Transformations of the People's Republic of China: Need of Market Liberalisation vs. Historical Market Intervention Politics

Mārtiņš Daugulis

Rīga Stradiņš University, Faculty of European Studies, Political Science Department, Latvia

Introduction. The People's Republic of China (further in text – China) is starting year 2016 with extreme volatility in stock market, that is caused by unfilled expectation in China's economic development numbers (planned growth of GDP – even 6.5/7% at the beginning of the year 2015, is showing other reality from expectations – only around 5.5% or even less). This causes even a faster need for market liberalisation in China, but goes in contrary to the intervention of government in economics through various instruments. Is this way of mixed solutions (free market and market intervention) possible?

Aim, Material and Methods. The aim of the article is to analyse China's mixed approach to its economy development – market intervention vs. market liberalisation. The scientific literature which is based on China special economy model analysts and international political economists publications. The chosen scientific method is content analysis.

Results. China's market liberalisation needs are broadly recognised even by China's economists and government. Foreign investment inflow deficit, ability to coup with demographic challenges and need to maintain export market structure are basic reasons why China needs to even more open market. Simultaneously, governmental intervention, through yuan devaluation, is all time present. For classical free market economy theories this is very contradictory. However, looking in China's history, leads to its unique model of economy, where intervention in market with sharp political decisions is a norm not an exception. The biggest challenge for China's government is to manage expectations on China's growth. Instruments for this management are strongly linked with state currency rate and state limitations to large private companies to sell their shares (or run away from the market). Nevertheless, theorist analysis shows that this is not enough, and market liberalisation progress will cause even more noticeable state intervention to deal with problems liberalisation creates.

Conclusions. China's economy is slowly freezing down, and because of that China's government is looking for possibilities to liberalise market and increase liquidity of China's economy. Simultaneously, China's government is keeping up with intervention in fields where the economy is showing some signs of trouble. Going hand in hand, interventions with liberalisation, is a rare model, but a logical continuation of China's historical experience. However, the difference this time is that China is strongly linked with international markets which are not tolerating large-scale state interventions. Mixed model (state + free hand of market) is working, the only question remains how it can survive international market volatility, and whether China's government will be visionary enough to intervene in the right time and right place.