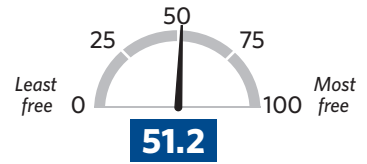


# CHINA

## Economic Freedom Score



World Rank: **138**

Regional Rank: **30**

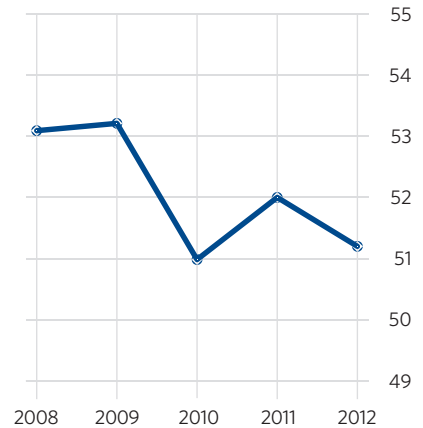
**C**hina's economic freedom score is 51.2, making its economy the 138th freest in the 2012 *Index*. Its overall score is 0.8 point lower than last year, reflecting worsening performance in business freedom and government spending. China is ranked 30th out of 41 countries in the Asia-Pacific region, and its overall score is lower than the global and regional averages.

Economic freedom in China rests on fragile foundations. The judicial system is vulnerable to political influence and Communist Party directives, and corruption is perceived as widespread. The party's small leadership group holds ultimate authority, and direct control is exercised over many aspects of economic activity. The pace of genuinely liberalizing economic reform has slowed or stopped. The government has tried to counter the slowdown in global demand with expansionary fiscal and monetary interventions.

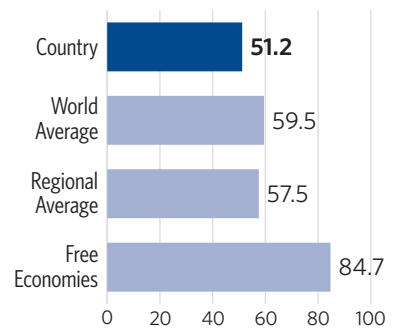
The embrace of market principles that could enhance efficiency and long-term competitiveness has become sporadic and is unevenly distributed throughout the country. The absence of political will to undertake more fundamental restructuring of the domestic economy has led to overreliance on public investment and exports to promote growth. The state-controlled financial sector continues to undercut efficiency and productivity through extensive use of subsidies and credit controls.

**BACKGROUND:** China remains a one-party state. The Communist Party maintains tight control of political expression, speech, religion, and assembly, and any social group that can organize on a large scale is deemed a threat, as are some individuals. A change of government set for late 2012 could be preceded by a further crackdown. Environmental degradation and the demographic transition and associated budgetary pressure that are the legacy of the "one-child" policy contribute to social unrest. China liberalized parts of its economy notably in the late 1970s and early 1980s and later achieved impressive GDP growth through greater integration into the world trading and financial systems. It 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

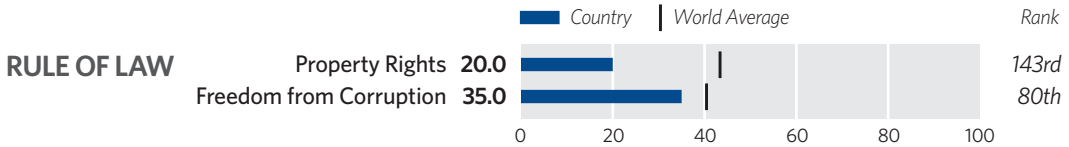
**Population:** 1.34 billion  
**GDP (PPP):** \$10.1 trillion  
 10.3% growth in 2010  
 5-year compound annual growth 11.2%  
 \$7,519 per capita  
**Unemployment:** 4.3% (urban)  
**Inflation (CPI):** 3.3%  
**FDI Inflow:** \$105.7 billion  
**Public Debt:** 33.8% of GDP

### How Do We Measure Economic Freedom?

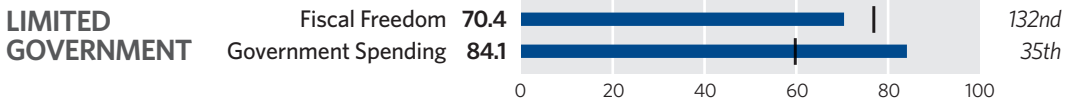
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

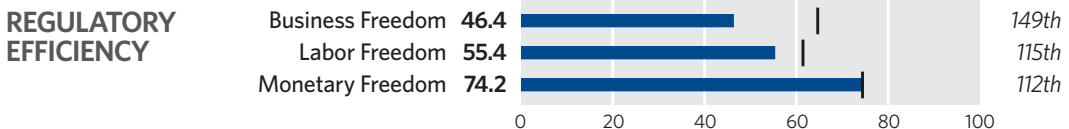
**THE TEN ECONOMIC FREEDOMS**



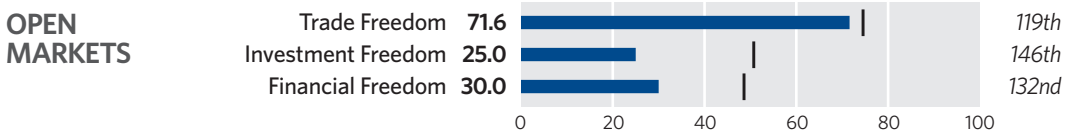
China’s weak judicial system is highly vulnerable to political influence and corruption. All land is state-owned. Individuals and firms may own and transfer long-term leases that are subject to many restrictions. Intellectual property rights are not protected effectively, and infringements on copyrights, patents, and trademarks are quite 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 17.5 percent of total domestic income. Government spending has been expanding, with central government spending now equivalent to 23 percent of GDP; off-budget obligations are extensive. Reported central government debt has increased to 33.8 percent of GDP.



The overall regulatory framework remains complex, arbitrary, and uneven. The time and cost to start a business exceed world averages, and the cost of completing licensing requirements is over four times the level of average annual income. The labor regime remains repressive, although the labor law introduced in 2008 allows employees more contractual rights. Inflation has been monitored intensely, with the government often relying on price controls.



The trade weighted tariff rate is 4.2 percent, with layers of non-tariff barriers adding 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      | +0.1 | Business Freedom      | -3.4 | Trade Freedom      | 0 |
| Freedom from Corruption | -1.0 | Government Spending | -2.9 | Labor Freedom         | +0.5 | Investment Freedom | 0 |
|                         |      |                     |      | Monetary Freedom      | -1.1 | Financial Freedom  | 0 |