

Directions and Key Areas of China's Economic and Social Reform in the 14th Five-Year Plan Period and Beyond^①

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I. Reform requirements of socialist modernization for key economic and social areas

According to the 19th National Congress of the Communist Party of China, we will see that socialist modernization is basically realized by 2035 on the foundation created by the moderately prosperous society. Through the international comparison, it will take 15 years to enter a high-income society and approach or initially reach the level of developed countries, with a per capita income of USD10,000 in 2019 as a base.

According to the World Bank's World Development Index, the nominal GDP (gross domestic product) per capita of China and the US was USD9,800 and USD62,800, respectively, in

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2018, with the former being equivalent to 15.6 percent of the latter. In 2018, China and the US had a population of 1.39 billion and 0.33 billion, respectively, the former being 4.2 times larger than the latter. The GDP of both countries was USD13.6 trillion and USD20.5 trillion, respectively, with the former taking up 66 percent of latter.

According to projections, China will have a population of about 1.4 billion by 2035, while the US 360 million, with the former being about 4.1 times larger than the latter. At that time, China's GDP aggregate will be commensurate with that of the US if China's per capita GDP amounts to 25 percent of that of the US, which is about equivalent to the level of Chile and Hungary relative to the US in 2018. If China's GDP per capita reaches a higher level, China's GDP aggregate will surpass that of the US. For example, China's economic scale will be 1.5 times that of the US if China's per capita GDP reaches 37 percent of that of the US by then, which is equivalent to the level of Czech Republic, Estonia, Saudi Arabia and Portugal relative to that of the US in 2018.

Regarding what percentage of China's per capita GDP accounts for that of the US in the 17-year period from 2019 to 2035, we can learn from international experience, although no

analogy can be made mechanically.

We choose as the starting point the year when the proportion of China to the US is close to that of Japan and the Republic of Korea to the US in terms of GDP per capita. In 1960, Japan's nominal per capita GDP was 15.9 percent of that of the US, a figure turning 39 percent in 1970 and 67 percent in 1977. In 1986, the ROK's nominal GDP per capita was 14.7 percent of that of the US, a figure amounting to 37 percent in 1994 and 44 percent in 1996. Affected by the Southeast Asian financial crisis, the per capita GDP fell sharply but rose back to 36 percent in 2003. As the experience from Japan and the ROK shows, the per capita GDP is equivalent to 15 percent of that of the US, and if going well, it would amount to 37 percent of that of the US in 10 years. Even with some reversal, it could also reach 37 percent in 17 years.

Compared with the experience of Japan and the ROK, and even considering that China has shifted to a medium-speed growth phase, it is possible, in terms of growth potential, to reach 37 percent of the US nominal GDP per capita and 1.5 times the economic aggregate of the US by 2035 when modernization is basically achieved, provided that high-quality, sustainable development is achieved, large ups and downs are

avoided, and foreign economic relations are managed well.

The World Bank, the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) consider that the threshold for becoming a developed economy in 2018 is set at 28.4 percent of the US' GDP per capita in current dollars. If this relative level remains roughly stable, China's GDP per capita will reach about 30 percent of that of the US by 2035. It can be considered that China will be among the ranks of developed economies at that time. During this period, the driving forces of economic and social development will show the intertwining or convergence of two categories of characteristics. One category is inherent to conventional catching-up economies, while the other is born out of development concepts, technological advances, globalization and other new factors. The former type of characteristics are typically found in China as a late-developing economy, consisting mainly of:

- (1) The proportion of consumption in total demand continues to rise. Compared with the average level of OECD countries, it will increase from 53.4 percent in 2018 to 74.2 percent, of which residents' consumption will increase from 38.7 percent to 53.8 percent, residents' service consumption will

rise from 20.7 percent to 40.1 percent, and the proportion of investment will decrease accordingly; (2) The proportion of service industry in the industrial structure continues to rise; Compared with the average level of OECD countries, it will rise from 52.2 percent in 2018 to 66.1 percent; Production, recreation and development service industries have more potential and are integrated with the transformation and upgrading of manufacturing industry; (3) Export growth will slow down and be stable, the proportion of net exports in added value will decrease, and the proportion of knowledge- and technology-intensive products in exports will increase; (4) Urbanization will enter the stage of accelerated development of metropolitan areas and urban agglomerations and become a new engine of economic growth; The proportion of urban population will increase from 60 percent at this stage to about 80 percent; (5) The economy will be in the catch-up stage. There are still some existing advanced technologies that need to be introduced and absorbed. However, we will face “decoupling” risks. The importance of innovation in technological progress will be obviously highlighted and gradually become the main source; (6) The widening income gap will have a greater impact on growth and stability. Expanding middle-income groups will become the

most important source of domestic demand market and economic growth.

The characteristics arising from the new factors are clearly marked by the times and are unprecedented in the pioneering developed countries in the same stage of development, such as: (1) digital technologies are being developed rapidly, application scenarios are being expanded, and the materialization of digital technology and the digitization of the real economy have become a trend; (2) the ecological conservation and green development have become a consensus across the board, while the development transition has been promoted through the redefinition of costs and benefits; (3) globalization has suffered a severe setback and the COVID-19 pandemic has exerted a new impact on the global industrial chain, but a higher level of openness to the outside world and an adjusted vision of globalization can still be expected. These features have a clear “horizontal” influence, affecting not just some fields but all industries, regions and sectors. Thus, the conventional economic growth has been deeply imprinted by the times.

The two types of characteristics are converged to provide an important context for understanding and assessing strengths and weaknesses of China’s economic development and

demonstrate the direction and focus of the next step in deepening reform. The strengths of China's economy in this period include a unified mega-market, multiple types of business entities in progressively more competitive markets, a complete range of industrial sectors with strong supporting capabilities, complete supply chains, favorable advantages in the field of digital technology, and a vital hedging function within the economy. The shortcomings are related to both institutional and structural issues left over from the past and to the lack of adaptation following changes in the development environment, including an ageing population, rising factor costs such as labor, lagging reforms for factor markets, a large gap between income and property distribution, and weak capacity for basic research.

The reform in this period should be identified to conform to the changing laws and characteristics of economic and social development, where we need to build on strengths and tackle areas of weaknesses. Optimization of resources focuses on the allocation of medium and high-level production factors, with total factor productivity improved continuously. The goal of the reform should be to build a high-standard market system that adapts to high-quality development internally and leads the way to globalization externally. In terms of the drivers of the reform,

there are three types of reforms. First, the “reform for shoring up shortcomings” should be completed thoroughly, such as the strategic restructuring of the state-owned economy, the reform of governance structure of state-owned enterprises, the reform of the free flow of factors in the market, the reform of market openness in administrative monopolies; second, the “upgrading reforms” are related to the digital economy, green development and others; third, the third type of reform focuses on those reforms that are carried out in the high-level opening up to the outside world to adapt to and lead the changes in the rules of international trade, investment, and finance. A significant number of these reforms should be prioritized in the 14th Five-Year Plan period.

II. Reform of the property rights system and enterprise governance structure oriented towards stable expectations and competitive neutrality

Stable expectations have more importance than ever. In the past period, there was confusion in the perception of the private sector, which affected the production, operation and investment of private enterprises. Regarding industrial transformation and upgrading and innovation-driven development, we should have long-term stable expectations to set higher requirements for the

protection of property rights and the effectiveness of governance structure.

In politics, the status and role of the private economy should be further identified to ensure all private entrepreneurs have peace of mind in a long run.

The Third Plenary Session of the 18th CPC Central Committee proposed that “both the public and non-public sectors of the economy, essential components of the socialist market economy, have laid a solid foundation for China’s economic and social development.” On this basis, can we consider proposing that both the public and non-public sectors of the economy are the forces on which our Party relies for its long-term administration, for leading all people in building a strong modern socialist country and for realizing the Chinese dream of the great rejuvenation of the Chinese nation?

The categories of ownership should be distinguished from those of enterprises. Types of state-owned and private enterprises are actually a manifestation of the low-level development of the market economy. As the market economy is maturing, the shareholding structures of companies tend to be diversified and integrated with each other, making it increasingly difficult to find a single-ownership business. The

traditional classification of enterprises by ownership should be abandoned. They should be categorized by scale and industry, such as large, medium and small enterprises, industrial enterprises, and service-oriented enterprises. Also, investors are classified, including state capital investors at central and local levels, institutional investors, individual investors, and overseas investors.

The fundamental status of competition policy should be established. Except for a few specific industries and enterprises that are subject to entry restrictions or control of business activities, all other industries and enterprises are subject to “competition neutrality.” They should earnestly implement the principle that “all entities of different ownership can use resources and factors of production legally and equally, participate in market competition in an open and fair manner, and be equally protected by law” in accordance with the 4th Plenary Session of the 19th CPC Central Committee. A modern enterprise system should be established and improved for fair competition in the market. China has treated all enterprises equally, without discrimination. It has formulated and enforced laws that are not targeted at one type of enterprises but provide equal protection for all enterprises in a fair atmosphere. To avoid

the misallocation of resources caused by unfair competition, no enterprise shall derive special benefits from competition-free protection.

According to the idea of “managing capital,” the scope of the state-owned economy should be clearly defined. The allocation of state-owned capital and the reform of state-owned enterprises are important prerequisites for fair competition. By implementing the spirit of the Third Plenary Session of the 18th CPC Central Committee, the country has shifted its focus on the state-owned economy from “managing enterprises” to “managing capital.” In accordance with the 19th CPC Congress, we should make the state-owned capital stronger, better and bigger. The mission and task of state-owned capital is to meet the needs of the national development strategy and play a supportive and guiding role in the overall development of the national economy. To this end, state-owned capital should be focused on providing public services, improving social security, developing important forward-looking strategic industries, protecting the ecological environment, supporting scientific and technological progress, and safeguarding national security. Strategic investment should be made in these areas, while less or no investment in other areas. If necessary, the investment in

other areas is mainly financial, with an exit deadline. China's competent departments shall be required to conduct compliance reviews in the areas in which state-owned capital is invested.

China should transform the modern enterprise governance structure for existing state-owned enterprises. Enterprises should promote the mixed ownership reform, except for a few ones that are required to be operated with wholly state-owned capital. The mission of state-owned capital should be implemented through national security management, specific industry control, boards of directors, and shareholders' meetings. Enterprises with the participation of state-owned capital (EPSC) are governed by a "dual-track" system of board of directors and management. In the system, representatives of state-owned capital in board of directors, sent by state-owned capital management institutions, may be served by administrative officials, while managerial personnel are recruited to perform their duties through market-based channels and rules. For EPSC, shareholders' meetings, boards of directors and management should exercise their rights and functions in accordance with the law. We should effectively play the role of state-owned capital operation and investment companies in adjusting the allocation of state-owned capital by transferring some state-owned shares to social

security funds or similar shareholding institutions. We should further improve the budget system for the operation of state-owned capital, intensify the collection of public finance from state-owned capital gains and income from the transfer of state-owned shares, strengthen the standardized management of the injection and transfer of state-owned capital, and implement a legal bankruptcy system for EPSC.

III. Reform of financial and tax systems oriented towards more effective governance

The national governance modernization centers on establishing a modern public finance system. In order to meet the needs of development, industrial structure and transformation of government functions, the reform should start with defining authorities and expenditure responsibilities of the central and local governments, and re-match the relationship between authorities and financial powers of the central and local governments. On a new basis, the reform should also establish a new fiscal system featuring clear separation of powers and responsibilities, matching of authorities and financial powers, hard budget constraints, traceability and accountability.

The central and local governments should properly define their authorities and corresponding expenditure responsibilities.

The central government should strengthen the management of macro affairs, maintain the unity of the national legal system, government directives and the market, and build a system of major social infrastructure across the board. In response to recent prominent problems, central departments should strengthen their capabilities for vertical management in public health emergency management, food & drug safety, national security, cross-regional judicial fairness and justice, and cross-regional environmental protection. Also, local governments at all levels should be oriented towards public services to determine their authorities and expenditure responsibilities and accelerate the transition from an economy-oriented government to service-oriented one. We should strengthen local autonomy and reduce the direct administrative intervention of the central government at the local level. The intervention, if necessary, should be conducted through legal procedures. To respond to the urbanization, we should enhance the status and role of urban governance in the national governance system. Cities, regardless of their size, enjoy equal status and rights in terms of access to production factors, basic public services and environmental protection.

They should establish the status of urban legal persons similar to those of enterprises and associations to separate the administrative rank of urban managers from the legal status of cities. In this sense, cities do not have special powers and interests because of the higher administrative rank of urban managers.

The tax reform should be promoted to adapt to the transformation of economic structure. The reform has shifted its focus from turnover tax to a mixed framework of direct and indirect taxes and from taxation of corporate entities alone to that of both natural and legal persons, gradually forming a model of matching taxpayers with public benefits. Turnover tax should also be collected from production only to production and consumption. Excluded-in-price consumption tax should be levied to reduce the excessive dependence of localities on land finance.

Sources of fiscal revenue should be regulated to institutionalize steady budget revenue. In accordance with the Budget Law, we will effectively link tax revenue, government fund revenue, state-owned capital gains and social security income to achieve a unified budget. More importantly, we should coordinate expenditures, and in particular establish a

standardized system to regulate social security expenditures based on the revenue from state-owned assets. At the peak of ageing, social security expenditure may be made up by the realisation of state-owned capital.

The revenue sources of local governments should be expanded and stabilized based on strengthening local budgetary constraints. We should increase local taxes, introduce real estate tax and consumption tax, promote the shift of value-added tax from production to consumption in the service sector, and gradually reduce the excessive dependence of localities on land finance. The tax sharing system should be improved to maintain the overall stability of local revenue. The transfer payment system should be reformed to increase the proportion of general transfer payments and reduce special transfer payments. We should launch a pilot program for the horizontal model of financial hierarchy set for governments and finance departments at central, provincial and municipal levels so as to promote equal competition among cities. The implicit debt guarantee of higher-level government for lower-level government should be eliminated to break the rigid payment and give full play to the decision-making and supervision role of local people's congresses on local budget and debt management. On this basis,

we should allow the expansion of financing channels such as municipal debt, which are compatible with local development capacity and affordability.

We should improve the efficiency of the national credit system and establish a mechanism for the normalization of making up national debt. The focus is to form an orderly treasury bond market based on stabilizing the budget deficit, with a reasonable maturity structure, in order to stabilize the expectations of the financial market and, if necessary, to issue special bonds to cover irregular expenditures. Such a treasury bond market can promote the transmission of market base interest rate. It can also facilitate the shift of monetary policy from quantity regulation to price regulation and of financial institutions from indirect financing to direct financing.

IV. Market-oriented reform of rural-urban factor mobility oriented towards the development of metropolitan areas and urban agglomerations

Metropolitan areas and urban agglomerations boast the essential structural potential for China's economy in the next 5-10 years, when most of new growth points will appear in this range. To unleash the potential, we should prioritize factor

market reforms associated with them.

We should accelerate the market entry of rural collective construction land and the transfer of rural housing land. According to the requirements of the Third Plenary Session of the 18th CPC Central Committee, we should accelerate the entry of rural collective construction land into the market, and place rural collective construction land in the market at the same price and with the same rights as state-owned land. Demand should be met through direct market access to collective land, except for that with specific public uses that is subject to land acquisition by the country. The right to use collective construction land, owned by original collective members, may be subject to the shareholding cooperative system, with shares available for sale. The transfer of rural housing land is currently still conducted within collective organizations, while the real demand comes from external organizations. The view that rural housing land, collective property, can only be transferred within collective organizations is not in line with the principle of market economy and not conducive to truly protecting and increasing the interests of farmers. Therefore, conditions should be created to allow the right to use rural housing land to be transferred outside collective organizations.

We should pragmatically resolve the issue of houses with limited property rights (HLPR). The problem of so-called HLPR has been formed in the context of authorities' failure to recognize the right of farmers to build houses on land designated for them and the impossibility of conforming to urban construction planning. HLPR, especially villages in cities dominated by HLPR, have objectively played a big part in meeting the housing needs of low-income classes in the urbanization, reducing the employment cost for enterprises and urban operation costs, and enabling industries and cities to thrive. By correcting the origin and rationalizing the relationship, corresponding rights should be given to farmers, relevant taxes and fees should be paid, and HLPR that do not conform to the plan should be corrected. In this way, HLPR can become a normal part of the housing market.

Proceeds from rural land transfers should be prioritized for improving the social security system. For a long time, we used rural land as the last guarantee for farmers to secure their livelihoods. With the maturing of the market economy and the development of a modern social security system, the modern social security system can completely replace the primitive and low-efficiency security form of rural land to free up land

resources. The income from the market entry of agricultural land and the transfer of rural housing land should be prioritized to improve the social security system of rural population in the corresponding areas, so as to relieve farmers of their worries and make them no longer dependent on land as a guarantee, like city dwellers. While improving the efficiency of land use and increasing income, farmers can be supported by a more effective and stable social security net.

We should speed up the entry and integration of rural population into cities. We should remove restrictions of household registration on the entry of rural population into urban areas, except for a few mega-cities. The restrictive policies of controlling housing, vehicles and schooling based on household registration are being phased out. The provision of basic public services to rural-urban migrants, who have created a great deal of wealth for urban development, is not a “handout” but a “right” to which they are entitled. In conjunction with the rural population settling in cities, we should accelerate the equalization of basic public services including housing, education, medical care and social security, improve the mechanism linking financial transfer payments to the citizenship of the agricultural migrant population, continue to promote the

policy of the moving population continuing to enjoy basic public services such as compulsory education, and gradually open up the connection of social security between rural and urban residents. With the construction of metropolitan areas, the construction of housing projects is phased mainly for migrants, especially the rural-urban population. In the long run, the household registration system should be gradually transformed into a registration system for place of residence.

Farmers should be allowed to come to cities, while city dwellers the countryside. The free urban-rural flow of people, capital, technology, land and other factors should be promoted. We should be open to urban people moving to the countryside to buy homes. Pilot projects should be carried out to build retirement communities in the countryside within metropolitan areas. Urban and rural residents have the right to choose their residences in cities or villages. They should be allowed and encouraged to participate in the construction of small towns with capital, technology and other elements.

V. Innovation-driven reform of easing access oriented towards enhancing total factor productivity

Most of low-efficiency areas that still exist are related to varying degrees of administrative monopolies and lack of

competition. The reform in this aspect has been discussed for years, which cannot be delayed any longer. We must make a substantial breakthrough in this regard.

Basic industries, including oil & gas, electricity, railways, communications and finance, are going to see landmark moves in easing access and promoting competition. For example, the whole chain of the oil & gas industry should ease access and liberalize imports. The communications industry should be allowed to establish one or two basic telecom carriers with private capital or capital investment outside the industry, including state-owned capital. Such a reform will both drive effective investment and, more importantly, help reduce the underlying costs of production and life in the real economy and society as a whole.

Private enterprises and other enterprises outside the industry should be encouraged to enter high-tech fields traditionally operated by state-owned institutions, such as aerospace. Progress has been made in this area in recent years, and the steps could be greater. Experience has shown that the private economy has greater potential for innovation in high technology. Entrepreneurs like Elon Musk have the potential to emerge in China's space sector.

The shortcomings of lagging basic research should be addressed. In a number of cities whose innovations are at the forefront and science and education resources are abundant, we should create special zones for high-level university education and R&D, just as we did for special economic zones. We should break through the unreasonable constraints of existing institutional policies. We should implement special systems and policies for enrollment, staff recruitment, project management, funding, intellectual property rights, and nationality status to create a mechanism and cultural atmosphere conducive to free exploration and major scientific discoveries and build a number of new-type universities and R&D institutes with Chinese characteristics that are in line with international first-class standards.

The government's traditional industrial policies are transformed into those of creating a high-quality competitive environment. The government should be committed to protecting property rights, maintaining market order, fighting against monopoly and unfair competition, improving the quality of factor supply, and studying and publishing information on industry development. According to the law, it should manage the necessary industry access from the perspectives of

environmental protection, energy conservation, product safety and national security. It should no longer regard what is produced, how it is produced, investment and equipment scale as access conditions. The government should prevent rent-seeking and corruption from occurring in local governments and enterprises. With industrial subsidies slashed or eliminated, necessary subsidies should be made more transparent, which should be consistent with the principle of fair competition and international norms.

We should promote the flow and aggregation of innovation factors to form more regional innovation centers and innovation-oriented cities. Important innovations often rely on such centers and cities, which are not artificially designated but are developed in competition. We should further break down institutional and policy-based constraints and barriers to facilitate the rational flow and optimal allocation of innovation factors nationwide. Local governments, especially cities with potential, should be encouraged to improve the innovation environment by shifting from previous GDP competition to innovation competition and focusing on the protection of property rights, especially intellectual property rights. We should stabilize expectations of entrepreneurs and researchers,

strengthen the construction of innovation infrastructure, and provide full-chain financial support for innovation. We should also attract and pool global outstanding talents, and promote the mutual integration of original innovation, technological innovation, industrial innovation and institutional innovation, in a bid to form a number of national and even world-class science centers and technological innovation centers.

VI. Reform of the financial structure and regulatory system oriented towards serving the real economy and boosting high-quality development

Finance serves the real economy. The state of financial development should be judged by the development of the real economy that finance benefits. Financial reform should adhere to the decisive role of the market in the financial system, adapt to economic transformation, structural upgrading, digitalization, green development and internationalization. The reform should take a leading role in driving change, innovation and stable development of the financial system.

We should further improve the market access and exit mechanism. We should change the long-established landscape of the financial system serving state-owned enterprises, which is dominated by state-owned institutions. We should manage the

negative list and appropriately lower the threshold to give more access to competitive and innovative enterprises. Also, the deposit insurance system should be brought into play to phase out those financial institutions that cannot survive in a market-based manner. We must dispose of credit debt defaults in an orderly manner and gradually break rigid payments in the bond market. We need to build a system for the disposal and bankruptcy of financial institutions that is appropriate to China's conditions and improve the rule of law and market-based exit mechanisms for such institutions. Through the survival of the fittest, the quality of financial institutions will be continuously improved under the condition that their number is relatively stable.

We need to build an “optimal financial structure” that is adapted to support high-quality and sustainable economic development. We also need to further develop a multi-level, differentiated, complementary and competitive banking system and capital market, and promote innovation of products and services to meet the needs of the real economy for innovation and entrepreneurship, mergers and acquisitions, restructuring and industrial upgrading. By doing so, we can refine the overall specialization in financial services. We need to adjust and

optimize the structure of the financial system to form an all-round and multi-level financial service system for venture capital, bank credit, bond market, and stock market. Whether the banking system or capital market is dominant, or whether the two develop in an integrated manner, is largely determined by the needs of economic and social development and market competition.

We need to form a competitive financial system to serve medium, small and micro enterprises (MSME) using fintech tools. We need to seriously study and promote the successful experience of fintech enterprises in identifying and controlling risks, reducing financing costs and providing effective financial services to a large number of MSMEs. We need to motivate banks to offer financial services to private enterprises, small and micro enterprises, and agriculture, rural areas and farmers. Financial institutions should be encouraged to use new technologies such as AI, big data, cloud computing and blockchain to optimize business processes, reduce service costs and continuously increase the coverage, accessibility and convenience of financial services. We need to steadily develop private banks and community-based banks, increase the number and proportion of small and medium-sized financial institutions,

and promote the return of small and medium-sized financial institutions such as city commercial banks, rural commercial banks and rural credit cooperatives to perform their original functions. We need to leverage the advantages of being familiar with local customers and provide targeted financial products and differentiated services according to market demand.

We need to further expand the two-way financial openness. Regarding financial openness, we need to ease access to foreign financial institutions, increase the equity ratio and more importantly, introduce regulations, systems and practices that have worked well abroad and are suitable for China's financial development. We also need to create a regulated, fair and rule-of-law environment for financial development. We should take internationalization of the renminbi as the anchor of China's financial openness, build a more transparent and prudent framework for monetary policies and exchange rate regime, and shift the management model from positive list to negative list so as to form a rational system of financial markets and institutions.

We need to establish a financial regulatory system with clear objectives, professionalism and accountability. The objectives of financial regulation are to safeguard fair

transactions, protect financial consumers and maintain financial stability, and to avoid moral hazard by separating responsibilities for development from the regulator. On the basis of well-defined responsibilities and smooth communication with relevant government agencies, the financial regulator is no longer included as a government department. We need to improve the regulatory accountability mechanism. When regulation goes wrong, person-in-charge must bear corresponding administrative, financial and even legal responsibilities. We also need to appropriately increase the establishment and funding of regulatory authorities to meet the requirements of digital technology development and strengthen regulatory capacity building.

VII. Reform of social policy systems oriented towards social protection and human capital enhancement

Whether it is industrial division and restructuring in a state of oversupply or the innovation-oriented structural upgrading, all require improving social policies and strengthening the reform and development of the supply system for public goods, so that the focus will switch to “enhance the quality” of human capital based on “ensuring the fundamentals.”

The doubling of middle-income groups should be

considered as another important strategy following the accomplishment of building a moderately prosperous society. The so-called middle-income group, by official statistical standards, refers to people whose income for a family of three is in the range of 100,000 yuan to 500,000 yuan. The current size of this group in China is about 400 million people. We need to meet the goal of doubling the middle-income group in about 10 years. The group will grow from the current 400 million people to 800-900 million or over 60 percent of China's total population. This strategy will function as an important engine of economic growth for a considerable period of time to come and will also contribute to long-term social stability.

We need to establish a long-term anti-poverty mechanism. After the goal of poverty eradication has been achieved, it is necessary to prevent the return to poverty, keep the bottom line, and stabilize and reduce the proportion of people living in relative poverty. Based on improving the ability of the poor to develop themselves and create wealth, we need to form a long-term mechanism for poverty elimination. Accelerating urbanization based on rural-urban integration is the greatest way to shake off poverty. Rural poverty reduction should be closely integrated with the development of metropolitan areas and urban

agglomerations, rural revitalization and green development.

Improving the human capital of the younger generation is the key to reducing poverty in rural areas and blocking the intergenerational transmission of poverty. More resources for poverty reduction should be channeled towards education to strengthen early childhood development education and vocational education on the basis of improving compulsory education so as to create more and better opportunities for employment and entrepreneurship.

To address the challenges of an ageing society, we need to transfer state-owned capital to social security funds with greater efforts. Logically, state-owned capital has the attributes of China national people's social security fund. This reform is conducive to supplementing the existing social security fund gap, reducing the burden of enterprises in contributing to five insurances and one fund for their employees, and improving their equity and governance structures. We should increase the transfer ratio of pension. The ratio can be higher in regions with greater pressure on pension payments and be pushed forward in tandem with reforms such as appropriately delaying the retirement age and raising the level of coordination. We need to improve the social security system covering the whole country in employment,

medical care and old-age care, realize trans-provincial settlement of medical bills via basic medical insurance accounts, and provide convenience for the rational flow of labor.

We need to strengthen vocational education and training in a comprehensive manner. Vocational education and training is gradually being provided as a basic public service, so that workers facing the impact of structural and technological changes can have a stronger capacity for career choice. The vitality and resilience of the labor market can be enhanced to develop a human capital support system that is suitable for structural transformation and upgrading and high-quality development.

We need to promote equity of opportunity. We need to further remove various administrative controls, make accessible the right to personal development and unblock social mobility channels. We need to prevent social stratification, broaden vertical mobility and change discriminatory practices against low-income workers in some places. On broadly comparable terms, we also need to provide more accessible opportunities for low-income groups in terms of employment, further education and promotion.

VIII. Green development-oriented reform for resources and

environment system

Green development includes, but is not limited to, environmental protection and pollution control. The green economic system is being developed, involving a range of links such as consumption, production, distribution, innovation and finance. The concept of “lucid waters and lush mountains are invaluable assets” has been put into practice. The basic framework for green development is being built, covering the development concepts, policies, objectives, important areas and institutional mechanisms.

Addressing climate change means that we need to change the economic development model. We need to avoid relaxing the response to climate change due to downward economic pressure, set stronger projected targets for carbon emission reduction, and strengthen China’s national independent commitment to the reduction. We need to incorporate green low-carbon transformation into overall strategic planning for socio-economic development, continuously improve the efficiency of energy and resources, reduce energy and resource consumption per unit of output value, and achieve a gradual decoupling of higher per capita income from pollutants and greenhouse gas emissions. We need to progressively reduce coal

use and greenhouse gas and conventional pollutant emissions per unit of energy consumption. We also need to deepen the synergistic management of economic transformation, energy revolution, environmental governance, climate change and public health. Climate adaptation goals and actions will be included in the medium and long-term planning to enhance the resilience in food production, urban development, infrastructure development, and water management.

We need to develop the institutional mechanism for green urbanization. From urban planning, energy, transportation, construction to all kinds of industrial development, we should adopt green development concepts, technologies, techniques, materials, equipment and methods, such as waste-free cities, sponge cities, distributed renewable energy, and passive buildings. We should develop policy-based incentives to guide functional cities towards a pro-nature urban model, protect important biodiversity and natural habitats within urban areas, and integrate biodiversity and ecosystem services into urban planning.

We need to promote major green technologies and corresponding supportive policies. We will shift from a traditional industrialized approach to a green approach to

development, which is fundamentally driven by green technologies. We need to select and promote major green technologies that are more mature, bring significant economic and social benefits and play a demonstration and guiding role. Such technologies involve city construction and building design, urban infrastructure construction, renewable energy systems, sewage treatment, and transport. We should develop and implement pilot schemes of circular economy for carbon neutrality and zero waste in the areas of transport, energy, water supply, food, and solid waste management. We should implement the sustainable technologies and programs through laws, planning, standards, information disclosure, and fiscal and financial policies.

Green consumption may result in a green lifestyle. We need to develop and implement a national green consumption strategy with food, travel, home, clothing, household waste and waste, and green certified products as priorities. Green consumption can make greener the whole chain and process in production and consumption. Key sectors such as catering, entertainment and logistics need to set targets for reducing food waste and scrap rates and develop relevant incentive policies. Carbon emissions per capita consumption and the proportion of green certified

products should be considered as key indicators for measuring green consumption and be incorporated into the national planning for economic and social development. We need to improve fiscal and financial policies and the government's green procurement policies to promote green consumption, develop guidelines for citizens on green consumption, standardize national green products and certification methods, and establish a national statistical indicator system for green consumption.

We should improve the trading system of carbon emissions rights and develop relevant markets. We need to use carbon pricing as an important tool to promote green, low-carbon and circular development and the energy revolution to facilitate decarbonization of the energy mix. We should expedite the legislative process and include the legislative needs concerning the carbon market in the agenda of revising the Environmental Protection Law of the People's Republic of China. We should accelerate the establishment and improvement of a greenhouse gas emission standard system for key industries, incorporate greenhouse gases into the environmental monitoring and control system, and enable carbon market transactions to be consistent with the emission permit system. We should improve the carbon pricing mechanism and strengthen the incentive guidance of

carbon prices for effective emissions reduction, R&D and innovation of low-carbon technologies, and low-carbon investment.

We need to develop a system of objectives and accounting methods for synergizing economic, social and environmental development. We need to speed up the exploration of more scientific, reasonable and practical methods for accounting for the value of ecological capital services, solve the problem of accounting for ecological capital and its service value, and promote the measurability, monetization and tradability of the value of ecological capital services, so that the ecological conservation and green development can become more of a daily economic activity for enterprises and residents. Through the transformation of the development concept and the improvement of accounting methods, we should internalize externalized costs in the traditional industrialization approach and externalized benefits in the green development approach. We should redefine and compare costs and benefits of economic activities, form a more forward-looking and sustainable development system based on the coordination of economic, social and environmental interrelationships, and boost green development as a new low-cost, sustainable and competitive

approach.

IX. Leading a globalization-oriented reform of open economic system

China is an active participant benefiting from globalization and the market economy. Competition in the era of globalization is, after all, a contest between market economy systems of different economies. In the competition of the global market economic system, China cannot lag behind, but can only stand in front so that it can grasp the big picture and seize opportunities.

We need to maintain and lead the globalization with a long-range vision. As globalization has suffered a shock, global trade, investment and finance rules, including those of the World Trade Organization (WTO), face major adjustments. Several major economies are likely to move towards “three zeros” (zero tariffs, zero barriers and zero subsidies). China should take forward-looking and leading initiatives to promote rational changes in the global governance structure while safeguarding its own interests in order to respond to the needs of the globalization. We should turn the pressure of opening up to the outside world into an impetus for internal reform to accelerate the rule-based opening of the system. Some of the topics

covered in international negotiations include breaking administrative monopolies, fair competition, reform of state-owned enterprises, transformation of industrial policies, reform of the subsidy system, protection of property rights (especially intellectual property rights), transformation of government functions, protection of workers' rights and interests, protection of the ecological environment and green development. They are not changes that others want us to make, but those that we ourselves are willing to make. They are proactive choices that we have made in the light of China's national conditions through long-term and strategic planning. The mutual promotion of external opening up and internal reforms will help to develop a high-standard market system and enhance long-term competitive advantages.

We should promote "neutral competition" in an open environment. The first is to maintain "neutrality" between exports and imports, expand markets through exports, reap benefits of economies of scale and division of labor, and introduce various resources through imports to upgrade the technological level and competitiveness of industries and improve the efficiency of resources allocation on a wider scale. Second, it is important to maintain "neutrality" between foreign

direct investment (FDI) and outward investment, so that the capital, technology, advanced products and management experience brought by FDI are as important as investment returns, export expansion and local production advantages brought by outward investment. The third is to maintain “neutrality” between foreign and domestic enterprises. The two types of enterprises hold different advantageous resources. Through fair competition, we should screen the competitive enterprises, which is conducive to promoting domestic economic development and international competitiveness.

We should build a new global division of labor in technology and industry under the new circumstances. In recent years, the US has “cut off supplies” to important enterprises and advocated “decoupling” of technology, which will have an important impact on industrial development strategies. Therefore, we should be self-sufficient by making innovations, which may become a much-needed choice for important economies. Such a strategy necessarily reduces the benefits of participation in the international division of labor, but it also facilitates the breaking of key technology monopolies and increases competition. Meanwhile, China can take advantage of the mega-market to reduce R&D and manufacturing costs. We

should increase investment in basic research and R&D of underlying technologies and achieve breakthroughs in key core technologies with enterprises as the mainstay. Innovation projects, where national resources are concentrated, should focus on “bottlenecks” in the context of public goods. We should adhere to economic globalization and technology openness and cooperation with the outside world, while balancing the security of the industrial chain with the expansion of openness. In this way, we can win the initiative in the new industrial competition landscape.

In opening up to the outside world, we should take major initiatives that are more imaginative and forward-looking. For example, the opening up of free trade zones (FTZ) will be combined with the reform, while some major initiatives for internal and external reform and opening up can be taken in the FTZ on a trial basis. In a larger scope, such as Hainan Province or the Guangdong-Hong Kong-Macao Greater Bay Area, the pilot project of “three zeros” (zero tariffs, zero barriers and zero subsidies) will be carried out to form a high-standard market system and testing ground for a high level of opening up to the outside world. By cooperating with some regions of the countries concerned, we will play a leading role in global

openness.

X. Reform methodology: crossing the river by feeling the stones remains feasible

Many people have questioned the need to cross the river by touching the stones when it comes to the reform: because it has been 40-odd years since the reform and opening up was launched, is this method still necessary? This involves the understanding of the reform methodology.

We often discuss about top-level design and grass-roots experiments. The top-level design mainly addresses two issues: the direction cannot go off; the bottom line must be set. On this premise, it relies on the grassroots to conduct experiments and local governments, enterprises, social organizations and individuals to find the right things through trial and error.

It is said to cross the river by touching the stones because in the reform and opening up we have to face a large number of unknown and uncertain factors. In other words, different rivers must be crossed at different times, with not just one river to be crossed. At the early stage of the reform and opening up, it was not clear beforehand how the household contracting system in rural areas would work and how urban enterprise reform and price reform would be pushed for. Therefore, a new path was

gradually worked out in the process of trial. Many successful practices were first tried by local governments and enterprises, which worked well, and the central government found them and then summarized and improved them before spreading them across the country. As China's economy has entered a period of moderate and stable growth, it is also unclear or highly uncertain which industries and cities can take the lead in making breakthroughs and which approaches will actually work to achieve innovation-driven high-quality development. The top-level design calls for crossing such a new river and getting from one bank to the other, but it is still up to the grassroots to experiment exactly how to do so. In hindsight we knew we would need to step over five rocks to cross the river, but what we saw at the beginning was vast water. A feasible approach is to divide the water into 100 squares, and we try them one by one, by trial and error. If only one subject tries it, it takes a long time; 10 subjects try it, it takes one tenth of the time; and 100 subjects try it, it takes even less time. Innovation is essentially a process of trial and error. The real reform means making innovation in institutional and policy-based mechanisms, which requires the mobilization of all aspects of society to participate in experiment. It is in this process of trial and error that good

mechanisms can come to the fore.

With regard to the role of government, a distinction needs to be made between the central and local governments. China is a mega-economy with a large difference in the roles of the central and local governments. While the central government has taken a leading role in national security, development consensus, macroeconomic stability, national unified market, and national infrastructure development, local governments are committed to operating various immovable resources within their own jurisdictions, including hard ones such as infrastructure and soft ones such as business environment. They also directly intervene in investment promotion to attract movable resources like enterprises through competitive immovable resources. A local economy does well because the immovable resources run by the local government and the movable resources operated by enterprises create an efficient complementary effect. Put another way, companies face competition in the marketplace, carry out innovation, and spend a lot of efforts dealing with uncertainty. By operating immovable resources well, the government is reducing uncertainty. With certain resources, companies can allocate their main efforts to competitive and innovative activities in the

market, which is what is meant by a good development environment. Conversely, a poor development environment with many government-run immovable resource problems, such as infrastructure shortages and an unstable business environment, not only fails to reduce, but increases uncertainty. Enterprises have to spare a lot of energy to cope with it, with a corresponding reduction in the amount of energy that can be devoted into market competition and innovation. As such, an inevitable decline occurs in market dynamism and competitiveness.

In this landscape, it is essential to have the leadership of local governments, the quality of key leaders, and furthermore, the entrepreneurial spirit of local leaders. By entrepreneurship, we mean essentially the spirit of innovation, the vision, boldness and skill for recombining elements. Entrepreneurship is not inherent in business leaders; leaders of all types of organizations, including government, should be able to have it as well. Of course, business leaders are not always entrepreneurs, some are just conformist or even mediocre managers, and the same is true of leaders of government agencies.

A major feature of the market economy with Chinese characteristics is local competition, which is the product of the

encounter between the traditional governmental organization and the market economy or the integration between the initial conditions before the reform and the introduction of new elements after the reform began. Local competition is largely one among local government leaders. Some places are developing fast and well because local leaders are entrepreneurial, have developed effective incentives in government agencies, and are bold and adept at regrouping various immovable elements. In other words, they are willing to and daring to do things, and being able to make it. The emphasis is on giving full play to the initiative and creativity of the local grassroots. One fundamental principle is to push talented people with entrepreneurial spirit onto leadership positions in local governments, especially urban governments. With such a group of people and competition between places, a lot of unexpectedly good things will emerge.

Reform is to rationalize the relationship, work out the solution to problems. Different contradictions should be addressed with different institutional policies, which, in economic terms, means low cost, stable expectations and sustainability. Since the reform and opening up, a saying goes that we should use legal, economic and necessary administrative

methods. There are issues that require a legal approach, such as the protection of property rights; there are issues that require a market mechanism, such as price regulation; and there are other issues, such as responding to emergencies, that require more of an administrative approach. There is a tendency to lean unduly on administrative approaches, so that formalism and extremes are inevitable. For example, the fight against pollution is undoubtedly the right goal, but in some places has become a one-size-fits-all approach of administrative orders to closing down small businesses or chemical enterprises. The protection of property rights, costs and benefits are ignored. The results are often contrary to expectations. The emphasis on local exploration and grass-roots experimentation is to find institutional mechanisms and policies that are truly in line with the law, practical and effective. Only when the legal, market and administrative departments perform their duties can they better governance efficiency.

China is still in an important strategic opportunity period, but “black swan-style” challenges come unexpectedly, such as the US-China trade friction, chaos in the Hong Kong and the epidemic shock. These challenges are characterized by great uncertainty, bringing difficulties and pressures but also

opportunities. Cutting off supplies to Huawei has forced Chinese companies to shore up their shortcomings that are reluctant to be done so in when everything is smooth. Many loopholes revealed in the fight against the epidemic will also drive the reforms of the public health management system and the entire national governance system. The key to turning challenges into opportunities lies in mobilizing the enthusiasm and creativity of all sectors of society, especially the entrepreneurial spirit of scientific and technological personnel, business people and government officials at all levels. Great progress in this area will unleash the huge growth potential of the whole society and propel it onto the journey towards innovation-driven modernization.

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