

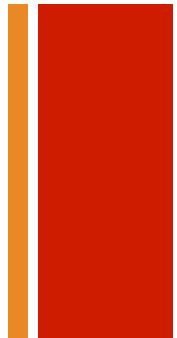
Policy Analysis
Prospects for Chinese
Economic Policy
in the Xi Jinping Era

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The Chinese Communist Party



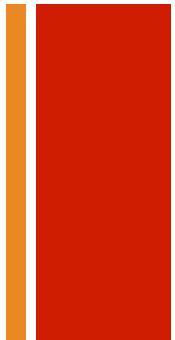
- Standing Committee of the Politburo
- Politburo
 - Secretariat
- Military Affairs Committee
- Central Committee
 - Organization
 - Propaganda
 - United Front
 - International Liaison
 - General Office
 - Subordinate Organs Committee
 - State Organs Committee
 - Policy Research Office
- Party Congress
- Provincial- and municipal-level party branches
- CCP branches in work units

+ Standing Committee of Politburo/ 18th Party Congress

- **Xi Jinping**, General Secretary of CCP, president of P.R.C., chairman of Central Military Commission
- **Li Keqiang**, party secretary of State Council, premier of State Council
- **Zhang Dejiang**, party secretary and chairman of the National People's Congress
- **Yu Zhengsheng**, party secretary and chairman of the Chinese People's Political Consultative Conference
- **Liu Yunshan**, top-ranked Secretary of the CPC Central Secretariat, Chairman of the Central Guidance Committee for Building Spiritual Civilization, President of the Central Party School
- **Wang Qishang**, secretary of the Central Commission for Discipline Inspection
- **Zhang Guoli**, deputy party secretary of the State Council, first Vice Premier of State Council



Presentation Agenda



- Policy Process and Policy Outcome
- Analytical Tool Kit: Who, Why, and How (and with What)?
- Background: 3rd Plenum of the 18th CCP Congress
- Policy Analysis: China's Economic Policy in the Context of "Strengthening Market Forces"
- Applying Analytical Tool Kit: Telecoms, Textiles, Autos, Real Estate
- Lessons and Implications in Comparative Perspective

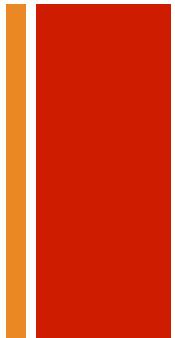


Policy Process and Policy Outcome

- To understand policy outcomes we need to understand how policies are arrived
- To understand how policies are arrived, we need to pay attention to the *various stakeholders* and the *existing institutional context*, including change over time.
- To understand policy outcomes, we need to first answer the following questions.
 - Who makes policy and who is affected?
 - Why? What are the goals? What are the existing socio-economic conditions?
 - Who implements policy and with what?
- How have answers to these questions changed over time and why?



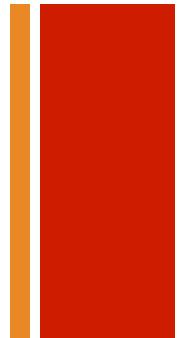
Analytical Tool Kit



- Who are the various political, government, bureaucratic, market stakeholders?
 - Who makes policy?
 - Who is affected?
- Why?
 - What are the state goals?
 - What are the socio-economic conditions of the times? Financial crisis? Internal political struggles? Social conditions?
- How is policy implemented and with what?
 - State-Industry Relations
 - State Methods



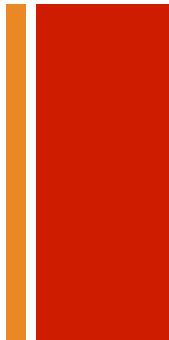
Economic Policy and China: Suggested Readings



- Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978-1993* (Cambridge, 1995).
- Dali Yang, *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Stanford, 2004).
- Margaret Pearson, “The Business of Governing Business in China: Institutions and Norms of the Emerging Regulatory State,” *World Politics* 57: 296-322.
- Scott Kennedy, *The Business of Lobby in China* (Harvard, 2008)
- Roselyn Hsueh, *China’s Regulatory State: A New Strategy for Globalization* (Cornell, 2011).



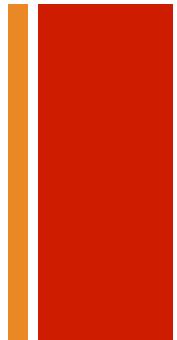
“The Trouble With China’s Reform Plan” Business Week, 11/18/13



- What are the main points of the news article?
- What are some of the preconceived notions of what “markets” are supposed to look like?
- The conditions under which stakeholders have a say in policymaking?
- What are the assumptions concerning existing institutions and economic policy?



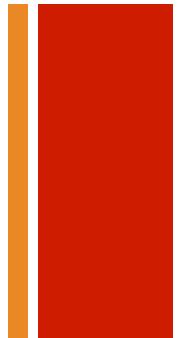
Third Plenum of the 18th Chinese Communist Party Congress



- Presided by PRC President Xi Jinping, Premier Le Keqiang, and other CCP Central Committee members, including business members
- Third Plenum Communique: “Decision on Major Issues Concerning Comprehensively Deepening Reforms” – broad and vague
 - Announced goals
 - Manage national security, with emphasis on internal security (deal with political corruption, ethnic minorities, and social discontent)
 - Manage social and environmental consequences of reform (deal with social discontent/ protests, deal with environmental problems)
 - Foster/ promote “innovation” and global competitiveness of state-owned industry (read: continued state intervention emphasis on strategic industries)
 - Announced methods
 - Law (as defined by the Chinese)
 - State security committee (headed by Xi, coordinates military, policy, foreign affairs)
 - **Leading Group to strengthen market forces**



Third Plenum of the Chinese Communist Party Congress



■ Deng Xiaoping era

- 11th CPC Central Committee 3rd Plenary Session in 1978 marks the “Reform and Opening Up” policy

■ Jiang Zemin era

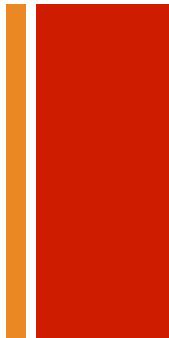
- 14th CPC Central Committee 3rd Plenary Session in 1993 set the stage for macroliberalization (and micro-sectoral reregulation).
- 15th CPC Central Committee 3rd Plenary Session in 1998 set the stage for state entrenchment in light of concerns regarding slowed economy due to East Asian financial crisis.

■ Hu Jintao era

- 16th CPC Central Committee 3rd Plenary Session in 2002 announced regulation for private enterprise, shortly after 2001’s WTO accession, and Jiang’s Three Represents
- 17th CPC Central Committee 3rd Plenary Session in 2007 set the stage for rural reform and development (“Socialist Harmonious Society”) and “Scientific Development Concept,” shortly after 11th 5-Year Plan and the focus on “indigenous development”



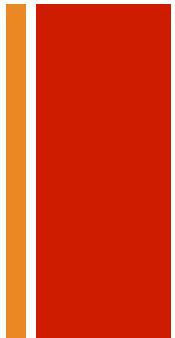
Strengthening “Market Forces” and China’s Economy Policy



- Clarifies and sharpens the direction for China to go in, not set a fundamental new course.
- Enhance/ strengthen efficiency in the authoritarian functions of the state
- But what might this look like?
- Who are the stakeholders who would be affected?
 - Whose voices are heard? Who's in the political process? What are their goals?
 - Who implements policy?
 - Who will be affected by economic policy?
- What does this mean in the existing institutional context? Current socio-economic conditions?
- What are the concrete manifestations of “market forces”?
 - How might economic policy vary by industry?
 - What are some economic/ technical reasons to why these methods might vary?



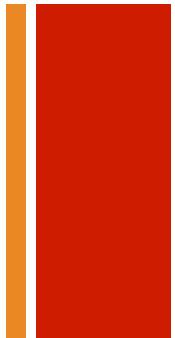
Existing Institutional Context



- De facto private property rights
- Decentralization / devolving economic powers to local levels
- Series of administrative reforms
- Series of state sector reforms
- Exposure to the internationalization economy
- Rise of informal economy
- Political stability (with increased social discontent and political corruption)
- Global economic slowdown
- Environmental consequences of modernization



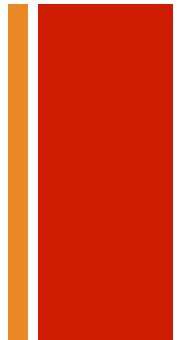
The Stakeholders



- Chinese Communist Party
 - Standing Committee
 - National People's Congress
 - Provincial and local party secretaries and party members
- State Council, various central-level ministries and bureaucracies
 - State-owned Assets Supervision and Administration Commission (SASAC)
 - National Development and Reform Commission – replaced by Small Group to Deepen Reform
- Ministry of Science and Technology
- State research organs, universities
- Provincial and local level governments
- Owners and managers of capital
- Consumers/ citizens



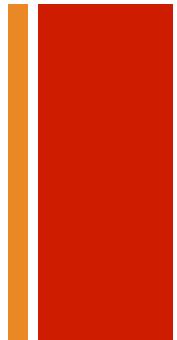
Manifestations of “Market Forces”



- The market shall play “decisive role in resource allocation.”
- What are the tools of the market?
- Capital/financial access for non-state-owned enterprises
- Reining in subsidies for state-owned enterprises
- Consumption-based production
- Liberalized market entry and exit – end to discretionary licensing?
- Competition-driven pricing
- What else?



What to let go and what to retain under state oversight?



- 1986 National High Technology Development Program 863
- 1997 “CPC Central Committee Notice on Strengthening and Improving Party Building in State-owned Enterprises”
- 2006 “State Council Guiding Opinion on Promoting the Adjustment of State-owned Capital and Reorganization of State-owned Enterprises”
- 11th 5-Year Plan and Indigenous Innovation (2006-2010)
- The 15-year Medium-to-Long-Term Plan for Science and Technology (2006–20)
- Foreign Investment Guides



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中国移动通信



淘宝网
Taobao.com

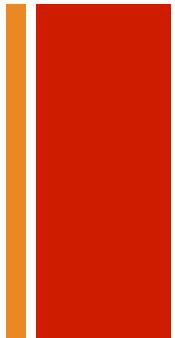


+ Competition Policy in Telecoms

- **Services:** state-owned carriers; **value-added service providers:** state-owned service providers, and quasi-private, wholly private and foreign-owned enterprises
- **Equipment Manufacturers:** state-owned enterprises, quasi-private enterprises, wholly private and foreign-owned enterprises
- State Leading Group on Informationization (policy maker)
- Ministry of Industry and Information Technology (circa 2008) (enforcement of policy)
- Ministry of Science and Technology (leader in funding and organizing stakeholders in technical standards setting)
- Methods of control
 - Sector-specific rules on ownership, market entry and exit, and business scope
 - Central ministry retains discretionary approval and regulation
 - Capital requirements and FDI rules
 - Local content policy
 - Rules on retail and distribution
 - End user rules



State Leading Group on Internet Security and Informationization



- Merges the State Informatization Leading Group (SILG) and the State Network and Information Security Coordination Small Group (SNISCSG)
- **Goals:** Developing technology and ensuring cybersecurity (“two wings of a bird”; “two wheels of an engine”)
- **Director:** Xi Jinping (President) (formerly Wen Jiabao, the premier)
- **Deputy Directors:**
 - Li Keqiang (Premier)
 - Liu Yunshan (Standing Committee of the Political Bureau of the Communist Party of China Central Committee)



Telecommunications

- **1993** Breakup of telecoms monopoly; licensing of other carriers and value-added service providers
- **1993-1998** De-facto liberalization in FDI; FDI helped built 3g networks
- **1998-2001** Formation of Ministry of Information Industry; forced divestment of FDI in basic services but not VAS; restructuring of carriers to create duopolies
- **2002-2008** Expansion of rules on VAS providers to control information dissemination; periodic rotation of carrier management
- **2008** Restructuring of carriers; rollout of TD-SCDMA; creation of Ministry of Industry and Information Technology
- **2014** Creation of the State Leading Group on Internet Security and Informationization

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BESTSELLER



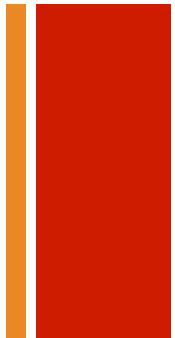
Oceanpower



Performance Fibers
Endless Possibilities



Competition Policy in Textile Industry



- Apparel and clothing: diversity over ownership types, mostly private and/ or quasi-private, foreign and domestic
- Technical and industrial textiles: diversity over ownership types, mostly private and/ or quasi-private, foreign and domestic
- Ministry of Commerce (circa 2003) (enforcement of regulation)
- Local governments and branches of trade bureaucracies
- Methods of control
 - Local authorities enforce laws and approve market entry and business scope
 - Liberalized ownership types, market entry and exit, business scope
 - Few or low capital requirements
 - Available central funding for technical sectors, topic areas
 - Global trade rules and market conditions



Textiles

- **1978-1990s** Rise of private sector and FDI entry
- **1993** Dismantling of Ministry of Textiles Industry; textile bureau
- **1998-2001** Dismantling of Ministry of Internal Trade; recentralization of textile bureaucracy before WTO accession to create competitive textiles but affected only SOEs
- **2001** Complete elimination of central level office; sector and business associations govern market developments
- **2000s** Private sector lobbies for better fiscal structures; recalibration of tax rebates in response to economic conditions and private sector demands

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Competition Policy in Automotive Industry



- Passenger car manufacturers: state-owned enterprises, quasi-private enterprises, foreign-invested subsidiaries of state-owned enterprises
- Auto parts manufacturers: state-owned enterprises, quasi-private enterprises, wholly private enterprises, wholly foreign-owned enterprises
- Ministry of Industry and Information Technology (circa 2008)
- Methods of control
 - Sector-specific rules on ownership, market entry and exit, and business scope
 - Central ministry retains discretionary approval and regulation
 - Capital requirements and FDI rules
 - Local content policy
 - Emission policy
 - Rules on retail and distribution
 - End user rules

Uneven development: skyscrapers and rural villages



Pudong Development Zone, Shanghai



Rural town & village enterprise, Shaanxi



Home in a less developed part of Shanghai



Empty buildings in Chongqing

Property rights challenged: Nail houses across China



Shenzhen



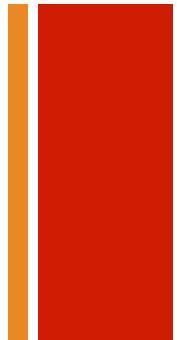
Beijing



Chongqing



Applying Analytical Tool Kit to Other Sectors: Real Estate



- Nail houses, housing in towns and villages, high rises and office buildings in cities
- Overexpansion
- Ministry of Housing and Rural-Urban Development (circa 2008)
- Methods of control
 - Financing rules
 - Local authorities enforce laws and approve market entry and business scope
 - Rules on property ownership, use-rights, sales market entry and exit, business scope