

China's Third Booster

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CHINA POSTED IMPRESSIVE economic growth between 1990 and 2012. Its Gross Domestic Product (GDP) grew at an average rate of 10.6 per cent during this period. The average sectoral growth rates in this period for agriculture, industry and services were 4.2 per cent, 12.6 per cent and 11.1 per cent, respectively. However, growth slowed in 2011 and 2012 to 9.3 and 7.7 per cent, respectively. The economy is expected to grow by 7.6 per cent in 2013 and 7.3 per cent in 2014.

The Chinese economy is struggling with increase in wages, ageing population and deceleration in productivity. A major set of comprehensive reforms is required for China to avoid the so-called 'middle income trap' i.e. per capita gross income getting stuck in the range of US\$1,026 to US\$12,475 (World Bank definition). While investment is an important ingredient of growth, equally important is the issue of raising domestic consumption.

The Chinese leadership is aware of these issues and the fact that China must deepen its all-round reforms with specific focus on its economic system. The successful experiences of the past reforms are to be built on to achieve decisive results in key areas by 2020.

The Third Plenum of the 18th Party Congress was held in November 2013. The Third Plenum has historically been considered as the party meeting to introduce major reforms. The major economic reforms of China began in 1978 after the Third Plenum of the 11th Party Congress. This led to the introduction of the 'Reform and Opening Up' policy to modernise China's agricultural and national defence industries. The Third Plenum of the 14th Party Congress was held in 1993, which introduced a socialist market economy that led the way for aggressive economic changes, including reforms in the banking sector, state-owned enterprises (SOEs) and income distribution.

A document titled, 'A Decision on Major Issues Concerning Comprehensive and Far-Reaching Reforms' was released on November 15, 2013. This was accompanied by a letter written by the President, Jinping Xi, which highlighted 11

key features of the plan and summed up the reforms effort.

The significance and the principles mentioned in this document are quoted verbatim as follows:

1. "Reform and opening-up has been a crucial choice that China has made regarding its destiny in modern times. But there can never be an end to the need for the emancipation of individual thought or for continuing reform and opening-up. China must deepen its all-round reform with a new starting point.
2. China must stick to the socialist market economy as the orientation of its reform, must promote social fairness and justice and must seek to advance the well-being of the people. The general purpose of deepening its all-round reform is to develop socialism with Chinese characteristics, to advance modernisation in the state governance system and governance capability. The basic economic system should evolve on the decisive role of the market in resource allocation. Political reform must evolve around the leadership of the Communist Party of China and advance the institutionalisation of socialist democracy. Cultural reform must evolve around the socialist core value system. Social reform must evolve around the protection and improvement of the people's livelihood and advance fairness and justice. The development of an eco-conscious civilisation must evolve around the building of a beautiful China. The reform of Party building must evolve on the effort to raise the level of governance to be scientific, democratic and according to the law.
3. The reform of the economic system is the focus of all the efforts to deepen the all-round reform.
4. The successful experience of the past reform and opening-up must be built upon. Decisive results are to be obtained in key areas in 2020".

The Document is spread over 60 points that are classified under 16 Sections. Section one provides the backdrop, and is followed by six sections on economic reforms. Sections eight to

sixteen deal with reforms in politics, law, supervision of power, cultural system, social services, social governance, ecology, defence and the Party's leadership. The following paragraphs summarise the key economic reforms outlined in sections two to seven of the document.

China's socialist market economy is based on both public and non-public ownership of resources. The basic orientation of China's reform would be continuation of its socialist market economy that must promote social fairness, justice and well-being of the people. Markets would play a decisive role in resource allocation. However, both public and non-public ownership are key components of China's socialist market economy.

Couples would be allowed to have two children, if one of the parents is a single child. The property rights protection system reform would be completed. The government would protect property rights and actively develop a diversified ownership economy. Diversified ownership includes state capital, collective capital and private capital. Mixed ownership of state-owned and other enterprises would be encouraged. SOEs would be pushed to modernise through reforms in governance and management, investment accountability and market-oriented recruitment. The non-public economy would play an important role in fostering growth, promoting innovation, expanding employment and increasing tax revenues.

Efforts would be made to build an open, orderly and competitive market system. The system of regional protection, illegitimate favourable policies and monopolistic tendencies would be dismantled. The exit system would be made perfect. Prices would be determined by the market. Price reforms would be introduced in the markets for water, oil and natural gas, electricity, transportation and telecommunications. The government would set prices only for public utilities, public services and natural monopolies.

The financial market would be opened up. Qualified private capital would be allowed to set up financial institutions including small- and medium-sized banks. The market-based exchange rate formation mechanisms for the renminbi would be improved. Steps would be taken to accelerate interest rate liberalisation and capital account convertibility.

The government approval procedures for investors would be removed except in areas related to national security, ecological safety, important arrangements for manufacturing capacity,

development of strategic resources and crucial public interests. The government should withdraw from business activities that can be regulated and modulated by market rules. The number and expenses of government employees would be strictly controlled.

The fiscal and taxation system is an important constituent of state governance. The interests of central and local governments must be balanced. Revenues would be shared such that a shortfall in local government should be filled by general transfer payments. Special transfer payments would be made more judiciously. Tax revenues should be raised by widening the base of direct taxation and improving indirect tax collections through value-added tax and increased taxation of energy-intensive and high-end consumer products.

The integrated development of China is hindered by the existing dual urban-rural structure. Steps must be taken so that farmers may also participate in China's modernisation. A new agricultural operation system based on a mix of family, collective, co-operative and enterprise operations would be pushed forward. Farmers will be given more property rights. They are encouraged to develop a shareholding system from which they can realise benefits. They also have the right of succession. Farmers should receive a fair share of the profits from land value appreciation.

Public resources would be allocated between urban and rural areas in a balanced manner. Migrant workers should get the same pay for the same job. Healthy urbanisation would put a major focus on peoples' welfare. The hukou (or household registration) system would be reformed to help farmers become urban residents. The controls on farmers settling in towns and small cities would be relaxed. However, the size of the population in megacities would be strictly controlled.

Efforts would be made to facilitate the entry of foreign companies in China and Chinese companies moving abroad. Investment treaty negotiations with other countries and regions will be expedited. Multilateral, bilateral and regional co-operation would be encouraged within the ambit of WTO discipline. Attention would be paid to issues of market access, customs supervision and inspection and quarantine management.

China has thus pushed forward its Third Plenum (after 1978 and 1993) with the hope of becoming one of the super-economic powers of the world.

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