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## **ANALYSIS OF THE THIRD PLENARY SESSION AND THE OUTLOOK FOR THE FUTURE**


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The “Decision on Major Issues Concerning Comprehensively Deepening Reforms” adopted at the 3<sup>rd</sup> Plenary Session of the 18<sup>th</sup> Chinese Communist Party Central Committee (November 9-12, 2013) (hereinafter, “the Decision”) is an important policy document anticipating the next ten years of the Xi Jinping administration, but one regarded as not wholly satisfactory by those expecting progress on reforms.

*The views expressed in this piece are the author’s own and should not be attributed to The Association of Japanese Institutes of Strategic Studies.*

The Decision advocated improvements to market structures, transfers of government functions, and renovations to the business enterprise system, with the key to reform seen as “correctly adjusting the relations between the government and the market.” These recommendations were by no means novel. Similar policies have been put forth on earlier occasions, but time and time again drastic marketization reforms have been postponed, as the fruits of market growth have been available without such reforms. Faced with the two “traps” discussed below, however, China no longer has any choice but to transform the development model that has heretofore brought the country rapid growth. First, China as a medium-income country will see its economy slip into stagnation (“the middle-income country trap”) unless it begins developing its own technology rather than copying foreign technology and successfully changes over to a high added-value product structure. Second, vague target models for reform and an absence of thorough marketization efforts have given rise to vested interest groups that hinder the sound development of privately-run companies and engender corruption (“the system transition trap”). Furthermore, the distortions caused by rapid growth in terms of ecological deterioration and widening income gaps have triggered dissatisfaction among the general populace.

For transitioning to a new development model, the Decision has two serious shortcomings. The first is that it maintains a mixed-economy structure of state-run and private-run entities existing side-by-side “to ensure the state-run sector can play a leading role and continually enhance the vitality, control, and impact of the state-run sector.” This raises concerns that a mixed-economy structure will hamper the sound development of private-run enterprises essential to greater innovation, that investment will ignore efficiency, and that overproduction will result from overlapping production. The second is that the Decision stressed in reference to the transfer of government functions that “government involvement in microeconomic activities will be reduced as far as possible and the provision of public services will be bolstered.” Although this approach itself may be correct, abandoning the linkage between intra-regional GDP growth rates and promotions will eliminate incentives for local government bureaucrats and possibly have an adverse impact on economic growth.

As noted above, expectations are low that the Xi Jinping administration will undertake radical reforms, but a more careful examination of the Decision reveals a number of praiseworthy policies: private capital will be permitted to participate in state-financed investment projects, the percentage of money paid into the public treasury from state-run company earnings will be boosted in order to step up social security funding, and the system of land ownership will be further reformed to increase individuals' share of capital gains from land. As long as a growth rate of about 7% can be sustained, the combination of these partial reforms should be reasonably effective in extending the lives of the current political and economic systems. The most likely scenario for the near future is that the Communist government will maintain the present political and economic systems by seeking out compromises with rising economic elites, rooting out corruption and implementing income redistribution policies to partly alleviate popular discontent. 

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