

Economic Reform and Economic Policy of the Xi Jinping Leadership

Osamu Tanaka

Executive Vice President, Policy Research Institute, Ministry of Finance

Abstract

The economic reform and economic policy of the Xi Jinping Leadership can be divided into three issues.

The first issue is the Comprehensively Deepening Reform, which aims to limit the role of government while giving a decisive role to the market economy and thereby achieve its definitive goals by 2020.

The second issue is the Promotion of New Type of Urbanization, which aims to give an urban family registry to farmers who have moved from rural areas to urban areas and to grant urban public services, including residential security, social security, and compulsory education for children, while driving the growth of China by urbanization.

The third issue is the Innovation of Macro-Control, which aims to specify a reasonable range for economic management, set the inflation rate goal as the upper limit and the growth rate and employment goals as the lower limit; if the economy is within the range, short-term economic stimulus measures will not be taken, but economic system reform and economic structural adjustment are given priority.

It is necessary to implement these three measures in parallel in order for the Chinese economy to escape the so-called Middle-Income Trap, to complete the transition to a market economy system, and to achieve sustainable and sound growth. However, it is essential to have the strong political leadership of President Xi Jinping to control vested interest groups who do not want reform, and to implement the drastic economic system reform and economic structural adjustment.

Keywords: economic system reform, urbanization, macro-control, economic structural adjustment

I. Introduction

When he first took office, the economic measures of Prime Minister Li Keqiang were called “Likonomics” overseas. This term was originally coined by an economist of Barclays Capital and it can be described as follows: “do not introduce large-scale stimulatory fiscal policies,” “prevent financial expansion,” and “promote economic structural reform.” However, Likonomics includes much more content than the aforementioned phrases. The author summarized the characteristics of Likonomics in his previous paper by dividing them

into four categories: “promoting a new type of human-centered urbanization,” “converting government functions,” “maintaining economic stabilization in a reasonable range,” and “disseminating reform bonus incentives to citizens.”¹

Later, however, initiatives for economic reform and economic policy were centered on President Xi Jinping through the Third Plenary Session of 18th Communist Party of China (CPC) Central Committee in Nov. 2013, the Central Economic Work Conference and the Central Urbanization Work Conference in Dec. 2013. It is, therefore, necessary to restructure Likonomics as an economic policy of the Xi Jinping Leadership. This report gives an explanation of the characteristics of the economic reform and economic policy of the Xi Jinping Leadership based on the content of important conferences and statements made by President Xi Jinping and Prime Minister Li Keqiang.²

II. Comprehensively Deepening Reform

II-1. Statements of Prime Minister Li Keqiang

Prime Minister Li Keqiang used to say “Reform is the maximum bonus” on a regular basis. On March 17, 2013, after he assumed the office of Prime Minister, he explained the reasons in a press conference for both the domestic and international media, “it is because reform can improve productivity additionally and spread the benefits of reform thoroughly to all people in the country.”

It should be noted that in this press conference, Prime Minister Li recognized that reform had entered into a difficult stage that conflicted with vested interests; however, he presented a strong commitment to continuing reform by stating, “reform is involved with the fate of this country and the future of our people” and “reform has its value in making actions.” He also added, “reform requires courage, wisdom, and persistence.” From these statements, one can tell that he was facing considerable difficulties.

At the same time, he stated that he would promote simplifying public administration and opening authorities as part of the conversion of government functions, and that he was committed to deleting one third or more of approximately 1,700 items from among the overall administrative permissions of each department of the State Council within his office of five years. He also showed an attitude in favor of breaking down monopolies by state-owned companies by introducing private capital and by “promoting private capital entering into the fields of finance, energy, railways, etc. smoothly and effectively.”

¹ Osamu Tanaka, “Characteristics of Likonomics” (Kazankai, “Toa,” Dec. 2013)

² Details on individual economic reforms and policies and political and diplomatic policies of the Xi Jinping Leadership will be left to other authors in this feature issue.

II-2. Statements of President Xi Jinping

II-2-1. Important Speech at Wuhan

Prime Minister Li Keqiang faced a considerable amount of difficulties when promoting further reform. Party support, in particular, from President Xi Jinping, was essential in order to achieve reform; however, President Xi Jinping did not make concrete statements about reform at first.³

He indicated his attitude towards reform for the first time at an important speech at the Regional Discussion Meeting for Comprehensively Deepening Reform and Opening-up held in Wuhan on July 23, 2013. He indicated as follows: (i) in order to implement reform, “it is important to survey and research first. Therefore, if there is no research, there is no right to state an opinion no right to make policy”: and (ii) it is important to “strengthen vitality to develop the public-owned economy, in particular, the state-owned economy” regarding the way of economic systems. Both statements are obviously different from the statements of Prime Minister Li, who stated, (i) taking action is important for reform, and (ii) it is necessary to introduce private capital.

II-2-2. Speech at APEC Economic Leaders’ Meeting

President Xi Jinping changed his attitude to a more positive stance and stated as follows at the APEC Economic Leaders’ Meeting on October 7, 2013:

“We recognize that reform is a very serious revolution and it has an impact on the adjustment of important interest relationships and on streamlining system structures in various aspects.

Reform in China has entered the stage of overcoming difficulties and going deeper. Therefore, the problems to be solved by reform today are very difficult and all of them are challenges. At this stage, we have to encourage ourselves to move on. If we cannot move forward due to concerns and fears, we cannot only move on, but also past achievements will come to nothing.

We must firmly maintain the correct direction which is reform and opening-up, dare to address challenges, dare to cross over rapids, dare to stick a knife into difficult-to-treat diseases and chronic diseases that have accumulated in our country for a long time, and thereby avoid slowing reform and stopping opening-up without fail.”

On the other hand, President Xi Jinping did not forget to add the following caution:

“China is a major power and should never make the mistake of reversing fundamental issues. If we make a mistake, it can never be restored or redeemed.

We must have great courage and take steady steps. We must seek boldly and develop

³ President Xi Jinping gave a speech on reform and opening policy at the group study session of the CPC Politburo on December 31, 2012; however, the content was abstract.

with courage as well as doing things appropriately, tactically, carefully, and advisedly.”

Eventually, we had to wait until the Third Plenary Session of 18th CPC Central Committee to hear details on the ideas of President Xi Jinping related to reform.

II-3. The Third Plenary Session of CPC Central Committee in 2013

The Third Plenary Session of 18th CPC Central Committee (Third Plenary Session) adopted the CPC Central Committee’s Decision on Major Issues in Comprehensively Deepening Reform” (hereinafter referred to as the “Decision”) on November 12, 2013. President Xi Jinping explained the idea of the Decision in more detail separately (see the References at the end of this report). The characteristics of the parts of this Decision related to economics are as follows:

II-3-1. Overview

(1) President Xi Jinping took the initiative for drafting.

The draft of the Decision is usually prepared in a form where members of the CPC Politburo Standing Committee, excluding the President, usually serve as leaders of a team to draft the Decision and the President gives guidance for it. This time, however, President Xi Jinping became the team leader and led the discussion. According to Xinhua News Agency, this is the first time in this century.

Most of the content of the Decision is related to the government’s policies and therefore Prime Minister Li Keqiang could be the leader. This time, however, the content of reform contains not only economic issues, but also matters related to the military. Therefore, there is a problem with Li Keqiang leading military reform because he is not a member of the Central Military Commission of the CPC. If he became the team leader, the impact of the reform would be too strong and there would be concerns that the conservative wing, left wing, and elders might object strongly because the drafting was done at the same time as the trial of Bo Xilai.

When discussing the reform of state-owned companies in particular, it may cause a backlash from both conservative wing and left wing, who consider that public-ownership is the main body of socialism from the perspective of ideology and major state-owned companies that attempt to defend vested interests. The person who can organize this backlash is not the Prime Minister, but the President. When the reform of state-owned companies was discussed at the Fourth Plenary Session of 15th CPC Central Committee in 1999, then President Jiang Zemin virtually removed the then Prime Minister Zhu Rongji from his role in charge of the reform of state-owned companies and he took the initiative at the meeting to discuss the reform of state-owned companies and compiled the draft.

(2) Obtain Definite Results in Important Filed by 2020.

The goal to “build a comprehensive, well-off society” has been established for 2020.

2021 is the 100th anniversary of the Communist Party. Therefore, the goal means to have a clear prospect for major reforms, achieve modernization in China, and thereby prove the legitimacy of governance by the Communist Party.

(3) Drive China Comprehensively by Economic System Reform.

According to the explanation of President Xi Jinping (Material), the Decision consists of 3 Parts, 16 Chapters, and 60 Articles. An overview is given in Part I, Chapter I; Organization and Leadership are indicated in Part III, Chapter XVI; and Detailed Explanations are indicated in Part II, Chapters II to XV, discussing major duties and important measures for comprehensively deepening reform comprehensively from six perspectives, including economics, politics, culture, society, ecological civilization, national defense, and military force. The economic aspect is indicated in six chapters, which is the largest section, and the Decision also clearly states that “demonstrating the driving function of economic system reform,” and “economic system reform is the focus for comprehensively deepening reform.”

(4) Market will Take Decisive Role in Allocating Resources.

The market used to fulfill a “basic role” in resource allocation in the past; however, it has now been upgraded to a “decisive role.” The Decision indicates that “It is a general rule of a market economy that the market decides resource allocation. In order to reconstruct a socialist market economy, we must comply with this rule and strive to solve the problems that the market system is incomplete, there is excessive government involvement, and that supervision and control are insufficient.”

President Xi Jinping explained this by saying that “after consideration of opinions in various fields and the demand for actual development and repeated discussions and reviews, the Central Committee considered condition to use new expressions have already matured theoretically for this issue and therefore the “basic role” of the market in resource allocation should be upgraded to a “decisive role.” (Material). It is clear that this is positioned as a theoretical innovation.

(5) Limitation of Government Roles.

If the market fulfills a decisive role, the roles of government must be naturally limited. The Decision indicates that the “Duties and roles of the government are mainly maintaining the stability of macroeconomics, strengthening and optimizing public services, ensuring fair competition, strengthening market supervision and control, defending market order, promoting sustainable development, facilitating shared prosperity, compensating for market failures.”

The Decision also indicates to “Reduce control of micro affairs by the government as much as possible,” and it also states regarding investment that “companies will make voluntary decisions based on laws related to their investment projects and the government will not examine or give permission excluding for those projects related to national safety and ecological safety, the allocation of major manufacturing capacity in China, strategic

resource development, and important public interests, etc.”

These statements made the conversion of government functions strongly indicated by Prime Minister Li Keqiang one of important pillars of comprehensively deepening reform.

(6) Manifest the Concept of President Xi Jinping on the Reform.

As introduced in (Material) II, President Xi Jinping explained the preparations for comprehensively deepening reform in detail at the Third Plenary Session. He stated that “In order to promote continuous and sound development of economic society, there is no way but reform and opening-up.” It indicated a strong determination to comprehensively deepen reform by stating that having courage and a mindset of self-innovation, taking actual action without fear of taking risks, and thereby breaking through the obstacles of ideological concepts in the system and the barriers of fixed interests.

He repeatedly said, “We must have great courage and take steady steps.” He explained the phrase “take steady steps” as referring to the way to “plan and consider uniformly, demonstrate comprehensively, and make decisions scientifically.”

II-3-2. Detailed Explanation

(1) National economy Explained Ambiguously.

The Decision states, “We must hold independent positions on public ownership, have the state-owned economy fulfill its leading role, and continue to strengthen vitality, control, and the impact of the state-owned economy.” This is based on the important speech that President Xi Jinping made at the Regional Discussion Meeting for Comprehensively Deepening Reform and Opening-up held at Wuhan on July 23, 2013. The Decision continued, “We will allocate more investments of state-owned resources to major industries and key fields related to the existence of national security and the people’s economy, and will focus on providing public services, promising important strategic industries, ecological protection, progress in scientific technology, and national security.” Looking at only these statements, it seems that the state-owned economy would take an extremely important role in the Chinese economy.

On the other hand, however, the Decision states, “A mixed-ownership economy where state-owned capital, group capital, non-public capital, etc. hold shares in each other and are integrated with each other, is one of the important forms of achievement of the basic economic system.” and “non-state-owned capital is allowed to acquire capital of state-owned capital investment projects.” This has been emphasized by Prime Minister Li Keqiang. Regarding the management of state-owned resources, it will focus on state-owned capital management, some companies to manage state-owned capital will be established, and state-owned companies will be reorganized as state-owned capital investment companies if the companies meet requirements. This is a way to reform state-owned companies as investment companies and holding companies and thereby to separate competitive businesses under their control. This is an important change in form. Moreover, the Decision states, “the government encourages non-public-owned companies to participate in the reform of state-owned

companies and development of mixed-ownership companies, which shares are controlled by non-public-owned capital.” It seems that this virtually allows private companies to absorb and merge with state-owned companies.

In this way, the state-owned economy gives consideration to both the standpoints of the left wing and the conservative wing, and the pro-reform group. Therefore, it is necessary to watch which direction the reform of state-owned companies will take in the future.

(2) Measures for Authorities and Financial Resources

The Decision streamlined the relationship of authority between the central government and local governments again as follows:

- A Strengthen the authority of the central government and responsibilities for payments appropriately; and assign matters related to rules and controls, etc. associated with national defense, foreign affairs, national security, and national unified markets as under the authority of the central government.
- B Part of social security, the establishment and maintenance of important projects for multiple regions are under the joint authority of central and local governments and the relationship of authority will be adjusted gradually.
- C Regional public services are under the authority of local government.

It is notable that a part of the central government’s authority was strengthened on this occasion. Development of the social security system was assigned solely by local government; however, it now comes under the joint authority of central and local governments. The Decision clearly states that basic pensions will be changed to a national pool system. It will be a task for the central government to plan the social security system to be nationally uniformed.

With regard to financial resources, the Decision states, “responsibilities for payments will be paid and shared equally by the central and local governments according to the category of authority. The central government may entrust and allocate part of the authority and responsibilities for payments through general transfer payments. If a public service covers multiple regions and has a considerable impact on regions, the central government will share part of the local governments’ authorities and responsibilities for expenditures by general transfer payments.

With regard to chronic revenue shortages of local governments, which have been a problem, the Decision indicates, “Maintain the stability of the administrative financial resource structure of central and local governments as a whole, connect them with tax reform, consider the attribution of tax items, and adjust revenue categories of central and local governments again.” Regarding tax reform, it also indicates to develop the local tax system. As a test to modify business taxes to value added taxes and with enforcement of real estate tax advancing, allocation of tax items and administrative financial resources of national taxes, local taxes, and shared taxes will be revised drastically.

The Decision allows local governments to finance construction funds by issuing construction municipal bonds in terms of promoting urbanization. It seems to make the debts

of local governments more transparent by changing illegal borrowing to bond issuance. In addition, the Decision indicates, “Promote firmly to cover all of the permanent population with basic urban public services and include farmers whose family registries have been changed to urban areas in the urban housing and social security system completely.” This requires considerable financial resources. In this regard, the Decision states that expenditure for financial transfers will be linked with granting urban family registry to people transferring from agriculture. It is considered that system reform will also be implemented in this regard.

(3) Financial Liberalization and Globalization

The following items are included in the Direction: establishment of financial institutions, such as middle and small-sized private banks, etc. by private capital; liberalization (allowing more flexibility) of the Chinese yuan (RMB) rate; accelerating liberalization of interest rates; and achieving the acceleration of liberalization of capital accounts in Chinese yuan.

Financial liberalization and globalization will progress rapidly by 2020; however, in order to implement it without any confusion, it is essential to establish a financial safety net and a failure resolution system for financial institutions. In this regard, the Decision indicates, “Establish a deposit insurance system and develop an exit mechanism from financial markets by the liberalization of financial institutions.”

The Decision also indicates the establishment of financial institutions for infrastructure in urban areas and housing measures and financial institutions for the development of bordering areas. They could be the former Japanese Government Housing Loan Corporations or Hokkaido-Tohoku Development Finance Public Corporations. The Chinese government should not only consider establishing these policy-related financial institutions for development, but also consider seriously establishing policy-related financial institutions responsible for middle- and small-sized company finances, like the former Japanese People’s Finance Corporation and Japan Finance Corporation for Small Business, because if 100%-private financial institutions are established, it does not guarantee facilitating financing for middle- and small-size companies.

(4) Measures against Low Birth Rates and Aging

The Decision indicates, “Consider and implement policy to extend the retirement age gradually.” It may be considering the sustainability of pension financing. However, it may increase the difficulty for college graduates to find a job, which has already become a social problem. Therefore, it is necessary to implement it carefully.

Based on the fact that the working-age population changed to the negative in 2012 for the first time, the one-child policy was reviewed and the Decision indicates, “It is now allowed for a couple, one of which is an only-child, to have two children.” However, it is not clear that this measure can stop the trend toward fewer children per family, which is progressing in big cities.

II-4. Central Economic Work Conference in 2013

The Central Economic Work Conference was held during a period from December 10 to 13, 2013 jointly by the CPC Central Committee and State Council and determined basic principles for economic policy in 2014.

President Xi Jinping's theory, "We must have great courage and take steady steps." was exaggerated again. The basic principle orders not to start the reform together if the time has not come yet and conditions are not right. In concrete terms, it divides the procedures of reform into four categories.

(1) Reform for Which the Direction is Clear and the Effects are Seen Promptly and Reform that Local Government and Departments may Handle by Receiving Authority
Implementation of these reforms may be accelerated in 2014 and in the short term.

(2) Reform Which is Related to a Broad Range and Requires the Central Government to Decide Policy

These reforms may be implemented at an appropriate time in 2014 after considering and proposing the reform drafts promptly, establishing specific reform strategies, organizing uniform plans comprehensively, implementing examinations, and obtaining approval.

(3) Reform for Which Recognition has not Been Deepened, but it Must Start

Find rules by seeking drastic and implementing tests in advance, ensure the uniformity of common awareness, accumulate experience for comprehensive implementation and development, and generate conditions.

(4) Construction of Systems Requiring Implementation Proposed by the Plenary Session

Strengthen consideration of reforms that require the amendment and development of laws and start them as soon as possible.

Consequently, various aspects of reform determined by the Third Plenary Session in Nov. 2013 are divided into these four categories and those corresponding to (3) and (4) will be postponed until 2015 and after. With regard to reforms that require the particular development of laws, laws will be established or amended after the National People's Congress in 2015.

II-5. The First Meeting of the CPC Central Leadership Small Group for Comprehensively Deepening Reform

On the afternoon of January 22, 2014, President Xi Jinping held the first meeting of the CPC Central Leadership Small Group for Comprehensively Deepening Reform and made an important speech. Li Keqiang, Liu Yunshan, and Zhang Gaoli, CPC Politburo Standing Committee members, participated in the meeting as vice group leaders. It became clear that

Li Keqiang assumed the position of vice group leader of the Leadership Small Group. The content of the decision by the meeting and the outline of the speech of President Xi Jinping was as follows. (Xinhua net, Beijing; January 22, 2014)

II-5-1. Content of the Decision

- (1) “Rules for the CPC Central Leadership Small Group for Comprehensively Deepening Reform,” “Special Rules for the CPC Central Leadership Small Group for Comprehensively Deepening Reform,” and “Detailed-Rules for the CPC Central Leadership Small Group for Comprehensively Deepening Reform” were examined and determined.
- (2) Establishment of the following six special groups under the CPC Central Leadership Small Group for Comprehensively Deepening Reform were examined and determined: Economic System and Ecology Civilization System Reform; Democratic Rule of Law Reform; Cultural System Reform; Social System Reform; Communist Party Construction System Reform; and Discipline Inspection System Reform.
- (3) “Proposal to share important measures by the Central Government for relevant departments to implement thoroughly the Decision of the Third Plenary Session of 18th CPC Central Committee” was examined and determined.
- (4) Each local government and department reported progress in completely practicing the policy of the Third Plenary Session of 18th CPC Central Committee and considered the immediate activities of the Leadership Small Group.

II-5-2. Outline of the Important Speech by President Xi Jinping

- (1) Responsibilities of the CPC Central Leadership Small Group in Comprehensively Deepening Reform

A Study and understand deeply the spirit of the Third Plenary Session of CPC Central Committee.

Arrangements by the 18th National Congress and the Third Plenary Session of 18th CPC Central Committee must be relied on when we discuss matters and determine policies. The Leadership Small Group must take the lead in studying and understanding the policies deeply, digest them well, observe general situation, develop important matters well, and think and consider problems from the perspective of two general aspects, inside and outside China; general aspects of activities of the Party and country; and overall aspects for comprehensively deepening reform.

B Understand the Accurate Directions of Reform Firmly.

Establish the standpoint for fundamental problems related to directions, theories, and systems, etc., in consideration of major arguments for and against it, and make the standpoint clear.

C Handle affairs in compliance with rules and procedures rigidly.

Gather expertise, maintain democratic centralism, implement decisions that are made after consultation, by sharing them, and thereby lead outcomes without negligence.

D Strengthen responsibilities and duties for reform.

Implement decisively matters that are judged correctly, with political courage.

E Mobilize sufficient enterprise from each field completely.

The more duties related to reform become complicated and difficult, the more we must rely on the support and participation of people, leading people willing to move on through proposals and persistence of accurate reform measures, and extract and develop policies and statements for reform from among people's creation and practice and people's demands for development.

(2) Duties of Special Small Group, Central Reform Office, Leading Unit, and Participation Unit

A Address a unified project.

Firmly address both priorities and general matters, engage in them at present and for the long-term, handle important relationships, plan and consider issues uniformly at the level of strategy, war, and battle, and establish policies, plans, and power firmly and uniformly.

B Address plans.

Comprehensively deepening reform has been arranged holistically. Establish an implementation plan promptly and implement all reform measures based on the implementation plan.

C Address implementation.

Establish a time schedule for each specific reform measure of the Third Plenary Session of CPC Central Committee. Address the implementation of each item, give reminders and inspect them using various methods, and give instructions and support so that each local government and department allocates duties and takes responsibility.

D Address investigation and research.

Strengthen investigation and research for major reform issues, hear opinions from the periphery and front line organizations and people as much as possible, maintain contact with primary materials as much as possible, and keep the chance of success in mind for important situations. Implement strengthening investigation and research by local governments and departments and value roles as investigation and research think-tanks of scholars and research institutions relevant to comprehensively deepening reform.

II-6. Government Work Report in 2014

On March 5, 2014, Prime Minister Li Keqiang reported on government work for the first time at the National People's Congress. Regarding comprehensively deepening reform in the report, Prime Minister Li Keqiang stated his theory, "Reform is the maximum bonus," first, and then stated, "Reform in China has entered into the stage of defeating difficulties and in going deeper." and "We must break free from the chain of ideology and concepts with the

spirit of sparing no expense and with our backs to the wall, break the barrier of vested interests, and deepen reform in each field comprehensively by giving economic system reform a leading role.”

Regarding the order of priority of reform, it will start with the following points: (i) the fields people demand the most; (ii) distinctive issues that restrict the development of economic society; and (iii) the part where various fields of society can reach a consensus. It confirms again the policy determined by the Third Plenary Session of CPC Central Committee to “fulfill the decisive role of the market in resource allocation.”

2014 is the first year for implementing the reforms determined by the Third Plenary Session of CPC Central Committee and it was focused on to what degree the specific content of the reform is included. The report indicated the following reforms.

(1) Public Administrative System Reform

Cancel or delegate to lower-level governments 200 or more items subject to administrative review and permission (416 items were implemented in 2013). Guarantee companies’ rights to autonomous decisions for investment.

(2) Financial Administration Reform

Make the budget system more transparent. Reduce one third of the special transfer payments (subsidies). Promptly consider and adjust authority and responsibilities for payments of the central and local governments and rationalize revenue categories of central and local governments in incremental steps while maintaining the overall stability of current financial administration capacity structures. Allow the issuance of local government bonds, include local government’s debts and revenue in budget management, and thereby prevent and resolve debt risks.

Lou Jiwei, Minister of Finance, stated at a press conference on March 6, “There are 220 items for special transfer payments now. They will be reduced to approximately 150 items. We are considering expanding the range subject to conversion of business taxes to value added taxes into the service industry, real estate industry, and financial service industry. (Xinhua net; March 6, 2014)

(3) Tax System Reform

Expand the range that is subject to the conversion of business taxes to value added taxes into the industries of railroad transport, postal services, telecommunication, etc. Expand tax breaks to small- and micro-sized companies. Implement reforms of the consumption tax and resource tax.

(4) Financial System Reform

A Continue to implement liberalization of interest rates.

In this regard, Zhou Xiaochuan, Governor of the People’s Bank of China indicated in a press conference on March 11, “Personally, I consider that the liberalization of deposit

interest rates can be achieved in these couple of years.” (Xinhua net; March 11, 2014)

B Expand interactive floating range of foreign exchange rate.

The floating range was increased from +/-1% to 2% as of March 17.

C Promote Renminbi Convertibility (liberalization) under capital accounts.

On this subject, Zhou Xiaochuan, Governor of the People’s Bank of China, indicated in the press conference on March 11, “Promotion of renminbi convertibility under capital accounts is being implemented firmly and will be achieved in incremental steps.” (Xinhua net; March 11, 2014)

D Establish middle- and small-sized banks by private capitals.

In this regard, Shang Fulin, President of China Banking Regulatory Commission, stated at a press conference on March 11, “We will test five private capital banks in Tianjin, Shanghai, Zhejiang, and Guangdong.” (Xinhua net; March 11, 2014)

E Establish a deposit insurance system.

In this regard, Zhou Xiaochuan, Governor of the People’s Bank of China indicated in a press conference on March 10, “The deposit insurance system is expected to be proposed in 2014.” (Shanghai Securities News; March 11, 2014)

(5) State-owned Company Reform

Promote test operation of a state-owned capital investment management company. Increase payment rate of revenue from central state-owned companies. Have non-state-owned capital participate in the investment projects in the fields of finance, oil, electricity, railroads, telecommunications, resource development, public utilities, etc.

(6) Rural Area Reform

Induce well-ordered transfer of management rights of contract farmlands. Train new types of management agents, such as large and specialized family businesses, family farms, farmers’ cooperatives, agribusinesses, etc.

(7) Family Register Reform

Promote family register reform and implement family register transfer policy by differentiating the number of farmers accepted in different sized cities.

(8) Income Distribution System Reform

Strive to reduce income gap. Promote collective bargaining for raising the wages of employees, and strengthen and improve remuneration management of responsible persons of state-owned companies. Increase the income of low-income group by various channels and continue to expand the percentage of middle-income earners in the whole population. Increase the income of people in both urban and rural areas at the same pace as the growth of the economy.

(9) Family Planning Reform

Adhere to the basic state policy of family planning and implement a policy to allow a married couple to have two children if one parent is an only-child.

II-7. National Economic System Reform Work Conference

The National Economic System Reform Work Conference was held on May 16 and 17, 2014. Xu Shaoshi, Chairman of the National Development and Reform Commission, who is responsible for the Special Small Group for the Reform of the Central Economy System and Ecological Civilization System participated in the conference and made a speech with the title of “Understand the situation accurately, implement reform thoroughly, and make sure to achieve priority duties for economic system reform in 2014.” Liu He, Deputy Director of the National Development and Reform Commission, who is responsible for the Special Small Group for the Reform of the Central Economy System and Ecological Civilization System participated in the Conference and made a speech on the general overview. Lian Weiliang, Deputy Director of the National Development and Reform Commission, participated in the Conference and held a discussion meeting related to economic system reform. The Outline of the Conference is as follows:

II-7-1. Overview

It is a time of strategic opportunity where we can really develop drastically, a key time where we can establish a well-off society comprehensively, a time for overcoming difficulties by deepening reform and opening-up and by accelerating conversion of the development method and structural adjustment, a time for immediate change of the mode of economic growth, a time of growing pains for structural adjustment, and a time where long-term contradictions are now becoming prominent. It appears important and urgent to implement comprehensively deepening reform, in particular a deepening of economic system reform. Both in terms of designing long-term plans and resolving risks and issues currently faced by economic development, move boldly, implement tests boldly, dare to take responsibility, address practices seriously, accelerate the implementation of reform measures, and strive to obtain people’s trust by showing the outcome of the reform.

II-7-2. Duties of Economic System Reform in 2014

2014 is the year to start the complete implementation of the spirit of the Third Plenary Session of 18th CPC Central Committee comprehensively and deepen the reform comprehensively. The duties of the reform assumed by nation-wide organizations related to development and reform, units related to reform of the economic system and ecological civilization system, and constitutional units of the Liaison Meeting between Economic System Reform Work Departments are important and very difficult. Further enhance progressive awareness, awareness of opportunities, and awareness of responsibilities and

continuously implement and move forward with economic system reform.

(1) Deepen Investment System Reform and Encourage Market-Oriented Vitality.

Promote the reform of the investment review and permission system promptly, further simplify and delegate to lower-level organizations matters related to investment review and permissions, and rigidly standardize review and permission procedures. Promptly establish a cooperative management structure linked cross-sectionally and promote legislation in the investment field.

Implement further improvement of the private investment environment, develop and implement the 36-Article package of policy for private investment and the relevant detailed rules for implementation and incidental policies, and implement several model projects that encourage the participation of social capital, in particular private investment.

Promote the reform of the railroad financing system promptly and facilitate active participation of social capital in railroad construction.

(2) Implement Price Reform of Resource Products, etc. and Establish a Mechanism where the Price is Determined Mainly by the Market.

Additionally reduce items for which prices are determined by the government and open prices of competitive goods and services. Implement the reform of price setting structures of resource products, develop and expand the step-by-step price system depending on the level of individual life, and try to establish a target price system for major agricultural products.

(3) Deepen Financial Administration, Taxation, and Financial Reform and Promote Contribution to Economic Conversion and Actual Economy.

Implement an open and transparent budget system that is comprehensively standardized and standardize the financing system by issuing government bonds. Implement tests to change the business tax to a value added tax and taxation reform with consumption tax, resource tax, real estate tax, environment protection tax, etc.

Financial system reform must contribute to further development of the real economy. Continue implementing liberalization reform of interest rates and foreign exchange rates, deregulate market entry of financial institutions in an orderly manner, accelerate development of various levels of the capital market, and prevent systemic and regional financial risks without fail.

(4) Implement Deeply the Reform of State-Owned Companies, Develop the Basic Economy System, and Develop a Mixed-Ownership Economy.

Define functions of different state-owned companies and promote having each type of ownership capital hold shares and be mutually integrated.

Implement reform of priority industries, including electricity, oil, gas, salt, etc. promptly.

(5) Establish Fair, Open, and Transparent Market Rules and Promote Optimizing the

Allocation of Resources and Elements.

Strengthen reform focused on the negative list system for market entry, the social credit system, market supervision and management, and other aspects, and implement the establishment of uniformed and open market orders where competition occurs in an orderly manner. Develop a sound market-driven science technology and innovation system and promote the free flow and effective allocation of each type of production element.

(6) Implement Reform Related to the New Type of Urbanization and Promote Integrated Development of Urban and Rural areas.

We must implement a new type of urbanization focusing on urbanization of people. Promote granting urban family registry to people transferring from agriculture in an orderly manner and establish a diversified and sustainable structure of urbanization investment and loans. Implement the urbanization reform test proactively and appropriately and focus on solving problems completely that make it so people can earn money at their destinations and determine how the land is used, etc.

(7) Implement simplifying investment and export and import trade as well as establish a new system for an open-type economy.

Expand opening of service industries externally and deepen the reform test in the Shanghai Pilot Free Trade Zone. Develop a system structure to support companies expanding overseas, implement the prompt establishment of a Silk Road Economic Belt and Maritime Silk Road, and generate new superiority of global competition.

(8) Implement Reform in Relation to Social Projects and Develop a Sound Structure of the Civil Security System.

Maintain basics, have responsibility for the minimum requirement levels, continue to promote fairness, and deepen the reform of education, medication and health, culture, social security, housing security, income distribution, and other fields. Plan the uniform reform of the basic public service system structure, strive to have more of the outcome of development reach all the people more equitably, and thereby manage to inspire further vitality of society as a whole for development.

(9) Develop Sound Systems for Saving Resources and Environmental Protection and Accelerate the Construction of an Ecological Civilization.

Firmly address the study of the overall idea of the reform of the ecological civilization structure and the construction of advance model areas, strengthen the implementation of the voluntary function area system, and firmly address the establishment of a system for energy saving and contaminant reduction. Implement renewal of a system for environmental policy, establish a sound structure for ecological compensation, and accelerate the establishment of an ecological civilization system.

II-7-3. Duties of Implementation Organizations

Organizations related to development reform, units related to the reform of the economic system and ecological civilization system, and constituent units of the Liaison Meeting between Economic System Reform Work Departments throughout China must:

- A Understand the general situations, specify the direction firmly, and always maintain a high level of consistency with the central government of the Party.
- B Open ideology, dare to take responsibility, break subjectively with fixed thoughts, habitual actions, and dependence on existing procedures, and thoroughly implement policies decided and arranged by the central government seriously with a progressive spirit.
- C Plan the reform draft firmly, carefully and appropriately with the mind of maintaining the minimum requirement level. Adhere to implementing a test first, strengthen legislation and law amendments, and handle the relationship between the degree of force to implement reform, the speed of development, and the degree acceptable to the society accurately. In terms of strategy, inspire courage with a progressive spirit, and in term of tactics, implement each measure steadily step-by-step.
- D Ensure the uniformity of common awareness, combine powers, and win broad support from people. Fulfill the roles of the Liaison Meeting between Economic System Reform Work Departments, fulfill the roles of the media and public opinion, and strengthen links between upper and lower levels of relevant institutions. Ensure the uniformity of common awareness more broadly than ever, mobilize sufficient enterprise from each field, form a super-strong combination of power to promote the reform, and ensure the achievement of duties for the reform delegated to lower-levels of government by the central government.

II-7-4. Five Points of Focus

In order to implement future reform operations without fail, we must focus on the following five points.

- A Focus on study arrangements and requirements of the central government related to reform.
Define the direction, priority, route, method, speed of reform additionally, and implement each reform more scientifically and effectively.
- B Focus on the structure driving the reform.
Dare to implement self-revolution, bring actual benefits to a broad number of people through reform, and have the reform acquire a strong driving structure.
- C Focus on complying with the spirit of professionalism for reform.
Direct people to plan and implement each reform with a scientific attitude and spirit of professionalism and thereby make the drafts, measures, and outcome of reform tolerable to verification by history and practice.

D Focus on achieving some examples of success.

Generate experiences that others can copy or that can be shared and establish credit for the reform.

E Focus on the theoretical study of reform.

In response to considerable changes to the reform in terms of environment, priority, subjects, driving force, method, etc., implement a definite study of organizational theory and provide an accumulation of plans and intellectual support for deciding reform policy.

III. Promotion of New Type of Urbanization

III-1. Press Conference of Prime Minister Li Keqiang

It is said that Prime Minister Li Keqiang has had a strong interest in urbanization. Prime Minister Li explained urbanization as well as the reasons why implementation of urbanization is necessary for today's China at the first press conference for both the domestic and international media after assuming the office of Prime Minister, which was held on March 17, 2013.

- (1) Urbanization is an inevitable trend for modernization and it is a universal demand for a broad range of farmers. Urbanization leads to enormous demands for consumption and investment, and creates more employment opportunities. Moreover, the direct influence of urbanization is to enrich farmers and make people happy.
- (2) The new type of urbanization that we emphasize is a human-centered urbanization. Today, there are approximately 260 million migrant farmers.⁴ We must gradually integrate people from those migrant farmers into cities if they so desire. This is a long-term and complex process and requires support from employment and service guarantee.
- (3) Urbanization should not rely on methods like spreading a piecrust, but it should be implemented by a method where large-, middle-, and small-size cities develop in harmony and where Eastern, Central, and Western regions can implement it based on local conditions. It is also necessary to pay attention to preventing urban illnesses and avoiding situations where there are many skyscrapers next to shanties. During this term, the government will implement further reconstruction of various areas with more than 10 million shanties with strong determination. This measure will not only resolve the binary structure inside cities, but also lower the barriers for urbanization.
- (4) It is of particular importance that the new type of urbanization is complementary to each other with the modernization of agriculture and we must firmly maintain the warning limit for faming land, ensure food security, and protect the interests of farmers.
- (5) Urbanization is a complicated system process and brings serious changes to the economy and society. Therefore, it is necessary to implement it along with various

⁴ This figure includes farmers who are working in the proximity of cities within the same province.

reforms. During implementation process, we will face various problems and must solve them.

III-2. Central Urbanization Work Conference in 2013

The Central Urbanization Work Conference was held on December 12 and 13, 2013.⁵ All seven CPC Politburo Standing Committee members participated in the conference; President Xi Jinping made an important speech; the progress of urbanization was analyzed; and guidance of ideology, major goals, basic principles, and priority duties of implementing urbanization were defined. This conference revealed that President Xi Jinping was taking the initiative of urbanization too. Prime Minister Li Keqiang stated the immediate focus points for urbanization policy, proposed specific arrangements to implement urbanization, and made a summary in his speech. In the conference, the National New Type of Urbanization Plan was discussed. An outline of the conference is stated below. (Xinhua net; Beijing, December 14, 2013)

III-2-1. Basic Concept

(1) Meaning of Urbanization

Urbanization is the way we must travel for modernization. Promoting urbanization is (i) an important method for solving problems related to agriculture, rural areas, and farmers; (ii) an important support for implementing cooperation and development between regions; (iii) an important key point for increasing domestic demand and facilitating the improvement of industries; and (iv) having important actual significance and deep historical significance for accelerating implementation of overall achievement of a well-off society and the modernization of socialism.

(2) Goal for Urbanization

When establishing goals for urbanization, we must seek truth based on facts and the goal must be executable. Do not increase quotas one after another based on administrative orders, repeat appraisals, seek quick outcomes, nor take wrong methods by hurrying to gain an outcome.⁶ Implementation of urbanization must be proactive, but also appropriate, steady and have a clear direction. It must take steady step and measures must be sure.

⁵ This is the first conference. Participants seem to be the same as the Central Economic Work Conference.

⁶ This is based on the translation of Kyodo News. Yi Pen, Director of the International Finance Forum Urbanization Research Center gave a commentary that it means “urbanization should not be implemented in a single way under a situation with a shortage of industry support, insufficient employment, and also an insufficient capacity of absorption of urban areas.” (Beijing Youth Daily, December 15, 2013)

(3) High Quality Urbanization

A It must be human-oriented.

The primary and important duties are to implement human-centered urbanization, increase the quality of the urban population and residents' quality of life, and grant urban family registry in an orderly manner to the members of the permanent population who are capable, have steady employment, and have a stable life in urban areas.

B Optimize allocation.

Based on the absorptive capacity of resources and environment, establish macro allocation for urbanization scientifically and reasonably, promote a reasonable division of labor, mutual complement of functions, and joint development between large-, middle-, and small-size cities and towns by setting the megalopolis as a subjective form.

C Adhere to ecological civilization.

Focus on the implementation of green development, cyclical development, and low-carbon development, reduce obstacles and damage to nature as much as possible, and save and use resources intensively, including land, water, energy, etc.

D Hand the culture on to the next generation.

Develop impressive cities that have historical memories, regional characteristics, and ethnic characteristics.

(4) Precautions for Implementing Urbanization

A Pay attention to the proper handling of the relationship between the market and government.

Not only ensuring that the market fulfills its decisive role in capital allocation, but also have the government fulfill its functions better in creating a system environment, organizing development plans, building infrastructure, providing public services, strengthening of social governance, and other aspects.

B Pay attention to the proper handling of the relationship between central and regional governments.

The central government must establish major policies and objectives and decide the overall plan and strategic allocation for urbanization. Local government must start from the facts, implement an overall plan thoroughly, establish plans responding to the overall plan, and develop construction and management activities creatively.

III-2-2. Major Duties for Implementing Urbanization

(1) Implement Granting Urban Family Registry to People Transferring from Agriculture.

A One key to implementing a new type of urbanization is solving issues involving people.

B The major duties are to resolve issues related to grant urban family registry to people transferring from agriculture who have already moved to and been employed in urban areas, and to strive to increase the qualifications and capabilities of migrant farmers for becoming part of urban areas.⁷

- C We must increase the absorptive capacity of industries, in particular the service industry, in middle- and small-size cities.
 - D Comprehensively open the family registry limit of administrative towns and small-size cities and towns, open the family registry limit of middle-size cities in an orderly manner, determine reasonable conditions for transferring to urban registration in large cities, and restrict the population size of mega-cities rigidly.
- (2) Increase the Efficiency of Building Sites in Urban Area.
Ensure that the degree of intensification of building sites increases. The waning line of farmland, including quantity and quality, must be strictly observed.⁸
- (3) Establish a Diversified and Sustainable Capital Security Structure.
- A Develop a local tax system, establish local-oriented tax accounts gradually, and establish a structure to link expenditure for financial transfers with granting urban family registry to people transferring from agriculture. Establish a sound issuance and management system for local bonds on the basis where laws and regulations are developed and the debt management system of local governments is reconstructed.
 - B Implement the reform of government policy-related financial institutions, fulfill immediate important roles of government policy-related financial institutions better in urbanization, and consider the establishment of financial institutions for urban infrastructure and housing policy.
- (4) Optimize Allocation and Forms of Urbanization.
- A Our country has formed three megalopolises; Beijing-Tianjin-Hebei, Yangtze Delta, and the Pearl River Delta. At the same time, we are developing and forming megalopolises in areas where conditions are met in the Midwestern area and Northeastern area based on market power and guidance of the national plan, and will implement the balanced development of national land spaces at the height of important growth that leads the development of the Midwestern area and Northeastern area.
 - B According to the natural conditions of each region, we will set development degrees scientifically, establish the borderline of development in each city, in particular mega cities, as soon as possible, locate cities in nature, and preserve beautiful nature for residents in the city.
- (5) Increase Construction Levels in Urban Areas.

⁷ According to Yi Pen, Director of the International Finance Forum Urbanization Research Center, there are approximately 40 million migrant farmers who have both residence and work in urban areas, out of 200 million migrant farmers. (Beijing Youth Daily, December 15, 2013)

⁸ Farm land is decreasing by 6 million mu (1mu: 666.7m²) on average every year in China. It is approaching the warning line of farm land of 1.8 billion mu. (Xinhua net, Beijing, December 14, 2013)

- A Strengthen the establishment of the quality management system for construction and seek to crackdown strictly based on laws against illegal actions that may cause accidents due to construction quality.
- B Pay attention to the preservation of nostalgic village scenes when implementing integrated development of urban and rural areas, refrain from cutting down trees and filling in lakes, reduce housing eviction, and improve the lives of residents in the original form of the village as much as possible.

(6) Strengthen Control of Urbanization.

Strengthen the macro control of urbanization, establish and implement the National New Type Urbanization Plan.⁹ Relevant departments must strengthen integrated planning and harmony for important policies. Each local government must also consider and propose opinions on promoting the progress of urbanization that meets actual conditions.

III-2-3. Conclusion

Implementing urbanization and industrialization at the same time represents the two major leading powers for modernization. The essence of taking on a new type of urbanization, which has Chinese characteristics, in scientific development, is human-oriented. The key to the new type of urbanization is quality improvement and implement it at the same speed as industrialization, informatization, and the modernization of agriculture. Urbanization is a long-term historical process and it must be implemented forward scientifically, orderly, proactively, and appropriately.

The new type of urbanization must:

- (1) Find focus points accurately, implement granting urban family registry to people transferring from agriculture in an orderly manner, reconstruct shanty areas in urban areas profoundly, and focus on urbanization of the Midwestern area.
- (2) Implement differentiated family registry transfer policy and strengthen the construction of major infrastructure and the induction of industry transfers in the Midwestern area.
- (3) Strengthen job training for migrant famers, ensure compulsory education for children who transfer to urban areas along with their parents, and strive to improve the quality of the ecological environment in urban areas.

III-3. *Government Work Report in 2014*

“The three 100 million people policies” were announced with regard to urbanization in

⁹ This was first the “National Urbanization Sound Development Promotion Plan”; however, it changed to the “National Urbanization Development Plan,” and eventually to the “National New Type Urbanization Plan.” The implementation period is until 2020. (Beijing Youth Daily, December 15, 2013) The content of the plan was announced on March 16, 2004.

the government work report made by Prime Minister Li Keqiang on March 5, 2014. The specific content is as follows:

(1) Transfer the Family Registry of Approximately 100 Million People Transferring from Agriculture Into Urban Registries.

Cover permanent residents with basic urban public services by 100% in an incremental manner. Financial resources are required to realize this measure. Therefore, seek structures, such as sharing the cost for granting urban family registry to people transferring from agriculture, diversified urban construction investments and loans, etc.

(2) Reconstruct Rural Areas in the City, such as Shanty Areas in the City, Where Approximately 100 Million People Reside.

This is part of housing reform. It never allows creating conditions where there are many shanties standing beside many tall buildings.

(3) Have Approximately 100 Million Farmers in the Midwestern Area Work in Neighboring Cities.

For this reason, increase industrial development and the capability to collect populations in the Midwestern area.

III-4. Issues of Urbanization

I would like to consider the meaning of the new type of urbanization that the Xi Jinping leadership indicates here.

III-4-1. Urbanization as a Means of Maintaining Growth

In 2012, the working-age population (ages 16 to 59) changed to the negative in China for the first time and it continued to decrease in 2013. The production-aged population (ages 15 to 64) began to decline in Japan in the mid-1990s. This is often considered to be the cause of the Japanese economy's long-term stagnation and reduction of potential for growth after the collapse of the bubble economy. In addition to the recent slowdown in growth, since the working-age population declined, recognition that the Chinese period of high-growth is ending is spreading among leadership of the CPC and government.

Prime Minister Li Keqiang indicated in his greetings at the opening ceremony of summer DAVOS Forum held in Dalian on September 11, 2013 that "The Chinese economy has entered a phase of medium- and high-growth." According to the general understanding, it means a slightly higher level of medium growth. In order to implement medium-growth of the Chinese economy steadily, it is necessary to have a new engine for growth and it is considered to be urbanization.

Generally, the consumption amount of urban residents is more than that of farmers. If a

large amount of farmers become residents of urban areas, the total amount of consumption will increase. Development of infrastructure is essential for urbanization and this will support steady growth of investment. Moreover, urbanization will develop the service industry and it will lead to expansion of employment. Implementation of urbanization is the key for continuous growth.

III-4-2. From Urbanization of Population to Human-Centered Urbanization

The Xi Jinping leadership places the emphasis on “Human-Centered Urbanization.” What does “human-centered” mean? At the end of 2013, the urbanization ratio of China was 53.73%. This is considered to be “false urbanization.” There are approximately 260 million migrant farmers in urban areas; however they are significantly discriminated against compared to people having urban registry in terms of basic public services, including social security, such as medical care, pensions, etc., housing security, and compulsory education for children. If the true urbanization rate is the percentage of the population that can receive urban basic public services, the urbanization rate of China is only around 35%. This is the reason why urbanization in China is called “urbanization of population” but not “urbanization of people.”

In order to achieve true urbanization, it is necessary to reform the family registry system, grant migrant farmers urban family registry, and have them receive basic public services as equal to urban residents; however, this increases the financial burden on urban areas.¹⁰ In particular, in the Central Urbanization Work Conference, it attempts to transfer farmers to middle- and small-size cities, but not large-size cities. It is impossible to grant farmers urban family registry solely by means of the financial capacity of these cities and towns. If the burden requires urban registry residents to pay a tax increase, there may be a serious social conflict between urban registry residents and migrant farmers.

For this reason, it is important to modify local taxes fundamentally and enhance the independent financial resources of these middle- and small-size cities and towns, as well as to establish a public financial transfer system so that funds transfers from the central government (equivalent to Japanese local grant taxes) will be allocated directly to these cities and towns.

As mentioned above, achieving human-centered urbanization requires many reforms, including family registry reform, social security system reform, such as medical care,

¹⁰ According to Blue Book on Urban Competitiveness 2013, which was published by the Chinese Academy of Social Sciences on July 30, 2013, it is necessary to achieve granting urban family registry to approximately 390 million people from agriculture throughout China by 2013. When calculating the public cost of granting urban family registry at 131,000 yuan per person, approximately 51 trillion yuan is necessary for resolving the citizenship of 390 million people. According to a trial calculation by the China Development Bank, the capital demand for investment and loans for urbanization in China over the next three years will reach 25 trillion yuan. (ENNWEEKLY.COM, December 24, 2013)

pension, etc., housing reform, education reform, local government's financial system reform, etc.

III-4-3. Prevention of Overdevelopment

Local government tends to increase investment for real estate development with the excuse of urbanization. When the Hu Jintao leadership (2003 to 2004) began, local governments used it in an underhanded way and established many illegal development zones all over the country. It never seems to be easy to implement sound and stable urbanization while avoiding the recurrence of overdevelopment.

IV. Innovation of Macro Control

IV-1. Reasonable Range Theory of Prime Minister Li Keqiang

Prime Minister Li Keqiang held a discussion meeting on the economic situation on July 16, 2013 and indicated basic principles of macroeconomic policies. He stated that the "Primary purpose of macro control is to maintain economic operation in a reasonable range by avoiding major economic fluctuation. The lower limit is maintaining stable growth and employment and the upper limit is prevention of inflation." In other words, he explained that when economic operation is maintained within a reasonable range, the macroeconomic policy focuses on conversion of the development method and structural adjustment and focuses on establishing the "upgraded version" of the Chinese economy. When economic operation comes close to the upper or lower limit, the macroeconomic policy focuses on stabilizing growth or preventing inflation.

With regard to the specific value of the upper limit and lower limit, Prime Minister Li Keqiang indicated in an article contributed to the Financial Times dated September 9, 2013 that the lower limit is a growth target in 2013 of approximately 7.5% and the upper limit is an inflation control target of approximately 3.5%.

IV-2. Central Economic Work Conference in 2013

Regarding macroeconomic policy in 2014, the Conference cautioned the supremacy of the GDP growth rate by indicating, "do not simplify development as an increase of GDP" and it also indicates that the growth rate should be at "a speed that does not have aftereffects again." It is based on the reflection of the fact that the large-scale economic measures taken at the time of economic downturn precipitated by the Lehman Brothers bankruptcy in 2008 brought excessive production capacity, increases in local government bonds, increases in house prices, and inflation.

The Conference also indicated that "it is necessary to maintain stable operation of economic growth within a reasonable range," develop the method and means of macro

control constantly, and balance the expected goal for development and economic society and macroeconomic policy. However, the specific numbers for the upper and lower limits for 2014 were not indicated at the Conference.

IV-3. Government Work Report in 2014

IV-3-1. Policy Review in 2013

Prime Minister Li Keqiang emphasized that the idea and method of macro control was innovated in 2013. In other words, if we only keep calm with big changes in economic conditions, “observe the lower limit for stable growth and maintaining employment and the upper limit for prevention of inflation, and operate the economy within a reasonable range, we would have concentrated on conversion of the development method and structural adjustment, would not relax the reform, and would have maintained not to unsettle the basic direction of macroeconomic measures.”

In concrete terms, “in the first half of 2013, exports changed drastically, the economy continued to decline, negative growth was found in the central government’s revenue, which was a very rare case in its long history, interbank short-term market interest rates increased extraordinarily once, and therefore there were opinions internationally that the Chinese economy might have made a hard landing.” However, it also indicated that the government “did not adopt short-term stimulatory measures, did not expand the (financial) deficit, did not issue money excessively,” and thereby settled economy within the reasonable range and gave a “tranquilizer” to the market.

IV-3-2. Macroeconomic Goals in 2014

(1) GDP growth target: approximately 7.5% (in 2013: target: 7.5%; result: 7.7%)

The report explained the reasons to set the same growth target as the previous year as follows: “This links to the goal of comprehensive achievement of a well-off society and contributes to strengthening market confidence and adjustment and optimization of economic structures.

Approximately 7.5% growth is to maintain employment. It fulfills not only the demand for increases in new employment in urban areas, but also leaves room for transferring work force from rural areas to urban areas and getting jobs. It is to increase individual incomes in urban and rural areas fundamentally and to improve people’s lives.”

However, 2014 is the year to implement the reform items determined by the Third Plenary Session of CPC Central Committee in full scale and to implement conversion of the development method and structural adjustment. Therefore, reformists were of the opinion of reducing the target to 7%.¹¹ It was indicated in the Central Economic Work Conference 2013, “do not simplify the development as an increase in GDP. We must increase the quality and

efficiency of economic development and strive to realize the speed so that it will not have any aftereffects again.” In spite of that, the target was set at 7.5%. This means that the leadership was overpowered by forces of people who are careful with reform and who precede growth.

However, it carries considerable difficulties to maintain 7.5% growth while implementing reform, conversion, and adjustment. Therefore, the report indicated, “In order to achieve the economic growth target this year, we have to make difficult and hard efforts despite many positive factors.”

On March 13, 2014, Prime Minister Li Keqiang indicated in a press conference for both domestic and international media, “We accept (expected target of growth rate) even if it is flexible, slightly higher or low. We do not seek GDP unilaterally.” It suggested that they do not care about the achievement of 7.5% if employment and individual income increase without any problems.

(2) Rate of increase in consumer-price: within 3.5% (in 2013: target: 3.5%; result: 2.6%)

The report indicated that this “is set in consideration of the remaining effects of price increases in the previous year and new price increase factors in this year, and indicates our resolution and confidence to restrict inflation and ensure people’s livelihood.”

(3) Employment: Increases in new employment in urban areas: 10 million persons or more (in 2013: target: 9 million; result: 13.1 million)

The registered urban unemployment rate is within 4.6% (in 2013: target: 4.6%; result: 4.1%).

IV-4. Boosting the Economy

The GDP growth rate for the period from January to March 2014 was 7.4%, which was slightly below the annual target of 7.5%. Therefore, Prime Minister Li Keqiang announced measures to boost the economy, which were called “mini-stimulus policies,” several times.¹² As a result, the GDP growth rate for the period from April to June 2014 recovered slightly to 7.5%.

IV-4-1. Standing Committee of the State Council on April 2, 2014

(1) Consider Expansion of Taxation Incentives for Income Tax of Small- and Micro-Sized Companies.

Increase the upper limit of taxable annual income subject to preferable policy to reduce

¹¹ Based on interviews by the author with Chinese economists.

¹² There were other policies contributing to the economy announced; however, the representative economy boosting policy that was announced by the end of May will be introduced here.

corporate income tax of small- and micro-sized companies by half, additionally and drastically from 60,000 yuan, and extend the end of this policy until the end of 2016.

(2) Provide Further Demonstration of the Role of Financial Support for Development in the Reconstruction of Shanty Areas.

China Development Bank will establish a full-time organization, adopt an independent accounting system, adopt a liberalization method to issue special bonds for housing finance, collect funds from financial institutions and other investors, such as postal savings, etc., and other investors, encourage active participation of commercial banks, social security foundations, and insurance institutions, etc., and concentrate their use for the reconstruction of shanty areas and construction of projects related to urban area infrastructures, etc.

(3) Accelerate the Reform of the Railroad Investment and Loan System and the Construction of Railroads.

A Establish a railroad development foundation and expand capital sources for construction.

Absorb social (private) capital investment to reach a total amount of 200 to 300 billion yuan for the foundation every year.

B Renew accounts and methods for issuance of railroad construction bonds.

Issue bonds for 150 billion yuan to society (private sector) in 2014 and implement income tax incentive measures related to investment in railroad bonds.

C Induce financial institutions, such as banks, etc., to support railroad construction proactively and expand the investment size of social (private) capital.

D The central government gives subsidies for a specified period to public and political transport missions carried by the railroad and gradually establish a normative subsidy system.

E Strengthen uniform plans and cooperation and ensure smooth project construction.

Start construction of approved projects comprehensively and promptly, develop construction for the first half as soon as possible, and thereby ensure the stable growth of railroad construction investment and the prompt implementation of railroad construction.

IV-4-2. Standing Committee of the State Council on April 16, 2014

(1) Financial Support for the Three Rural Issues: Agriculture, Rural Areas and Farmers

A Develop agencies for rural area financial services.

Categorize and implement the reform of financial institutions, such as rural credit cooperatives, etc.; build and develop hamlet banks; increase the stock-holding ratio of private capital; encourage the establishment of agricultural industry investment funds; and consolidate and expand service capacity for the Three Rural Issues.

B Increase investment in agriculture-related funds.

Appropriately decrease the reserve deposit rate of county rural commercial banks and cooperative banks that meet the requirements.¹³ Implement policies to have county banks

apply specified rate of deposit to the local area.

C Develop rural area inclusive financing (where benefits are shared thoroughly).

Develop loan assistance policies to support poverty. Implement 100% coverage of villages and towns in the back-country with basic financial services.

D Increase loan support for priority fields in the development of modern agriculture.

Streamline assistance policies for insurance premiums of agricultural insurance and establish a structure for diversification of catastrophe risks.

E Develop rural financial market.

Develop financing lease services for agricultural machines, renew mortgage and security methods, and develop the rural property rights market.

F Increase policy support.

Streamline policies, including financial incentives for loans related to agriculture, tax incentives for microfinance for farmers, compensation for damages for loans to rural areas, etc., and prevent financial risks without fail.

Financial institutions related to agriculture must make efforts so that all policies will be disseminated thoroughly, must not move away from agriculture, and must grant extensive benefits to agriculture.

(2) Employment

Support the development of small- and micro-sized companies in order to facilitate the priority of eligible persons, including university graduates, laid-off workers and unemployed people, challenged, etc., to start a company or to be employed. Extend tax policies that were due to end at the end of 2013, to support and facilitate starting a company or employment of priority eligible persons until December 31, 2016 and implement further streamlining of the tax policy.

IV-4-3. Standing Committee of the State Council on May 30, 2014.

(1) Reduce the Burden on Companies.

It is important that measures reduce and standardize the collection of expenditures related to companies and monitor hands reaching into companies unnecessarily, to deepen reform, simplifying public administration and opening authorities, and standardize market orders. It also has significant meaning for reducing management costs and encouraging investment and entrepreneurship.

A Correct taxes and streamline expenditures.

Cancel accounts to collect expenses to realize universal public services or general management functions provided by the government. Take long-term measures to exempt small- and micro-sized companies from the collection of administrative expenses, such as management, registration, certification, etc. Based on laws, include accounts to collect

¹³ This was implemented on April 25.

expenses, which have the characteristics of a tax, in the corresponding tax accounts.

B Establish a list management system for the collection of expenses from companies.

Include all items for collecting expenses in the list, disclose the list, and monitor it. Any expenses that are not on the list shall not be collected. The number of items on the list shall be decreased gradually.

C Streamline and standardize the collection of expenses for services provided before administrative review and permissions.

It is necessary for the government to determine prices and give guidance on prices and manage the list. Strictly standardize the collection of expenses by business associations and intermediary organizations.

D Collection of expenses related to administrative projects from companies and establishment of new government foundations must conform to the provisions of laws.

Establish a structure for reporting and feedback on the burdens of companies to investigate any actions to collect expenses and fines unnecessarily or actions to allocate donations.

(2) Contribution of Finance to the Actual Economy

The 10 Financial Policies that were announced in July 2013 played an active role in facilitating economic development, strengthening weak points, and rehabilitating the financial system, etc. Currently, the economy is operated steadily; however, it is necessary to maintain moderate financial policies under the situation where the downward pressure remains to be strong. It is necessary to implement existing policies as well as deepening financial reform, implementing prior adjustment and micro adjustments moderately in a timely manner by using structural adjustment methods, and facilitate “blood circulation” so that finance can contribute to the actual economy.

A Maintain a reasonable size of money, loans, and social financing.

Strengthen measures to decrease reserve requirement rates with specified directions, decrease reserve requirement rates appropriately for banks which meet the demand of structural adjustment, such as the “Three Rural Issues,” small- and micro-sized companies, etc., and which have lent loans to actual economy satisfying market demand reached at specified rate of total loans.¹⁴ Expand the size of re-loan or special financial bonds by the central bank to support small- and micro-sized company support.

Stimulate stock of loans by strengthening writing off bad debts, implementing securitization of loan assets, improvement of macro-prudence management, etc.

B Reduce the cost of social financing.

Standardize interbank loans, trusts, financial products, entrustment loans, and other operations, streamline unnecessary “routes” and “bridges” stages of capital, and reduce the chain of financing.

Develop special inspections for collecting bank commission fees. Cancel any items that only collect commission fees, but provide no services. Reduce guarantee charges for small-

¹⁴ This was implemented on June 16.

and micro-sized companies.

C Optimize loan structures.

Distinguish items to be supported and items to be restricted, and increase support for national priority construction, company reconstruction, the service industry, etc.

D Improve financial services.

Increase the efficiency of loan examination and approval. Strengthen the establishment of a rural credit system and security and guarantee system. Expand the coverage percentage of agricultural insurance.

E Strengthen risk monitoring and oversight.

Streamline structures for sound default and failure resolution of financial markets, strengthen debt management of the local government, and thereby prevent financial risks.

(3) Comprehensive Audit of Progress of Existing Policies and Measures

Accelerate the implementation of policies and measures, including stable growth, facilitating reform, structural adjustment, and preferential policy and measures of people's livelihood; create a good atmosphere with "faithful words, decisive action"; increase public credit capability of the government; and thereby develop a comprehensive audit of progress of policies and measures that the State Council has announced in order to have companies and people enjoy the benefits of policies.

Focus on delayed implementation of policies and measures, focus on investigating their causes, propose countermeasures, complete the "first 1km" and "last 1km" of the implementation process, break through "blocks in halfway," and eliminate obstacles to the system structure that have an impact on the implementation of policies.

The authority list system has been established and it does not allow officials to abuse their authorities. In addition, define and strengthen their responsibilities; overcome official inaction, such as "if there is no problem, I do nothing," or negligence, such as "avoid difficulties and demand only easy things"; and thereby enable the implementation of policies that bring significant progress.

This time, the audit must focus on innovation. Each level of government must introduce evaluation by a third party and evaluation by society in addition to self-audits and on-site examinations, and also audit not only of local government, but also of departments.

The State Council will dispatch audit groups, strictly discipline persons who do not implement policies forcefully, facilitate the implementation of policies and measures completely and produce a material result as soon as possible, and thereby ensure to achieve target duties for the development of economic society in 2014.

IV-5. CPC Politburo Conference

President Xi Jinping held the CPC Politburo Conference on July 29, 2014 and examined immediate economic conditions and economic policies for the second half of the year. An outline is stated in the following. (Xinhua net, Beijing, July 29, 2014)

IV-5-1. Economic Conditions Judgment

- (1) In 2014, the international situation has become confused and complicated, and the duties of domestic reform and development are also very troublesome and a great burden. Under the accurate leadership of CPC Central Committee and State Council, each local government and department seriously and thoroughly practiced the spirit of the 18th National Congress and the Third Plenary Session of 18th CPC Central Committee, and seriously implemented the policy decisions and arrangement by the Central Economic Work Conference. We adhered to the overall trend of the policy to demand advancement based on stable conditions, kept the continuity and stability of macroeconomic measures, innovated the concept and method of macro control, valued the implementation of prior adjustment and mini-adjustments appropriately in a timely manner, and thereby resolved major conflicts and issues adequately. We also focused on promoting economic development, structural adjustment, improvement of people's livelihood, and resolving risks by comprehensively deepening reform, and thereby maintained the overall peace and well-balanced steadiness for the development of economic society.
- (2) With regard to economic operation in the first half of this year, it is kept within a reasonable range; major indices conform to annual targets; and therefore, economic operation remains in peace. The vitality of reform and opening is strengthened, development quality is gradually increased, and the security of people's livelihood is steadily strengthened. At the same time, the environment inside and outside China is very complicated; many unstable and uncertain factors continue to exist; economic development is still facing considerably major challenges; and therefore further efforts must be made to maintain peaceful development of the economy.

IV-5-2. Macroeconomic Policies in the Second Half of this Year

In order to implement economic policies firmly in the second half of this year, we must completely and comprehensively practice the spirit of the 18th National Congress and the Third Plenary Session of 18th CPC Central Committee, and comprehensively implement the policy decisions and arrangement of the Central Economic Work Conference. We have to understand the equilibrium point for reform, development, and steadiness, equilibrium point between short-term goals and long-term development, and connection points for the development of economic society and the improvement of people's livelihood. We must firmly maintain the overall trend of policy to seek steady advancement, and keep the basic idea of stabilizing macroeconomic policies, vitalize microeconomic policies, and solidify the foundation by means of social policy.

We must maintain the continuity and steadiness of macroeconomic policies. With regard to distinctive issues in economic operation, we have to place further value on control with a specified direction, and implement policies and measures effectively in consideration of both

the immediate future and the long-term. We have to accelerate the deepening of reform and opening, focus on the implementation of structural adjustment, prevent or resolve risks appropriately, constantly improve policies for people's livelihood, and thereby facilitate continuous and sound development of the economy and strive to achieve expected annual goals for the development of an economic society.

It is extremely important to handle the speed of economic growth accurately for implementing economic policy firmly and it has a major impact on implementing policies in various fields without fail. In order to achieve challenges, "two 100th anniversaries,"¹⁵ and China's dream, "great recovery of the Chinese," we must maintain the focus on economic construction, establish that development has the primary responsibility for governing and revitalizing the country, and implement the continuous and sound development of the economy rigidly. These are important foundations of national prosperity, social stability, and people's happiness. Our country's development must maintain a specified pace or it will become difficult to resolve many problems. At the same time, the development must be a scientific development that complies with economic rules, a sustainable development that complies with nature's rules, and a receptive development that complies with social rules.

We must keep the reform as the top priority from among other priority matters and maintain a problem-oriented attitude. With regard to stable growth, structural adjustment, placing priority on people's livelihood, and risk prevention, we must implement reforms promptly and inspire the inherent power and vitality of the market. We have to increase the substantial value of simplifying public administration and opening authorities, deepen investment system reform quickly, and open competitive operations of natural monopoly industries as soon as possible. We must accelerate the opening of service industry in an orderly manner, relax limitations on entry into manufacturing industries, connect opening and control, and strengthen the supervision and control of the market.

(1) Fulfill the Effects of Administrative Finance and Financial Research.

Strengthen support for the actual economy, optimize allocation of administrative finance and financial resources, increase the efficiency in use of finance and economic resources, and develop financing routes for the actual economy proactively.

(2) Expand Effective Investment Proactively.

Fulfill roles as a key for investment, additionally unlock the potential of private investment, and focus on improving investment quality and efficiency.

(3) Address the Expansion of Consumer Demand.

Fulfill the basic role of consumption, streamline consumption policies depend on the

¹⁵ Comprehensively realize a well-off society by the 100th anniversary of the foundation of the Communist Party, and make China a rich, strong, democratic, civilized, and balanced socialist modern country on the 100th anniversary of the foundation of the Country.

upgrading trends of individual consumption structures, improve the consumption environment, and unlock potential consumption continuously.

(4) Address the Stabilization of Foreign Trade.

Heighten the level of opening the country to foreign business, implement and streamline policy to facilitate the development of foreign trade, keep using foreign capital proactively and effectively, and forcefully implement upgrading exports and the balanced development of trade.

(5) Implement Economic Structural Adjustment Quickly.

Develop new economic growth spots and regional top growth sites, develop the policy environment of the innovation driving, establish ecological civilization, and implement the national new-type urbanization plan.

(6) Increase Effective Provision, such as People's Livelihood and Social Security, etc.

Continue to improve people's livelihood, develop the social security system, promote employment and starting new companies, and strengthen medical and health projects.

(7) Understand Existing Various Type of Risks Accurately.

Respond to various risks by using effective methods, eliminate these risks, and ensure the continuous and sound development of economic society.

IV-6. Issues with Macroeconomic Policies

IV-6-1. Economic Risks

The Government Work Report in 2014 pointed out regarding economic societal problems that, "there are hidden adverse effects of risks in the field of financial administration and finance, etc. The production capacity of some industries is in serious excess. Difficulties in macro control are increasing." These difficulties are indicated concretely in the following.

(1) Financial Administration Risks

The debts of local governments are at 27.8 trillion yuan as of the end of 2012 (including 19.1 trillion yuan which the government must repay) and 30.3 trillion yuan as of the end of June 2013 (including 20.7 trillion yuan which the government must repay). The percentage of total debts to GDP as of the end of 2012 is 53.5% (39.4% of which is likely to be repaid by the government). In particular, the debts of smallest government are rapidly expanding. If this is not solved fundamentally, the bankruptcy of local governments' financial administration may be exposed in the future.

(2) Financial Risks

Social financing, excluding bank loans of 8.89 trillion yuan, increased to 8.4 trillion yuan in 2013. Risks associated with shadow banking, including mainly financial products and entrustment products, have been pointed out. The defaults of some entrustment products and bonds have been exposed in 2014. It is necessary to control financial risks effectively and prevent systemic and regional risks.

(3) Excessive Production Capacity

Due to excessive investment in 2009 and 2010, production capacity become excessive in steel, aluminum, cement, shipbuilding, plate glass, wind-generation electricity, and solar panel industries and they strain revenues. It is an important issue for industry policy to restructure these industries and abolish excessive facilities.

Under this situation, if the government implements an economic stimulus policy easily, it may additionally increase financial administration risks, financial risks, and excessive productivity risks. Therefore, macro control has become more difficult.

IV-6-2. Issues with Economic Structural Adjustment

On the other hand, the Government Work Report in 2014 indicated the following about the Chinese economy, “We are just at the time of labor pain for structural adjustment and at a shift in growth speed. We are at an important and critical stage for overcoming the hardest part. Therefore, downward pressure on the economy remains strong.”

However, it also indicated, “Development in our county has an important and strategic opportunity where it still can develop greatly. Industrialization and urbanization will be continued. There is significant room for regional development to catch-up. Therefore, we still have a foundation and meet the requirements to maintain medium- and high-growth of the economy in the future for a while.” The report indicated recognition that if conversion of the development method and structural adjustment are implemented under a difficult situation domestically and internationally, we can still ensure the initiative of economic development and maintain medium growth for a while.

And the report indicated that the following four conversions are necessary to shift the economy into medium-growth stably:

(1) Conversion Mainly from Depending on Element Inputs into Depending More on Innovation Driving.

It is no longer possible to grow by massive inputs of inexpensive labor, resources, and energy. It is necessary to grow depending on improvement of productivity through technological innovation.

(2) Conversion Mainly from Traditional Comparative Advantages into Fulfilling More and Comprehensively Competitive Superiority.

We have lost a comparative advantage, inexpensive labor costs. We must respond to international competition by product quality and brand power.

(3) Upgrade International Specialization in Industry from Low-end to Middle- and High-end.

China has provided assembly and implemented exports using inexpensive wages at the final stage in international specialization; however, today when we lost superiority in wages, it is necessary to manufacture products with higher added value.

(4) From Imbalance Between Urban Areas, Rural Areas, and Regions to Balanced Cooperation.

If we leave economic discrepancy unresolved, individual consumption will not increase and we cannot resolve the issue where investment and consumption are unbalanced.

V. Conclusion

I have sorted and explained three issues regarding the economic reform and economic policy of the Xi Jinping leadership. They are linked to each other. For example, urbanization is a key for stable medium-growth of economy; however, if relevant reforms, such as the family registry system and local government financial administration system, are not implemented at the same time, the urbanization preoccupied with overdevelopment and may cause an erosion of rural areas and a crisis in food security.

Conventional macro control methods cannot achieve comprehensive deepening of reform. It is necessary to place a priority on economic system reform and structural adjustment even if it means slowing down the economy for a short-period, but avoid implementing easy economic measures just like those in 2009 and 2010. At present, the Xi Jinping leadership considers that the economy is still within a reasonable range even though the growth rate was slightly below the annual target and it holding the attitude of avoiding issuing a large-scale economic stimulus policy, while announcing a mini-stimulus policy for the economy.

However, vested interest group who do not want the reform will aspire to a higher growth rate and strongly demand implementation of economic policies and the postponement of reforms whenever the economic growth rate shows signs of decreasing. In order to control them and implement economic system reform and structural adjustments drastically, the power of Prime Minister Li Keqiang alone is not enough and it is essential to have the strong political leadership of President Xi Jinping. So far, President Xi Jinping seems to be successful in establishing leadership by concentrating authority in himself and putting pressure on managers of state-owned companies and local governments through anticorruption activities. However, it is not sure if this strong power will continue until 2020 which is the goal year for reform.

In order for the Chinese economy to get rid of the so-called “middle income trap,” to complete and shift to a market economic system, and achieve sustainable and sound growth,

it is essential to implement economic system reform, a new type of urbanization, and the innovation of macro control at the same time. If any one of these is lacking, the Chinese economy cannot expect a stable transfer to the stage of medium-growth. The duties imposed on the Xi Jinping leadership are very heavy.

References

Eiji Ogawa, Capital Market Research institute ed., "Current Status of Chinese Capital Market and Issues," Zaikeshohosha, 2013

Katsuji Nakagane, "Has the Chinese Economy Changed? – Evaluation of Economic System and Policies after the Reform and Opening Policy," Kokusaishoin, 2014

(Material)

Outline of the economy overview and parts related to two organizations to be established, with regard to the explanation given by President Xi Jinping at the Third Plenary Session of CPC Central Committee, "Decision of CPC on Major Issues Concerning Comprehensively Deepening Reforms." (Xinhua net, Beijing, November 15, 2013)

I. Overall Framework and Important Issues of the Plenary Session's Decisions

I-1. Overall Framework

For the past 35 years, the CPC have resolved a series of issues related to the development of the Party and national projects by using a reform method. At the same time, during the process of recognizing and modifying the world, when one problem is solved, another problem arises. Therefore, the system requires continued improvement. Reform cannot be completed all at once. It is impossible to make reform easier if we overcome problems one time.

I-1-1. Important Considerations

The CPC considered five aspects when the Plenary Session makes decisions and proposals.

(1) Adopt new Requirements for the Development of the Party and National Projects.

Implement the strategic duty of comprehensively deepening reform and opening that was proposed at the 18th National Congress.

(2) Establish Reform as a Principal Line.

Emphasize new measures for comprehensively deepening reform and do not include general measures, duplicate measures, and measures that belong simply to development.

(3) Address Priority Issues.

In connection with problems for which people have strong complaints, respond to people's concerns and expectations, emphasize priority areas and key parts, and distinguish the driving function of economic system reform.

(4) Remain Proactive and Appropriate.

When designing the policy and measures, we must have great courage and take steady steps.

(5) Set the Time Limit in 2020.

Based on the time limit, propose reform duties based on careful arrangement and gain distinctive results from the reform in priority areas and key parts by 2020.

I-1-2. Framework of the Decision

Due to the structure of the framework, the Plenary Session listed critical issues to be solved immediately in items and assigned in each Part. The Decision consists of three Parts and 16 Chapters in addition to the introduction and conclusion.

(1) Part I consists of Chapter 1. This corresponds to the overview.

It mainly indicates in detail the significance, guidance of ideology, and overall concepts of the comprehensively deepening reform.

(2) Part II consists of Chapters 2 through 15. It corresponds to detailed explanations.

It specifically arranges the major duties and priority measures for comprehensively deepening reform mainly for six aspects: economy, politics, culture, society, ecological civilization, national defense, and military.

The economic aspect is indicated in six items (Chapters 2 through 7); the political aspect in three items (Chapters 8 through 10); the cultural aspect in one item (Chapter 11); the social aspect in two items (Chapters 12 and 13); the ecological aspect in one item (Chapter 14); and the national defense and military aspect in one item (Chapter 16) respectively.

(3) Part III consists of Chapter 16. It discusses organization and leadership.

It mainly indicates in detail about strengthening and improvement of the Communist Party's leadership for comprehensively deepening reform.

I-2. Consideration of the central government on priority issues and priority measures decided by the Plenary Session.

I-2-1. Have the Market Take a Definite Role in Resource Allocation and Demonstrate the Government Role Better.

This is an important theory and perspective that this Plenary Session decided and proposed because economic system reform remains a key to the comprehensively deepening reform and a core issue of the economic system reform remains to be handling the relationship between the government and market.

In 1992, the 14th National Congress proposed that the goal for our country's economic system reform was to establish a socialist market economy system and to have the market demonstrate a basic role in resource allocation under national macro control.

This important theoretical breakthrough showed the extremely important role for our country's reform and opening policy and for the development of economic society. This indicates that theoretical reform had a leading role for actual reform and comprehensively deepening reform has to be led by theoretical reform.

After practicing it for twenty years, the first step of our socialist market economic system has been established; however, there are still many problems. They are mainly as follows:

- (1) The market order is not standardized and the phenomenon of obtaining economic interests by wrongful means exists widely.
- (2) Development of the production element market is delayed. Elements are left alone, while a large amount of effective demands are not satisfied.
- (3) Market rules are not unified. Department protectionism and local government protectionism exist in abundance.
- (4) Market competition is insufficient and it is a disturbing struggle for existence and structural adjustment.

If these problems are not resolved completely, it is difficult to form a perfect socialist market economic system.

In 20 years after the 14th National Congress, with regard to the relationship between the government and market, we have been seeking a new scientific position related to the development of practices and deepening recognition.

- (1) The 15th National Congress proposed "to have the market demonstrate the basic role for resource allocation under national macro control."
- (2) The 16th National Congress proposed "to demonstrate the market's basic role in resource allocation to a greater degree."
- (3) The 17th National Congress proposed "to demonstrate the market's basic role in resource allocation better from a systematic perspective."
- (4) The 18th National Congress proposed "to demonstrate the market's basic role in resource allocation to a greater degree and in a broader range."

As mentioned above, it is apparent that our recognition of the relationship between the government and markets has deepened continuously.

In the process of discussion and hearing opinions, there were proposals from many areas that the relationship between government and markets should be positioned by deepening them theoretically and that this represents a very important function for comprehensively deepening reform.

After consideration of opinions from different areas and the demand for development and repetitive discussion and review, the central government decided in relation to this issue that the conditions for use of new expressions have matured theoretically and the “basic role” of the market in resource allocation should be changed to a “decisive role.”

Today, the first step of our socialist market economic system has been established. The degree of liberalization has increased drastically. Our recognition and control capacity of market rules continued to increase. Therefore, subjective and objective conditions to make the macro control system sounder have been fulfilled. We have to take new steps in order to develop a socialist market economic system.

Handling the relationship between the government and the market well means handling the problem of whether the market or the government fulfills a decisive role substantially in resource allocation.

In order to develop the economy, it is necessary to increase efficiency in the allocation of resources, in particular scarce resources; manufacture as many products as possible and acquire as much interest as possible from the smallest amount of resources possible. What both theory and practice have proved is that allocating resources through the market is the most effective form.

It is a general rule for market formation that the market determines resource allocation. The nature of a market economy is an economy where the market determines resource allocation. In order to rehabilitate the socialist market economy system, we have to follow the rule and focus on the solution of problems where the market system is incomplete, where the government is excessively involved, and where supervision and control are insufficient.

Situating that “having the market demonstrate a decisive role in resource allocation” contributes to the entire Communist Party and the entire society establishing a correct concept for the relationship between the government and market, conversion of the development method and structural adjustment, converting government functions, and controlling passive attitudes and corruption.

Naturally, what our country is implementing is a socialist market economy system. We must adhere to demonstrate the superiority of our socialist system and the proactive role of the Party and government. The decisive role of the market in resource allocation is not a comprehensive role.

In order to develop a socialist market economy, it is necessary not only to demonstrate the roles of the market, but also the roles of government. However, the roles of the market and the roles of government are functionally different. The plenary session proposed clear demands for demonstrating the government’s role better and emphasized that scientific

macro control and effective governance by the government are inherent in the demand to demonstrate the superiority of the socialist market economy system.

The plenary session decided to implement arrangements for rehabilitating the macro control system, executing government functions comprehensively and accurately, and optimizing the organizational structure of the government, and then emphasized that the responsibilities and roles of the government are mainly to maintain a stable macro-economy, strengthen and optimize public services, ensure fair competition, strengthen market supervision and controls, defend market order, promote sustainable development, facilitate shared prosperity, and compensate for market failures.

I-2-2. Establishment of the State Security Committee

National security and social stability are an assumption of reform and development. Only if national security and social stability exist can we implement reform and development consistently. Today, our country faces dual pressures that defend interests from national sovereignty, safety, and development externally, and also defend government security and social stability internally. Various predictable risks and unpredictable risk factors are increasing significantly.

Moreover, the structure of our safety activity has not been able to adopt the demand to defend national security, and it is necessary to create a strong platform and plan national security work uniformly. It is our urgent task to establish the State Security Committee and strengthen concentrated and uniform instruction on national security activity.

The major duty of the State Security Committee is to establish and implement national safety strategies, implement and construct national safety under the law, establish national security activity policies and measures, and consider and resolve critical issues within national security activity.

I-2-3. Establishment of the CPC Central Leadership Small Group for Comprehensive Deepening of Reform

Comprehensively deepening reform is a complicated system process. If we depend on only one or multiple departments for implementation of comprehensively deepening reform, our capability will be in short supply and we may not be able to implement it as we want. Therefore, we need to establish a leading structure on a higher level.

The Decision of the Plenary Session proposed that the central government establish the CPC Central Leadership Small Group for Comprehensively Deepening Reform and make it responsible for the overall design of the reform, uniform planning and cooperation, comprehensive implementation, and reminders of implementation. This is to guarantee that the Party observes through all bureaus, have them demonstrate better the core leadership to have each function cooperate, and the implementation of smooth reform and accomplishment of each reform.

The major duties of the Leadership Small Group are to arrange important nation-wide reform uniformly, plan and implement reforms in each area uniformly, cooperate with powers from each area to form combined power for implementing reforms, strengthening reminder and inspection, and implementing comprehensively the reform goals and duties.

II. Issues to Watch During Discussion

The duties of this Plenary Session are to discuss the concept and plan of the comprehensively deepening reform that the Decision of the Plenary Session proposed. We hereby propose some requests.

II-1. Strengthen Belief and Courage for the Implementation of Reform

The reform and opening policy is a new and great revolution implemented by leading people in our Party, the most brilliant characteristics of today's China, and the most distinctive symbol of our Party, under the conditions of a new era.

What did our Party rely on to inspire people's minds, unify ideology, and concentrate power for the past 35 years? What did we rely on to inspire the creative spirit and creative vitality of all people? What did we rely on to achieve rapid development of our economic society and win comparative priority in competition with capitalism? What we rely on is the reform and opening policy.

There is nothing but the reform and opening policy for overcoming the difficult challenges that development faces, eliminating risks and ordeals from various sectors, demonstrating further the priority of the distinctive Chinese socialist system, and implementing the continuous and sound development of economic society.

Today, people inside and outside the Communist Party and domestic and international society are watching the issues related to the reform and opening policy. Expectation from upper and lower levels of the entire Party and various sectors of society is high. The reform and opening policy has reached a new and important turning point. We should not get upset about the reform and opening policy at all and should continue to fly the flag of reform and opening high. We must adhere to the accurate direction that is the way of the distinctive Chinese socialist system.

The entire Party must have a firm belief in reform and implement reform with greater political courage and wisdom and stronger measures and methods.

II-2. Adhere to Opening Ideology and Handling Problems Based on the Facts

We must fly the flag of the reform and opening policy high; however, it is not satisfied only with standpoints or attitudes, but should have actual measures. Action is the most convincing. The central government used a favorable opportunity, the Third Plenary Session of the 18th CPC Central Committee and decided to implement an arrangement for the

comprehensively deepening reform. This is a strategic choice. We must take this opportunity firmly and address another breakthrough for comprehensively deepening reform. In order to gain a new breakthrough, we have to liberate our ideology even further.

In order to break the shackles of ideological concepts and the barrier of vested interests, it is most necessary to liberate ideology. With regard to the issues involved in deepening reform, the shackles of ideological concepts do not arise from outside the system, but from inside the system. If we do not liberate ideology, it is difficult for us to assess the location of root causes, various kinds of vested interests. It is difficult for us to find the correct direction and focus point to breakthrough and implement creative reform measures.

For this reason, we have to have courage and keep in mind self-innovation, leap over various rules and restrictions, overcome obstacles due to departmental interests, and consider and propose reform measures with a proactive and innovative spirit.

When proposing reform measures, we must be careful and examine and demonstrate them repeatedly. However, we should never be too careful, hesitate, or be afraid to try anything. If we implement reform, there is no way that none of the existing policy structure or system operation may be affected and that there are no obstacles or risks. If the proposal meets the actual situation after sufficient demonstration and evaluation, we should implement it. If we do it, do it drastically.

II-3. Adhere to Keep Considering Problems Starting from the Overview

Comprehensively deepening reform is an important strategic arrangement related to all aspects of development of the Communist Party and national projects. It is not a single reform for a specific field or sector. “If you do not make arrangements for all aspects, you cannot arrange only one area.” If you are from different departments and units, you must observe issues from all aspects.

First, you must observe if the proposed, important reform measures conform to demands from all sides and contribute to the long-term development of the Communist Party and national projects. You must turn forward, look ahead, and make arrangements from the perspective of all aspects. By doing so, the final documents will truly conform to the demands for development of the projects of the Communist Party and the people.

Comprehensively deepening reform requires top-down design and an overall plan. Therefore, it is necessary to strengthen it by taking into consideration the relationship, system, and feasibility of each reform.

We have indicated that have great courage and take steady steps. “To take steady steps” refers to planning and considering uniformly, demonstrating comprehensively, and determining policy scientifically.

Reforms in the fields of economy, politics, culture, society, and ecological civilization and construction and reform of the Communist Party are closely linked and mutually exchanged and integrated. Reform in any field will lead to other fields.

At the same time, it is necessary to combine closely with reform in other fields. If reforms

of different fields do not match well, reform measures in each direction will affect each other, and it will become difficult to implement comprehensively deepening reform. If they are implemented forcibly, the effects will be greatly diminished.