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# Beijing Plan Signals Reform to Come Quick

*Blueprint to Narrow the Inequality Gap Suggests China's New Leaders Might Seek Big Changes Sooner Than Expected*

By BOB DAVIS and TOM ORLIK

BEIJING—China's plan to narrow the gap between rich and poor—and the fact that it came out at all—is feeding the sentiment China's new leaders might seek to take on powerful interests quickly rather than laboriously try to reach a broad consensus first.

**Earlier**
China Tackles Income Divide

State planners have debated income-inequality plans for eight years, and come up with at least a half-dozen drafts. None have won final approval, largely because of opposition from state-owned firms and other powerful actors that could lose out in an income-redistribution scheme.

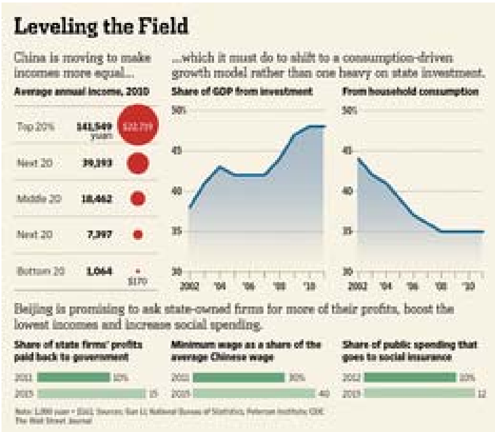
Most recently, Premier Wen Jiabao set a final deadline of the end of 2012—and that one was missed as well.

The publication of the plan Tuesday was nearly as important as the particulars, said some involved in the effort. They included using more of the profits of state-owned firms to pay for welfare programs, boost the lowest incomes and take steps to let depositors earn more on their savings.

It "shows the leadership is very interested in reform," said Qi Jingmei, a research fellow for the State Information Center, a government think tank, who has tracked the inequality plan for years. "I think they'll move fast."

Several foreign analysts agreed. "The statement uses the goal of reducing inequality as an organizing principle for a comprehensive range of economic reforms," said Cornell University economist Eswar Prasad. "This is a strategically clever approach as it makes it harder for vested interests to block reforms."

Should the plan be put into effect, it could represent a substantial change in economic direction. A five-





China Tuesday detailed a plan to bridge the gap between the country's rich and the poor. Above, a Chinese woman works on a small patch of land planting vegetables beside a new housing project in Hefei.

percentage-point increase in dividends paid by state-owned firms would add about 50 billion yuan ($8 billion) annually to the government's coffers and more as profits for the firms rise, some of which would be earmarked for social spending. A two-percentage-point increase in social insurance as a share of total public spending would put about 250 billion yuan a year in households' pocket.

Taken together, the measures could shift 1%-2% of China's GDP into the household sector by 2015.

The plan gives few specifics about other changes contemplated, including land reform. Giving farmers greater property rights would give them a valuable asset and help raise rural incomes

The new plan gives new Communist Party chief Xi Jinping—set to also become China's president next month during a meeting of China's largely ceremonial parliament—another populist issue to champion in addition to his continuing attacks on corruption and government privilege.

Mr. Xi and other new China leaders "have come out of the gates very strongly," said Standard Chartered's China economist Stephen Green. "It plays well to raise expectations; it brings people along with you." Mr. Green said, though he was disappointed that the plan didn't include more specific spending targets.

Over the coming month, more clues should emerge about Mr. Xi's plans and how rapidly he plans to move. China is expected to fill key economic positions, including the heads of the central bank and ministries of finance and commerce as well as the official who acts as the economic interlocutor with the U.S. and other foreign governments—currently Wang Qishan, whose selection to the Politburo Standing Committee now gives him a more senior job. Those jobs will be scrutinized to see if they are filled by those who have pushed market-oriented change. China is also expected to release a detailed plan on how to spur urbanization, a goal of the presumptive premier, Li Keqiang.

About half of China's population now lives in cities. Lifting that ratio could help in reducing inequality because rural migrants generally find better-paying jobs in the cities. Incomes rise in the countryside as well, as the supply of labor diminishes. The State Council's plan to reduce inequality also hints at a pathway for rural residents to gain urban residence status.

The income inequality plan takes aim at two of the main causes of China's weak consumption—low household income and a burgeoning divide between rich and poor.

Estimates of income distribution by Gan Li, an economics professor at Texas A&M University, put China in the ranks of the most unequal African and Latin American countries. Gan Li, an economics professor at Texas A&M University, says the plan contained many good ideas but the shift in policy wasn't enough to make much of a difference.

"China is only allocating 12% of its government spending to social welfare programs while the U.S. is spending 36%," he said. "A two-percentage-point increase is not going to have substantial effect on income inequality."

Some measures may be more symbolic than real. A promise to raise the minimum wage to 40% of average earnings by 2015 sounds impressive. But based on the official data, average earnings for migrant workers—the group most likely to benefit from hikes in the minimum wage—are already more than 50% of the average.

But others said the plan signals the seriousness of Messrs. Xi and Li to take on tough issues. "Implementation very well may well might get bogged down by the conservative old guard, " said Nicholas Borst, a policy analyst at the Peterson Institute for International Economics in Washington. "But it doesn't appear that [China's new leaders] will be waiting a year to begin making reforms. "

**Write to** Bob Davis at bob.davis@wsj.com and Tom Orlik at Thomas.orlik@wsj.com

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