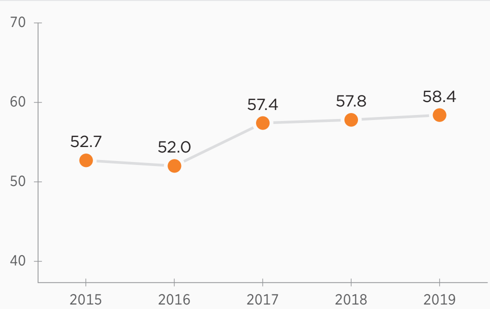


RELATIVE STRENGTHS:
Fiscal Health and Judicial Effectiveness

HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995):
+6.4

CONCERNS:
Financial Freedom and Investment Freedom

FREEDOM TREND



QUICK FACTS

POPULATION:
1.4 billion

GDP (PPP):
$23.2 trillion
6.9% growth in 2017
5-year compound annual growth 7.1%
$16,660 per capita

UNEMPLOYMENT:
4.7%

INFLATION (CPI):
1.6%

FDI INFLOW:
$136.3 billion

PUBLIC DEBT:
47.8% of GDP

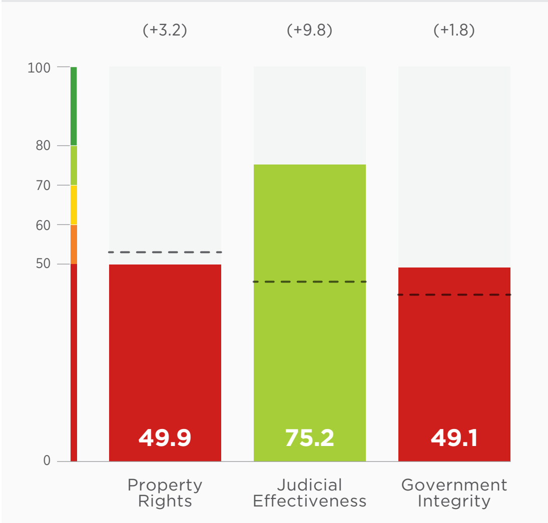
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Communist Party General Secretary Xi Jinping's regime has produced no significant free-market reforms since taking power in 2013. Xi has centralized his authority, ousted internal political enemies, and backed authoritarian policies to tighten control of civil society. China is the world's second-largest economy and biggest exporter, but its per capita income is still below the global average. A slowdown in economic growth, which may be more severe than official statistics indicate, poses serious challenges for a government whose legitimacy depends increasingly on its ability to raise living standards. Much will depend on how well Xi's new ideological economic framework translates into government policy. Xi's "China 2025" program to achieve Chinese dominance of high-tech sectors has engendered pushback from global rivals.

— — WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

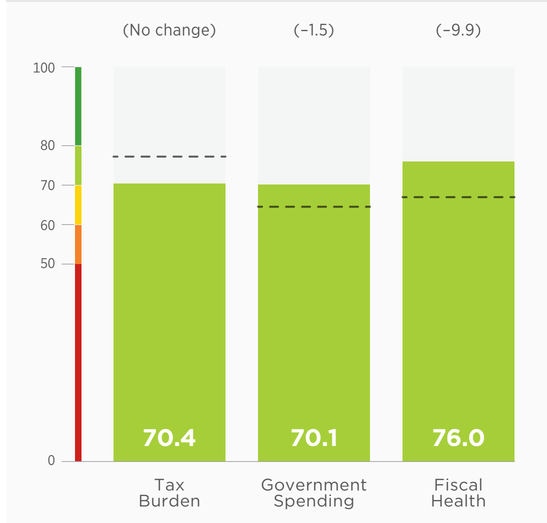
12 ECONOMIC FREEDOMS | CHINA

RULE OF LAW



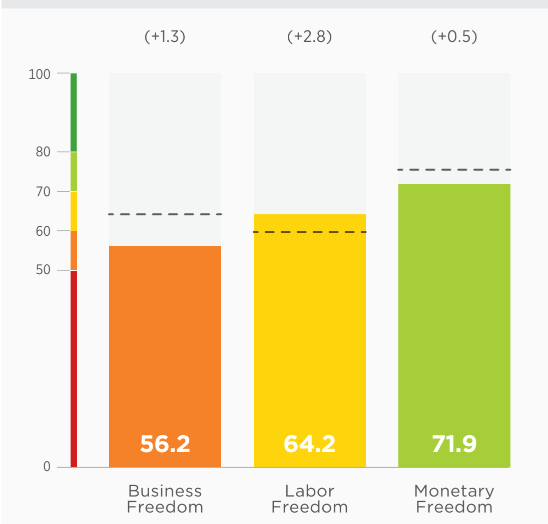
All land in China is owned by the state, and protection of foreign intellectual property is inadequate. The judicial system is heavily influenced by government agencies and the Chinese Communist Party. Corruption remains endemic, and the leadership has rejected fundamental reforms such as requiring public disclosure of assets by officials, creating genuinely independent oversight bodies, or lifting political constraints on journalists.

GOVERNMENT SIZE



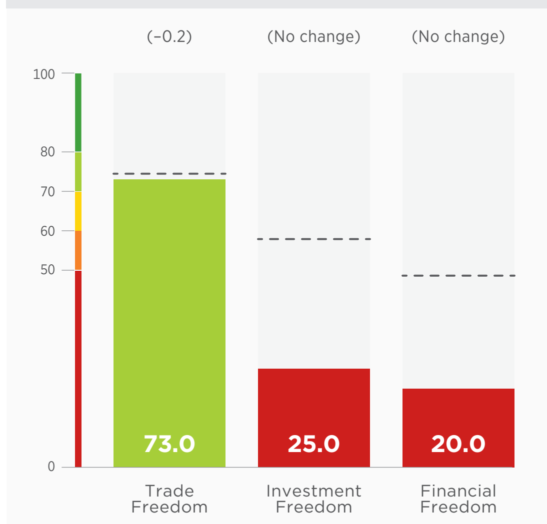
The top personal income tax rate is 45 percent, and the top corporate tax rate is 25 percent. Other taxes include value-added and real estate taxes. The overall tax burden equals 17.5 percent of total domestic income. Over the past three years, government spending has amounted to 31.6 percent of the country's output (GDP), and budget deficits have averaged 3.5 percent of GDP. Public debt is equivalent to 47.8 percent of GDP.

REGULATORY EFFICIENCY



Elimination of the minimum capital requirement has made it easier to launch a new business, but the overall regulatory framework remains complex and uneven. The labor market remains tightly controlled. Implementation guidelines on labor issues often differ from agency to agency, and labor laws are applied differently in different localities. The government subsidizes numerous state-owned enterprises and is committed to price controls for essential goods and services.

OPEN MARKETS



The combined value of exports and imports is equal to 37.8 percent of GDP. The average applied tariff rate is 3.5 percent. As of June 30, 2018, according to the WTO, China had 365 nontariff measures in force. China's restrictive foreign investment approval system shields inefficient state-owned enterprises from competition from private and foreign companies. The government maintains its tight grip on the financial system.