

# CHINA

## Economic Freedom Score



World Rank: **136**

Regional Rank: **29**

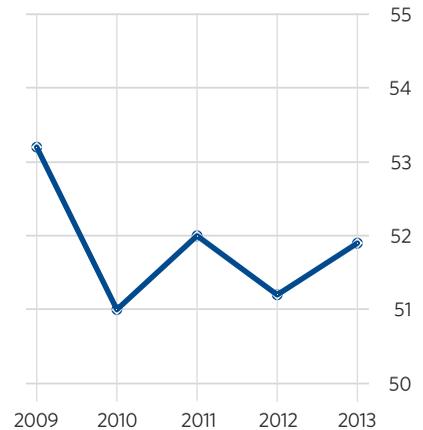
China's economic freedom score is 51.9, making its economy the 136th freest in the 2013 *Index*. Its overall score is 0.7 point higher than last year, reflecting modest improvements in four of the 10 economic freedoms. China is ranked 29th out of 41 countries in the Asia-Pacific region, and its overall score continues to be lower than the global and regional averages.

China's economy remains "mostly unfree." The legal and regulatory system is vulnerable to political influence and Communist Party directives. The party's ultimate authority throughout the economic system undermines the rule of law and respect for contracts. Corruption is widespread, and cronyism is institutionalized and pervasive. Although leaders occasionally embrace market principles that could enhance efficiency and ensure long-term competitiveness, genuinely liberalizing economic reform has largely stalled.

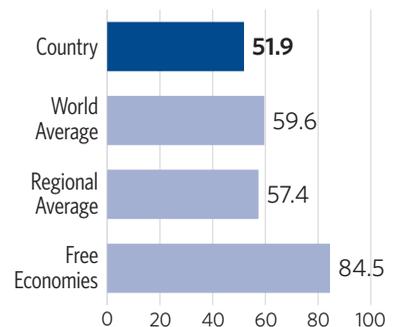
The absence of political will to undertake more fundamental restructuring of the economy has led to continued overreliance on public investment. Productivity growth is undermined by state regulation and ownership of many enterprises, and the financial sector is primarily an instrument of state control through subsidies and credit manipulation. In the face of the economic slowdown, the government has tried expansionary fiscal and monetary interventions to little effect.

**BACKGROUND:** China's Communist Party maintains tight control of political expression, speech, religion, and assembly. There is hope for economic reform from the incoming government of Communist Party General Secretary Xi Jinping, but political reform is unlikely. Environmental degradation and fiscal pressure driven by low birth rates that are the legacy of China's "one-child policy" fuel social unrest. China liberalized parts of its economy in the late 1970s and early 1980s and has achieved impressive GDP growth through greater integration into the world trading and financial systems. It formally joined the World Trade Organization in 2001, and the size of its industrial and manufacturing sector now rivals that of the United States.

## Freedom Trend



## Country Comparisons



## Quick Facts

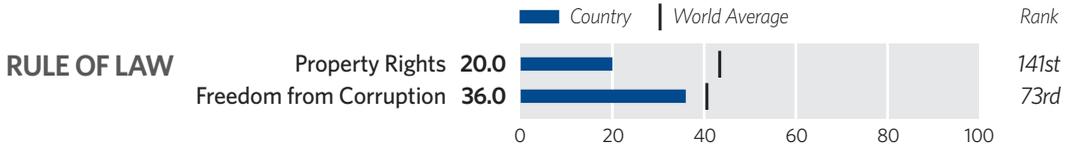
**Population:** 1.35 billion  
**GDP (PPP):** \$11.3 trillion  
 9.2% growth in 2011  
 5-year compound annual growth 10.5%  
 \$8,382 per capita  
**Unemployment:** 6.5% (registered urban)  
**Inflation (CPI):** 5.4%  
**FDI Inflow:** \$124.0 billion  
**Public Debt:** 25.8% of GDP

### How Do We Measure Economic Freedom?

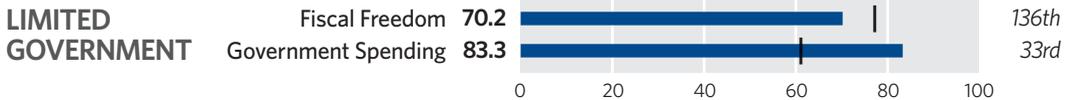
See page 477 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2011 data unless otherwise noted.  
 Data compiled as of September 2012.

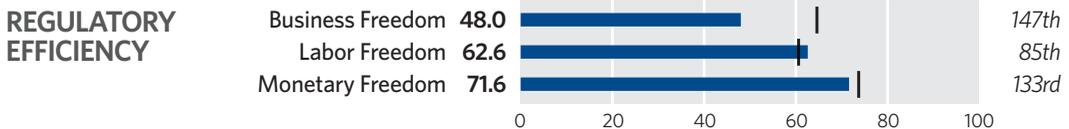
**THE TEN ECONOMIC FREEDOMS**



China’s weak judicial system is highly vulnerable to political influence and corruption. All land is state-owned. Individuals and firms may own and transfer long-term leases that are subject to many restrictions. Intellectual property rights are not protected effectively, and infringement of copyrights, patents, and trademarks is common. Various forms of corruption severely affect banking, finance, government procurement, and construction.



The top income tax rate is 45 percent, and the top corporate tax rate is 25 percent. Other taxes include a value-added tax (VAT) and a real estate tax. The overall tax burden is equal to 18.2 percent of total domestic income. Government spending amounts to 23.6 percent of GDP. Public debt has decreased, but large amounts of debt are held in off-budget obligations. Slower growth may undermine fiscal policy.



The overall regulatory framework remains complex, arbitrary, and uneven. Completing licensing requirements costs over three times the level of average annual income. The labor regime remains repressive. The state imposes price controls on a wide range of energy, raw materials, and other basic goods. Along with several interest rate cuts, deceleration in consumer price inflation in 2012 gave the state room for additional stimulus measures.



The trade-weighted average tariff rate is 4 percent, and layers of non-tariff barriers add to the cost of trade. The investment regime is non-transparent and inefficient. The state continues its tight control of the financial system as its primary means for managing the rest of the economy. The government owns all large financial institutions, which lend according to state priorities and directives and favor large state enterprises.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.2	Business Freedom	+1.6	Trade Freedom	+0.4
Freedom from Corruption	+1.0	Government Spending	-0.8	Labor Freedom	+7.2	Investment Freedom	0
				Monetary Freedom	-2.6	Financial Freedom	0