

# Constraints, Characteristics and Prospects of China's Transformation

–The Rethinking about China's Economic Transformation

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Since 1978, as a large country with a population over 1 billion and an area almost equal with the Europe, China has had a steady economic growth with an average annual GDP growth rate above 10% in the past 30 years. China has not only elementarily solved the poverty of millions of people, but also made a series of remarkable achievements in the social, political and cultural fields. It is an amazing case of development transformation. However, the road and experience of China's transformation are not only radically different from those of the planned economy, but also different from those of other countries. Therefore, the story of China's transformation is a typical experience in the development of human society and a unique pattern of human social transformation. Revealing the general principles and the development characteristics of China's story has the double meanings of theory and policy. This article first analyzes the concept differences between the "model" and the "road" of China's economic transformation at the view of economy; then from the constraint conditions of China's economic transformation, tries to depict the basic principles and practice characteristics; and finally puts forward the difficulties and prospects of overall continuously promoting transformation.

**Keywords:** China's Economic transformation; Constraints; economic model; the basic principles

## **I. The Contention between “Roads” and “Models” of China's Transformation**

### **A. How to understand the “Model”?**

We classify the roads that the traditional agricultural countries transform into the industrial countries as many different models, such as Anglo-American model, France and Germany model, the Nordic model, Japanese model, the Soviet model, etc. However, the contents and results of China's economic transition are more complex. It is a thorough transformation from an agrarian nation to an industrial country, from the planned economy to the market economy, from the closed economy to the open economy. What's more, the large scale, the fast speed and the great results of economic restructuring are rare in the world. The attendant problem is: how to describe the road or experience of China's transformation? There are the "Chinese model", "Chinese Road", "Chinese experience", "Beijing Consensus" and other generalizations and

Road", "Chinese experience", "Beijing Consensus" and other generalizations and explanations for the experience and road of the transformation in the past 30 years. Obviously, the content and interpretation about China's contemporary transformation are far from being a consensus. We will discuss in this article whether there is a universal sense of the Chinese transition mode, whether the summarization about the model of the China's transformation is a true statement.

There are many translations for the word "model", such as mathematical models, airplane model, and fashion models. It is a kind of summarization and abstract for the things people observe and research, which is made up of elements or variables that reflect the nature of things, describe the internal relations and the operation mode. If admitted social and economic operation follows some certain law and principles in the real-world, then the connotation of transformation, as a summary of social and economic development and change in a region or a domain, should have two layers: (1) Basic principles or rules imply the process of human transformation, and rule social and economic operation; (2) The concrete practices and forms of those principles under specific constraints. The development conditions of regions and countries are different. Their transition modes take actions that suit local circumstances and advance with the times.

According to the interpretation of logical positivism, true proposition is not only complying with the logic of grammar and syntax, but also a proposition based on the fact. On the contrary, pseudo-proposition usually violates the logic of grammar and syntax. Even though it's true on the logic, it's not about the fact. Therefore, if we judge the historical proposition of "China's transition mode", it should not only fit the logic in the form, but also base on the reality. It's still required to be analyzable, testable, divivable and generalized.

In that way, is there a China's model in the transformations of modern social and economic development?

## **B. The Washington Consensus, Beijing Consensus and the Chinese Experience**

For development road of the socialist countries, there were disputes between utopian socialism and scientific socialism, scientific socialism and social democracy in the 19th century. Before and after 1930s, there were disputes between planned economy and market economy. With the decline of the Soviet Stalinist model and Keynesianism, some scholars and international organizations presented the Washington Consensus which comes from Adam Smith's neoliberalism, the representative opinion of which is the minutes of a meeting held in Washington DC including ten policy instruments proposed by John Williamson who worked at the World Bank. The Washington Consensus contains the following basic principles: trade liberalization and market prices; elimination of inflation and macroeconomic stability; privatization; a minimum of government based on this. Many countries followed the basic principles of the Washington Consensus more or less in the tide of global change which happened in 1980s.

In 1990s, except for the individual countries such as Hungary, who carried out asymptotic steadily reform strategy, most of the former Soviet and East European countries which were guided by the Washington Consensus and promoted the comprehensive radical reform, felt

into the economic stagnation and even decline at the beginning of the transformation for 10 years. That is very tricky. China's reform and development which is not considered well by most countries and the academic circle, has many new features. It has achieved the most outstanding economic achievements so far, which caused the foreign scholars' rethinking and generalizations for China's transformation experience.

In 1998, Stieglitz proposed an amendment to the post-Washington Consensus, emphasized the development-related institutional factors, admitted the key role of the government in promoting the development, and focused on poverty, income distribution, environmental sustainability and other issues. In 2004, Joshua Cooper Ramo published the "Beijing Consensus" in Foreign Policy Centre in London, proposing China's unique development model which is suitable for the local situations through hard work, innovation and bold practice.

Comparatively speaking, the transformation development strategy of contemporary China also stresses the importance of the property rights reform and market orientation, and has two shadows of the Washington Consensus and the Beijing Consensus. However, many domestic scholars, such as He Qinglian (1998), Lin Yifu (1994, 2002), Wu Jinglian (1999, 2010), Yu Keping (2005, 2006), Chen Ping (2006, 2010), Yao Yang (2008, 2009), Li Junru (2009), etc. have no consensus on China's model or China's road. Some scholars even queries the two consensus and China's model.

### **C. How to describe the road of China's transformation ?**

How do describe the road of China's transformation specifically and exactly in accordance with the requirements of the academic research? No matter China's transition experience is promoted to the China's Model, or is reduced to the China's Road or China's logic, describing and analyzing the process and the performance of China's economic reform and development fully and accurately, revealing the basic principles and practice characteristics of China's transformation road are the urgent affairs of academic research.

So, what are the fundamental principles of China's transformation? How to describe and judge the road of China's transformation in details? Evidently, the story of the China's successful development is not only unique, but also contains general logic and principle. The road of China's transformation is not only a theoretical proposition of the deductive analysis, but also a summary of the real-world. For this reason, we should describe the road of China's transformation from the basic principles and the practice characteristics.

## **II. Constraints of China's transformation**

The ideal model is constructed under a series of assumed standard conditions. There is no general model or optimal model in the real world. A good model or road can provide long-term effective incentives and achieve social and economic developments under the particular

constraints. In that way, what are the constraints that expedite China's contemporary economic restructuring and sustainable development?

### **A. The heritages of the tradition, revolution and construction**

(1) The traditional heritages mainly refer to the heritages coming from Chinese ancient policy, economy, society and knowledge, such as the traditional moral, elite policy, the peoples livelihood thought, etc. Those heritages exert a subtle influence in China's transformation. (2) The revolution refers to the changes in China's economy, politics, and culture after the Opium War. After the 100 years' transformation especially the socialist revolution, China has changed from the traditional rural, closed economy to a modern industrial and commercial open –market economy. Compared to the class and identity society, the society has become equal. The individuals have been becoming social subjects which have full and equal rights. That is the social basis of the market economy and democratic politics. (3)The constructions mainly refer to a variety of constructions in the first 30 years of the new China. The urban and rural residents have got rid of illiteracy and ill health state. The state has established a centralized political system and a more complete business system. However, China's socio-economic level is still quite backward. China's share of world GDP remained at 5% from 1950 to 1978. China's per capita GDP was only \$ 305 in 1980, while the per capita GDP was \$ 2,385 in the world. Amartya Sen • (1999) considered that the social revolution led by Mao Zedong before 1979 had paved the way for the rapid economic growth since the start of China's reforms of the inadvertently goods and market economic in 1979.

### **B. The Big Powers' Advantages**

The big powers' advantages refer to the states' large number and complete structure on population, land, economic, cultural and other factors. That means countries can develop relatively complete industry, market and knowledge's social structures by themselves, which leads to the advantages for development which are diverse, competitive, low-cost and high-efficiency. China's population has increased to 1.3 billion from 550 million. Millions of low-come and educated people irradiate great initiative and creativity in the transformation. With 9.6 million square kilometers of Chinese territory, a large variety of total resources and a large population, China can form a complete economic organization system and a industrial and agricultural system. Thus, the central planning system could overcome the limitations of a small closed country to play the potential advantages of a large economy even if in the closed condition in the first 30 years of New China. China exploited and deployed a variety of resources to achieve the best economic and industrial scale and ensure the rapid growth of national economy, to some extent. After a series of internal reforms and opening-up measures for more than 30 years, China not only expanded the market scale of division of labor, trade, competition and cooperation, but also adjusted and optimized the structure of the enterprise, market, industry and government. The national economy has been sustained high-speed growth. Moreover, from the point of reform and social development , China have a large population, vast territory, ethnic diversity, cultural diversity and other characteristics of major great powers, The development paths and levels between the different regions are not the same. In the premise of maintaining national unity, each region can give full play to the initiative and creativity of the development and reform through population movement, market competition and local government competition

### **C. The international environment of peace, democracy and development**

After The World War II, the global war would not happen again, America and China turned to the 40 years of peaceful coexistence after the Korean War, Vietnam War and ping-pong diplomacy. China's transformation not only won the overall peaceful and stable international environment, but also made full use of the opportunities for development because of the Sino-US relations, the Sino-Japanese friendship and the Sino-Soviet reconciliation. The international situation has changed from the bipolar confrontation to the basic stability of one superpower and many powers since the Soviet collapse in Eastern Europe. China has not only joined the Asia-Pacific Economic Cooperation, the Shanghai Cooperation Organization, China-ASEAN Free Trade Area, ASEAN 10+3 system and the World Trade Organization, but also has had the Sino-Indian peace talks .All of those have strengthened exchange and cooperation with other countries. China has pushed for the transformation strategy of an open big power. For this reason, the domestic transformation has quickly integrated into a global competition and development system.

## **III. The Basic Principle of China's Transformation**

What basic principles do China's transformation of recent 30 years follow, especially the economic principles?

Some textbooks explaining the basic principles for economic development from the angles of the ownership structure, the macroeconomic regulation and control, the marketization, diversified distribution methods, and first the rich road after rich side, etc, are actually rather superficial. The common benchmark orientation of human economic activities is the efficiency principle of minimum cost, maximum benefits and maximum social welfare. The teaching and experience of transformation strategies at home and abroad and the basic principles of modern economic development result in the success of China's development transformation.

### **A. The Principle of Clear Property Rights, Free Competition**

According to the nature of the subject of right who holds assets, property rights system can be divided into two major types: individual ownership and public ownership. Clear property rights and free competition are the basic principles to keep the market operate efficiently and to keep the economy develop orderly. Clear property rights not only refer to clear attribution and strong protection of the rights of assets, but also a right arrangement which causes the effective resource configuration.

A good system should have made the input and the output of every main body of the social economy consistent, made the individual returns and the social benefits consistent, and provided maximum durable incentive restraints for the most people as far as possible. The overall and final orientation of a series of reform measures of recent 30 years is to reform the inefficient original state-owned planned economy system, form various ownerships and polybasic social main bodies,

and establish the development mechanism of clear property rights, equal rights, and free competition. China's system reform not only fully released economic dividends which were repressed and hidden under the planning economic system, but also fully mobilized the individuals and enterprises' economic enthusiasm and creativity, and created more economic dividends.

## **B. The Principle of the Reform and Opening up**

The past revolution is to emancipate and develop the productive forces, but now the reform and opening up is to establish a social operation system which takes individual as the main body rather than taking the government as the main body, to form and guarantee a economy system of clear property rights and free competition, and to release and develop our productive forces.

A vibrant social community should compete internally and open up externally. The internal power and external pressure jointly promote socioeconomic progress, which can be dramatized from the analysis of A • J • Toynbee about the inheritance and development, challenge and response of civilization to the summary of Edward (2011) about China's opening up and institutional outsourcing. Making a general survey of a series of open measures in recent 30 years, such as the establishment of the four special economic zones, the reform of the foreign trade and foreign exchange management system, the implementation export orientation and the development strategy of opening up, etc., its overall and final orientation is not only taking advantages of the capital, technology, market, management experience outside, but also realizing the integration of domestic social and international social, putting China into the globalized division, competition and cooperation, getting the dividends brought by the international division of labor and trade.

## **C. Innovation is the primary factor to promote the transformation.**

Innovation is first element of the competitiveness of individual, enterprise and nation. Innovation has brought sustained economic growth and social progress. Schumpeter put forward a innovation concept on the theory of economic development for the first time in 1911. And then Kenneth J• Arrow, Robert Solow, Paul M. Romer, Robert Lucas, Robert J. Barro, etc. further explained the relationship between the knowledge, research and development and the economic growth and the social development.

Research and development is the main source of innovation. Individual and enterprises are the main executors of the research, development and innovation. Those all depend on the development mechanism of individual subject, clear property rights and free competition, depend on the overall implementation of the principles of reform and opening up. However, the innovation mechanism of our country is not perfect. Innovation power is still very weak. Innovation still lays particular stress on the economic innovation but not on the culture and system innovation. It still stress on the government supply leading mandatory innovation, not on the individual demand leading induced innovation. The social of China has not fully turned to the sustainable development path with low consumption of resources, high economic benefits, results benefit the people's livelihood, harmonious development of the society.

## **IV. The Practice Characteristics of China's Transformation**

If we call China's transformation development of recent 30 years as China's transformation road, the practice characteristics of this road is according to its own condition, take suitable but not ideal development strategy constantly, and quickly achieve our own development goals. The frustration of the radical transformation in the Soviet Union and eastern European in the early days was just because they didn't consider their own constraints accurately. In this sense, the Washington consensus of the modern society is trying to frame the general principles of the economic development, the Beijing consensus tries to give the specific interpretation of the connotation of China's transformation.(Yu Keping(2005, 2010); Yao Yang(2008, 2010); Zhang Yu(2009); He Zili(2009))

Based on the constraint condition and development experience of China's transformation, we can conclude the practice characteristics of China's transformation way as five development strategies as follows.

### **A. The Effective Leader of the Party and the Government**

Through the effective leadership, the party and the government has kept the dynamic balance in the multiple targets of economic freedom, social mobility, and political stability. China's transformation requires the free flow of the production elements and the equal competition of the economic subjects, which depend on the political and economic system reform. The economic development and the system reform unavoidably cause the social imbalances and unrest. But the economic development needs a relatively stable social environment. This is a group of multiple development goals of combination that seems difficult to achieve at the same time. However, on the process of transformation in China, the party and the government has made the determination of changing the center task of the whole country from "taking the class struggle as the outline" to "taking economic construction as the center"; transformed a revolutionary party into a power-hold party; made Chinese government a strong and efficient government through the moderate concentration of the political system, the smooth replacement of the party and national leaders, the expansion of the scale of the party, multiple structure, quality improvement, and the top-down reform; realized the stability of the political system and social environment under the leadership of the party and the government and achieved the combination of these goals miraculously.

### **B. Progressive, Competitive and Selective Reform Strategy**

The system reform promoted the development and realized China's miracle of the transformation. Reasonable choice of the reform object and target, and stable boost of the reform strategy and step stably are crucial. China's reform has the following features:

#### **(1) Incremental Reform**

The progressive reform has not only protected the distribution of interests under the old system, but also eased the ideological debate and the concussion of the system reform. Although it

has produced the rent-seeking behavior, bold and careful test, error correction and improvement unswervingly guarantee the smooth and implementation of the reform.

### (2) Competitive Reforms

Because many of the reform measures first make experiments in different areas, industries, and enterprises, this creates the competition between regions, industries, and the enterprises. All kinds of innovation are produced, tested and promoted in the competition of the reform. Decentralization of rights from the central government to the local government and the competition between the local governments become the important perspectives to explain China's transformation.

### (3) Selective Reform

It is reflected in the selection of the reform content and the reform order. The reform path from the country to the city, from the coastal area to the mainland, from the external to the interior of the system, from the competition field to the public domain, from the economy to the political and social fields ensures the smooth development of the various reforms.

## **C. Market Strategy**

The open competitive market system is the basic way to achieve and ensure the prosperity of the economy. It is also the important prerequisite to construct the socialist democratic politics and the harmonious society. China's economic reform has experienced several adjustments. But the basic orientation of the market reform has not changed. In 1992, China has established the socialist market economic system. Market strategy is the core content of China's economic transformation.

## **D. Open Development Strategy**

None of an ethnic and a nation can develop long isolated. Only the diversiform culture and interactive communication can safeguard the health and prosperity of a country's economy. The external shocks such as the opium war, was the important inducement starting the process of Chinese modernization. As early as the beginning of the reform in July 1979, China took the lead in passing the "law of sino-foreign equity joint venture", approved running a pilot scheme setting up a special economic zone in Guangdong and Fujian. Since 1992, China's reform and opening up entered a new stage of institution transference. In 1988, the Chinese government signed the civil rights and political rights international convention. In 2001, China joined the world trade organization. From then on, comprehensive, multi-tiered and wide-ranging opening-up pattern has started to form. Open development strategy not only introduces foreign capital, technology, market and management experience, but also introduces the advanced culture concept and system arrangement from overseas. Export orientation and foreign investment has embedded China's economy into the global system of human development. China's open development has irreversible.

## **E. Comparative Advantage Strategy**

Based on the above transformation principles and strategies, China has formed comprehensive development strategy with a large scale, low labor cost and low resources input as the main characteristics over the past 30 years. Under the constraints of market and policy, the large-scale, low cost input of labor and resources output mass and low price industrial processing products; domestic production and export grow rapidly; labor and resources elements dividends, institutional dividends, and globalization dividends promote the sustainable growth of more than 30 years.

## **V. The Sustainability of China's Transformation**

Over the past 30 years, the important reason of the rapid growth of China's economy is the comprehensive development strategy which bases on large-scale, low cost labor and the advantage of resources. However, the dividends of population, resources and institution are limited. When China is enjoying the achievements of the rapid economic growth, it also encounters a series of serious economic and social issues: the cost and disadvantage of economic growth are constantly pushed up. Those issues at home and abroad constitute the constraint conditions of China's transformation, which are challenging and testing the sustainability of China's transformation.

China's transformation in economic terms is at least facing two challenges: One is the marketization reform is still waiting for propulsion; another is economic growth is still being promoted underpowered, and the path is instability. Besides, there are also the challenges coming from the social development and political reform. We are still facing the international environmental constraints in future. For China, which is undergoing the multiple transformation, small problems of the population of 1.3 billion may convert the big issues of the nation. At the same time, the big issues of the population of 1.3 billion must be put into the world system to consider. Economic problems are often intertwined with the social development and the political reform, which makes the sustainability of China's transformation far more severe.

As a developing country, China is not only a country with a large population and vast land, but also a superpower with a long history and rich culture. In understanding and dealing with domestic issues and international affairs, if only we simply follow "the three benefits" and "the three represents" as the practical standard, adhere to the equal, open, rational, sincere, brave and responsible attitude, exercise the state power in the interest of the people, put every person's health, safety and happiness in the first place, put science and technology, ownership, democracy, rule of law as the means and ways to realize the goals, protect the maximization of the overwhelming majority of the people, pursuit the interests of the common public, the sustainability of China's transition and the emergence of China's transformation model can be expected.

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6. China's economic transformation. 7. Reform and development strategy. 8. The complex task of evaluating China's economic reforms. 19. State-owned enterprise reform in China: Past, present and prospects. 20. State enterprise reform today. Part III: The development experiences. 21. Rural-to-urban migration and migrants' labour market performance, 2008-16. 22. The structure of and changes to China's land system. 26. The evolution and transformation of China's climate change response strategy: From preventing "black swan" events to reducing "grey rhino" risks. Part V: Trade, investment and global integration. 27. China and the global trading system: Then and now. 28. China's foreign trade: Reform, performance and contribution to economic growth. Constraints and Facilitators of Counter-Transformation Strategies China's response to U.S. military transformation will be shaped by Beijing's key national security goals (political stability, national reunification, comprehensive national power, and rapid economic development) and the political and economic context within which the goals are pursued. Beijing's responses will be constrained by major political, social, economic, and international challenges as well as China's available package of financial and technological resources. xi. Beijing is most concerned about the prospects for five principal threats to internal stability: 1. The rise of any organized nationwide opposition movement or party that could offer a credible counter-elite to the CCP. Keywords: China, structural transformation, growth. JEL Classification Nos: O41, O53. 1 Introduction. Although China's local governments may try to operate a miniature state-run economy, ultimately each local producer is subjected to competition from thousands of other villages. In this competitive environment, each local government faces a relatively hard budget constraint; and has to make its own enterprise economically successful (Naughton, 2005). On the other hand, local governments do serve as guarantors of TVE borrowing. For the changing characteristics of workers, we must use Chinese census and survey data. We obtain the number of workers by sector, age and education from the 1987 Tabulation of. China began to carry out reform and opening-up policy after the end of "the Cultural Revolution" in 1976. The Chinese negated the radical route, based on extreme thoughts, in a relatively thorough way of its foreign strategies. Similar to the transformation process of the Eurasian national systems since the end of the Cold War, generally, China has also experienced two phases. China began to experience the first phase at the end of the 1970s when the "Cultural Revolution" ended, while the former Soviet Union countries began to experience that at the end of the 1980s and the beginning of the 1990s. In this article, the trend and prospects of China's foreign strategies have been explored at global, regional and neighboring levels. Constraints, Characteristics and Prospects of China's Transformation. "The Rethinking about China's Economic Transformation. Li You. Based on the constraint condition and development experience of China's transformation, we can conclude the practice characteristics of China's transformation way as five development strategies as follows. A. The Effective Leader of the Party and the Government. Through the effective leadership, the party and the government has kept the dynamic balance in the multiple targets of economic freedom, social mobility, and political stability. China's transformation requires the free flow of the production elements and the equal competition of the economic subjects, which depend on the political and...