Is There a “Xi Model” of Economic Reform? Acceleration of Economic Reform since Fall 2014

Barry Naughton

China’s economic reform took major steps forward beginning in the fourth quarter of 2014. Major policy initiatives were launched on consolidation of local government finances and debt, agricultural land property rights, and preparations for commitment to more rigorous free-trade agreements. The period of slow reform progress after the Third Plenum has now ended. We can now start to see the outlines of a distinctive “Xi Model” of economic reforms.

Xi Jinping’s policy agenda continues to be marked by abundant contradictory components. Ideological repression, great power aspirations, and great leader propaganda coexist with an ongoing campaign against corruption and significant measures of economic reform. Some pundits argue that these contradictory elements can be explained by one or another simple formula: Xi is “really” a reformer, or really a leftist, or really just a dictator. These overly simple approaches should be ignored. Those who advance them are merely inventing plausible stories to reconcile apparent contradictions. Although all these simple characterizations of Xi Jinping may contain elements of truth, no simple formula comes anywhere close to explaining the disparate, shifting, and sometimes massively contradictory elements of Xi’s agenda. It is enough right now if we can clearly describe the elements of the Xi agenda, and perhaps assess the relative weight and possible trajectory of some of these elements.

In fact, within the jumble of disparate policy elements in the Xi agenda, in the latter part of 2014 there was a substantial shift in relative importance. The importance of economic reforms increased palpably as, for the first time, Xi began to put considerable political muscle behind specific strands of the economic reform agenda. The economic reform program has now moved out of the earlier stages of preparation and the creation of specialized institutions to manage the reform process (as described in earlier *CLM*s). Earlier assessments, even when positive, have inevitably been cautious, because implementation has been slow, relative to the bold and broad declarations of the November 2013 Third Plenum.[1] Today, however, we can start to see important areas where economic reforms have moved beyond rhetoric into important efforts of practical implementation. This does not necessarily mean that Xi has found an effective or reasonable “model” of reform, but it certainly changes the terms of the conversation we should be having about economic policy. Xi’s economic reforms are now serious and real, and deserve serious and careful attention.[2] Oddly, so far the important measures discussed here have been presented in a somewhat understated way in the Chinese press, and have received very little press attention outside China. This shortcoming should be rectified as soon as possible.

In the following, I survey three key elements of economic reform that moved into serious implementation in the October–November 2014 time frame. Each of these three is complex, and a full analysis, or even a complete description, cannot really be achieved in this short format. The first section lists all three policy areas. Sections two through four describe the policy content for each of the measures. In Section five, I present an extremely preliminary set of observations about the nature of the emerging "Xi model" of economic reform.

Three Policy Measures

In the space of a few months, and with little fanfare, Beijing policy-makers introduced the following three economic reform policy packages:

a) A program was adopted to divorce local government finances from the corporate "local government funding vehicles" that have been piling up debt since the global financial crisis. This policy includes capping local debt and reclassifying and restructuring debt into public debt (essentially "municipal bonds") and corporate debt (including for companies that produce public services). This is a bold and aggressive program that seeks to fundamentally shift the relationship between local governments and debt markets. At the same time, it will lead to a major short-term reduction in local government financial resources.

b) A new system of property rights was introduced for agricultural land that provides protection to farmers and a clear system to support renting, leasing, and mortgaging land.

c) At the APEC Leaders' Summit in Beijing (November 9–12, 2014), China undertook new commitments in a range of international negotiations, substantively completing free-trade agreements with Korea and Australia, and moved forward in agreements with the United States. While no individual step was a game-changer, cumulatively these moves amounted to an important shift toward a more open economic regime, particularly since complementary domestic policy steps were also taken.

Each of these policy initiatives addresses fundamental aspects of the economic system. In some cases—such as land rights—the new measures address contentious political or theoretical issues that have defeated efforts at resolution for a decade or more. Each of the policy initiatives has opposition, so the top political leadership must have expended political capital, either in overwhelming the opponents, or in working out political deals that would bring them on board. Let us consider each of these initiatives in turn.

Fiscal Reforms: Tackling Local Government Finance and Debt

On October 2, the State Council published an important document, Number 43 of 2014, entitled "Opinions on Strengthening Management of Local Government Debt."[3] Couched in general terms, the document nonetheless marked a dramatic turning point toward a much more rigorous and fundamental effort to tackle local government debt. Readers of the last issue of the *Monitor* will recall that fiscal reforms had already been heating up. The Comprehensively Deepen Reform Leadership Small Group, chaired by

Xi Jinping, at its third meeting on June 6, 2014, approved a fiscal reform program (which was not released). Minister of Finance Lou Jiwei had then outlined an ambitious three-stage reform program in a July 2014 interview,[4] and at the end of August, the National Budget Law was revised in several important respects, most obviously in that it gave local governments the right to issue government bonds.[5] Minister Lou's first stage of reform, beginning immediately, had targeted the "budgetary management system," including procedures for budget transparency, better legal foundation and oversight by the National People's Congress, and systems for managing local government debt. What had not been clear at that time, but quickly became clear *after* the promulgation of State Council Document No. 43, was that the improved management system for local government debt would be accompanied by an immediate ambitious effort to tackle the local government debt problem directly, and attempt to control it once and for all.

State Council Document No. 43, only four pages long, addressed all the main issues head-on, but in a rather general fashion. The document announced a "no bailout policy," as far as the central government was concerned.[6] This immediately caused uncertainty in the bond market, since investors are unsurprisingly concerned about the value of their investments.[7] While important, the uncertainty about bond values may have distracted attention from other aspects of this important policy shift. The State Council also announced that local government funding vehicles (the investment corporations set up by governments to carry out their investment projects) should be made into corporations unambiguously separated from local governments, or else liquidated. The document called upon local governments to concentrate responsibility for local debt at the provincial level, to inventory total local debt, and to screen and classify debts according to repayment capacity of the assets created. This clearly marked the beginning of a major new initiative to cap and control the local debt problem.

Dramatic as the contents of Document No. 43 were, most of the measures were also echoes of policies that had been attempted over the last few years, without substantial effect. However, as the Ministry of Finance's program to implement Document No. 43 progressed, it gradually become clear that this was a far more ambitious effort than anything that has been attempted since the global financial crisis. The Ministry of Finance asked local governments to do the following:

1. Each province must inventory all local government debt, particularly bank debt, as of December 2014, and report it to the Ministry by January 5, 2015.[8] The State Audit Bureau had carried out a comprehensive audit of local debt through June 30, 2013, and fiscal records were to be used to update these records through the end of 2014. That earlier audit had covered 7,170 local government funding vehicles, and a total debt plus contingent liabilities of 30 trillion yuan.

2. Once the provincial figure was reported to the Ministry and approved by the State Council, it was to be permanently capped. That is, the provincial total debt cannot increase, although the province still will have some leeway to shift its total debt quota among sub-provincial governments (as some local governments pay off their debt).

3. All completed projects financed with debt are to be divided into three categories. (a) Projects with no revenues should be acknowledged as the responsibility of local government and absorbed onto the local government balance sheet. The debts incurred in the construction of these projects therefore should become direct government liabilities. Local governments may not fund these projects through bank loans, and must issue government bonds to pay off the outstanding bank debt. (b) Projects with sufficient revenues to service debt should be spun off into enterprise. The specific debts associated with the construction of a given project should be clearly demarcated, and the revenues from the (new) enterprise should be dedicated to servicing that debt. (c) Projects in an intermediate category—with significant positive revenues but not enough to service and repay the associated debt—should be restructured into new enterprises which the local government provides with an annual subsidy or other fixed contractual support. Preferably this new firm would be a public-private partnership (PPP), the currently fashionable approach to public service enterprises that aligns with the push toward "mixed ownership" for state-owned firms.. Once this classification is completed, local governments will be completely prohibited from borrowing from banks. All government debt must be structured as municipal bonds, and declared in the local government capital budget which is to be drawn up and published alongside the regular current revenue and expenditure budget.

4. Existing loan contracts for projects under construction will continue to be honored, provided they were fully approved by September 30, 2014. Loan contracts will not be renewed at completion, and by the end of 2015, all public projects should be funded by local government municipal bonds. After the end of 2015, local government funding vehicles will no longer borrow from banks.

5. The price of enterprise and municipal debt should be market-determined. Local governments should not guarantee the debt of subordinate governments. New systems of accountability and performance evaluation will be introduced for government officials, especially at the provincial level.

This is a remarkably bold and thorough proposal. Indeed, there are substantial implementation risks because the proposal may be too demanding in terms of compliance, and somewhat disruptive in its economic impact. Local governments were told in October to inventory their debts as of year-end and report them by January 5. Compliance with this schedule is not really realistic, and only one province, Hainan, was approved to announce it debt figures by the end of February. In the event, commentators suggested that the Hainan numbers were approved for disclosure not because they were accurate, but because they didn't display any big shortcomings: total debt was not large relative to provincial GDP, and the growth rate of debt was acceptable.[9] Hainan reported that its local debt grew 22 percent between mid-2013 and end-2014, and that 84 percent of the debt was local government responsibility, with government possessing various degrees of contingent liability for the other 16 percent. None of this debt could be converted into enterprise debt in the short term. The release of this one province's debt figures is thus quite revealing. The delays show that local governments are under great time pressure, and indeed may be intentionally dragging their feet on a measure that certainly does not work in their interests. Moreover, the fact that the rapid 22 percent growth of Hainan's government debt was considered acceptably moderate shows that local governments have incentives to come up with as large a number as possible for the debt they acknowledge. If they have to accept a new debt ceiling, it should be as large as possible, and local governments can probably assume that the central Ministry will be cooperative in helping them to get this debt restructured and listed on the local government capital budget.[10] The Ministry of Finance is thus struggling to impose limits on new local government debt without acknowledging—and de facto accepting—excessively high levels of existing debt.

Agricultural Land Rights

Property rights in land are complicated in China, not least because property rights are divided into two completely different regimes in rural and urban areas. There are many respects in which change in the land system has been slower than expected since the Third Plenum, particularly in the procedures for converting rural land into land with urban development rights.[11] However, in one respect there has been a major breakthrough. On November 20, 2014, the CCP and State Council jointly issued a document on rural land policy.[12] The essence of the policy was to specify that agricultural land has three levels of ownership: the underlying collective ownership, which never changes; the land contract rights, which date back to the distribution of land to households in the early 1980s; and land management rights. Land contract rights belong to the individual household and are stable and long-term (meaning that villages should not redistribute contract rights or take them away from out-migrants). Land management rights, by contrast, are transferable. They can and should be rented or leased, without detriment to the farmer's underlying contract rights. Moreover, the land use rights can be contributed as an equity stake to an agricultural corporation. This new specification of contract and use rights should be understood in conjunction with the work of surveying and titling all land—already well under way in many regions—which is to be completed nationwide within five years.

The fundamental impact of this policy is to create a nationwide system of secure and transferable property rights in agricultural land. As Zheng Fengtian 郑风田 of People's University explains, "Ever since the beginning of reform, aside from the [fundamental collective] ownership of rural land, land contract rights and land use rights have generally been bundled together into a single thing, that is 'land contract and use rights.' But with the establishment of three [levels of property] rights, farmers can relax and transfer their land use rights, receive rent, and not worry about losing their contractual rights to the land."[13] This important change shows up in the 2015 No. 1 Party Document, which, following tradition, is devoted to rural policy.[14] The wordy document covers many topics of interest, and refers to the new property rights policy obliquely but unmistakably. Section 22, titled "reform of the property rights system in rural collectives," states that the focus should be on "resolutely and realistically doing the work of determining rights, registering, and issuing certification [i.e., titling] for contracting and management rights" for land and other types of natural resource capital. This should be read in tandem with Section 28 on the rule of law, which says "revise the laws on rural land contracting in order to concretely specify that current land contracting relations are stable, long-lasting and unchanging; to clearly demarcate the [three-way] relationship between collective ownership, rural household contract rights, and land management rights; and to guarantee and protect the rights of rural women to the benefits from land contracting."[15]

Given that this is such an important policy change, its presence in the No. 1 document, and in Chinese government propaganda overall, is remarkably muted. The evidence is clearly there, but the casual reader will not have noticed the change. There doesn't appear to have been any commentary in the English-language press at all.[16] Why is this policy shift so understated? The answer may lie in the fact that improving rural land property rights has long been a highly contentious issue in China, and reformers may prefer to duck the debate. Most market-oriented economists strongly support strengthening land rights, because this will give farmers the ability to use their land rights in diverse ways (including renting, mortgaging, and using as collateral) and will provide the proper incentives to restructure agriculture in more efficient ways. "Leftists" strongly oppose private land ownership, arguing that it violates one of the central covenants of socialism. More importantly, privatization of land rights has long been opposed by Chen Xiwen, the most influential rural policy economist. Chen has high personal credibility as someone who understands the rural economy and has dedicated his life to addressing rural policy issues. Moreover, he occupies the key staff/advisory position as head of the office of the Party Rural Work Leadership Small Group (and is concurrently vice-head of the office of the Finance and Economics Leadership Small Group). Chen Xiwen has long worried that with land privatization, commercial capital would buy up land and many poor farmers would lose the protection of land ownership, which represents their ultimate "social security."

The current policy is obviously a compromise, but one that has successfully brought Chen Xiwen into the pro-market camp, enabling him to support a policy that effectively allows for transferable land-use rights. The unmistakable sign of the policy compromise is the commitment to a stratum of basically unchangeable "contract rights," which will become a kind of sub-surface ownership difficult for farmers to alienate. Over the long term, this could be a rather awkward provision: will there be a permanent class of former farmers who clip coupons, harvesting rent from farms they gave up generations ago? In any case, conditions in China's rural areas are changing rapidly and new policies could scarcely be put off much longer. Most young farmers have already left the land, and most rural income is no longer derived from farming. Institutions must catch up with the changed rural reality, and this new policy created a space for compromise that allowed consensus among policy elites. Leftist opponents of market-oriented reform will, of course, continue to oppose such measures.

The Beijing APEC Meeting: Launchpad for a Cluster of Trade Reform Measures

China hosted the APEC Leaders' Summit November 9–12, 2014. This highly orchestrated event produced many newsworthy outcomes, including "APEC Blue" artificially fair skies, a handshake between Xi Jinping and Abe Shinzo, and agreement between China and the United States to jointly tackle climate change. In his opening remarks, Xi made a ringing statement that "openness brings progress, closure leads to stagnation."[17] Clearly in such a highly scripted environment, we should be cautious in interpreting the various economic agreements and policy demarches that are timed to produce positive news when world attention is focused on China and on Xi Jinping in particular. Even so, the externally oriented initiatives announced at the time of the APEC summit were cumulatively important and add up to a substantial reform package.

Pride of place should go to the two free-trade agreements (FTAs) that received the final impetus toward completion around the time of the summit (and which have since been initialed and await ratification). The Korea-China FTA is admittedly a relatively "low-level" FTA, meaning that many products are excluded and phase-in times are relatively long (20 years in some cases). Nevertheless, given the close interactions between the two economies, it will still have substantial impact.[18] The Australia-China FTA is arguably of even greater long-term significance. It is a "higher-level" FTA, meaning that it extends to more service sectors, and includes significant provisions for regulatory harmonization and dispute settlement. Moreover, China granted Australia "most favored nation" status in the agreement, meaning that any further concessions made in other trade pacts will be automatically extended to Australian firms.[19] Indeed, the very fact that the two FTAs are so different means that they (along with agreements with Hong Kong and Taiwan) will push China towards greater openness. Sensitive Chinese sectors such as finance and agriculture will face increased competition. The significance of these agreements was underlined when the commerce minister announced at his March 7 press conference at the National People's Congress that the top priority for 2015 would be upgrading the existing China-APEC FTA and then on pursuing the China-Korea-Japan FTA, which had been set aside recently due to political tensions among the three.[20]

On November 17, 2014, five days after the APEC summit concluded, the Shanghai-Hong Kong Stock Connect opened. This is a program that allows investors in each locale to purchase stocks in the other market through registry companies in their home market. There are no restrictions on participants in Hong Kong, so foreigners can take part (PRC participants must have a minimum balance of 500,000 RMB).[21] This program effectively doubles existing quotas for foreign investment in the Shanghai market; more fundamentally, it means that for the first time a foreign individual can purchase individual stocks on the Shanghai market. Moreover, as regulatory approvals fall into place, it allows direct purchase of mutual funds, ETFs, and other synthetic products. It is an important step in the steady but slow opening of China's capital market.

Immediately after the APEC summit, an effort was launched to reaffirm and expand the Shanghai Free-Trade Zone (FTZ). In January 2015, it was announced that a total of four FTZs (including Shanghai) would be in operation by March, with many of them expanded in size and scope. The Guangdong FTZ will cover around 120 square kilometers in the Nansha District of Guangzhou, the Qianhai District in Shenzhen, and the Hengqin District in Zhuhai. The Fujian FTZ will use its close links with Taiwan to develop cross-Strait trade and economic partnerships in producer services and high-end service sectors. The Tianjin FTZ is expected to play an important role in boosting economic integration given the free-trade agreement with South Korea. It will emphasize development in emerging industries, finance, and high-end service sectors. The four FTZs will share the same "negative list," due out by mid-year 2015.

Each of these steps is, in itself, limited. In each policy area, there have been shortcomings in policy design, and implementation has been far from straightforward. The FTZs, in particular, have been overly cautious and sometimes not very coherent, and the addition of three new FTZs is scarcely likely to change this. Nevertheless, the policies have a common ultimate goal and a cumulative effect. The intention is to gradually open markets for some high-level service sectors. The gradualist approach, in this case, is designed to give Chinese companies and officials experience that will make them more competitive. The experience sought is of multiple types: experience responding to the direct competition of foreign service providers; experience for Chinese firms of operating in a hothouse version of the international marketplace in the FTZs; and experience for Chinese regulators in operating in ways consistent with international practice. The first two types of experience are simply extensions of China's experience with WTO: Chinese firms learned quickly that they could compete with foreign companies. The final type of experience indicates China's will to consider broader trade agreements of the type exemplified by the Trans-Pacific Partnership (TPP), currently under negotiation between the U.S. and many of its Pacific trading partners. Whether China will ever participate in the TPP remains unclear; what is increasingly likely, however, is that China will either consider TPP or else pursue competing trade pacts that also involve some type of deep integration, that is, coordination of regulatory and other inside-the-borders rule-making. The measures taken after the APEC summit don't yet add up to a coherent path to this goal, but they clearly point to that aspiration, while also taking China a few steps in the right direction.

Related, but in a separate category, is the progress made at the APEC meeting on the Information Technology Agreement (ITA), which covers the duty-free import and export of information technology hardware. The U.S. and China announced a breakthrough in the breadth of coverage China was willing to accept. This is particularly important, because this is an area in which domestic interest groups in China are aligned with the highest state priorities of economic development and national security. The fact that the Xi government was willing to override some of those interests in pursuit of an agreement with the United States was an important signal about the way Xi views government techno-industrial policy and his willingness to modify it. At the same time, it also reveals the complexity and intractability of some of the issues. Despite the U.S.-China agreement, progress on ITA has remained stalled, ironically, by objections from Taiwan and Korea about some of the provisions. Overall, the market environment for U.S. high-tech firms in China has certainly not improved: indeed suspicions about cyber-security and espionage have contributed to a significant deterioration in relations and to much higher barriers to U.S. firms in Chinese technology markets than ever before seen.[22] Nothing could better illustrate the risks of the current stage of policy-making. On the one hand, the Chinese government has clearly taken steps toward accepting greater openness in the crucial high-level service sectors that will be the main focus of economic development hereafter in China (and in the world). On the other hand, increased emphasis on national security and heightened tensions with the United States threaten to overturn these steps and solidify a protectionist impulse that has been strong in recent years.

Is there a "Xi Model" of Economic Reform?

A number of important characteristic of the economic reform process under Xi Jinping are now emerging. While it may be premature to dub these a Xi Jinping model of reform, these characteristics are prominent enough, and surprising enough, to warrant an attempt to list them here. Determining whether this is a *good* model of economic reform must be deferred for a later effort. So far, Xi's economic reform efforts have been characterized by the following features:

1. Reform is top-down and enormous discretion is retained at the top.

In a sense, all of Xi Jinping's policies involve concentrating power at the top of the political hierarchy, and the emerging economic reforms are no exception. Economic reforms are thus part of a broader authoritarian reform project, designed to reinvigorate institutions and revitalize ideology, but with the unabashed goal of strengthening the system, which is intended to remain authoritarian. The authoritarian nature of the reform project inevitably spills out into some specific reform elements. This is most evident in the fiscal arena. Finance Minister Lou Jiwei is pursuing, with central support, a program that will restrict the heretofore freewheeling behavior of local governments, and will probably end up substantially reducing the financial resources available to local governments. Clearly, this implies that the central government will also take over additional expenditure responsibilities, which have not yet been delineated. Despite the lip service given to local experimentation in programs like the Shanghai FTZ, we are very far from the pattern in the early days of economic reform (in the 1970s and 1980s) in which bottom-up actions by newly empowered local actors were key drivers of the reform process.[23] So far, local governments are less actors and more acted upon, feeling the impact both of the anti-corruption campaign and of the economic reforms announced thus far.

2. There is *no* reform blueprint. Instead, there is a centrally designed set of institutions and processes that produce reform outcomes.

This second point may be surprising, given that even before his accession to power, Xi endorsed the idea that there should be a "top-level design" for economic reform, and the Third Plenum proclaimed that its overall reform program would be completed by 2020. However, the vision that is to be realized by 2020 remains extremely murky (for example, with respect to state-enterprise reform) and different groups within Chinese society have very different ideas about what it incorporates. To a certain extent, the absence of a reform blueprint follows from the top-down and authoritarian nature of the reform project. A clear reform blueprint would constrain the leader's options, and this would not be consistent with Xi's emphasis on maintaining initiative and discretion at the top. Instead of committing to a blueprint, Xi has established new organizations—headed by himself—that retain discretionary authority over reforms. The most important of these is the Comprehensively Deepen Reform Leadership Small Group (LSG), described in the previous issue of the *Monitor*. This group provides an institutional mechanism that ensures that political pressure is sustained and pushes reforms forward on multiple fronts. However, this leadership group doesn't publish, and probably doesn't possess, clear objectives for the final state of reform they envision. Instead, reforms are adopted "as they mature," according to procedures and criteria set in place by the top leadership. Thus, in an area like state-enterprise reform, which everybody agrees is important, but where there is no consensus about the objective, every indication is that it has been quite frustrating to the reform leadership.

The fact that there is no "top-level design" for reform is reflected in the fact that while the term itself continues to be used, it has inevitably been redefined. For example, Han Jun, a rural economy specialist recently elevated to be vice-head of the office of the Comprehensive Reform LSG recently declared that "a series of top-level design policies have already been announced in succession" (一些顶层改革的方案也已经陆续来发布), a conception which completely subverts the original idea of having a single top-level design for reform as a whole.[24]

3. Specific reform initiatives are likely to be uneven, abrupt, sometimes hasty, and unpredictable.

Progress in reform is likely to be surprisingly thorough and rapid in certain areas, because the foundation has now been laid for rapid movement. Clusters of achievement will emerge when complementarities among policies become evident (as is likely with financial opening and reform); when technocrats are allowed to take the lead, building upon earlier achievements; and in areas where the political commitment of top leaders, especially Xi, is concentrated on an area considered important for national prestige. Moreover, Xi's span of control is essentially unlimited: decisions of enormous complexity are being presented to him for final disposition on a daily basis. In this situation he will inevitably give preference to clear and quick decisions, which will sometimes be rushed. Conversely, difficult to predict economic shocks may shake the policy commitment to reform, if reforms are seen as risky or threatening to China's security. The unpredictability of economic reform stems from the fact that it is just one element in Xi's ambitious bundle of policy changes. Without doubt, in the long run, China cannot hope to be a great power without further economic reforms; in the short run, though, Xi Jinping has many other goals and will constantly be tempted to sacrifice economic reforms for competing objectives.

4. Important elements of the reform program will likely "fly under the radar."

Of the three areas discussed here, two have been discreetly underplayed by policy-makers. They don't make much of an appearance on the Third Plenum's declaration, and they haven't made much of a splash in the domestic or international media. Since these policies can be implemented top-down by technocrats, there is no need for the administration to mobilize popular support for them, and it may be easier to sidestep controversy and undercut opposition.

5. Economic opening will play an important role in the emerging program of reforms.

Xi's great power ambitions are clearly a major driver of his policy preferences, and this is true with respect to economic reforms as well. Thus, to a certain extent, the reform agenda is hostage to a reasonably open international economic environment, and cooperation as well as competition among rivals. There is a deep contradiction between the consistent nationalism of Xi's policy approach and a genuine opening. This contradiction is manifest in ideological and commercial arenas, but is currently most acute with respect to technology policy. Nobody can predict the ultimate outcome of these deep tensions and contradictions, which might persist for decades. An "external" economic or security event, or a sudden break by China from its recent more cooperative foreign policy positions, may push China policy-makers (that is, Xi) away from the reform agenda. Conversely, an improvement in global conditions will increase the attractiveness of a reform agenda that accepts greater integration with the world economy.

These five characteristics of the emerging Xi model should be considered very preliminary contributions to a discussion that will be ongoing for years. We can only begin to imagine what the implications will be. An authoritarian regime engaged in a vigorous reform project is very different from an authoritarian regime that is incapable of reforming itself, but it is also very different from a society remaking itself from the bottom up in a broad-based process of reform and opening. Both those distinctions need to be made. Xi's approach may be very effective for initiating reform, when the stress must inevitably be on overcoming interest groups and creating new alternatives. However, it makes obviously less sense as a strategy to consolidate reform, that is, to create new institutions that liberate the economy's productive forces, reliably restrain the hand of government, and contribute to the creation of a just, equitable and creative society.[25]

Notes

[1] Daniel H. Rosen, *Avoiding the Blind Alley: China's Economic Overhaul and Its Global Implications.* New York: Asia Society Policy Institute and Rhodium Group, October 2014. Accessed at http://rhg.com/reports/avoiding-the-blind-alley-chinas-economic-overhaul-and-its-global-implications.

[2] In other words, until about September 2014, one could reasonably argue that reforms were bogged down, because there were no unambiguous breakthroughs. For example, consider David Shambaugh's recent statement: "In November 2013, Mr. Xi presided over the party's Third Plenum, which unveiled a huge package of proposed economic reforms, but so far, they are sputtering on the launchpad.…overall, Mr. Xi's ambitious goals have been stillborn. The reform package challenges powerful, deeply entrenched interest groups….and they are plainly blocking its implementation." David Shambaugh, "The Coming Chinese Crackup," *Wall Street Journal*, March 6, 2015. Accessed at

http://www.wsj.com/articles/the-coming-chinese-crack-up-1425659198. Given the most recent developments, those views need to be re-assessed.

[3] State Council 国务院, "Opinions on Strengthening Management of Local Government Debt." (关于加强地方政府性债务管理的意见), State Council Document No. 43 of 2014 (国发〔2014〕43号), dated September 21, 2014; accessed at http://www.gov.cn/zhengce/content/2014-10/02/content_9111.htm.

[4] Han Ji 韩洁, Gao Li 高立, and He Yuxin 何雨欣, "Deep changes that affect the modernization of the nation's governance system—Minister of Finance Lou Jiwei explains the Overall Program for Deepening Reform of the Fiscal System" (一场关系国家治理现代化的深刻变革——财政部部长楼继伟详解深化财税体制改革总体方案), Xinhua (新华网), July 4, 2014; accessed at http://www.mof.gov.cn/zhengwuxinxi/caizhengxinwen/201407/t20140704_1108534.html.

[5] National People Congress Standing Committee 全国人民代表大会常务委员会, "Decision on revising the 'People's Republic of China Budget Law'," （关于修改《中华人民共和国预算法》的决定）, August 31, 2014; accessed at http://www.npc.gov.cn/npc/xinwen/2014-09/01/content_1877061.htm.

[6] Xing Yun 邢昀, "Zero Bailout Policy for Local Gov't Debt Leaves Doubts." Caixin English, October 9, 2014; accessed at http://english.caixin.com/2014-10-09/100736369.html. The Chinese version includes substantial additional content, "机构：中央不救助原则并非"不兜底"" Caixin (财新网), http://economy.caixin.com/2014-10-08/100735928.html.

[7] Investors often perceive bonds from local government funding vehicles as enjoying implicit government guarantees (although there is no legal basis for this belief). In some respects the State Audit Office contributed to this belief by providing an aggregate figure for debt for which local government bore contingent liability.

[8] Huo Kan 霍侃, "Detailed explanation of the new policy on local debt that rigorously separates old and new [debt]" (详解地方政府性债务新老划断新政), Caixin (财新网), October 22, 2014, accessed at http://finance.caixin.com/2014-10-22/100741364.html. Ministry of Finance, Department of the Budget, "Methods to inventory and classify the stock of local government debt and integrate it into budgetary management" (地方政府存量债务纳入预算管理清理甄别办法), October 23, 2014. Document number 351, accessed at http://yss.mof.gov.cn/zhengwuxinxi/zhengceguizhang/201410/t20141028_1154561.html.

[9] It was explicitly stated that Hainan's numbers would be subject to further review. Xing Yun 邢昀, "The balance of Hainan's local government debt is 171.9 billion RMB; It's the only province in the country reporting," (海南地方债余额1719亿 全国惟一公布), Caixin, February 12, 2015; accessed at http://economy.caixin.com/2015-02-12/100783743.html.

[10] The first question directed at Minister of Finance Lou Jiwei at his press conference at the National People's Congress was exactly this, whether there would be a big jump in local government indebtedness because local governments were shifting from minimizing to maximizing their debt statements. Minister Lou praised the questioner for his understanding of the psychology of local governments. "Minister of Finance Answers Reporters' Questions on Fiscal Work and Fiscal and Tax Reform" (财政部就"财政工作和财税改革"答记者问), March 6, 2015, Xinhuanet; accessed at http://www.gov.cn/zhuanti/2015qglhzb/zb06.htm. Also see Xing Yun 邢昀, "Ministry of Finance requires localities to self-audit their debt figures"

(财政部要求地方自查债务数据), Caixin, February 12, 2015, accessed at http://economy.caixin.com/2015-02-12/100783734.html. Yang Zhijin 杨志锦, "The results of the first provincial government debt inventory and reclassification are available" (首个省级政府性债务清理甄别结果出炉), *21st Century Economic Herald* (*21* 世纪经济报道), February 11, 2015; accessed at http://www.cs.com.cn/xwzx/jr/201502/t20150211_4645186.html.

[11] For example, in the pace and procedures through which rural land is converted to urban land. While pilot programs have begun in these respects, they are not particularly radical, even as pilots. See Li Yue 李乐, "Differences of opinion about the 'new land reform' still haven't been bridged over; Pilot programs of the Ministry of Land tend to be safe returning to conservative" (新土改分歧未弥合 国土部试点趋向稳妥回归保守), 中国经营报 (*China Business Journal*), February 13, 2015; accessed at http://finance.sina.com.cn/china/20150213/235621551500.shtml.

[12] Chinese Communist Party Central Office and State Council Office (中共中央办公厅、国务院办公厅), "Opinions on guiding the orderly transference of rural land management rights and developing appropriate scale management," (关于引导农村土地经营权有序流转发展农业适度规模经营的意见), November 20, 2014, Xinhua Newsnet (新华网); accessed at http://news.xinhuanet.com/politics/2014-11/20/c_1113339197.htm.

[13] Zhong Qing 种卿, "State Council issues document regularizing rural property rights exchanges; land contracting rights are not to be transferred" (国务院发文规范农村产权交易土地承包权不得流转), January 23, 2015, China Newsnet (中国新闻网); accessed at http://www.chinanews.com/gn/2015/01-23/6996832.shtml.

[14] Chinese Communist Center and State Council (中共中央、国务院), "Several Opinions on increasing the intensity of reform innovation and accelerating agricultural modernized construction" (关于加大改革创新力度加快农业现代化建设的若干意见), February 1, 2015; accessed at http://finance.sina.com.cn/china/20150201/190721447869.shtml.

[15] The relevant passages are 重点是抓紧抓实土地承包经营权确权登记颁证工作 (Section 22) and 抓紧修改农村土地承包 方面的法律，明确现有土地承包关系保持稳定并长久不变的具体实现形式，界定农村土地集体所有权、农户承包权、土地经营权之间的权利关系，保障好农村妇女的土地承包权益 (Section 28).

[16] The *Guardian* at least recognized that the No. 1 document had potentially newsworthy content, but unfortunately completely failed to see the significance of it. See Jonathan Kaiman, "China's urban sprawl raises key question: Can it feed its people?" *The Guardian*, February 15, 2015; accessed at http://www.theguardian.com/world/2015/feb/16/china-mega-airport-symbol-flight-agriculture-urbanisation. Kaiman reports of the No. 1 document that "its main targets read like a socialist-utopia checklist: modern, industrialised farms, clean water and soil, sophisticated rural infrastructure, and farmers prosperous enough that they won't abandon their fields. All are intended to improve China's food safety and food security situations; none came as a surprise." This is wrong in so many different ways it's hard to know where to begin. Mr. Kaiman also seems to be laboring under the bizarre misconception that the construction of a second airport near Beijing will threaten the food security of Beijing residents.

[17]Xi Jinping 习近平, "Seek sustainable development; jointly build the Asia-Pacific Dream"(谋求持久发展 共筑亚太梦想). Opening Speech at the APEC Summit, Beijing,

November 9, 2014; accessed at http://cpc.people.com.cn/n/2014/1109/c64094-25999796.html.

[18] "Korea-China FTA: 'Low-level' Agreement But Big Impact Expected," *Korea Economic Daily*, November 11, 2014. "Korea-China FTA Minimizes Shocks to Farmers and Fishermen in Both Countries," *Korea Economic Daily*, February 26, 2015; accessed at http://english.hankyung.com/news/apps/news.view?popup=0&nid=0&c1=01&newscate=1&nkey=201502260530411.

[19] This concession was not granted to Korea in the Korea-China agreement. John Garnaut, "Australia scores 'most favoured nation' provisions in FTA with China," *The Age*, March 13, 2015; accessed at http://www.theage.com.au/federal-politics/political-news/australia-scores-most-favoured-nation-provisions-in-fta-with-china-20150312-141w3o.html. On the China-Australia FTA, see Minister for Trade and Investment, Australia, "Landmark China-Australia Free Trade Agreement," November 17, 2014, accessed at http://trademinister.gov.au/releases/Pages/2014/ar_mr_141117.aspx. See also the various fact sheets on the agreement available at http://dfat.gov.au/trade/agreements/chafta/fact-sheets/Pages/understanding-the-agreement.aspx.

[20] "Minister of Commerce Gao Hucheng Responds to Reporters' Questions" (商务部部长高虎城答记者提问), March 7, 2015, Xinhuanet; accessed at http://www.gov.cn/zhuanti/2015qglhzb/zb10.htm.

[21] Shanghai Stock Exchange, "Definition and Development: Shanghai-Hong Kong Stock Connect," N.D.; accessed at http://english.sse.com.cn/investors/shhkconnect/introduction/definition/. See also the Wikipedia entry "Shanghai-Hong Kong Stock Connect," accessed at http://en.wikipedia.org/wiki/Shanghai-Hong_Kong_Stock_Connect.

[22] Jane Perlez and Paul Mozur, "In China, Suspicions Cloud Trade Dispute Involving Tech Companies," *New York Times,* February 27, 2015, accessed at http://www.nytimes.com/2015/02/28/technology/in-china-suspicions-cloud-trade-dispute-involving-tech-companies.html.

[23] For analyses of this early dynamic, see Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978–1993* (New York: Cambridge University Press, 1993); and Susan Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993).

[24] Han Jun 韩俊. "The State Information Office press conference explains Central Document No. 1 for 2015" (国新办发布会解读2015年中央一号文件), February 3, 2015; accessed at http://www.xinhuanet.com/live/20150203z/.

[25] For the distinction between initiating reform and consolidating reform, see Stephan Haggard and Robert Kaufman, *The Political Economy of Democratic Transitions*. Princeton, New Jersey: Princeton University Press, 1995, pp. 9–10.