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### CHINA NEWS

# Beijing Endorses Market Role in Economy

## *Economists Express Doubts After Release of Reform Plan*

Bob Davis

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As China's top leaders end the meeting where they laid out economic and political priorities, the country's growth is at risk from a potential property bubble. Professor Li Wei of Cheung Kong Graduate School of Business tells us what the Chinese government must do to keep the economy on track.

BEIJING—The first policy blueprint from President [Xi Jinping](#) a year into his reign said market forces would play a "decisive" role in the economy, but also said the Communist Party's hand needs to stay strong, contradictions that instead of giving a clear direction signaled a difficult road ahead for economic reforms.



A four-day session of top Communist officials had been touted for months as a make-or-break moment for reform, expected to produce a plan for how to revamp the Chinese economy so it depends more on domestic demand and less on exports abroad and heavy government spending back home.

But instead of a departure from the usual party jargon, the meeting ended with a vaguely worded communiqué, short on specifics and long on slogans which left both economists and ordinary Chinese wondering about the leadership's

commitment to change—and ability to make good on reform.

The communiqué called for fewer investment restrictions, greater rights for farmers and a more transparent system for local and national government taxing and spending—all areas where economists say China badly needs reform. But in lieu of specific plans it ambiguously emphasized the need to "encourage, support and guide" the private sector, while at the same time reaffirming "the leading role of the state-owned economy."

### Eyes on Reform in Beijing

Read some highlights of the communiqué, take a look back at reforms and the read more about new leaders.



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### China's Third Plenum >

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[Market to Be More 'Decisive' on Resources](#)

[Internet Sows Doubt Over China Reform Plan](#)

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In a small acknowledgment of the clamor for better protection of individual rights, the communiqué noted the need to establish an independent judiciary. But again it reaffirmed the leading role of the party, which has the power to trump China's constitution.

A fuller policy document is likely to be released in the coming days, which may help to erase some of the ambiguity.

The stakes are high: China faces a maturing economy, an aging population, mounting debt problems and endemic corruption that even top leaders admit could threaten their hold on power. Those factors could hobble an economy that has been an engine of global growth while the U.S. and Europe have sputtered.

China's officials have said for years that change is necessary to ensure that China can continue to grow at a healthy clip and spread the benefits more equitably. For now, the communiqué provides a glimpse into the leadership's top priorities—and the challenges it faces carrying out its will.

The document shows "an intention on the part of the new leadership to accelerate reform, and that is good," said David Dollar, a senior fellow at the Brookings Institution. "However, the headlines also suggest there have been a number of key compromises among interest groups. Hence there is some inconsistency in the message."

The communiqué reflects months of work by ministries, think tanks and academics to put together a plan to remake the Chinese economy under the direction of one of Mr. Xi's most senior advisers, Liu He, raising expectations that the party was ready to tackle some of China's most nettlesome problems. Leaders have also suggested that China's economic slowdown provides an opportunity to rebalance the economy so that it depends more on consumers and less on exports and big government spending.

But over the past four months, the economy has picked up somewhat, erasing fears that the economy would crash land soon and reducing pressure on leaders to take on tough political challenges. Any significant policy change also faces resistance from institutions that benefit from the current system. Add to that, Beijing's tradition of ruling by consensus among elites and the result, say some analysts, was a timid call, thus far, for change.

"This was an opportunity for the party to lay out a clear vision for where the country is heading," said Mark Williams, an economist with Capital Economics. "If they had been able to do that successfully I think it

would have had a big impact on the behavior of officials, but I don't think they have been given a clear steer."

Among the priorities: giving a boost to private enterprise, giving farmers greater property rights and fairer access to public services, and relying more on fiscal policy and transparent actions of government than behind-the-scenes orders from top party leaders to carry out policies.

"The key issue is handling the relationship between the government and the market, allowing the market to play a decisive role in allocating resources," the communiqué said. But even here, the communiqué was hardly unambiguous. More than 30 years after China began its shift away from a planned economy, the document didn't once use the word "private sector." Instead it referred only to the "non-publicly owned economy," suggesting the reluctance some party members still feel in embracing private enterprise.

Other areas that were expected to get big attention were absent from the document, including financial-sector liberalization. In the document, the Chinese characters for "banks" and "interest rates" don't appear.

But a number of analysts said that omission may reflect the fact that the financial sector is already on a path to change. The State Council, the Chinese government's most senior decision-making body, for instance, is set to approve the introduction of bank deposit insurance, Chinese banking officials say. That is widely seen as a first step to letting banks compete on deposit rates, rather than having the government set a uniform rate.

A more curious omission, analysts argue, is the lack of a commitment to furthering urbanization, a longtime priority of Chinese Premier [Li Keqiang](#), who has argued that encouraging migrants to resettle in China's cities would help drive consumer demand. But such a change requires a series of reforms, including phasing out a decades-old residence-permit system, providing additional revenue to localities and greater property rights to farmers.

Each of those changes would face opposition from powerful interests. "It seems there's not yet a lot of agreement on how to move forward on that issue," says Royal Bank of Scotland analyst Louis Kuijs.

Mr. Dollar, of Brookings, who until recently was the U.S. Treasury's top official in China, said the most significant commitment in the document may be to create a special group, which would report to China's most senior leaders, to push through policy changes. "One problem with reforms over the past decade has been that plans agreed at the very top were then left to the line ministries and local governments to implement and [they] were often the interest groups opposed to reform," he said.

A reliance on exports and investment in heavy industry drove growth that averaged about 10% a year for 30 years—a world record. But it also produced wasteful investment in real-estate projects and in heavily polluting industries. It has also made China increasingly dependent on the vagaries of global markets, as slumps in exports to places like the U.S. and Europe took a toll at home.

Instead, top policy makers want to turn China into a consumer society that more closely resembles the U.S. and Western Europe, where the service and high-technology sectors play a bigger role and where innovation is encouraged.

Making such a transition is bound to reduce the rate of growth, at least in the short term, because it is far easier to withdraw support from older industries than it is to encourage the creation of new ones. But Chinese officials figure they have little choice. Growth has already been slowing despite a huge run-up in lending—a formula that has led to financial crises elsewhere in the world.

One of the biggest obstacles to change, economists inside and outside of China argue, are the country's state-owned enterprises, which have near-monopoly status in oil, aluminum, coal, banking, telecommunications, electricity, transportation and other fields. The largest state-owned banks focus mainly on lending to large state-owned customers despite constant exhortations by the government to boost lending to smaller, private firms, which complain that they have to borrow at much higher rates from informal lenders. The firms are among the largest in the world and have considerable clout domestically. The communiqué envisions gradual change. "The implication appears to be that market forces will be given freer rein but within strictly defined parameters," said Cornell University economist Eswar Prasad. "State enterprises will presumably be corporatized—subject to market forces and competition—rather than privatized."

— *Liyang Qi, William Kazer and Richard Silk contributed to this article.*

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