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# Policy Forum 08-093: China's Economic Reforms Pushed by Civil Society



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# China's Economic Reforms Pushed by Civil Society

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China's Economic Reforms Pushed by Civil Society

By Yongsheng Zhang

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## I. Introduction

Yongsheng Zhang, contributor to the East Asia Forum, writes "the most essential element for good economic performance is preventing governmental opportunism. To achieve this, the government needs to be limited by rule of law and civil society. A better institution for long-term economic prosperity can thus gradually evolve in a civil society."

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## **II. Article by Yongsheng Zhang**

- "China's Economic Reforms Pushed by Civil Society"

By Yongsheng Zhang

Over the past three decades, institutional changes have been the major driving force for China's economic development. But, as Ross Garnaut recently stated in Beijing, "many foreign analysts have underestimated the importance of institutions in economic development, and the inevitably gradual nature of successful institutional change".

If China's reforms prior to 2000 for establishing a market economic framework could be called the first generation of reforms, then subsequent reforms aimed at improving the market economic system could be called the second generation of reforms (2G), designed to eradicate the hardest institutional barriers incompatible to a market economy. But the 2G reforms need momentum. For instance, it is not so easy to break the vested interests. However, proper application of the rule of law and civil society measures can provide the momentum and act as a warranty for the success of the 2G reforms and for China's long term economic prosperity.

The recent strikes of taxi drivers in some places in China is a good example. China has always put economic development and social stability as the top priority. But in the past, stability was achieved even through times of high pressure. This kind of stability was not real stability and not sustainable. The real social stability needs to be achieved through rule of law and civil society (or, as Hu Jintao put it at the 17th congress, "socialist democracy"). When the first strike happened in Chongqing, the party chief of Chongqing, Bo Xilai, solved it in a different way to what is sometimes expected in China - to listen to the appeal of the taxi driver and reform the regulation of the government, rather than put pressure to stop the strike in the first place. These kind of examples can be seen as definite progress toward civil society in China.

Chongqing's solution encouraged taxi drivers elsewhere to take action. In Hainan, Guangdong, Jiangxi and other places, taxi drivers followed Chongqing and organised strikes. In the old thinking, the strike means instability. But, actually, strikes are a sign that the Chinese society is becoming more and more open, transparent and democratic, since now the people can protest publicly, and the government has to solve problems through reforming and disciplining their own behaviour. Some western media may report the strike from a different angle and deem the strikes as the evidence of instability in China, or even the evidence of the crisis of Gongchandang's rule. This kind of conclusion is incorrect and misleading.

Behind the strike, there are complex economic reasons. The taxi sector is a franchised sector in China and the taxi companies need to obtain the franchise from the government. The taxi driver pays a monthly fee to the taxi company: for instance, about 5,000 yuan in Beijing (the vehicle are usually owned by the taxi driver and the costs of running including repair are the driver's responsibility). The remainder after the monthly fee is the driver's income -- about 3,000 yuan per month, working for 13 hours a day (different places have different situations).

It is extremely hard for the individual to enter the taxi sector because of the government's quantity control on taxi numbers. If one wants to enter the sector, he/she has to engage in a taxi company that has a certain quota. The quantity control results in a high taxi price, but the taxi company takes most of the revenue generated after that high price has been paid.

Therefore, the underground or "black" taxi appears, not paying the high monthly fee. What the drivers are protesting is the high monthly fee and the "black" taxis. If there was free entry, the taxi price would drop and the driver's income may increase side by side. But this would not be easy to achieve, since the interests in the sector have been so distorted. The root reason is the distortion resulted from the bad regulation, not the "black" taxi. To introduce free entry is only part of the answer.

As a result of the taxi strike, the monthly fee was sharply decreased in Chongqing. At the national level, the problem in the taxi sector has drawn high attention and become a media focus in China. It looks like a national wide reform on taxi regulation is going to be started.

The taxi sector is only one example of how China's reform is pushed by the civil society. It is expected that, as China's economy rapidly grows, more and more reforms will be initiated and pushed by the civil society from the bottom-up. More particularly, many situations in which the farmer can defend their right on land are expected to occur after the farmer's land use right was significantly reinforced at the 3rd Plenary of the 17th CPC Central Committee in 2008.

The most essential element for good economic performance is preventing governmental opportunism. To achieve this, the government needs to be limited by rule of law and civil society. A better institution for long-term economic prosperity can thus gradually evolve in a civil society.

### **III. Nautilus invites your responses**

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [napsnet-reply@nautilus.org](mailto:napsnet-reply@nautilus.org) . Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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