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Setting the Structural Reform of Supply-Side as the Focus and Shifting the Economic Development Model

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Abstract: To focus on SRSS during the 13th Five-Year Plan period (2016-2020) is a necessary response to the changes of the international economic environment and to China's goal of achieving the new normal in economic development. The main reason why the focus shifts from changing EDM to reforming the supply-side structure lies in the fact that structural reform boosts the transformation of EDM, and only by accomplishing the former will the latter be realized. Today SRSS is faced with challenges like different ideologies, insufficient conditions and backward regulations. It should be led by the Five Major Development Concepts proposed by President Xi Jinping, "Innovation, coordination, greenness, openness and sharing," and the "supply-side" and "demand-side" must be simultaneously propelled.

Keywords: supply-side; structural reform of EDM; focus

Around the Fifth Plenary Session of the 18th Communist Party of China(CPC) Central Committee, the 13th Five-Year Plan was proposed by the CPC to boost the development of the new normal of Chinese economy and a series of new thoughts, ideas and strategies were put forward, among which the Setting the Structural Reform of Supply-Side (SRSS) was repeatedly emphasized. In November 2015, during a Central Economic Leading Group Meeting, President Xi Jinping first proposed "SRSS." He further advocated "SRSS to be a significant

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innovation to adapt to and guide the path to the new normal, a requisite to meet the goal of realizing the new normal^① in December 2015, during the Central Economic Work Conference. That was followed by a notable proposal from the Political Bureau of the CPC Central Committee in February 2016, that during the 13th Five-Year Plan period, SRSS should be set as the focus to supply more efficiently to meet demand, and to speed formulating a mechanism and model that will guide the new normal of Chinese economic development. The 13th Five-Year Plan released in March 2016, repeated that “SRSS must be carried out as the overall demand is moderately increased, in order to meet the ever-growing, ever-upgrading and increasingly individualized needs of the public in materials, culture and ecology”^②. How to understand setting SRSS as the focus? Compared with the 12th Five-Year Plan, why was there a shift of focus? How to implement this shift in practice? These are all questions that need to be further considered and discussed.

1. Scientific analysis of setting SRSS as the focus

A “focus” should be a keynote factor that can motivate other factors. The focus of a period indicates the overall direction and is a thread that connects all factors from beginning to end. The 13th Five-Year Plan is crucial for China to build a moderately prosperous society in all respects. The economy has entered a new normal and has been basically maintaining its upward trend, but it is still challenged by several problems like the increased downward pressure, the slow pace of the industrial restructuring and the weak carrying capacity of resources and the environment, as well as several

social contradictions. Given the complexity of China’s economy, to realize the stability of the economy and to maintain a medium-to-high level of growth, SRSS must be scientifically analyzed.

1.1 The connotation of setting SRSS as the focus

Inside an economy, there needs to be a medium-and-long-term structural balance between consumption and investment. If, in a short period, the government first stimulates consumption and accordingly invests more to meet the growing consumption, the economic balance could be restored for a while. However, the investment might exceed the original equilibrium level while the consumption might be lower. After a new investment cycle, new productivity higher than the original equilibrium level comes up, while the need for investment on consumer goods remains lower than the original equilibrium level, which pushes the investment providers themselves to purchase the surplus goods to prevent overproduction. To absorb the new capacity, another round of stimulus is needed to create new demand and cater to the growing investments, which, however, will lead to even more capacity for the next production cycle. The result would be that the production capacity is growing, followed by a larger scale of stimulus and finally the imbalance between demand and supply. Given this analysis, when the investment is lower than the original equilibrium level, stimulating the demand-side is effective in the short run, while in the medium to long run, the imbalance between demand and supply will be repeated, hauling the economy into a liquidity trap and invalidate the economic stimulus. It is thus obvious that the decisive factor for economic stability is shifting from the demand-side to the supply-side. If there is still

① The central economic work conference proposed five major tasks in 2016. Retrieved from http://news.xinhuanet.com/fortune/2015-12/22/c_128554414.htm, 2015-12-22.

② Three sentences to help you understand the 13th Five-Year Plan. *Guangming Daily*, 2016-03-24.

room for growth in the traditional capacity markets, increasing investment could be an effective way to balance the demand and the supply. But as the consumption structure is being upgraded, and the traditional capacity is growing, merely adding more investment proves impotent, and even destructive, speeding economic decline. Therefore, the focus must be placed on the supply-side instead of the demand-side: Production must be changed first to start the transformation process of the supply-side that will lead to the structural adjustment and upgrading of the demand-side. Effective macro-control means must be used to promote the rational circulation of production factors.

Compared with the previous stages of economic growth, the new normal features a buyers' market instead of a sellers' market. In the past, due to insufficient production, China's supply had a difficult time in keeping up with the demand, and the focus was always on increasing investment and production capacity. Thanks to the "three carriages," increasing investment, export and consumption, China's economy has seen rapid growth. However, today, things have changed. Overcapacity is prevalent and the consumption demand is becoming more diverse and complicated. The problem is no longer insufficient supply but rather weak demand. If our mindset cannot keep pace with the new circumstances, the old way of balancing demand and supply won't work, or might even worsen the economy. Therefore, the focus must be placed on the supply-side: Production must be changed first to start the transformation process of the supply-side that will lead to the structural adjustment and upgrading of the demand-side. Effective macro-control means must be used to promote the rational circulation of production factors. To set SRSS as

the focus means that the reform should penetrate every corner of economic and social development to better navigate the whole growth process. Only by structural adjustment and upgrading can Economic Development Model (EDM) be really changed, a solid foundation be laid for continuous economic growth, the welfare of the people be better secured and an ecological civilization be built to meet the ever-growing, ever-upgrading and increasingly individualized needs of the public in materials, culture and ecology.

The 13th Five-Year Plan stated that "SRSS should be set as the focus to supply more efficiently to meet demand, and to speed formulating a mechanism and model that will guide the new normal in Chinese economic development"^①. Therefore, SRSS must be carried out throughout the whole economy and social development and be kept as the leading focus to realize the goal set for the next five years. First, the economy must maintain medium-high growth, and by 2020 gross domestic product (GDP) and urban and rural incomes should be doubled. China's economy used to depend largely on demand, investment and export, which led to large-scale overcapacity and ever-rising downward pressures. To prevent economic decline, SRSS must play a leading role to boost the economic structural adjustment, help reach a higher level of balance between demand and supply, strengthen the stamina of China's economy and provide a more solid material foundation for building a moderately prosperous society in all respects. Second, more innovation-driven development must be realized, where science merges with economy and total factor productivity (TFP) is drastically increased. SRSS must be introduced to optimize policy-making, gather innovative factors and let them circulate,

^① Outline of the 13th Five-Year Plan for national economic and social development in People's Republic of China. Retrieved from http://news.xinhuanet.com/politics/2016lh/2016-03/17/c_1118366322.htm, 2016-03-17.

forge a more innovation-friendly market, break ossified regulations that will restrict innovation, and create a mechanism in which innovation could be vigorous, innovation achievements could be efficiently transformed and the value of innovation is given full play. Third, people's livelihood and the public service must be improved. SRSS will meet the public demand more efficiently to make development fruits better shared among the people. It will synchronize individual income growth and economic growth, and increase both payment of labor and labor productivity. The overall mechanism and concrete policies will also be improved to continuously increase the income of urban and rural residents and to narrow the income gap.

1.2 The internal reason for setting SRSS as the focus

Why must SRSS be set as the focus? The reason is that in the 21st century, with a volatile international environment, opportunities for China's development have changed, thus our strategy for development must be adjusted. Meanwhile, at home, China is stepping into a new stage of economic and social development. The overall economic system is improving, the social structure is changing, the interests pattern is being restructured and ideologies are being renewed. Against such a background, China's reform requires a new, better guideline.

1.2.1 To adapt to the ever-changing international economic background

From an international standpoint, China is still in a period of important strategic opportunities, only the meaning of the opportunities is different. In recent years, the world economy has gradually slowed, while the size of China's economy keeps increasing, making the global economy a weaker economic driver. After the 2008 world financial crisis, the developed countries strived to achieve debt relief, which made the world market shrink. China suffered domestic overcapacity and exports

were no longer as effective in boosting the economy. Thus, the meaning of using export to stimulate the economy has changed. In addition, China has become a world manufacturer only based on its edge of cost-effective labor. However, as another round of the scientific and industrial revolution approaches, the developed countries are promoting reindustrialization and other developing countries are catching up. What's more, China's demographic dividend is weakening and its innovation lacks stamina, China is losing its old advantages and must change its previous strategy to stimulate the economy by encouraging inbound foreign investment.

1.2.2 To cater to the new normal of Chinese economic development

From a domestic standpoint, the Chinese economy is going for the better in the long run, despite a number of contradictions, problems and risks. During the 12th Five-Year Plan period, China effectively stimulated its domestic demand as it planned and achieved a medium to high economic growth. However, as of today, though the strategy of increasing domestic demand is still going on, the economy is going down and the price of industrial products keeps falling. All this indicates that, though the aggregate demand and demand structure are partly responsible, the major problem does not lie in the demand-side. The structural problem is becoming so prominent that supply constraint and restraint must be used. The rising cost of production results in stagnant sales, overcapacity and declining profits. Weak stimulus for demand and low quality of products lead to a mismatch between supply and demand, and then to the slowdown of economic growth. All these call for SRSS to make the overall structure more adaptable and flexible.

1.2.3 To fulfill new ideologies for a new stage

China's current economic downturn, despite the influence of its size, global and cyclical factors, is

mainly due to its economic structure. To carry out new ideologies for the development means speeding up SRSS, strengthening the internal driving force, promoting a reform-style restructuring, and finally boosting economic development. SRSS will provide new power for innovation, optimize resource allocations, enhance harmonious development between economy and ecology, coordinate domestic demand and foreign demand, balance imports and exports, improve the opening-up procedure, optimize labor costs, narrow income gaps and improve public services so that the fruits of the reform can be enjoyed by each individual. To use a new ideology to navigate the entire development during the 13th Five-Year Plan period, SRSS is a must. The economic structure must be reformed to optimize the allocation of all economic factors, to increase the medium-to-high-end supply in a more efficient way, to make the supply-side more adaptable and flexible, to improve the TFP and finally to make the Chinese economy more robust and better able to achieve its goal of building a moderately prosperous society.

2. The logical relationship between SRSS and shifting EDM

The 12th Five-Year Plan proposed that “The shift of EDM must be sped up as the focus, the reform and opening-up must be deepened, people’s livelihood must be ensured and improved, the impact of the international financial crisis must be better countered so that the economy can maintain a steady growth rate in the long run and the whole society could be more harmonious and stable”^①. However, in the 13th Five-Year Plan, the focus was shifted to SRSS. So, what is the relationship between the two?

Why was the focus shifted from transforming EDM to SRSS?

2.1 The relationship between SRSS and shifting away from EDM

Shifting away from EDM toward SRSS serves the same purpose under changing circumstances. The latter never replaces the former, but rather deepens and improves the former in vision and content to better adapt to the new circumstances under the new normal. It not only echoes the structural reform emphasized in shifting EDM, but also points out how exactly to reform the structure, helping to solve the underlying economic problems.

A good economic growth mode paves the way for a better structural reform. Speeding the former boosts the latter. The 12th Five-Year Plan proposed that the focus should be put on shifting EDM, the strategic restructuring should be the overall goal and science and innovation should be the pillars. It implies that even during the 12th Five-Year Plan period, the structural imbalance was already recognized as a factor to decrease economic growth, and a major problem that throttles the strategic adjustment of economic structures. The allocation of production factors must be optimized to transform and upgrade the structure of demand-side and that of supply-side. During the 12th Five-Year Plan period, the economic structural adjustment made great progress, agriculture witnessed stable growth, the third industry overtook the second industry in contribution to GDP, the household consumption rate kept increasing, the gap between urban and rural development was narrowed and EDM was shifted, industry was restructured and the driving force was renewed. This laid material foundation for stimulating the economy by balancing the supply and

① Outline of the 12th Five-Year Plan for national economic and social development in People’s Republic of China. Retrieved from http://news.xinhuanet.com/politics/2011-03/16/c_121193916.htm, 2011-03-16.

demand, rather than the original “three carriages.” During the 12th Five-Year Plan period, scientific progress largely promoted independent innovation and the construction of an innovation-driven country. High-tech and strategic newly booming industries mushroomed, bringing a batch of world-level scientific and technological achievements that provided technical support for SRSS. During the 12th Five-Year Plan period, the comprehensive reform was effectively launched, the economic system was improved, the public service system was basically completed with growing coverage, the education level was raised, the overall health was strengthened, the employment rate kept rising, poverty was widely reduced, and people’s livelihood were further improved. All of these provided strong guarantee in the mechanism for SRSS.

Structural reform enriches and deepens EDM. Only through effective reforms can EDM be changed. The shift of the economic growth includes three sub-shifts, namely, “the economic stimulus shift from increasing investments and exports to coordinating demand, investments and exports, from the second industry to the co-development of the first, second and third industries, from increasing material consumption to scientific progress, a higher-quality labor force and innovative management”(Han Yongwen, 2008). SRSS incorporates the content of shifting EDM, for it promotes restructuring in a reform-style, optimizes the allocation of factors, aims to upgrade the industrial structural upgrading, improves the quality and efficiency of the supply-side, strengthens the original advantages and nourishes new functions during development. SRSS incorporates the content of shifting EDM, for it promotes restructuring in the reform-style, optimizes the allocation of factors, aims to upgrade

the industrial structure upgrading, improves the quality and efficiency of the supply-side, strengthens the original advantages and nourishes new functions during development. Inside an economy, a structural balance must be kept between consumption and investment. If administrative measures continue to be exerted to increase demand, capacity will keep growing and the domestic demand will get weaker and weaker, making a real shift impossible. During the 13th Five-Year Plan period, the insufficiency of both demand and supply has been spotted, with a more obvious structural problem standing out, old advantages weakening and innovation incapable of new supply, therefore it has been proposed that “quality and efficiency must be the core and SRSS be the focus to increase valid supply and meet valid demand”^①. SRSS will doubtlessly get rid of the mechanical obstacles for the allocation of production factors, push China into a benign transformation of economic structure and bring it to the path of sustainable development.

2.2 The reason why the focus is shifted during the 13th Five-Year Plan period

During the 12th Five-Year Plan period, the shift of EDM was made the focus because the financial crisis caused changes in the international economic environment, China’s economic development, and the industrial structure and trade structure in the European&American markets. To cope with the financial crisis, China launched a 4 trillion-yuan investment plan to cushion the influence of export decreases on the economy. However, the economic growth relied excessively on investments and exports, which resulted in overcapacity and trade conflicts. Therefore, the adjustment of the demand structure needed to be prioritized to raise domestic consumption levels, moderately constrain

① Outline of the 13th Five-Year Plan for national economic and social development in People’s Republic of China. Retrieved from http://news.xinhuanet.com/politics/2016lh/2016-03/17/c_1118366322.htm, 2016-03-17.

investments and maintain the international balance of payments equilibrium. On the other hand, after more than 30 years of development, survival began to give way to development in China's economy and the structure of demand was largely changed, which gave rise to many new problems, including the imbalance between economic growth and resource-environment constraints, the contradiction between the rapid growth of basic public demand in the whole society and the insufficient supply of basic public goods and services. It was thus concluded that the major problem for economic and social development was insufficient domestic demand, which had to be strengthened by shifting EDM.

After over 30 years of rapid economic growth, the meaning of liberating and developing productivity changed. Instead of focusing on the mere increase of quantity, the improvement of quality also had to be considered, which called for a shift of EDM. However, quality-oriented development would be much more difficult and complex; and a reform was needed to get rid of all the ossified mechanisms in the way. At present, the Chinese economy has entered the new normal and has shown new signs that indicate a mere shift of EDM won't solve the economic structural problems, the middle-income trap and the shift of driving forces. The 12th Five-Year Plan proposed that "the reform and opening-up should be made the major driving force, and reforms must be launched in the economy, politics, culture and society."^① However, due to the inefficiency of the reforms on economic, social and administrative mechanisms, the prices of resource factors were unable to reflect the real demand and supply, and the environmental costs could not be transformed

into production cost. Meanwhile, social problems welled up, including the increasing gap between rural and urban incomes, between different regions and between the rich and the poor. It was obvious that mere management of demand was not enough for the structural optimization and transition, and was not able to eliminate the structural imbalance and correct the twisted EDM. What was worse, having been implemented for too long, the policy of stimulating the domestic demand was less and less effective and might invite risks. It might have been useful in curbing a too-fast economic decline during a transition stage, but to make real progress in EDM in the future, the key is to make the reform work and to solve the deeper-level structural problems. Therefore, the 13th Five-Year Plan set SRSS as the new focus. It is essential for liberating and developing production under the new normal, for a more mature market economy, for better meeting the valid needs of the people and for building a moderately prosperous society in all respects.

3. How to set SRSS as the focus

In 1978, the third Plenary Session of the 11th CPC Central Committee marked the beginning of reform by proposing that "A new series of important economic measures must be implemented to reform the economic management mechanism and management methods."^② Later the Party's 12th congress set the goal that "the economic structural reform must be carried out systematically, and during the 7th Five-Year Plan period the reform of the economic management system must kick off while the rationalization of enterprise structure

① Outline of the 12th Five-Year Plan for national economic and social development in People's Republic of China. Retrieved from http://news.xinhuanet.com/politics/2011-03/16/c_121193916.htm, 2011-03-16.

② Selected Documents of Economic Reform in a New Era (I). Beijing: Central Party Literature Press, 1998. 161.

③ Recommendation of the Central Committee of the CPC on the formulation of the Seventh Five Year Plan for national economic and social development (excerpt). Reform of Economic System, 1985, (06): 1-3.

and other economic aspects must be continued.”^③ The Party’s 13th congress stated that “the balance between the general demand and supply must be maintained, and the industrial structure must be adjusted and reformed” (Jin, 1988). The Party’s 14th congress pointed out that “the industrial structure must be adjusted and optimized, agriculture must be emphasized and the development of basic industry and infrastructure and the third industry must be sped up.”^① The Party’s 16th congress repeated that the economic structure must be strategically adjusted, the industrial structure be optimized and upgraded, the agriculture and rural economic structure be adjusted and the reform on the layout and structure of the state-owned economy be continued. The 18th congress emphasized that the strategic adjustment of the economic structure was the focus of the shift of EDM. The improvement of the demand structure and the optimization of the industrial structure must be prioritized to get rid of the structural problems that are hurting the continuous and healthy development of the whole economy. The 30-odd year history of reform implies that China began its structural reform far back at the beginning of the reform and opening-up and has witnessed significant changes, though a total revolution is yet to be launched. Mere market control won’t work if the goal is to shift EDM completely, optimize the economic structure and realize a pure and clear economic growth, for there might be a short-term economic decline. Neither is the mere control of demand effective, for it is only used for short-term economic underpinnings and growth. China’s economy has entered a new era when the medium-and-long-term economic growth is considered. Therefore, the market must play its role, the government must control the demand, while the supply must also be controlled, so that the

market economy is easier to manage. The structural reform must be led by the Five Major Development Concepts: innovation, coordination, greenness, openness and sharing, and the “supply-side” and “demand-side” must be simultaneously propelled.

3.1 Ideology must be changed

Ideologies exert a profound influence on economic and social reforms and structural adjustments. During the early economic and social development, with abundant natural resources, low productivity levels and terribly scanty material products, people had to invest more to increase the volume of production and meet their basic physical needs. The extensive mode of production was used to increase the scale and capacity, thus came the blind pursuit of the growth of GDP and traditional industries, while resource saving and environmental protection were neglected. These ossified ideologies defending the traditional development models, once established, are hard to eradicate in a short time and will stand in the way of structural reform. What’s worse, the market economy has greatly influenced people’s values and made them undervalue the rule of law. This is another ideological challenge for structural reform.

“Innovation, coordination, greenness, openness and sharing” have become the guidelines of SRSS, asking people to abandon the ossified ideologies and practice new ideologies throughout the whole structural reform. An innovation-driven development must be realized, and new valid supply and demand must be created. For the three key parts of the structural reform, whether it is the reform on mechanisms, or the structural optimization, or the upgrading of the factors, the core is always innovation. Innovation is the soul of SRSS. The mechanisms must be innovated to make the market play a better part in allocating resources. Scientific

① Ten tasks of reform and construction in 1990s. *China Price*, 1992, (11): 1.

innovation must be used to optimize, upgrade the industrial structure and improve the factor efficiency. The development must be based on coordinated demand and supply to make sure the economy is harmoniously and continuously growing. The growth and the coordination between demand and supply must both be emphasized. The demand must be moderately controlled while the structural reform is launched. The relationship between increasing general demand and reducing capacity, stock, leverage and cost must be well handled. Meanwhile, the reforms of taxation, of state-owned enterprises, of finance and of household registration must be coordinated. It is essential to realize green development and shift the EDM and accomplish sustainable growth. Given the fact that the extensive development model has caused stronger resource-environmental constraints and in return limited the economic growth, it has become a common enemy for both the supply-side and the demand-side. The only way out is to take effective measures to promote green development. Strict environment-protection regulations must be put forward to limit the development of the low-end suppliers. A green environmental protection information disclosure system must be established. The market must play its due role in promoting green production. Hopefully a green, low-carbon and environment friendly development mode and lifestyle could be realized to achieve the best balance between the sustainability of natural resources and the infinity of the people's needs. The opening-up must be kept to make the best use of both domestic and international markets and to maintain the balance between demand and supply at home. China must actively join the global economic governance, speed up its construction of a supply system where the Chinese economy merges with the global economy. A free trade network radiating from the Belt and Road must be built to make the domestic and international supply more

rewarding. The opening-up could also inspire the reform by bringing new systems and new experience from those opened areas and fields to other areas and fields and further boosting the SRSS to a deeper level. The sharing economic model must be maintained to improve the supply of public service and make the economic benefits better shared between the members of society. The concept of "sharing" will motivate all sides, creating a benign circulation and dynamic balance between demand and supply, unleash the consumption potential, and add vigor to the whole economy. Fairness and sharing must be carried out through mechanisms and reforms to make sure that the people will get their due access to the material, cultural and social service fruits of economic and social development. Efforts must be taken to perfect public services and to achieve integration and equality for all.

3.2 To properly handle the relationships between economic growth and structural adjustment, between supply-side and demand-side

Economic conditions decide whether there will be satisfying results from structural reforms. The SRSS is never termless. Different conditions and structural characteristics that belong to different stages will lead to different priorities in structural adjustments. Speaking of economic conditions, if there are irrational resource allocations, low technological levels, low-quality labor forces and unscientific management mechanisms, the structural adjustments must proceed from conditions and modulate the capacity of supply to spur development, or else the structural reform will prove to be in vain.

It seems as if economic growth is the end while structural adjustments work as the means, as if the former decides the latter and the latter should serve the former. However, the truth is that the means is more important, for without it the end is impossible to achieve and economic growth, even

if it is rapid, will only be temporary. To properly handle the relationships between economic growth and structural adjustment, the blind pursuit of GDP growth must be abandoned, and the speed of economic growth must give way to the efficiency of the structural reforms, and under certain circumstances, must be more or less sacrificed. China is now at a stage when the economic structural adjustment is the primary task, which is the crux of almost all the underlying problems that arose during the economic development. The structural adjustments must be carried out in a reform-style to improve the quality and efficiency of the supply system so as to boost economic development.

Nowadays, the main challenge China faces is its downward pressure on economic growth, which is caused by an irrational structure that features the imbalance between demand and supply, for which both the supply-side and the demand-side must take responsibility. It is obvious that to keep a dynamic balance between the general supply and demand is a requisite for economic growth. The SRSS must be assisted by control on demand—the stabilizer—which emphasizes short-term control on the economy and guides the market, helps improve the prospect of the market and prevents a drastic short-term economic decline which might fuel all kinds of contradictions and risks and make the reform more challenging and expensive. The process of demand must be properly controlled to better support the whole SRSS. The SRSS needs to do its own mathematical algorithm to reshape the motivation for medium and long term economic growth. The addition includes structural upgrading and forming new models, new organizations, new types of operations and new growth points; the subtraction means “reducing capacity, stock, leverage and cost,” gradually dissolving the overcapacity in production, decreasing invalid fund occupation, minimizing the risk of defaults and better guiding funds to the

real economy; the multiplication means resorting to innovation, deepening scientific system innovations, encouraging investment in development, supporting the transformation of scientific fruits in an all-round way, and strengthening technological innovation’s role in economic growth; the division calls for increasing the output rate of unit factor input, adding human resource investments, improving the quality of the labor force, letting the price mechanism play a more effective role, breaking the administrative monopoly and eliminating institutional barriers to make sure the prices of the factors and funds are formed and employed in line with market rules, to improve efficiency in the utilization of resources and energy and promote key economic reforms.

3.3 To comprehensively deepen the reform and eradicate institutional obstacles on the way

Effective mechanisms are crucial to the economic structural adjustments, for they first influence people’s behavior or their profits, and then impact their economic behavior and finally the efforts of the structural reform, for the structural reform itself is ultimately people’s behavior. Laggard mechanisms are the root of the irrational economic structure and impotence of the reform. Since the reform and opening-up, China’s economic structure has been largely improved because of the market-oriented reforms, the opening-up policy and the establishment of the socialist market economic system. However, the reform is not rewarding as expected in that the socialist market economic system has yet to be perfected, related administrative management is lagging and the institutional imperfection makes the structural adjustments even more difficult.

During the 13th Five-Year Plan period, setting the SRSS as the focus requires the leading role of the economic institutional reform to properly handle the relationships between the government and the market and to establish a new development

mechanism. First, the modern market system must be improved to rationalize the market for the labor force, capital and land. The establishment of a unified urban and rural construction land market must be accelerated and the market allocation system for industrial land use must be improved. The reform of the household registration system must be strengthened to ensure the effective release of the population bonus. Meanwhile it is necessary to push forward the reform of the price formation mechanism. The government's interference in price formation must be reduced. The prices of goods and services in competitive sectors must be opened to the market step by step to break regional separatism and trade monopolies; and accelerate the formation of a unified, open, competitive and effective market system. Second, the reform of the administrative management system must be deepened, for it is the foundation for other kinds of reforms. It is necessary to further promote decentralization, to define the power and responsibility boundaries between the government and the market to expand the space for the development of the market. The function allocation of the government, its institutional setting and procedures must be optimized to improve the government's regulatory effectiveness. The market, credit system and laws must all be used to reduce the institutional costs and to raise the institutional supply levels. Third, the reform of fiscal and taxation systems must be sped up. It is necessary to establish

a reasonable and orderly financial structure, to improve the allocation of funds, and to improve the transparency of financial transfer payments. A comprehensive, standardized, open and transparent budget system must be built to make the government finance work under the watchful eye of the public. The tax system must be reformed and perfected to establish a modern tax system that features scientific tax setting, optimized structures, effective collection and management, and the proportion of direct taxes must be gradually increased. Fourth, more efforts must be made on the reform of the financial system. The reform of the supply side for financial factors must be promoted, and a multi-level, diversified and complementary financial market must be built to meet the needs of investment and financing of the real economy. The proportion of direct financing must be increased. The leverage ratio must be reduced. The interest rate market must be improved, the financial regulatory mechanism be innovated and the designated structural adjustment of the credit policies be strengthened. Fifth, the macro control must be innovated and improved to keep the economy running within reasonable ranges and to prioritize quality benefits. The employment growth, price stabilization, structural adjustment and the efficiency improvements must be simultaneously emphasized to create a stable macroeconomic environment for the structural reforms.

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