

Foreword

The introduction of market-oriented reforms has successfully accelerated economic development in the People's Republic of China (PRC). Since 1978, the country has imported know-how and boosted productivity, by shifting underemployed workers from agriculture to export-oriented manufacturing, to become the second largest economy in the world, while substantially reducing poverty. Since the global financial crisis that erupted in 2008, growth has become more dependent on domestic consumption and investment. The PRC has also made impressive social progress in areas such as education, health, and pensions.

However, the high growth of economic catch-up does not last forever. Eventually, the pool of underemployed rural labor is drained, and the advantage of technological catch-up diminished. Sustaining economic progress requires restructuring the economy, diversifying the sources of growth, and continued productivity gains through innovation and upgrading. Countries that fail to adjust their growth patterns face the risk of stagnation, a phenomenon known as the middle-income trap.

This challenge is especially relevant to the PRC today, which, at per capita gross domestic product of about \$7000, remains a middle-income country. Its productivity gaps with advanced countries are still wide and need to be narrowed, while rising labor costs are eroding the low-cost advantage—a key factor in its rise of recent decades. Moreover, the country needs to continue to promote domestic consumption, address the rising inequality that has accompanied rapid growth and could threaten social stability, and tackle the environmental damage caused by rapid industrialization. In sum, the PRC needs a new growth model, shifting the priority from quantity of growth to quality.

Chinese policymakers are therefore discussing and implementing far-reaching reforms to restructure the economy and build a 'moderately prosperous society by 2020.' In this context, the decisions made at the Third Plenum of the Eighteenth Central Committee of the Chinese Communist Party in November 2013 were particularly encouraging. They were comprehensive and profound, including the idea of giving the market a 'decisive role' in the allocation of resources. As we look closely at the scope and implications of this seemingly simple policy statement, we realize that the

successful implementation of the forthcoming reforms can indeed launch a new era of economic development in the PRC.

This timely book, born of a joint study of the Economics and Research Department of the Asian Development Bank and the National School of Development at Peking University, looks closely at these issues and analyzes the policy options for handling them. I recommend the book and hope that readers take away a deeper understanding of the country's economic and development challenges, and the strategies needed to manage them. I also hope the book stimulates discussion and promotes policy innovations to help the PRC and other middle-income countries chart a course to high-income status.

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