

(BN) China Vows Bigger Role for Markets as Party Closes Policy Summit

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By Bloomberg News

Nov. 12 (Bloomberg) -- China elevated the role of markets in the nation's economic strategy after President Xi Jinping oversaw a gathering of Communist Party leaders while stopping short for now of unveiling detailed policy shifts.

The nation will make markets "decisive" in allocating resources, according to the communique from the third full meeting, or plenum, of the party's 18th Central Committee. At the same time, state-owned enterprises will remain "dominant,"

indicating limits on rolling back government involvement.

China's leaders are under pressure to revamp the nation's finances as swelling local-government debt highlights the risk of a buildup of bad loans and state businesses' access to bank funding crowds out small firms. Today's document didn't discuss specific issues such as regional borrowing, interest rates or the one-child policy, while referring generally to giving farmers more property rights.

"It's going in the right direction is the most you can say," said Louis Kuijs, chief China economist at Royal Bank of Scotland Group Plc in Hong Kong. "Even though some of the phrasing is new, the ideas are not so new."

The communique, published by the official Xinhua News Agency, reiterated the role of state ownership while saying development of the non-public sector will be "encouraged."

That emphasis "probably precludes drastic state-owned enterprise-related reforms," said Kuijs, who previously worked for the World Bank in China.

Mixed Views

Analysts had mixed views on the communique, with many pointing to an absence of detail.

“Curb Your Enthusiasm” was the heading of a note from Bank of America Corp.’s Hong Kong-based economist Lu Ting, who said investors may be disappointed by a communique that indicated that, rather than being stripped of power, state-owned enterprises will gain more influence. He cited a reference to public ownership being an important pillar of a “socialist market economy.”

Stephen Green, head of Greater China research at Standard Chartered Plc in Hong Kong, said that the reference to a “decisive” market role “may sound small, but it should provide critical air-cover to detailed reforms which support the market.”

Chang Jian, a Hong Kong-based economist at Barclays Plc, said the statement indicated limited prospects for state-owned enterprise reform. She saw the likelihood of “meaningful progress” in areas such as the fiscal relationship between central and local government; social security; and the legal system. “Some initial progress” may occur in land reform, she said.

Leading Group

The statement said China will establish “a leading group on deepening reform” that will be responsible for broader planning and coordination of policies and supervising implementation. Green said such a move is “very positive” and Kuijs said that group may help China shift away from consensus-driven policy making and overcome resistance from interest groups opposed to change.

China had previously defined markets as having a “basic” role in allocating resources since the country decided to build a “socialist market economy” in 1992, Xinhua reported. That wording had been repeated as recently as last month, when Xi said in a speech that China would “let the market play its basic role in allocating resources to a greater degree and in a wider scope.”

“Economic reform is key, and the core solution is the proper relationship between the government and the market,”

Xinhua said today, citing the communique.

Pooled Land

The communique also said land in cities and the countryside, which can be used for construction, will be pooled in one market, and the party will “create fair open and transparent” market rules, according to Xinhua.

China is targeting “decisive” results on reforms in key sectors by 2020, Xinhua reported, citing the statement.

When Li took office in March, he pledged to open the economy to market forces and strip power from the government, saying at the time that the process would be “very painful and even feel like cutting one’s wrist.”

Gross domestic product expanded 7.8 percent in July-to- September from a year earlier, from a 7.5 percent gain in the previous period, bolstering Li’s chances of meeting the government’s 7.5 percent full-year growth target.

State media had heralded the meeting as a “watershed” for reform, putting it in the same category as 1978’s third plenum.

That’s when former paramount leader Deng Xiaoping broke with three decades of Maoism and introduced pro-market policies that paved the way for growth averaging 10 percent a year.

Broad Principles

“What we have seen from the plenary’s communique is broad principles,” said Ramin Toloui, Pacific Investment Management Co.’s co-head of emerging-markets portfolio management in Singapore. “The devil will be in the implementation -- how those principles are translated into specifics and a timetable for action.”

The report came after the close of Chinese markets. The benchmark Shanghai Composite Index rose 0.8 percent today, the biggest gain this month, while the yuan was little changed at 6.0919 per dollar.

“China clearly seems to be heading towards a much greater role for markets in the economy, which points to more deregulation and opening up of financial markets,” said Shane Oliver, Sydney-based head of investment strategy at AMP Capital Investors Ltd., which oversees more than \$125 billion.

“The plenum was only ever going to set the broad direction, which it looks to have done, but with the details to follow,”

Oliver said. “So this runs the risk of disappointing some who were hoping for more details straight away.”

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