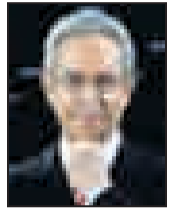


When China celebrates its 40th anniversary of reform and opening-up in December, I will be about to celebrate the 30th anniversary of my first coming to China in January 1989. I was hooked from the moment I arrived. People had a fresh, if naive, enthusiasm; they were determined to learn and eager to improve their material and civic lives. I knew then that China's economy, culture, politics and geopolitics would come to matter to the world. What I didn't know then was how much China would matter and how rapidly it would all come about.



Robert Lawrence Kuhn

China has transformed itself into an economic superpower involved with every major issue in global affairs and competing in every relevant area of human endeavor. From trade, business and finance to diplomacy, defense and security; from science, technology and innovation to culture, media and sports —

China's growing strengths have worldwide implications.

As I reflect on China's 40th anniversary of reform and opening-up, I focus on two big questions: Why, after 40 years, does China still need to reform and open up? And, going forward, what are the prime areas that reform and opening up are targeting?

To answer these two big questions in context, the history of reform and opening-up can now be understood in terms of roughly three periods of time or "eras" — a temporal road-map, as it were, for tracing the historic development of reform and opening-up in China.

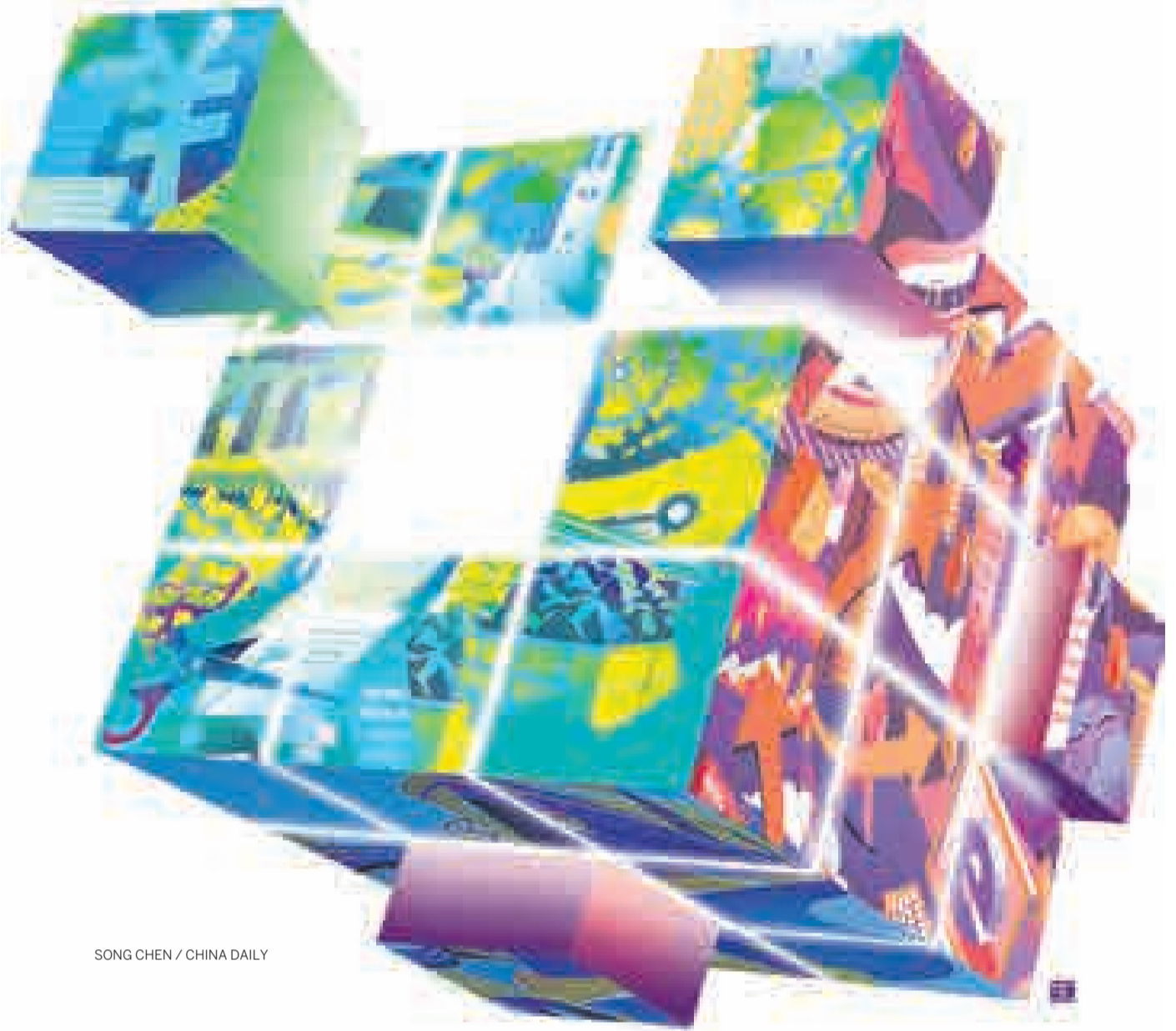
The first period, from the founding of the People's Republic by Mao Zedong in 1949 until the initiation of reform and opening up by Deng Xiaoping in 1978, was a span of about 30 years marked by a planned economy, communal agriculture, State ownership of the means of production, heavy industry development, economic stagnation, political mass movements culminating in the decade-long turmoil of the "cultural revolution" (1966-76), and a closed society that kept the world out.

The second period, from the initiation of reform and opening-up by Deng in 1978 to the "New Era" designated by the 19th National Congress of the Communist Party of China with President Xi Jinping as its core in October 2017, was a span of about 40 years that featured continuous, high-rate economic development unique in world history, generating the creation of great economic power and wealth.

The third period, from the commencement of the New Era of reform and opening up in October 2017 to roughly mid-century, 2050, about another 30 years, is our contemporary period fraught with complex interrelationships and unprecedented challenges, domestic and international. China's New Era is bookended by the country's two grand centennial goals: China becoming a "moderately prosperous society" by 2020 (2021 being the 100th anniversary of the Communist Party of China) and China becoming a fully modernized socialist country by 2050 (2049 being the 100th anniversary of the People's Republic of China).

For all its remarkable development, today's China has accumulated a host of seemingly intractable problems (which would have been unthinkable in the perennial poverty of its past), including high debt (corporate and local government), income disparity, corruption and industrial pollution. At the same time, today's China, firmly under the overarching leadership of Xi, is playing an increasingly central role in world affairs.

Now to ask the two big questions in this 40th year of reform and opening-up. First, why is China still trying to reform and open up after 40 years? What is it about China that four decades of reform and opening-up are still not sufficient to achieve a state structure that is sustainable?



SONG CHEN / CHINA DAILY

Why China still needs to reform and open up

Two major areas are streamlining of government and decisive role of market in allocating resources

I am not talking about improving government or modulating macroeconomics; these are normal optimizing adjustments that must be made regularly in complex socio-economic environments (for example, monetary and fiscal policies). "Reform and opening-up" are qualitatively different; these seek fundamental changes to the ideological structure of a country's governance and economy, its institutions and protocols of operations.

As is usual with China, there are multiple reasons that drive policy, which is why reform and opening-up continues to remain a work-in-process. Some of these reasons overlap; some work independently. These include the multi-decade, multifaceted complexity of transitioning from a planned to a market economy while avoiding the social trauma of economic "shock therapy"; a huge, imbalanced population that could become, with an unstable economy, an unstable society; evolving structural issues such as central and local government relationships, real estate markets, regulatory and tax policies; industrial markets that restrict access for private or foreign com-

panies (reflecting earlier stages of China's development); the multiple issues of rural lands, farmers and migrant workers; the multiple issues of State-owned enterprises (ownership, management, quasi-monopoly status); the political and economic strength of "interest groups" which work to maintain the status quo in order to maintain economic privileges and which are supported by political elites in control-group silos; officials whose power is not yet (in Xi's words) "restricted by the cage of regulations"; and increasing international investments as Chinese enterprises go global. All these are reasons why, 40 years on, President Xi has made "comprehensively deepening reform" a cornerstone of his administration.

The second big question is, in order to achieve China's grand goals, what are the areas that need to be targeted? Two major areas are a streamlining of government, exemplified by the far-reaching institutional reforms approved at the 2018 National People's Congress, and continuing to expand the "decisive" role of the market in allocating resources, such as by facilitating

the development of private business.

In addition, to discern the direction of reform and opening up for the new era, I can do no better than using as a forecasting guide the New (Five Major) Concepts of Development, President Xi's framework for China's economic development in the new era: the pervasive power of innovation, primarily in science, technology, business and markets, and especially the institutional reforms required to facilitate innovation; the efficiencies of coordination, stressing the integration of geographic regions; the pervasiveness of green, reflecting people's increasingly vocal demands for a clean environment; the contemporary expansion of opening-up, including new industrial sectors for private company entry, reduced regulations such as "negative" lists to ease new business development, Chinese enterprises investing abroad, trade facilitation, and financial system liberalization; the higher good of sharing, namely the rebalancing of China's economic and social imbalances by richer sectors and regions helping poorer ones.

How to know whether China's new era reform and opening-up is working? One way is a close read of official speeches and communiqués: what is called for is often what is not working as well as intended.

Short term, watch debt ratios and State-owned enterprise reform.

Long term, if by 2035, when China intends to "basically achieve socialist modernization," China is still talking about "deepening reform and opening up", then something has gone awry. Let's check back then.

The author is a public intellectual, international corporate strategist and investment banker, and China commentator. He is the author of How China's Leaders Think and he is co-creator (with Adam Zhu) and host of CGTN's Closer to China with R.L. Kuhn and The Watcher commentaries. The views do not necessarily reflect those of China Daily.