

THE THIRD PLENUM AND CHINA'S NEW ROAD-MAP FOR ECONOMIC REFORMS

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Executive Summary

1. The Chinese Communist Party (CCP) released its ambitious road-map for reforms after its Third Plenum. The “Decision on Major Issues Concerning Comprehensively Deepening Reforms”, with 16 sections and 60 items, covers almost all the important issues and challenges facing China.
2. While the Decision addresses many issues, its highlight is to carry out further economic reforms. It pledges to enable the market to play a “decisive role” in the allocation of resources and to transform the role of the state by reducing the government’s excessive intervention in the economy.
3. Meanwhile, the Decision defines China’s basic economic system as one “with public ownership serving as its main body but allowing for the development of all types of ownership”, thus reaffirming the leading role of the state sector.
4. The leadership recognizes the importance of reforms in the factor markets. On labor, the party pledges to eliminate various barriers for the country’s huge number of migrant workers to become full-fledged urbanites. It also eases China’s decades-old “one-child” policy.
5. On land, the party allows collectively owned rural lands for non-agricultural use to enter the land market under the same conditions as state-owned urban land. Farmers are allowed to mortgage their land-use rights or turn the rights into shares in large-scale farming entities.
6. On capital, financial reforms launched prior to the Third Plenum will continue. To gradually liberalize interest rates, the government just launched the sale of negotiable certificates of deposit in the interbank market.
7. Furthermore, the party pledges to improve intergovernmental fiscal relations by establishing a system where “administrative authority commensurate with spending responsibility”, establish an expenditure- and policy-oriented budget,

and reform the taxation system by increasing the share of direct taxes and eliminating distortions.

8. The party is also determined to push for China's unfinished market reforms through further economic opening, lowering entry barriers for overseas investors and encouraging Chinese enterprises to engage in overseas investment.
9. Apart from the Shanghai Free Trade Zone, the government will establish more free trade zones and ports in qualified regions. It will also open China's western frontier to forge the "silk road economic belt" and the "sea silk road".
10. Recognizing the complexity and difficulty of the challenges China is facing, the party commissioned a Central Reform Leading Group to formulate and coordinate the reforms. Indeed, the success of such comprehensive reforms depends critically on the full backing of the top.