CHAPTER 4

Level Playing Field as an Institutional Challenge to China as a Socialist Market Economy

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Abstract

A new round of reform has been carried out since the Communist Party of China adopted its decision to promote comprehensive reforms for the country’s future development in 2013. However, there are daunting challenges ahead of the reform. In addition to the current economic downturn the ideological and political struggle in the course of further marketization and rule of law development may continue to subject the new campaign to a great deal of uncertainties. Given the imminent threat of the social, financial, and ecological crises the party state is facing a dilemma to maintain its political legitimacy or make historical breakthroughs.

Keywords

competition – privatization – institutional reform – legal challenges

1 Introduction

The economic taking off since late 1970s has thus far not only lifted China to the second largest economy in the world, but also taken it to a crossroad with serious challenges to its sustainable development. To a certain extent, the dynamic growth and institutional reform are losing their momentum in the economic downturn with outdated production capacity, ecological crisis, widened social gaps and conflicts, rampant corruption and deepened political struggle. To tide over the potential crisis, the party state has initiated a new round of reforms. On 12 November 2013, the Third Plenary Session of the 18th Communist Party of China (“CPC”) Central Committee adopted its

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Decision on Certain Major Issues Concerning Comprehensively Deepening the Reform (“the Reform Decision”), which blueprinted the direction of the country’s future development with concrete reform measures and goals. One of the crucial tasks is to further marketization and improve the level playing field with equal and fair competition.

This article critically examines the reform pledges made under the Reform Decision in this regard and their legal and political implications. Part I reviews the level playing field development in China as socialist market economy; Part II highlights the major reform measures reflected in the Reform Decision and their recent implementation; Part III considers the major difficulties and challenges facing the reforms; Part IV analyses some institutional implications of the reforms on the current legal system in China; and finally, Part V draws some concluding remarks.

2 Level Playing Field Development in China as Socialist Market Economy

The reform and opening since 1979 have liberalized China from a planned economy with the domination of state owned enterprises (SOEs) and dramatically changed the landscape of the market level playing field in China. According to the latest statistical survey, by the end of 2013 private enterprises and commercial households reached 12.53 million and 44.36 million respectively. The domestic private sector has employed 219 million workers and made its contribution to more than 60% of the national GDP. Mr. Lardy in his new book further pointed out that the private sector in fact had been the driving force of China’s economic taking-off since later 1970s as the major source of economic growth, the sole source of job creation, and the major contributor to China’s still growing role as a global trader. It has displaced SOEs with far better productivity and competitiveness.

In the same period foreign investment has been another crucial engine of China’s dynamic development. Implementation of the opening police, particularly after China’s accession to the World Trade Organization (WTO) in 2001, has so far attracted more USD 1.5 trillion of foreign investment making China the developing country that receive most foreign investments

1 China.org.cn (2014).
2 Xinhua News Agency (2014).
3 Lardy (2014).