

Prospects & Perspectives



Xi's message to the US is unmistakable: there is no textbook of golden rules to follow for reform and development in China, considering China's over 5,000 years of civilization and more than 1.3 billion population. Therefore, no one is "in a position to dictate to the Chinese people what should or should not be done." Picture source: 鞠 鹏 , 《 中 國 政 府 網 》 , <http://www.gov.cn/xinwen/2018-12/18/content_5350069.htm>.

Xi's 40-year Anniversary Address and the Direction and Challenges of China's Economic Policy

By Roy C. Lee

40 Years of Reform and Opening-up Has Been Totally Correct

In his key speech addressing the 40th anniversary of China's "Reform and Opening-up" policy, Chinese President Xi Jinping denoted the policy as the greatest turning point in the history of the Chinese Communist Party (CCP) and



as underpinning not only the development and progress in China today but also the modernization of socialism.

Through what Xi described as a great awakening of the CCP, China has been able to accomplish great achievements under the Reform and Opening-up policy since 1978. Gradually, the Reform and Opening-up policy evolved and consolidated to become the foundation of “Socialism with Chinese Characteristics.” Xi offered several examples to demonstrate these achievements. For instance, in the last 40 years, China has been able to alleviate problems that have troubled China for thousands of years, including hunger, shortages, and poverty. China’s status as a global superpower and “upholder of international order” is now commonly recognized. Summing up Xi’s message, he made it clear that the formula for success in China’s achievement is the commitment to reform and opening-up, with the CCP’s comprehensive leadership and planned economy as the backbones, *i.e.* Socialism with Chinese Characteristics. Xi concluded that the achievements China enjoys today indicate that the CCP’s approaches, doctrine, and policies over the past 40 years have been “totally correct.”

Socialism with Chinese Characteristics Is the Way Forward

In an effort to deliver Socialism with Chinese Characteristics to the future, Xi reiterated the importance of adhering to the principle of “the CCP leads over all works.” In fact, he emphasized that the CCP’s leadership and the authority of the Party Central should be further strengthened and improved. Economically, China will continue to implement the principles of unswerving consolidation and development of the state-controlled economic system as the priority and, at the same time, unswervingly encourage and support private economy. Xi’s remark was short of commitments in reform and liberalization in the future. Instead China will “resolutely reform what should and can be reformed,” and “make no change where there should not and can’t be any reform.”

The message is clear: Socialism with Chinese Characteristics is the key that enabled China to achieve economic and social reforms at such a grand scale in just 40 years. If China wants to remain on the track of positive development and Chinese people want to continue to enjoy refinement in the quality of life, the CCP will continue to monopolize the political agenda and



the “Party-State” structure will continue to dictate and control all aspects of economic activities while encouraging private (and foreign) participation. In short, the CCP under Xi’s leadership is determined to maintain the “communist capitalism” model for the foreseeable future. In addition, referring to China’s role as a global contributor, Xi implicitly highlighted once again that China’s development model is a practical alternative to the democratic, market-economy model.

Conflicts with US and Other Countries Increasingly Unavoidable

Unfortunately, China does not live in a vacuum. As its economic power grows and interconnection with the global economy deepens, the so-called China Model faces increasing criticism from the West. Conflicts with the market-economy model promoted by the US and European countries have become explicit and significant in recent months.

Take the progress of the US-China trade war as an example. The two sides agreed to enter a 90-day consultation period in December 2018, and the current status suggests that the US and China are most likely to reach consensus on trade deficit reduction and new market access liberalization. Even for forced transfer of technologies, it is possible to establish a bilateral regime to manage the issue. This, however, is not the end of the US’ wish list. White House trade adviser Peter Navarro and other high-ranking officials have repeatedly requested China to undertake structural reform commitments.

Analyzing recent US (and EU) advocacies in global economic bodies, such as the World Trade Organization (WTO), the structural reforms referred to by the US include at least two major categories of economic reform. The first is to alleviate state-oriented, predatory economic activities through state-owned enterprises and private enterprises directly or indirectly controlled by the state. The second is to eliminate the distortions caused by subsidies and other support hidden behind the “Party-Government-Private” trinity structure.

However, Xi’s remarks are obviously a rebuttal to the US accusation. The “Party-Government-Private” trinity structure is in fact the primary pillar of Socialism with Chinese Characteristics, and it has successfully transformed China with great results. Xi’s message to the US is unmistakable: there is no textbook of golden rules to follow for reform and development in China,



considering China's over 5,000 years of civilization and more than 1.3 billion population. Therefore, no one is "in a position to dictate to the Chinese people what should or should not be done."

Xi's speech sets a well-defined bottom line for China's economic policy and negotiation position with the US. China is willing to reduce any trade deficit that benefits both sides. China also will reinforce the protection of intellectual property rights and offer additional market opening commitments, as long as these changes do not undermine or obstruct the implementation of Socialism with Chinese Characteristics. Moreover, as the US model is not the only model available on the table, the US has no justification for imposing a set of universal disciplines on China so long as China's measures are consistent with WTO and other international commitments.

The remaining question is what is the bottom line of the US? Are the reduction of the trade deficit and the strengthening of IPR protection sufficient to make the US satisfied for the time being, or will the US continue to push for structural reforms that are incompatible with Socialism with Chinese Characteristics?

Taiwan Must Stay Cautious about Potential Impact

As Xi's speech already locked-in Socialism with Chinese Characteristics as the prerequisite for China's future development, the only possible short-term driver for change is pressure from the US-China economic conflicts. Yet, given its complexity and sensitivity, it would not be a surprise if both countries failed to reach consensus even after 900 days.

For Taiwan, Socialism with Chinese Characteristics implies that the pressure associated with the growing Chinese "sharp power" will continue to surge in the future. The debate over the Cross-Strait economic relationship will also become a major challenge, as Taiwanese society becomes increasingly mired in the dilemma of pursuing economic benefit and addressing national security concerns. How to maneuver smartly through all the challenges is a hard test for Taiwanese people and their leaders.

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