



BULLETIN

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China's New Reform Roadmap: Cautious but Significant Changes

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The Central Committee of the Chinese Communist Party, in its third plenum, adopted in November a document about deepening reforms. Overall, the document indicates redefinition of relations between the state and market, and between rural and urban areas. The meeting has cleared the way for a declining role of the state in the economy, for more rights for rural residents, and for a relaxation of family-planning policy. Although the scope and depth of reforms remain unknown, it seems that they will be implemented first through pilot programmes in selected parts of China. The EU should use China's announcement of openness to launch investment treaty negotiations next year, and to become a benchmark for healthier urbanisation in the PRC. Meanwhile, Polish business should consider economic cooperation with the less-developed Chinese interior.

The 3rd plenary session (plenum) of the 18th Central Committee of the Chinese Communist Party had been expected for months. Held in Beijing on 9–12 November, it was the first plenum after the power change in China that did not focus on the nomination of new leaders, but on domestic, mainly economic, reforms. As China's economy needs to change, the symbolism of the 3rd plenums have raised hopes of landmark shifts in economic policy. This meeting took place 35 years after the 3rd plenum (1978) when Deng Xiaoping launched unprecedented economic reforms, opened China to the world and ended Mao's era. Additionally, at the 3rd plenary session 20 years ago, the socialist market economy was announced, while the reforms adopted paved the way for China's WTO accession. After this year's November meeting, the party unveiled a document which is seen as a roadmap to reform for at least the next decade. 60-point text indicates some supposedly upcoming changes, which will be introduced gradually by "touching stones to cross the river"—Deng Xiaoping's adage quoted in the document. Despite the vagueness of the text it seems that the most important changes tackle state-market and urban-rural relations. The plenum has also made two very concrete decisions—to establish new institutions responsible for the implementation of reforms and national security.

State-Market Relations. The redefinition of relations between state and market seems to be one of the most important upcoming changes in the Chinese economy. Overall, it underscores the necessity for less state intervention. The market will play a "decisive" (not "basic" as was the definition used previously) role in resource allocation. Greatest emphasis was placed on transparent market rules which allow independent price setting and competition, eliminating market barriers and allowing the free movement of goods and services. It was also reiterated that both state and private sectors are important elements of a socialist market economy, and that the state sector should be modernised and bear more responsible for increasing state revenue, while the private sector should be encouraged to expand. Furthermore, the assumed decline of the government's role is indicated by a call for breaking monopolies, lowering the number of matters that require official approval, and launching new free trade zones in China. The plenum also disclosed a will for reforms of the banking sector and fiscal and monetary policy through, for example, more transparent budgets, a stable tax regime, setting up small and medium-size banks using private capital, and a more flexible RMB exchange rate. The government's role should be limited to macro-economic management—creating a favourable economic environment by providing public goods and services and preserving social stability.

Urban-Rural Areas Relations. The second sphere to be reformed is the relation between urban and rural areas. It is argued that the difference between cities and villages is a serious obstacle for integrated development. Hence, the

reform must reduce the urban-rural development hiatus. To do so, it was decided to create a single land market and give peasants more property rights. Taking into account the existence of collective land ownership in rural areas, peasants will be granted the right to sell or mortgage the land under their control, at prices that will be set by the market. This change will allow peasants to receive market compensation for the land, and may encourage them to settle in urban areas. One of the instruments for achieving this would be the reform of “population management” which means a gradual modification of the resident permit system. Liberalisation of the settlement mechanism, will, initially, be introduced first in small and medium-sized towns and cities, but with higher control in metropolises. Furthermore, peasants settled in urban areas should be covered by the urban social housing and insurance system. Chinese leaders have also set a framework for reforms of the family-planning policy, which will supposedly be applied in urban areas. Couples will be given the right to have two children if one of the parents is an only child.

New Institutions. To safeguard the implementation of reforms and preserve internal stability, the Central Committee has decided to set up two institutions. The Leading Group for Deepening Reforms will be established as a main body for implementation of reforms. Presumably it would also be a tool for overcoming resistance to reform among conservative party tycoons and leaders of state-owned companies. The second entity will be the National Security Committee (NSC). It is said that this committee will deal with both internal and external security issues. It seems that the NSC will be focused on preserving domestic stability threatened by the risk of social upheaval stemming from social inequalities. In addition, the NSC’s portfolio will supposedly include the job of tackling the perils of an unstable situation in Asia-Pacific as well as the United States’ pivot to the region, seen in Beijing as encirclement and containment of China. It is speculated that the new committee will be similar to the U.S. National Security Council and will be the most powerful security institution in China.

Challenges to Implementation. The plenum shows that the Chinese leaders carried out an exercise in defining social and economic challenges. Currently, export and investment-driven China is facing problems of slower economic growth due to declining exports and a less numerous and more expensive labour force, brought about by an ageing society. Moreover, the development gap between urban and rural areas restrains urbanisation, limits the migration of labour from rural areas, and poses a threat to social stability. In these contexts, the decisions announced after the plenum might be perceived as a landmark change.

But the biggest conundrum for Chinese leaders is how to put these decisions into practice. The extent to which Xi Jinping has consolidated his power, and the degree of consensus within the party, are as yet unknown. New institutions might indicate that Xi has solidified his authority and would like to be seen as the paramount leader. But they may also suggest that the internal tug-of-war is still under way and Xi is now focused on overcoming conservative resistance and tempting all party members into conducting reforms.

The problem would be the scope and depth of changes. The planned reforms are not going to tackle state-owned enterprises (SOE) and their position in the economy. Decisions seem to be more a manifesto for greater competitiveness through wider access to the market than a blueprint for privatisation. Nevertheless, it is clear that privatisation may seriously hit SOEs governed by influential party leaders.

The internal opposition and the necessity to solidify communist party power might be a serious factor that reduces the determination to meet the announced reforms. Additionally, radical reforms aimed at less state intervention, giving much space to local governments or the private sector, may result in shrinking the party’s role and undermining its clout. Supposedly, very deep and prompt changes are unlikely. Hence, it seems that the only solution is to emulate Deng’s experimentalism, embedding modifications in the framework of pilot programmes in selected provinces, counties, towns and villages, and implementing them in other parts of China only if they are successful.

Conclusions and Recommendations. The results of the recent plenum were awaited impatiently and then meticulously analysed, and not only in China. The PRC is the world’s second-largest economy, the biggest exporter, holder of the largest amount of foreign currency reserves, and a huge creditor for many countries. This means that any changes in economic policy, even those that are communicated unclearly, may have a tremendous impact on other parts of the world. The “more market, less state” principle, may signal changes in cooperation with foreign companies.

Upcoming modifications give the EU a chance to forge closer economic relations with Beijing. The first fruits of China’s greater openness are already visible. At the concluded recently 16th China-EU summit a long-awaited decision about launching negotiations on an investment treaty was made. The agreement is expected to give both sides wider market access. The EU should seize the momentum to launch negotiations early next year. Furthermore, a change in relations between urban and rural areas, and focus on health urbanisation (it is estimated that, by 2030, about 350 million Chinese people will have been transferred to the urban area), indicate that it is the right time for joint projects in the framework of EU-China Partnership on Urbanisation, established a year ago. EU experience might be an inspiration for a better and more sustainable urbanisation process in China.

The plenum’s decision to reduce state intervention and permissions, and to establish free trade areas, especially in the Chinese interior—those regions in which foreign countries have only a minor presence—should be taken into account promptly by Polish businesses. Launching business cooperation with these regions may result in a comparative advantage for Polish companies in the less-developed part of China, and contribute to the growth of Polish exports to the PRC.