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Third Plenum Economic Reform Proposals: A Scorecard

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Overview of the Third Plenum Communiqué and Decision

The Third Plenum Communiqué, released November 12, outlines a path for China's market-oriented reforms over the next six years and indicates an expanded role for market forces to determine economic outcomes. The expectations were raised high for major policy announcements,ⁱ but the vaguely worded, Party jargon-laden Communiqué disappointed analysts inside and outside China. At the broadest level, the Communiqué stated that reforms should allow the "market to play a decisive role in allocating resources and to give better play to the role of the government."¹ Another Plenum recommendation calls for further reforms of China's investment regime, both for foreign firms investing in China and for Chinese firms investing abroad, aimed at promoting "reform by opening up."² Officials and academics who worked on the plan discussed at the Plenum said SOEs have become "so adept at blocking change" that the leadership may reduce their influence by opening up previously closed sectors to competition.³ Specific prescriptions on reforming the financial sector and tackling the state-owned enterprises (SOEs) were largely omitted from the Plenum's prescriptions.

The Plenum agreed to establish a new Central Leading Group, which will be responsible for "the overall design of reforms, unified planning and coordination, pushing forward as a whole, and implementation supervision."⁴ Establishment of this group suggests that the leadership will take charge of pushing through necessary changes; on the other hand, it may also indicate that the central leadership has not been able to come to a consensus on some of the reforms, and will use the group to hash out the details and build support. Though it is light on specifics, the Communiqué states that "decisive" reform results are expected by 2020.

Third plenums traditionally focus on economic issues. Yet the Communiqué emphasizes a comprehensive approach to reform that encompasses economy, politics, culture, society, and the environment. The Communiqué also calls for establishment of a state security committee, aimed at "improving systems and strategies to ensure national security," with regard to security issues that impact domestic stability. The Chinese Foreign Ministry indicated in a press statement that the new body will focus on "terrorists, extremists and separatists."⁵ The Plenum's decision to carve out new policies for ensuring domestic stability does, however, suggest the extent to which popular unrest continues to overlap with issues of economic governance.

On November 15, the CCP released the Decision on Certain Major Issues Concerning the Comprehensive Deepening of Reform ("Decision"), a 60-point reform blueprint, which filled many of the gaps left in the Communiqué. The Decision lays out an ambitious agenda, pledging to open the financial sector, relax curbs on other sectors closed to investors, allow prices of natural resources to reflect market demand, make SOEs pay higher dividends, and improve the lives of rural residents. The leaders also pledged to relax China's one-child policy,ⁱⁱ and indicated that they plan to dismantle the country's system of reeducation through labor.

ⁱ Analysts came up with a wide range of predictions in the lead-up to the Plenum, and expectations ran high for significant change. In particular, State Council Development Research Center's "383 Project" proposed bold reforms in eight key areas, including finance, taxation, land, state assets, social welfare, innovation, foreign investment, and clean governance. For the details of the 383 Project, please see the staff backgrounder dated November 8, 2013. The Economics Team, "China's Third Plenum May Be More than Just Talk," (Washington, DC: U.S.-China Economic and Security Review Commission, November 8, 2013). http://origin.www.uscc.gov/sites/default/files/Research/Staff%20Backgrounder_China%E2%80%99s%20Third%20Plenum%20May%20Be%20More%20Than%20Just%20Talk.pdf.

ⁱⁱ The revamped one-child policy would allow families in which one parent is an only child to have a second child. Under the current policy, exemptions exist for (1) couples in which both spouses are single children to have a second child (a fairly recent reform); (2) some rural couples to have a second child if the first child is a girl; (3) ethnic minorities to have as many children as they please, a policy that has frequently been criticized by Han Chinese.

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- State-Owned Enterprises and the Private Sector—**Private enterprises given more room, but public ownership emphasized.** The Plenum Communiqué adopted a pro-market rhetoric (e.g. the government “must unswervingly encourage, support, and lead the development of the non-public sector economy”; the word “private” used three times), but did not elaborate on what this encouragement might entail. In fact, the Plenum concluded that the country must “adhere to the principal position of the public ownership system, give play to the dominant role of the public sector economy, and continually strengthen the vitality, control, and influence of the public sector.”⁶ The Decision, however, includes several sets of reform proposals to reform SOEs, encourage private enterprises, and level the playing field and interplay between the public and non-public sectors (see table 1). At the same time, the Decision did not go so far as to propose reforms that might endanger the dominant position of SOEs in China’s economy. For instance, it did not designate *specific* industries for more private sector involvement or breakups of monopolies; the exception being transport, where it alluded to separating infrastructure companies from service providers, which appears to conform with radical reforms of the corrupt Railway Ministry earlier this year.⁷

Table 1: Detailed SOE Reform Proposals

SOE dividend payouts	Increase dividend payout ratio for SOEs to 30% by 2020, from the current 5-15%
Market entry for private firms	- Implement franchise operations, and “formulate specific measures for non-public sector enterprises to enter into franchise business” - Abolish “unreasonable regulations” and “hidden barriers” for non-public sector enterprises - Separate infrastructure management from transport operation
Modify ownership of some state assets	Encourage “interlocking shareholding”, esp. non-public sector stakes in SOEs
Separate government from enterprise	Separating government agency from enterprise and assets in naturally monopolistic industries
SOE reform	- Organize state-owned capital investment and operation companies - More public disclosure of SOE finances - Perfect the enterprise bankruptcy system
Simplifying approval procedures	- Reduce the number of items that require administrative approval - Replace “certification before license” with “license before certification” - Replace license for paid-in capital with registration of subscribed registered capital
Price reform	Price deregulation for energy and resource inputs, electricity, and telecoms -- retain price controls only for public utilities and services

Source: Decision on Certain Major Issues Concerning the Comprehensive Deepening of Reform

- Financial System—**Liberalization plans but few details.** References to financial system reform were absent from the Communiqué, but the Decision calls for several reforms, including: permitting private capital to establish small and medium-sized banks; a market-based exit mechanism for financial institutions; a deposit insurance system to protect depositors against bank defaults; a multi-tier capital market; and permission for companies to launch IPOs without official approval (“share issuance registration system”). Although the Decision makes reference to liberalizing the RMB exchange rate, capital account, and deposit interest rates, it does not provide any specifics. Notably absent is a much-anticipated measure to allow more Chinese individuals to invest their wealth in foreign stock exchanges, under the so-called “qualified domestic individual investor” program. Indeed, the Party appears to be treading very carefully on

monetary policy: the section of the Decision dealing with “government functions” emphasizes the need for a macro-prudential monetary policy to guard against volatile business cycles. For now, the Party appears content to restrict more radical reforms to the Shanghai Free Trade Zone, a pilot initiative established earlier this fall.⁸

- **Fiscal Policy— Strong hints at a tax overhaul and realignment of fiscal authority.** China introduced radical fiscal reforms in 1994, at a time when local government finances were in disarray. Since then, local governments have been heavily reliant on land sales and business taxes, while doing a poor job as independent regulators and public goods providers. The Decision, for the first time in many years, identifies taxation as an “important pillar” of national governance, and calls for a number of general goals. It explicitly refers to generating more revenue from personal income, real estate, and resource taxes, which would help restrain housing prices, redistribute some income from the wealthy to poorer households, discourage wasteful resource use by industrial enterprises, and most importantly, provide local governments with an alternative tax base. The Decision also calls for more transparent budgets, combined with better allocation of revenues and responsibilities among the central and local governments. The last point is particularly important, because it tackles the problem of local governments being responsible for the majority of social spending, but not receiving a commensurate share of revenue. One of Beijing’s solutions appears to be moving some responsibilities up the administrative ladder; for instance, transferring education spending from the county to the provincial level.⁹
- **Rural Land Reform and Urbanization—Expanded land use rights for farmers, unified construction markets, and hints at hukou reform.** Under the Communist system, rural land belongs to village collectives. Farmers lease land for 30-year periods, but are restricted in what they are permitted to do with the land. The Decision does not propose to alter the underlying system, and indeed reemphasizes its importance. Still, it proposes strengthening the farmers’ property rights through better litigation and documentation, in order to avoid coercive expropriation. It also suggests letting farmers lease and mortgage land to third parties who may use the land for non-farming purposes, and explicitly refers to the farmers’ right to generate “property-style income.”ⁱⁱⁱ In addition, the Decision calls for letting farmers become shareholders in industrial operations; allowing more private investment in rural areas; promoting equalization of urban and rural basic public services; and most importantly, establishing a “unified urban and rural construction land market” In regard to *hukou* residency permit reform, the government proposes to relax migrants’ ability to get urban residence permits under strict government supervision: “open up the restrictions on settlement in organizational towns [*jianzhi zhen*] and small cities, open up in orderly fashion the restrictions on settlement in medium-sized cities, rationally set the conditions for settlement in large cities, and strictly control the population scale in very large cities.”¹⁰ The government’s cautious approach to *hukou* reform stems from the fear that a huge influx of migrants into the cities could create slums or overwhelm the social benefit infrastructure.
- **Market Access and Foreign Investment—Moderately expanded.** Both the Communiqué and the Decision promise greater openness to inbound and outbound foreign investments, along with relaxed market entry requirements. For example, the Decision calls for “orderly opening up of service fields such as finance, education, culture, and medical care, ease the restrictions on foreign fund access in service fields such as nurseries, care for the elderly, building design,

ⁱⁱⁱ There is some debate about the extent of the land use reforms. The Decision, in section 6.21., states: “...give the farmers the rights to hold collective asset shares, receive yields, and withdraw with compensation, and also the rights to mortgage, guarantee, and inherit them. Ensure the usage and property rights of the farmers’ dwelling land...carefully and steadily promote the mortgaging, guarantee, and transfer of the farmers’ house property rights, and explore channels for the farmers to increase property-style income.” A rather optimistic analysis by Deutsche Bank argues that the Chinese government will grant farmers the legal titles of land use rights as well as the rights to transfer (sell and buy) land use rights, receive rents from land use rights, and pledge land use rights as collaterals.” Ma Jun, Li Lin, and Audrey Shi, “Beneficiaries of Reforms Post 3rd Plenum” (Beijing, China: Deutsche Bank, November 18, 2013), p.4.

accountancy and auditing, commerce and trade circulation, and ecommerce, and further open up ordinary manufacturing industries.”¹¹ There are no details on when or how these changes will be applied, though there is a professed goal to make the Shanghai Free Trade Zone a key vehicle for experimenting with related reforms. There is also an explicit target to expand the number of free trade zones in China.

- **Environmental Regulation—A significant addition to China’s reform agenda.** Under the theme of “ecological civilization”, the Decision makes the environment a greater priority than in the past. Although no specific targets are spelled out, the document calls for tougher punishment of polluters; strengthening natural resource property right systems; making GDP assessment non-relevant for cadres in regions with weak ecosystems; and developing environmental protection markets. Notably, the document also calls for implementing paid-for resource use systems, which ties into the proposal to deregulate prices for energy and resource inputs and utilities. That will make doing business costlier for heavy industry – the Decision explicitly targets industrial overcapacity.

Internal Logic of the Third Plenum Communiqué and Decision

The Communiqué and Decision have been criticized by many western media and experts for being both convoluted and short on precise measures and timetables. Yet Party propaganda in China reveals that the documents followed their own internal logic, and were carefully calibrated to reconcile ideologues and reformists within the Party. The Communiqué proceeds in four parts: (1) 3 Emancipations; (2) 4 Adherences; (3) 6 Focuses; and (4) 15 Key Reform Areas (see Appendix figures 1-3). The opening sections rehash the conservative tenets of the government (i.e. the thought schools of Mao Zedong, Deng Xiaoping, Jiang Zemin, and Hu Jintao) before introducing more progressive reform plans. The Decision, in turn, is basically an extended version of the 15 key reform areas, divided into 60 reform measures (see Appendix figure 4). Notably, the reforms in the Decision were foreshadowed by Premier Li’s Plenum speech, which mentioned some reform initiatives already underway (on a pilot basis), such as gas price reform; expanding the value-added tax reform to new jurisdictions and industries; and creating universal healthcare for rural and urban areas.¹²

Although the documents emphasized ideological continuity, some novel slogans emerged that may define the administration of President Xi Jinping and Premier Li Keqiang:

- **“China Dream (*Zhongguo meng*)”:** Like Hu Jintao’s “harmonious society”, President Xi has used the “China dream” as a signature of his reform drive, and the wording is included in the opening section of both documents, immediately following the ideological slogans of past leaders.
- **“Turning Five Areas into One (*wu wei yiti*)”.** This slogan refers to the need to jointly reform the “structure (*jianshe*)” of five areas: the economy, politics, culture, society, and the environment. It is made early on in the Communiqué, immediately after the reference to past ideological themes. The slogan is already an official entry on *Baidu*, China’s version of Wikipedia, an illustration of how intensely it has been propagandized. It illustrates a traditional Marxist bent, in that the leadership sees reform as a comprehensive agenda to “rejuvenate the Nation”, organize the Party, and mobilize the masses in all facets of social and economic life.
- **“Ecological civilization (*shengtai wenming*)”.** As one of the “6 Focuses”, it connotes environmental sustainability, resource efficiency, and pollution mitigation. It is mentioned seven times in the Communiqué, and was featured in public discussions of the Plenum outcome. As noted above, the environment is also one of the “five areas” of comprehensive reform.
- **Not only coming up with issues to reform, but also coming up with answers.**^{iv} This slogan was uttered by Premier Li during the Plenum proceedings, in a review of the reforms the new leadership has carried out so far this year. Although not included in the Plenum Communiqué or Decision, it was widely publicized in the media.¹³

^{iv} The original language is: 不但要围绕改革“出题目”，更要为推进改革“做答案”.

- **More efficient, more just, more sustainable.**^v This slogan was also coined by Premier Li during the Plenum proceedings, and an approximate version ended up in the Communiqué. It illustrates the Party's pledge to improve resource allocation, social equity, and the sustainability of both growth and resource use.¹⁴

Reaction to the Communiqué in Chinese-Language Media

The Chinese-language media coverage of the Third Plenum split among (1) state-run sources, which disseminated general propaganda and “deciphered” the elliptical language of the Communiqué; (2) reactions, both positive and negative, from Chinese intellectuals^{vi}; and (3) reports of outside events during the Plenum, potentially of political significance, including a crop of new indictments of top officials on corruptions and bribery charges,^{vii} and the extension of land reform pilot initiative in Anhui province.

In the sections below, analysis of Chinese-language media is organized by issue area.

State-Owned Enterprises and Market Reform—The Third Plenum Communiqué made references to both the “public” and “non-public” sectors as important elements of “mixed economy”. These statements struck many Western observers as ambivalent. But according to Zhao Zhenhua, director of the economics department at the highly influential Chinese Communist Party School, the wording in the Communiqué marks a subtle break from the past: Whereas language from the 16th Party Congress, held in November 2002, referred merely to “widening the extent to which the market plays a *fundamental* role in allocating resources”, this year’s Communiqué talks of the market “playing a *decisive* role allocating resources.” Zhao further argued that the Party’s support for the “non-public sector” was far less equivocal in the Communiqué than in past documents.¹⁵ Other experts were more skeptical, above all scholars at the State Council’s Development Research Center (DRC), the quasi-government think tank that published the 383 Plan prior to the Plenum. One DRC scholar, Zhang Liqun, praised the Party for officially promoting a “mixed economy” of public and non-public entities, but argued that letting the market play a “decisive” role in allocating resources will not work without reducing the role of government. In particular, he argued, China needs a more efficient regulatory state that does not get in the way of business before it is done, but regulates it once it is being done.¹⁶

Some state media reports praised SOEs during the Plenum, highlighting their profitability and efficiency.^{viii} Other reports, however, signaled a strong impetus to reduce the influence of certain SOEs. Citing anonymous sources, the *21st Century Business Herald* (21 Shiji Jingji Baodao), a prominent business daily, claimed that the State-Owned Asset Supervision and Administration Commission (SASAC) was in

^v The original language is: 更有效率，更加公平，更可持续。

^{vi} Some intellectuals were interviewed by Chinese newspapers, while others published their own opinion pieces through newspapers and blog posts. The intellectuals span a broad spectrum, from professors at leading universities to self-made bloggers with a wide following. The issue areas discussed, and the points of view taken, also vary widely. On one end of the spectrum, Sima Nan and other leftist intellectuals, who oppose China’s market reforms and eulogize Mao Zedong, praised the Plenum’s ideological rhetoric but criticized its market reform proposals. At the other extreme, advocates of market reform found the Plenum either lacking in substance or unrealistic. The majority of views fell somewhere in the middle – experts praised the reform proposals as a step forward relative to the Party’s past initiatives, but recognized the obstacles to successful implementation.

^{vii} During the Plenum, the government appeared to continue its anti-corruption campaign targeting SOE executives that has been proceeding rapidly since President Xi took power in March. On November 11, Xu Minjie, Vice-Chairman of China’s largest state-owned shipping company, COSCO, resigned amid an ongoing investigation into corruption allegations by the Party. Zhongguo Jingying Net, “Zhongji Jituan dongshizhang Xu Minjie cizhi: Huo yin matou touzi shougou bei diaocha” (COSCO Vice-Chairman Xu Minjie Resigns: Perhaps Due to Investigation into Port Investments”, November 13, 2013. <http://www.cb.com.cn/index.php?m=content&c=index&a=show&catid=30&id=1022089&all>.

^{viii} For example, Xinhua highlighted that 67 out of 89 Chinese companies in the latest Global Fortune 500 list are SOEs. It also noted that 90 percent of central SOEs have already undergone shareholder reform, such that over half of central SOE net assets are now in listed companies. Xinhua, “Dali wushi guomin jingji jichu – Shiba Da yilai guoqi gaige fazhan shuping” (Supporting the Basis of the National Economy: An Assessment of Statement Enterprises Under the 18th Party Congress), November 8, 2011. http://news.xinhuanet.com/politics/2013-11/08/c_118068714.htm.

the process of drafting “Opinions on Deepening the Reform of State-Owned Enterprises”, a major blueprint for central SOE reform. One of the proposals in the document will be to clearly demarcate industries which should be subject to open, market-based competition from those that should not.¹⁷

Fiscal Reform—Fiscal reform was widely debated in the Chinese media. Jia Shaohua, a professor at Central University of Finance and Economics, noted that only three out of 18 of China’s tax categories were promulgated by the National People’s Congress – the remainder consists of temporary administrative measures issued by the State Council. Jia argued that future reformers would have to do more to place all taxes on a sound legal footing.¹⁸ Others noted that much work remains to be done to clarify the relationship between central and local governments. According to Cai Fang, a scholar at the Chinese Academy of Social Sciences, the ideal solution would be for the central government to take on more responsibilities from the local government, along with providing local governments more resources to do their job. The Decision does offer some more detail in this regard; for instance, declaring social security to be a joint responsibility of central and local government. And yet, the allocation of some important functions remains unclear. How to finance public education, for example, is a thorny issue. And because the local judiciary and environmental regulators depend on local government funding, their independence is frequently compromised.¹⁹

Rural-Urban Reform—According to one state media report, while the Third Plenum of the 17th Congress advocated “*gradually* moving toward a uniform property market for urban and rural areas”, the word “gradually” was removed from the recent Communiqué, which might suggest that the new proposals on land use reform will be implemented with greater urgency.²⁰ It is also notable that on November 12, the government of Anhui province announced that it would expand its pilot program, initially launched in 2008, for creating large-scale agricultural sites by pooling land from smallholders. The aim of the pilot is also to promote more entrepreneurialism among farmers, allowing them to lease land to third parties, including for industrial, commercial, and residential property development, with compensation based on market rates, and less government interference. The timing of the expanded pilot seemed calculated to coincide with the Third Plenum. However, the government was also quick to emphasize that the Anhui experiment was not creating a completely open market in which land could simply be bought and sold, as some initial reports suggested. This correction may have been aimed at more conservative elements of the Communist Party who are wary of drastic land reform.²¹

Environmental Policy Reform—Environmental policy reform, under the theme of “ecological civilization”, featured prominently in the Communiqué and Decision. In the press conference following the Plenum, the Ministry of Environment Protection (MEP) renewed emphasis on the importance of environmental protection as a means of ensuring public health and reducing air pollution.^{ix} During the Plenum, the media also issued a lengthy report on a local official in the MEP who is currently on trial for corruption charges. The official and his wife are accused of receiving lavish gifts and RMB 1.9 million in cash from a local paper company in Henan province, in order to issue favorable environmental impact assessments of the paper plant’s water pollution controls. The trial has been ongoing, and the report illustrates that the official has not yet been found guilty. Nonetheless, the timing of the media report, and the beginning of the second round of trials on November 12, may have been timed to demonstrate the new leadership’s willingness to crack down on official malfeasance in environmental regulation.²²

Military Modernization as an Investment Opportunity— In their analysis of the report, the Chinese business community identified several opportunities for China’s economy. Most of these were quite predictable (e.g. fiscal reform could spur more investment in welfare provision, which would be a boon to all industries related to consumption; greater emphasis on energy efficiency would provide new

^{ix} Media reports emphasized the importance of 35 policy measures issued in September by the State Council to reduce air pollution. According to these measures, PM 2.5 levels in the atmosphere will be reduced by 10 percent in all Chinese cities by 2017. The media report about the press conference was titled: “Environment Ministry: Without Blue Skies and White Clouds, It Won’t Be Possible to Build a Beautiful China.” Guoji Zaixian, “*Huanbao Bu: Meiyou lantian baiyun: jianshe meili Zhongguo jiu wucong tanqi* (Environment Ministry: Without Blue Skies and White Clouds, It Won’t Be Possible to Build a Beautiful China), November 14, 2013. <http://qb.cri.cn/42071/2013/11/14/5311s4321416.htm>.

investment opportunities in power generation technologies). Perhaps the most surprising conclusion, cited by several business analysts, was that the defense industry would receive far more investment in the future. The formation of a new state security council, modernization of military infrastructure, as well as the Communiqué's mention of bringing the military closer to the people, was interpreted as a sign that more public funding would be allocated to defense contractors and the military industrial complex, presenting tremendous opportunities to businesses in that sector.²³

APPENDIX

Figure 1: Plenum Communiqué – 3 Emancipations, 4 Adherences, and 6 Focuses

3 Emancipations (<i>jiefang</i>)	<i>We must release...</i> ...the mind ...social productive forces ...social dynamism
4 Adherences (<i>jianchi</i>)	<i>We must adhere to...</i> ...the Party's leadership and carry out the party's basic line, not take the old road of closure and rigidity, not take the evil road of changing flags, resolutely take the road of socialism with Chinese characteristics, and always ensure the right direction for reform ...emancipating the mind, seeking truth from facts, advancing with the times, and seeking the truth and being pragmatic, base everything on the reality, sum up successful domestic practices, learn from useful experience from abroad, and have the courage to promote theoretical and practical innovation ...being people-centered, respect the people's principal position, give play to the pioneering spirit of the masses, closely rely on the people to push forward reform, and promote all-round human development ...the correct handling of the relations among reform, development, and stability
6 Focuses (<i>jinjin weirao</i>)	<i>We must closely focus on...</i> ...making the market play a decisive role in allocating resources so as to deepen economic structural reform, adhere to and perfect the basic economic system, speed up the perfection of a modern market system, macro control system, and open economic system, speed up the transformation of the economic development mode, speed up the building of an innovative country, and push forward economic development that is more efficient, more equitable, and more sustainable ...adhering to the organic unity of the party's leadership, the people being the master of their own destiny, and governing the country in accordance with the law ...building a socialist core value system and a socialist cultural power so as to deepen political structural reform, speed up pushing forward the institutionalization, standardization, and proceduralization of socialist democratic politics, build a socialist country ruled by law, and develop broader, fuller, and sounder democracy of the people. ...better protecting and improving the people's livelihood and promoting social equity and justice so as to deepen social structural reform, reform the income distribution system, promote common prosperity, push forward institutional innovation in the social area, push forward the equalization of basic public services, speed up the formation of a scientific and effective system of social governance, and ensure that the society is both dynamic as well as harmonious and orderly ...building a beautiful China so as to deepen ecological civilization structural reform, speed up the establishment of a system of ecological civilization, perfect the system and mechanism of national land space development, economical use of resources, and ecological environment protection, and push forward the formation of a new pattern of modernization building in which man and nature develop in harmony ...improving the level of scientific governing, democratic governing, and governing in accordance with the law so as to deepen the institutional reform of party building, strengthen the building of democratic centralism, perfect the party's leadership system and ways of governing, maintain the party's advanced nature and purity, and provide strong political support for reform and opening up and socialist modernization building

Figure 2: Plenum Communiqué 15 Key Reform Areas

"15 Key Reform Areas"		Relevant Details
1	Sustaining a "Mixed Economy"	Both the public sector and non-public sector economy are important components of the socialist market economy. Actively develop a "mixed ownership economy" > BUT adhere to the principal position of the public ownership system, give play to the dominant role of the public sector economy, and continually strengthen the vitality, control, and influence of the public sector.
		Consolidate state-owned sector ; push forward the perfection of the modern corporate system for state-owned enterprises
		Encourage, support, and lead the development of the non-public sector economy ; stimulate the economic vitality and creativity of the non-public sector; perfect the system of protecting property rights
2	Market Modernization	Enterprises engage in independent operation and fair competition . Fair, open, and transparent market rules. Make efforts to eliminate market barriers.
		Consumers enjoy freedom of choices and independent consumption
		Goods and factors achieve free movements and equal exchanges. Improve the efficiency and fairness of resource allocation .
		Mechanism of pricing determined primarily by the market
		Establish a unified urban and rural construction land market
3	Administrative Reform	Perfect the financial market system
		Deepen science and technology structural reform
		Transform government functions and innovate administrative management methods
		Enhance the government's public credibility and make the government service-oriented
4	Fiscal Reform	Build a government ruled by law
		Perfect the macro control system
		Clarify fiscal power and authority; bring into play both central and local initiatives; establish a system that matches power and authority with expenditure accountability
		Use fiscal reform to promote social equity
		Reform the taxation system and stabilize the tax burden
5	Rural-Urban Integration	Improve the budget management system; present transparent budgets
		New type of agricultural operating system
		Give farmers more property rights
		Promote equal exchange of factors of production between urban and rural areas and balance allocation of public resources between them
		Improve institutional mechanism for healthy development of urbanization

Plenum Communiqué 15 Key Reform Areas (cont.)

6	Opening Up	Both domestic and external opening up; better integration of "attracting in" to "going global"
		Open up more areas to capital sources
		Accelerate the construction of free trade zones
		Expand the opening of inland and border areas
7	Political Reform	Multiparty cooperation and consultation under the leadership of the CPC
		Promote consultative and primary-level democracy
8	Legal Reform	Protect human rights
		Ensure that judicial and procuratorial bodies operate independently and impartially
9	Anti-Corruption	Punishing and preventing corruptions, promoting clean politics; strengthening institutional guarantee of anticorruption system
10	Culture Management	Build modern cultural service system; establish sound market system for modern culture
		Enhance the level of cultural opening up
		Advance socialist culture
11	Welfare Reform	Promote entrepreneurship
		Reform education and healthcare
		Fairer and more sustainable social security system
		More orderly income distribution structure
12	Social Management	Establish a national security committee will be set up to prefect the national security system and national security strategy, thereby ensuring the country's security.
		Increase harmonious factors to the greatest extent possible
		Improve social management methods
		Stimulate the vitality of social organizations
		Innovate systems that can effectively prevent and resolve social contradictions
13	Environmental Regulation	Perfect the public security systems
		Delineate red lines for ecological protection
		Innovate a system for chargeable usage of resources and a system for ecological compensations
14	Military Modernization	Perfect property rights for natural-resource assets and the system of regulations for their usage
15	Party Personnel	Deepen reforms of military systems and organization
		Build talent-poling system and mechanism for the cadre personnel system, esp. at the grassroots

Figure 3: Party Propaganda Posters Following the Plenum: The “3-4-6-15” Message

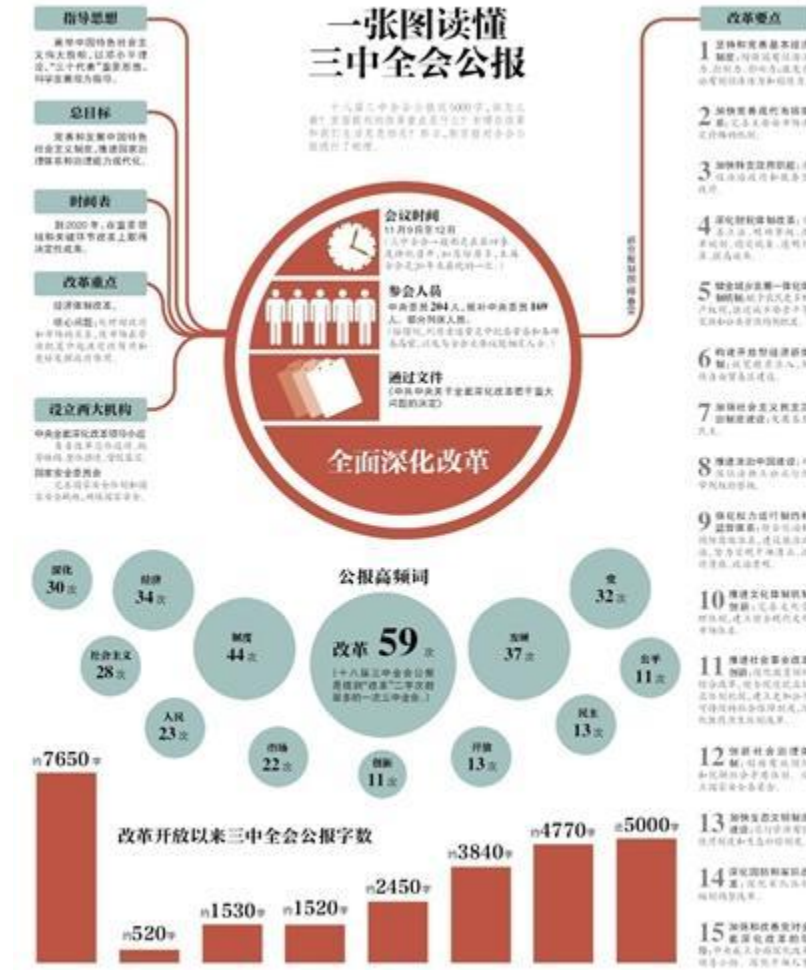


Figure 4: Overview of the Decision on Certain Major Issues Concerning the Comprehensive Deepening of Reform

	Sections	Measures	General Proposals
1	Guiding thoughts for reform	1-4	Reaffirms "socialism with Chinese characteristics" and ideological continuity w/ past leaders; "Chinese dream of Chinese Nation's Rejuvenation" - the theme of President Xi's leadership; reform must be comprehensive (<i>wu wei yiti</i>), encompassing (1) economy, (2) politics, (3) culture, (4) society, and (5) environment
2	Basic economic system	4-8	Develop a "mixed ownership" economy by reducing and marketizing public sector; encouraging non-public sector through better property rights, less market barriers, franchising operations, and interlocking share ownership with SOEs
3	Modern market system	9-13	Unified urban and rural construction market; reduce red tape for enterprises; price reform; land reform; opening of financial system and capital account; more enterprise-driven science & technology market
4	Government functions	14-16	Improve coordination of China's fiscal, monetary, and industrial policy to avoid wasteful investment, guard against cyclical volatility; delegate more power to lower levels; minimize government management of business, esp. unnecessary administrative approvals; less administrative ties for public institutions; straighten out duties of different party, government, and mass organs; reduce number of government agencies personnel; work toward direct provincial administration of counties to simplify local administration
5	Fiscal and taxation system	17-19	More budget transparency; clarify which types of spending are central and which are local authority; restrict transfers payments to the poorest regions only; increase personal income, real estate, and resource taxes; provide tax incentives to ensure an equitable tax burden
6	Urban-rural integration	20-23	Keep collective land ownership system but provide farmers with broader rights of land use beyond farming, incl. property-style income; let farmers become shareholders in industrial operations; allow more private investment in rural areas; promote equalization of urban and rural basic public services
7	Opening up	24-26	Relax investment access for foreign enterprises, with Shanghai Free Trade Zone as pilot; speed up building of free trade zones; expand opening up of inland regions through trade, investment, shipping routes
8	Political system	27-29	Modernize people's congress as a supervisory body for examining/supervising fiscal budgets and state-owned assets, and as ratifying body for any major government decision; encourage more interaction with grassroots organizations, e.g. through forums and formal soliciting of opinions from civil organizations
9	Rule of law	30-34	More legal advisory services to inform people of their rights; set up judicial courts that are separate from local administrative zones; tougher enforcement for food, drug, and product safety, environmental protection, labor and social security; reduce number of crimes for which death penalty is applicable; prohibit abuse of torture and corporal punishment
10	Restraining the use of power	35-37	Combat corruption by reporting cases to higher-level discipline inspection commissions and stationing the Central Discipline Inspection Commission at all central organs
11	Cultural system	38-41	Build up modern public cultural service system, e.g. cultural service centers and non-public cultural enterprises; reform SOEs in the culture sector

12	Social services	42-46	Reform the education system to narrow opportunity gaps, e.g. through vocational schools and more diverse testing of aptitude; support business startups, esp. for college graduates; loosen one-child policy; reform medical and health structure; more equitable social security system; better mechanism to determine income distribution
13	Social management	47-50	Encourage more social organizations, e.g. volunteer services; separate trade associations from administrative organs; reform the letters and calls system; improve public safety, esp. product safety
14	Environmental regulation	51-54	Strengthen natural resource property right systems; make GDP assessment non-relevant for regions with weak ecosystems; implement paid-for resource use systems; develop environmental protection markets
15	Defense and military	55-57	Increase integration among military units; promote military-civilian integration, esp. with regard to allowing private enterprises to participate in research and innovation
16	Party leadership over reform	58-60	Establish a Leading Small Group for Comprehensive Deepening of Reform; get cadres in Party in line with the new reform agenda

Endnotes

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