

**INTERPRETING LI KEQIANG'S
STRATEGIES OF MANAGING THE
CHINESE ECONOMY AND ITS REFORM**

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Executive Summary

1. As China's economic growth further slowed to 7.5% in mid-2013, all eyes were on Premier Li Keqiang (who oversees China's "Economic Cabinet") if he might introduce strong stimulus measures to prime-pump the economy, just as what his predecessor Wen Jiabao had done during the 2009 global financial crisis.
2. However, Li had refrained from popping up the economy with unnecessary short-term stimulus policies. Instead, he concentrated on improving the microeconomic efficiency of the economy with measures like extending support directly to small and medium enterprises.
3. As a result, China's economy had quickly rebounded to 7.8% in the third quarter. Li's new technique of managing the Chinese economy through "macroeconomic fine-tuning" is a far cry from the "macroeconomic controls" (*Hongguan tiaokong*) of direct administrative intervention by Deng Xiaoping and Zhu Rongji.
4. To characterize Li's new macroeconomic policy, some China economists have coined the term "Likonomics", much like what Japanese economists have labeled Abe's reforms as "Abenonomics".
5. Both Likonomics and Abenomics are merely populist journalist terms, whose ultimate validity depends on their final policy outcome. Both run the risk of falling into disrepute much akin to what had happened to "Reaganomics" before, which was subsequently dubbed "Voodoo Economics"!
6. Specifically for Li, his economic legacies will critically depend on how he implements structural reform, which is crucial for sustaining China's stable economic growth through this decade.

7. Li's reform packages are expected to be rolled out at the coming Third Party Plenum in November. But a lot is already known to the outside, including his "pet" idea of accelerating China's urbanization.
8. Recently, Li has also launched the Shanghai Free Trade Zone to spearhead the much-needed financial sector reform, including greater internationalization of the renminbi. But a lot of operational details are still lacking.
9. The state-owned enterprise (SOE) reform is of even higher priority. The recent breakup of the SOEs in the energy sector has put pressure on other large SOEs to reform and restructure in line with market principles. The government is also expected to crack down on high-level corruption and rent seeking activities of large SOEs.
10. A lot of Li's reform efforts will be on local government reform, which will involve the politically and institutionally complicated issues of governance, local public finance, new rural development initiatives and so on.
11. A senior Politburo member has just indicated that the coming reform will be "comprehensive and unprecedented". Overall, the reform process will still be a long-drawn process.