



### **DRAGON EXHIBITS A BENIGN ATTITUDE TOWARDS MARKET**

*Wg Cdr Raj Mongia  
Research Fellow, CAPS*

World's second largest economy issued a communiqué after a four day behind closed doors meeting stating that "Market would be given a decisive role in allocating resources". The resolve was announced by the leaders of the Communist Party of China (CPC) on 12 Nov 2013 after concluding the key meeting on economic reforms which was followed by an agreement to give the market a more prominent role in driving growth in China.

This development will reflect a more assertive role for the market, which was officially designated as playing only a basic role when China launched economic reforms in 1992. It is expected that policy measures would be announced in coming weeks. As of now no specific details have been given outlining areas where these market reforms will be implemented. The target is to put in place a procedure based and effective framework for growth by 2020. Towards this end the Communiqué called for decisive results in key sectors. The natural corollary is setting up of a central leading team for comprehensive deepening reform by CPC. This team would be placed in charge of "Coordinating reform and supervising the implementation of reform plans".

A blueprint for reforms was approved for reforms to lay the foundation for growth in the next decade by the 376 members of the CPC's Central Committee at the end of the four day meeting. The meeting was conducted amid tight security in a military run hotel in West Beijing. The reform was considered necessary in the wake of government grappling

with a slowing economy. The challenge was to transform the three decades old State investment driven growth model. China went through its once in a decade leader ship change in November 2012. This weekend meeting was the third plenum of the new Central Committee.

It was in 1978 when the third plenum under the then leader Deng Xiaoping pushed forward market reforms and closed the chapter on Maoism. Since then it has become a norm to introduce economic reforms in the third plenum. Drawing of parallels with the 1978 meeting has resulted in raised expectations for bold moves. China's new leaders declared that the session would herald unprecedented reforms.

### **Property Rights**

The areas where there had been particular attention were:

- (a) Reforming property rights in rural areas so that farmers are given the right to sell their land.
- (b) To reform the influential and wealthy State owned Enterprises (SOEs).

The property rights protection system will be improved and a unified land market for urban and rural area would be set up. The communiqué suggests that restrictions on selling farmland may be loosened. The system of collective ownership of rural land which can only be leased by farmers remained in vogue even after Chinese government opened up the market in 1990. This manifested in slowing down urbanization and widening urban-rural income gap. Two motivations were behind land reforms. They were:

- (a) To let farmers accrue financial benefits once they trade land.
- (b) To increase supply of land and thus satiate the growing demands of real estate in market.

The communiqué further deliberated on reform of SOEs stating that State run companies would be made to adhere to modern corporate practices. This is perhaps an indication that more State run firms would be encouraged to publicly list on the stock market in the future. Reforming SOEs is perceived by economists as a key step in the government's objective of transforming the State investment-driven model and boosting

innovation industries since SOEs control monopolies in China's vital sectors. They are assumed to be holding assets worth \$ 7.35 trillion.

### Unholy Nexus

It is alleged that many State run enterprises have become hotbeds of corruption. They have nexus with elite party families and other interest groups. The vested interest groups are perceived to be posing the biggest obstacle to reforms by majority of Chinese. The local governments are also held responsible for blocking Central policies. The communiqué also dwelt on subjects beyond economic reforms. It emphasized the focus on maintaining social stability. It also announced the setting up of a State Security Committee to safeguard state security and ensure effective prevention of social disputes. The exact role of newly set up body was however was not spelt out. The need for judicial reforms to ensure independence and fairness in prosecuting bodies and courts was also acknowledged. The party controlled court system need to be overhauled. The voice of common man following unrest at grassroots most of the times triggered by land disputes involving local governments seems to have been finally taken notice of.

#### **ARTICLES BY SAME AUTHOR**

***ATTACK IN TIANANMEN SQUARE: AN ACT OF TERROR OR VOICE OF SUPPRESSED?***

***HOTLINE TO CHINA IN NEW BORDER PACT***

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 mar an economy that otherwise has been an engine of global growth.

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, 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.

*(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies CAPS)*

-----XXX-----