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Asia Summary

China's Third Plenum: Policy Changes and their Impact

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INTRODUCTION

This document is a summary of Dr Tim Summers' presentation on China's Third Plenum and its policy implications and impact. The presentation was delivered at Chatham House on 13 November 2013 and chaired by Mr Rod Wye, Associate Fellow with the Asia Programme. In his presentation, Dr Summers reviewed the outcomes of the plenum and examined likely policy changes and their domestic impact.

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CHINA'S THIRD PLENUM

Mr Wye opened the discussion by welcoming Dr Summers to Chatham House. He noted the significance of the event at a time when China's growth appears to be slowing but social and environmental issues remain challenges for the government.

Dr Summers began by outlining his assessment of politics in China, which he argued was broadly aligned with a push forward in policy reforms. At the top of the Communist Party, there had been a clear and clean leadership transition the previous November, symbolized by Xi Jinping taking on the top party and military posts at the same time. The new leadership has engaged in steady rhetoric that suggests that reforms are being planned – for example Xi's discussion of the need for 'adjustment, reform and innovation' in his recent APEC speech.

It is often argued that 'vested interests' stand in the way of further reform. Dr Summers explained his view that the recent anti-corruption campaign – which has targeted the director general of the body that oversaw national-level state-owned enterprises (SOEs) and senior executives from some major SOEs – has shown the leadership's ability to bring these vested interests into line. Local governments could also be a challenge to policy implementation, but Dr Summers noted that Premier Li Keqiang had addressed issues around this at a 1 November meeting of the State Council, and that non-adherence to the party centre is a disciplinary issue for local cadres.

Finally, on the politics of reform, Dr Summers judged that among the wider population, including private businesses and the middle classes, there was a strong consensus for reform. He noted that the State Council had tapped into this in a document in May on the reform agenda for 2013, saying that 'the

whole society expectantly awaits the attainment of new breakthroughs through reform’.

Dr Summers then offered an overview of the Third Plenum, which had been held in Beijing from 9 to 12 November, and its main messages. At this stage, the analysis was based only on the Plenum communiqué issued on 12 November.¹ He explained that the Third Plenum aimed to establish a new policy programme focused on ‘comprehensive deepening of reform’ designed to achieve ‘socialism with Chinese characteristics’. The plenum introduced a new – though not radically new – policy direction with regard to the economic and social agendas. Its aim to see the market play a ‘decisive’ role and for ‘free and equal’ competition was also notable. The plenum set 2020 as the target date to achieve its goals.

Politically, the plenum sought to provide a catalyst for the modernization of the governance system. On the foreign policy front, Dr Summers commented that the plenum’s creation of a ‘national (or state) security committee’ could lead to greater policy coordination and control by the leadership. He added that the true impact this body will have on foreign policy remains to be seen.

On the economic front, Dr Summers explained how the leadership hopes to see the market play a greater and more decisive role in the allocation of resources. This was illustrated by the plenum’s focus on ‘free and equal’ competition in the economy. Dr Summers explained that, in this regard, the leadership wants to see fewer barriers, including those imposed by existing bureaucracies. Thus, this will most likely lead to reforms in governance as well.

Better governance was a broad theme of the plenum. In this respect, it discussed issues such as anti-corruption and the leadership’s better connection and response to ‘the masses’. Dr Summers explained that the party leadership views reforms in these areas as crucial for sustaining and strengthening the party’s position in the country. Thus, the plenum represents a reform agenda for the party, rather than for the political system. Indeed, the plenum outlines no plans to change the political system to one that would fundamentally challenge the party’s power.

On the social policy front, the plenum focuses on issues of fairness and justice, reforms in the judicial system to ‘better protect human rights’ and achieve greater accountability, healthcare, and the environment, among

¹ The full text of the ‘Decision’ approved by the Plenum was subsequently released on 15 November, and should be consulted for more detailed information on the Plenum outcomes. http://news.xinhuanet.com/fortune/2013-11/15/c_118164235.htm.

others. There appears to be a clear goal to improve livelihood and public services. Dr Summers commented that the social agenda came through quite strongly and noted his expectation to see reforms on various issues such as energy and water pricing and urban-rural integration. With regard to urbanization, Dr Summers judged that the leadership is more interested in seeing a steady-paced, better-quality urbanization rather than rapid development. He added that the plenum also hinted at possible land reforms and the introduction of a unified market for land, as well as containing a number of implied references to public service provisions. Dr Summers, however, noted that the plenum communiqué touched only minimally on the agriculture issue. Overall, on the social front, he commented that he expects an acceleration in policy reforms in the coming years.

To conclude, Dr Summers explained how reforms in the economy and on the social front will be crucial for the achievement of the party's goals. He reiterated the plenum's underlying goal of strengthening the party's hold on power. In addition, he reminded the audience that, despite market reforms, the plenum did not represent a complete move towards a market economy. In this regard, he noted that the plenum communiqué avoided discussing reforms on the issue of state-owned enterprises (SOEs).²

Mr Wye thanked Dr Summers for his presentation and opened up the floor to questions.

² However the plenum Decision has further material on this. See Tim Summers, 'China Looks Serious About 'Decisive' Market Reforms', 20 November 2013. <http://www.chathamhouse.org/media/comment/view/195637>

QUESTIONS AND ANSWERS

On the question of whether China is seeing the centralization and tightening of political power, Dr Summers explained his view that certain aspects are being centralized, but not all. He pointed to the different character and leadership styles of Xi Jinping and Hu Jintao. Dr Summers argued that Xi is a stronger leader than Hu, which has allowed the leadership to tighten its grip on certain issues, such as foreign affairs. In addition, the fact that a number of issues had previously not been well coordinated means that there can appear to have been a centralization of power.

On the other hand, Dr Summers argued that there has also been a devolution of power in some areas, pointing to governance reforms aimed at devolving approvals to local governments, reducing bureaucratic red tape, the fiscal trend for a growing proportion of government expenditure to take place at the local level, and even the elimination of some of the roles of central government in the economy.

On the question of whether the plenum had effectively addressed the various issues at hand, Dr Summers stated that he believes it has, but noted that its effectiveness will depend on how far and how fast the policy-makers can devise detailed policies, and whether or not they can be implemented. Dr Summers added that there are big variations between the issues and that policy-makers might not have the right policies to address all, for example, the environment. He reiterated that policy implementation is challenging and continues to rely on the party structure.

On the question of SOEs, Dr Summers stated that he does not expect to see any fundamental challenges to their role, but does not attribute this lack of change to vested interests in the party. Rather, he argued that this is a question about how to best serve state interests. While there continues to be a need for more reforms, particularly with regard to eliminating corruption and increasing accountability, there is the potential to make SOEs more efficient rather than eliminate them.