
Laying the Political Groundwork for Continued Economic Reform: The Chinese Communist Party Central Committee's Third Plenum

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On Tuesday, China's Third Plenum—a major conclave of top Communist Party ("CCP") officials—concluded with the publication of a Communiqué announcing general statements about policy priorities and specific structural changes to the CCP, designed in part to affirm and advance economic reforms with a target date of 2020.

Third Plenums of the CCP's Central Party Committees ("CPCs")¹ have over the last several decades provided an important forum for new leaders to define the agenda for the remainder of their tenure. Most significantly, at the Third Plenum of the 11th CPC in 1978, a then-ascendant Deng Xiaoping consolidated power and introduced the "Reform and Opening Up" policy that would fundamentally transform China's economy over the course of the 1980's and 1990's.

This year's Third Plenum reflects a commitment on the part of President Xi Jinping² and the CCP leadership to significant economic liberalization—although not on the sweeping scale of the Deng era. The Communiqué twice expressly states that the market must play a "decisive" role in resource allocation, in contrast to communiqués from earlier plenums describing the market's role as "basic". While the Communiqué indicates that public ownership is to remain the core, it also indicates increasing support for development of the non-public sector, fair competition and the elimination of market barriers. This may augur a rebalancing of the economy away from dominance by state-owned enterprises ("SOEs"), which are generally less capital-efficient than their private-sector counterparts. The government's role in the economy would move in parallel further from direct participation to one of macroeconomic and market regulator. Such a policy shift would be consistent with other recent developments, including a reduction in the number of SOE leaders on the CPC, as well as a recent report by the State Council's Development Research Center ("DRC") calling for a curtailment of SOEs' role in China's economy.³

In addition, to provide a stronger leadership base for reform, the Communiqué calls for the establishment of a "Leading Small Group on Comprehensively Deepening Reform". This entity will be responsible for the "general planning of reform, comprehensive coordination, overall direction, and supervision of implementation." In other words, the central CCP leadership will support and

monitor the implementation of reforms that might otherwise be impeded or redirected at the local level. Specific priorities for economic reform cited in the Communiqué include reducing market access barriers for investment and granting stronger land use rights to farmers-although the regulatory regime for such reforms is not yet in place.

The Communiqué also reaffirms the CCP's support for initiating reforms on a pilot basis in free trade zones, and in particular the China (Shanghai) Pilot Free Trade Zone ("SFTZ"), which was officially launched on September 27. Reforms currently being tested in the SFTZ include allowing freer movement of capital in and out of China and reducing discrimination against privately-owned and foreign-invested enterprises; the adoption of a "negative list" reducing the range of industries that are off-limits to foreign investment; the creation of a single unified and streamlined system for business approvals; and liberalizing several service sectors of the economy, including financial, professional, cultural, value-added telecoms, and logistics services. For example, wholly foreign-owned commodities trading companies are already being established in the SFTZ with the right to trade both offshore and onshore, which facilitates hedging and allows losses on offshore trades to be offset against onshore gains, reducing tax exposure. If the SFTZ pilot program is deemed successful, it could pave the way for similar liberalization measures nationwide.

With respect to greater democracy and rule of law, the Communiqué promises very limited changes at best. It calls for the establishment of a State Security Committee ("SSC"), which appears likely to be a partial analogue to the U.S. National Security Council ("NSC"): a high-level council of advisors answering primarily to the chief executive, which is responsible for managing and coordinating the bureaucracy's implementation of national security policy. However, unlike the NSC, China's SSC would apparently manage both foreign and domestic threats. Thus, the SSC may become a tool for the CPC leadership-and in particular, President Xi Jinping-to reinforce political control under the CCP.

Overall, the Communiqué indicates that the new CCP leadership has the political will to continue driving economic reforms forward at least to some degree, despite deep and abiding resistance from a variety of domestic constituencies. As a result, China's reforms are likely to continue and perhaps even accelerate, although they will likely fall short of the expectations of many foreign firms doing business in China, and indeed of China's own more ambitious reform advocates.

¹ National Congresses of the CCP occur every five years-most recently in 2012, at which the Central Committee of the 18th CCP Congress was elected. Thus, the 2013 plenum is the Third Plenum of the 18th CPC.

² President Xi's more significant position in China is General Secretary of the CPC.

³ The DRC issued the as yet unpublished "383 Plan" comprehensive reform report to the Third Plenum in October, available in Chinese at <http://magazine.caixin.com/2013-09-30/100587968.html?p0#page2>.

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