After the Third Plenum: Economic Reform Revival Moves toward Implementation

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The Third Plenum basically fulfilled the expectations placed on it, as it responded adequately to the credibility crisis that confronts Chinese policy today. New challenges of interpretation and implementation now rise to the fore. With the creation and staffing of the Reform Leadership Small Group, the initial outlines of the implementation process are coming into view. These show continued strong commitment to the goals of economic reform, but significant risks of reform strategy and implementation persist.

Since assuming the top leadership posts in November 2012, Xi Jinping and Li Keqiang have consistently promised to revitalize economic reforms. As readers of this space know well, these increasingly emphatic promises have long pointed to a culmination in the Third Plenum of the 18th Party Congress, which took place November 9–12, 2013.[1] By conventional arrangement, the third plenary session of any party congress takes place a year after that congress is first convened, so the new administration has had a year to draw up a full economic program. Partly for this reason, past third plenums have presented important resolutions on economic reform, particularly those in 1978, 1984, and 1992. This in turn raised expectations for last year's third plenum, particularly given that the Communist Party increasingly seeks to propagate and maintain its own rituals and precedents. For all these reasons, the Third Plenum meant that the pressure was on the Xi-Li leadership to deliver. Generally speaking, they did deliver. The Third Plenum Resolution was a huge, sprawling, impressive document. It altered the political environment, changed the sense of what was possible, and drew a clear line between the old Hu-Wen administration and the new Xi Jinping administration. In the following, the main achievements of the Plenum are described, and the initial steps—and challenges—of implementation are discussed. In ways that we are just beginning to fathom, China in 2014 is very different from China in 2012.

The Run-up to the Third Plenum: Policy-Making in a Low-Credibility Environment

The Third Plenum faced a historic challenge: to begin concrete movement in the direction of market-oriented economic reform; to restore credibility to the reform commitment; and to begin building momentum for further reforms. The importance of the Third Plenum and its resolution can only be understood within the context of policy-making in a low-credibility environment. The stagnation of market-oriented reform since 2003 has been accompanied by continued proclamations of allegiance to the ideal of reform, and repeated declarations by top leaders that they intend to push reforms forward. But in fact, over the past decade, little has happened. In the popular mind, the most common explanation for this failure is that government policy has been completely captured by interest groups. Skepticism about reform—based on the resistance of entrenched interest groups—is widespread. Oddly, increasing skepticism and loss of credibility within China has occurred just at the time when past Chinese economic performance has been so outstanding that China's economic emergence has finally been imprinted on the public consciousness outside China.[2]

The plenum itself was a milestone in a prolonged process of restoring some credibility and momentum to market-oriented economic reform. The plenum was the crucial point at which signaling of reform intentions had to begin to be translated into concrete policy steps. Did the plenum succeed? In a word, yes. Although it is just one step in a chain of events, it is an important step, and it achieved about as much as could be expected, and perhaps a bit more than was expected.

Confronting the Credibility Crisis

Crucially, the Plenum can be seen to have directly confronted and addressed the credibility problem through its final "Resolution." In five ways, the Plenum Resolution was designed to demonstrate a credible leadership commitment to a renewed reform process:

> *Scope* The resolution followed a kind of "shock and awe" policy, designed to impress through the sheer breadth of the undertaking. The measure was organized around 60 articles, but each article in fact contained several specific policy initiatives, so there were in total well over 300 different policy initiatives.[3] Economics was clearly the focus, and even those policies described under the broad rubrics of politics, culture, or society were in their actual content primarily economic. However, important measures were taken outside the core economic areas, including relaxing birth control policies and setting up a national security leadership group. The leaders demonstrated that their ambitions were broad, and that they could make all the relevant constituencies sit up and take notice, while also generating some quick headlines.
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> *Observability* The resolution, while not very specific, has none of the airiness and vagueness of many party documents. In fact, even though no policy is described in detail, many of the policies put forward are quite concrete and observable (but of course need to be fleshed out and put into operational form). There are many examples, but the most obvious is the statement that state-owned enterprises will by 2020 turn over 30 percent of their profits to the state, with an increased portion to be used for social services. Such a precise statement sits rather oddly with the tone of the rest of the document, but it makes sense because its inclusion is designed to show concrete deliverables that can be easily monitored from the outside. This fits the principle that if you wish to make a declaration credible, you should provide specific observable benchmarks.
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> *Does not evade difficult areas* The resolution does not display a pattern of avoiding difficult areas. State-owned enterprises are treated in detail, and while there is no resort to the dread "P" word (privatization), the document puts forth a series of important and detailed measures for getting state-enterprise reform off dead zero. Similarly, the resolution directly confronts the issue of land rights with

a series of concrete, incremental proposals. Although the overall outcome is less successful than that for state enterprises, the problem is at least placed front and center and given the attention it deserves.

Personalized Xi Jinping has personally claimed the Third Plenum output as an expression of his leadership. As a result, his personal credibility and, indeed, his power are now linked to the further implementation of this resolution. Xi's insistence on his personal role was quite remarkable. Immediately after the plenum, an account of the drafting process of the document was published, which gave Xi a predominant role, mentioning his name 34 times, and stressing that this was the first time in the current century that the first party secretary had personally chaired the writing group.[4] Xi's own account to the plenum also gave particular prominence to his own role, although he at least acknowledged that Liu Yandong and Zhang Gaoli were vice-heads of the drafting group.[5] A substantial excerpt of Xi's speech to the plenum was published.[6] Nor has this flood diminished: At the end of February, a long account of Xi's contributions to economic policy and discourse was published in *Liaowang*, the official weekly, and reprinted in all official media.[7]

Authoritative implementation The resolution announced the formation of a new Communist Party Central Leadership Small Group for the Comprehensive Deepening of Reform. This indicates that a powerful group, ranking above even government ministries, and chaired by Xi Jinping himself, will have responsibility for the design, coordination, and implementation of the reform process. This furthers the personal linkage between Xi and the reform process, and also provides a powerful instrument to ensure that reforms actually get implemented. The resolution emphasizes that the leadership small group will have responsibility for "comprehensive design, all-inclusive coordination, overall progress, and supervision of implementation." (58.1[8])

Not a Blueprint: A Vision Statement plus a To-Do List

While the Plenum Resolution was an important step in a process of revitalizing reform, it is not in itself a "reform blueprint" or a plan for reform through 2020. In some respects, this was a letdown, since the November 2012 Party Congress had specifically called for a "top-level design" for economic reform.[9] The major elements in the program are not tied together very well; there are no concrete institutional changes indicated; and there are no clear priorities. Much of what is in the document is problem-driven, an accounting of things that need to be fixed. These are grouped into plausible clusters, in which the relation between several policies is apparent, but the leadership can still presumably elect to tackle none, some, or all of the clusters as it chooses. However, there is also a vision: somewhat abstract, somewhat distant, not explicit enough, but a vision nonetheless.

The Vision Statement

The resolution emphasizes, and returns repeatedly to, the need to redefine the relationship between government and market, and to reduce direct government intervention in the economy. "Economic system reform is the crux of comprehensively deepening reform, and the core question is the relationship between government and market, allowing the market to play the decisive role in resource allocation, and to better bring into play government's role" (3.1). In order for this to happen, "government will greatly reduce its direct allocation of resources" (3.3), reversing the current situation of government that "intervenes too much, and doesn't regulate effectively" (3.2). This "vision" informs the entire resolution.

In line with the impulse to provide concrete counterparts to abstract principles, the resolution repeatedly proposes the adoption of "negative lists" (负面清单), in which everything not on a list is permitted, and only activities or sectors explicitly named are placed off-limits to domestic private or foreign-invested businesses. Widespread adoption of a negative list system would amount to a dramatic reversal of the current Chinese system, in which no one can presume the right to do anything that is not explicitly authorized. The negative list approach is a staple of international agreements today, for example in bilateral investment treaties, in which nations generally agree to accord national treatment to the other country's companies except for specified exclusions. The resolution proposes a unified system of market entry, with every domestic actor having equal, legally protected access to sectors not on a negative list (9.1). It then proposes "exploration" of a system in which foreign businesses would enjoy pre-establishment national treatment plus negative list management (9.2). The resolution endorses the Shanghai Free Trade Zone, where the negative list is already being put into experimental implementation (24.3). In a further extension of this principle—which may be a bit of a stretch—the resolution suggests that local governments and functional departments specify their powers and scope of operations, in order to provide legal transparency of government operations, and eschew operations outside their declared scope of operations (35.4).

In the penumbra of the resolution's vision of limited government is a tentative endorsement of a broad, but still undefined, notion of a "national governance system" (国家治理体系: 2.1). The term "governance" appears 24 times in the resolution, referring not only to government and corporation, but also to social organizations and nonprofits. Some optimistic Chinese analysts consider the emphasis on governance to be the most positive aspect of the resolution, arguing that it opens up more space for relatively autonomous social organizations and less-intrusive government control.

The To-Do List

The to-do list laid out by the resolution is extraordinarily large and, indeed, daunting. It consists of enough different policy initiatives that it is impossible to adequately summarize them in this limited space. However, we can flag a few key clusters of policy proposals, which we might label "action areas."

State-owned enterprises One of the most important policy clusters in the document is that relating to state-owned enterprises (SOEs) and the ownership system. The resolution does not mount a frontal assault on the state ownership system, and indeed makes it clear that the Chinese state will remain a large wealth-holder. However, the resolution calls for reviving stalled-out reforms in the state sector, and moving toward a system of mixed ownership in which the government would manage enterprises as a wealth-owner, rather than as a direct executive.

- Complete the long-overdue conversion of SOEs into “modern enterprises,” that is, joint-stock companies with up-to-date corporate governance (7). This conversion was mandated in the Company Law of 1994, and 20 years later is still incomplete.
- Develop mixed-ownership systems, including allowing (exceptional) cases in which private parties take controlling stakes in existing state enterprises (6; 8.3).
- State ownership should transition from “asset management” to “capital management,” that is, a kind of arm’s-length wealth management (6.5). This could imply a kind of portfolio management by sovereign wealth funds: several separate state investment funds should be established, and some state capital should be transferred to the social security fund (6.5, 6.7). State enterprises should increase the share of after-tax profits they turn over to the government budget to 30 percent by 2020 (6.8).
- The monopoly privileges of state enterprises should be reduced as much as possible (7.3–7.5; 10.2).

Integrating China’s existing dualistic society and economy by closing the divide between urban and rural In this area, the resolution offers few unambiguous breakthroughs, while suggesting numerous relatively modest, incremental measures designed to reduce barriers and expand the rights of rural people.

- Incremental changes to the land-management system would allow rural land already converted to non-agricultural business uses to be fully developed (11.1), thereby creating limited competition with local government land monopolies; and would increase the revenue that farmers derive from requisitioned land as well as improve requisition procedures (11.3, 11.2). Legal and regulatory meaures would improve individual household property rights in rural land, and create better-functioning markets for rural contracted land (21.2)
- The urban housing and social insurance systems should be steadily expanded in the direction of full coverage of rural-urban migrants (23.8).

Fiscal system The section on the fiscal system does not lay out a comprehensive restructuring of that system, but does suggest a few important principles for coming changes. The central government should take over some additional expenditure responsibilities from local governments in order to better balance central-local relations (19.1), and the system of intergovernmental transfers should be revamped to provide greater simplicity, transparency, and predictability (17.5–17.7).

Banking and finance The section on the financial system is bold and broad, but contains little that is new. China should develop capital markets and direct financing of businesses (12.3) and specifically should allow companies to list on the stock exchange if they meet regulatory requirements [rather than being constrained by arbitrary quotas and approval processes] (12.3). Interest rates and the exchange rate should be liberalized (12.7); the capital account opened step by step (12.8); and financial innovation should be supported (12.6). These are bold measures that would be a major part of the resolution, except that virtually all of them have been previously incorporated into various government declarations, without producing dramatic breakthroughs. As a result, all these potentially momentous measures are squeezed into a single, rather brief, article.

Even this truncated version of the economic policy measures adumbrated in the resolution shows how potentially broad and sweeping they are. Obviously, not everything on this "to-do list" will get done.

Implementation: Three Risks

It is often said that implementation of reforms is "the hard part." This is of course true, but the very real challenges of implementation should not lead us to underestimate the importance of a new declaration of goals in the Chinese system. Given the hierarchical political structure, the aggregation of opinion and the hammering out of a (sometimes forced) consensus is a crucial step in a protracted process of policy change. Once the process has resulted in an "apex document" that formalizes an agreement in principle, the hierarchical system will swing into action to propagate this agreement as the basis for concrete policy-making. In a way that would not be true in other political systems, the declaration of goals is the first step of the implementation process. We already see that political system beginning to be mobilized behind the Third Plenum Resolution.

However, precisely because the resolution is a vision statement and a to-do list, it is not "implementation ready." As mentioned above, the resolution does not specify priorities, organizational innovations, or the relationship among different policy measures. Thus, there is what we might think of as a strategic gap between the vision and the concrete measures laid out. The political system needs to fill in that gap by developing policies that are more practical and more robust. Currently, the political system is being put in motion in the hope that it can provide such proposals. We can best understand the process currently under way by analyzing three distinct ways it could fail, each of which sheds its own light on the current reform processes under way. The three risks are that the reforms will get bogged down; that the reform strategy will fail; or that reforms will be overtaken by events.

Will Reforms Stall Out?

For the last decade, most major economic reforms in China have simply stalled out. Ambitious programs have been announced—including the program announced at the Third Plenum in 2003—but little ultimately came from them. Clearly, the risk of getting bogged down is significant today as well. The agenda laid out in the resolution is vast, and there is virtually no prioritization. Perhaps Xi Jinping is trying to do too much, and won't be able to accomplish more than a fraction of his ambitious agenda.

The risk of reforms getting bogged down is particularly acute if the main obstacle to reform is seen as being entrenched interest groups. Interest groups everywhere defend themselves against reform with their detailed insider knowledge. They argue against specific reform provisions and erect roadblocks to simple and transparent policies. A reformist leadership spread too thin, doing battle with entrenched interest groups who fight over every minor concession, may simply not be able to advance at sufficient speed. This has been the predominant pattern of reform failure in recent years.

However, recent experience is unlikely to be an accurate predictor of the current experience. The steps taken in the wake of the Third Plenum are designed to mobilize political activity to overcome obstacles. The foremost step is the creation of the Leadership Small Group (LSG) to guide the process of Comprehensively Deepening Reform. The LSG is, of course, headed by Xi Jinping, a fact that was not formally announced until a December 30 meeting of the Politburo.[10] The membership of the LSG has not been officially published, but its members were shown when the television news broadcast the first meeting of the LSG on January 22, 2014. The camera repeatedly panned the meeting room, clearly showing two concentric circles with a total of 43 participants. An inner circle of 23 participants with "national leadership" rank included Xi Jinping, the head, and three vice-heads, all Standing Committee Members: Premier Li Keqiang, Liu Yunshan (propaganda "czar") and Zhang Gaoli (executive vice-premier).[11] In the outer circle, 20 additional members were shown, most of whom—perhaps all—have ministerial rank. The distribution of personnel is as broad as the ambition of the Third Plenum Resolution: Party is strongly represented, as well as government; military and propaganda have a place; legal affairs, discipline, and education are there as well.

Given this overwhelming breadth, it is not surprising to find the main LSG has established six specialized LSGs as subsidiaries. These six are far from equal, though: The responsibility of the first group includes reform of the economic system and the ecological civilization system (经济体制和生态文明体制改革), while the others have more conventional reform responsibilities: democracy and the legal system; the cultural system; the social system; the party-building system; and the disciplinary and inspection system. Arguably, about 60 to 70 percent of the Third Plenum Resolution would fall under the first of these specialized groups. Unfortunately, the membership of the specialized groups was not announced.

Equally as important as the membership in the LSGs themselves is their staffing, and in particular the body that provides the staffing services. LSGs are not part of the nomenklatura, so they do not have their own staffs, but must rely on existing party or governmental bodies to provide staff services. These bodies do most of the work of the LSGs, and the skill of their members can have a decisive impact on the ultimate outcome of the LSG work. It was not until late February that there was confirmation that the overall LSG Office would be located in the Central Party Research Office (中央政策研究室).[12] This was consistent with the prominent role played by party agencies in general in the LSG personnel lineup, and in particular of Wang Huning, the Politburo member who heads the Central Research Office. However, this also raises the possibility that the specialized Economic System and Ecological Civilization System Reform LSG will have a different office, which might be much more focused on economic issues and play a larger role in future economic reforms. It would not be surprising if the Office of this specialized LSG were formally placed in the NDRC and headed by Liu He, although this is purely speculation at this time. The fact that organizational arrangements are just emerging at the end of February indicates that it has taken three months just to get an administrative structure in place. These LSGs will now launch planning processes that are expected to continue through 2014 and most of 2015.[13] The work of finding a top-level design has just begun.

At the same time, though, the LSG structure has spread throughout the Chinese political system. Virtually every province is establishing a Deepening Reform LSG, typically headed by the provincial first party secretary, and with the governor as vice-head. In most cases, these LSGs are also staffed by the provincial Party Research Office, and headed by the secretary-general of the provincial party committee.[14] LSGs are being set up in cities and prefectures below provincial level. In the central government, ministries including the Ministry of Agriculture, SASAC, and the China Securities Regulation Commission are all setting up LSGs.

It is routine for localities to set up their own bodies to coordinate fully with agencies of the central government. But today this is occurring at a significantly higher level of mobilization, and with much greater policy uncertainty. Provincial party secretaries named to head the reform LSG are being given an obvious message: Your performance will no longer be judged primarily by your normal oversight of this province and its economic growth, but rather by your ability to create innovative reform experiments and transform the way business is done. Your "success indicators" have changed. This means that local leaders must achieve a difficult synthesis between the imperatives of the recent past—fostering GDP growth, raising revenues, and developing city centers—and the announced new imperatives of reform, balance, environmental improvement, and clean and honest living. Combining these multiple imperatives can take some ideological contortions. For example, the third-tier city of Xiangyang, in Hubei, launched its new reform and development objectives declaring it would:

> Find the golden balance point between pursuing development and creatively reforming . . . grasping the dialectical relationship between not going only for GDP growth and not forgetting about GDP growth.[15]

Leaders in the localities and in the bureaucracy are scrambling to develop reform initiatives, to demonstrate that they are on the same page as the new leader Xi Jinping and fully compliant with the new regime.

This stage of reform design and implementation is thus unfolding within a unique political context that Xi Jinping has created. Politicians and managers at all levels face a host of new pressures and uncertainties. Already pressured by the anticorruption campaign—which creates risks and subtracts perks—they also have to demonstrate reform creativity and sensitivity to the masses by accepting face-to-face criticism and adhering to the mass line. At the same time, Xi Jinping is stressing the importance of leadership, beginning of course with his own, but clearly signaling that lower-level officials are supposed to display leadership as well. An environment of heightened activity, competition, and feverish implementation is being created. Overall, this is not necessarily a good thing, but it can also be seen as an indispensable step, given the existing Chinese system, and one that substantially reduces the risk of reforms stalling out.

Will the Reform Strategy Fail?

A new type of tension is developing in the reform implementation process. The powerful Reform LSG is mobilizing politicians to carry out reform. But we should recall the "vision" of reform expressed in the Third Plenum Resolution. The clearest part of the vision is for government to withdraw from the direct allocation of resources, leaving it to the market. The current phase, in other words, is one of mobilizing to do less. Further, the pattern is one of mobilizing through Communist Party channels in order to ensure that the government does less. This is a peculiar approach to economic reform, and it might not work.

To be sure, there is a logic to it. This reform movement is informed by the idea that reducing market distortions will clear away entrenched interest groups. Reducing government administrative approvals will reduce distortions and delays and take away opportunities for corruption. Improving the land and fiscal systems will alter incentives that essentially force local governments to game markets. Energy and utility price reforms will diminish rents and push SOEs toward more fair market competition. With fewer protected market niches, governments and powerful individuals will have fewer opportunities for profiteering and for distorting policy implementation. In this sense, checking off lots of items from the to-do list will help move the economy toward the vision of a more efficient economy with government stepping back from the market. These moves are conceived of negatively, as removing actions and incentives that distort markets.

However, thorough reforms may require much more in the way of positive interventions. New institutions need to be created to ensure fair competition, and especially regulatory institutions. Without those institutions, the reform initiatives may not succeed. Distortions do not have to be very big to reward manipulation and interference. Governments that have discretionary power can wait out the current campaign against excessive administrative approvals, biding their time and looking for new opportunities. Without a robust program of institutional creation—which takes time—reforms may fail to fundamentally alter the relationship between government and the market. Party-led campaigns are not very effective ways to create stable incentives for fair and impartial institutions open to all. After all, effective impartial institutions need to be insured against party interference as well as government manipulation.

The reform strategy as it has evolved thus far provides lots of scope for local experimentation, and strong incentives to try bold new ideas. In that sense, relatively slow progress in developing a "top-level design" for reform has opened up space that is being filled by local experimentation. It is far too early to say whether this phase will last, or what will come from it. Perhaps the central Economic (and Ecological Civilization) LSG will quickly find traction and start producing reform blueprints. For now, however, the current febrile political environment creates the possibility that local governments will dream up innovative but unsound measures that will contribute to instability later on, and may have to be unwound.

Will Reforms Be Overtaken by Events?

The biggest risk for China's reform program is the same one that confronts China's economy more generally, the risk of financial disorder. In fact, in any economy, the link between financial liberalization and financial crisis is high. Financial problems are much more likely to erupt in the wake of a liberalization process. This is due to the difficulty of designing regulatory institutions and procedures appropriate to the specific practices of a given semi-reformed economy, and also to the difficulty of tracking information about innovative financing channels. Moreover, a scramble to take advantage of newly opening opportunities can create situations that quickly slip out of the control of existing regulatory agencies. These risks are present in China today.[16]

China may be particularly vulnerable. Credit growth has been extraordinarily rapid in China ever since the beginning of the global financial crisis at the end of 2008. For more than five years, credit growth has far exceeded the growth of nominal GDP: in 2013, total social credit grew by 30 percent of GDP, while nominal GDP only increased 10 percent.[17] This has created a large debt burden, particularly pronounced among the local government beneficiaries of stimulus, infrastructure, and housing investment. According to the latest data from the National Audit Office, as of June 30, 2013, local governments had 10.9 trillion RMB of debt, equal to 19 percent of GDP, and contingent liabilities up to 31 percent of GDP.[18] These are big numbers, and while they are not impossible to manage effectively, they present big challenges to China's financial and macroeconomic policy-makers.

A major contributor to the growth of overall credit has been the expansion of lending outside traditional bank loans, including bonds, entrusted loans, trust products, and bankers' acceptances. These products are to a certain extent the product of the reform agenda, since liberalization permits funds to flow into new channels, and diversification of the financial system is a fundamental objective of the reform process. However, this kind of liberalization and diversification also creates new demands on the regulatory apparatus, and must be handled carefully. So far, no trust product has been allowed to fail, even though they pay high interest rates and bear substantial risk. As liberalization proceeds, risk must be priced into interest rates, and this implies acknowledging defaults and allocating losses. This process is beneficial, but again must be handled carefully by regulators, reformers, and policy-makers.

It is likely that sometime in the next two years, the reform process will be disrupted and challenged by unanticipated events arising from the financial sector. How will the skilled technocrats in charge of the financial system respond? How will the political leadership respond? Will Xi Jinping be willing to back his finance technocrats as they ride through a period of economic turbulence and face down groups of disgruntled investors? Perhaps the greatest risk for the reform process is that it would be overtaken by unanticipated events of this type, which might cause the top political leadership to suspend their support for reforms.

Conclusion

From the perspective of economic reform, there is plenty of good news out of China in the wake of the Third Plenum. An impressive menu of reforms has been laid out, and the Chinese leadership has broken sharply with the stagnation of market reform that characterized the Hu-Wen years. While many worry that China's reforms will be still-born, or that foot-dragging on the part of entrenched interest groups will cause reforms to be bogged down, the argument developed here suggests those concerns are exaggerated. Such fears may be a case of generals fighting the last war: those were precisely the old problems associated with the previous administration.

However, there are plenty of new problems as well. Stated most broadly, China is using the Communist Party for a top-down mobilization of officials in order to make sure that China overcomes the reform stagnation trap. That opens up new risks, risks that ill-conceived programs masquerading as sustainable reform will be rolled out in many localities; risks that quick liberalization in some markets, especially financial markets, will lead to financial turbulence; risks that reform will lead to instability that will challenge the commitment of top leaders to the reform process.

China's reforms today are lacking an important component, namely, the need to develop and steadily empower the regulatory institutions that govern a market economy and a modern society. Only the very first steps of that process can be done by top-down mobilization; reformers must then promptly step back and allow new institutions to prove their worth, establish their credibility, and gradually become authoritative.

By the same token, China's reform process requires an intermediate step. In part, that intermediate step is simply the establishment of a set of crucial priorities, priorities that respond to immediate challenges, target key institutions, and help avoid the three dangers that confront reform. Such a prioritization should include the creation of an authoritative body that has the ability to restructure existing ownership arrangements. The need for such an organization is evident from two "directions": From the top down, China needs an authoritative agency to begin the shift of the national ownership system from "asset management" to "capital [or wealth] management." The existing State Asset Supervision and Administration Commission (SASAC) played a positive role in the past, but to become effective in the new era, it must become more active by being divided into three national sovereign wealth funds. On the other side, from the bottom up, policy-makers need a ready instrument that can intervene quickly and effectively in the event of financial disorder. Something like a National Wealth Task Force would provide higher priority for financial and ownership restructuring, focusing attention on a key area that will do much to determine the overall success or failure of reform. The Wealth Task Force would also concentrate policy-makers' attention on the crucial areas of the financial system that are most fragile, ensuring that policy-makers and regulators would have adequate policy instruments and time to address fast-breaking events. Thus, a National Wealth Task Force, divided into two parts, could reduce the risk of getting bogged down and the risk of being overtaken by events.

The Third Plenum laid down some impressive markers that could indicate a new departure for China. At the same time, the plenum is just one step in a protracted process of reinvigorating and implementing market-oriented reform. The Third Plenum moved the ball forward in ways that should be judged as highly positive, but there is still a great deal to be done.

Notes

[1] See, in particular, Barry Naughton, "Signaling Change: New Leaders Begin the Search for Economic Reform," *China Leadership Monitor*, no. 40 (Winter 2013). Accessed at http://www.hoover.org/publications/china-leadership-monitor/article/137931.

[2] Barry Naughton, "China's Economy: Complacency, Crisis & the Challenge of Reform," *Daedalus* 143 (2) (Spring 2014).

[3] The articles are numbered, but while the subsequent policy initiatives are not, most of them take up exactly one sentence. Note that even the choice of 60 articles can be taken as a statement that the resolution will be even more important than the "50 Articles" in the breakthrough 1993 Resolution of the Third Plenum (of the 13th Party Congress).

[4] Qin Jie 秦杰, Xu Jingyue 徐京跃, Huo Xiaoguang 霍小光, and Hua Chunyu 华春雨, "Let the banner of reform flutter high: Recording the birth of the Party Center Resolution on 'Several Questions of Comprehensive Deepening of Reform'" (让改革旗帜高高飘扬—《中共中央关于全面深化改革若干重大问题的决定》诞生记), Xinhua, November 18, 2013. Accessed at http://news.xinhuanet.com/politics/2013-11/18/c_118190755.htm.

[5] Xi Jinping 习近平, "Explaining the 'Party Center Resolution on Several Questions of Comprehensive Deepening of Reform" (关于《中共中央关于全面深化改革若干重大问题的决定》的说明), Xinhua 新华网, November 15, 2013. Accessed at http://politics.people.com.cn/n/2013/1115/c1001-23559327.html.

[6] Xi Jinping 习近平, "切实把思想统一到党的十八届三中全会精神上来," Excerpt of speech given November 12, 2013 at Third Plenum. Published January 1, 2014, *Qiushi* (求是). Accessed at http://www.qstheory.cn/zxdk/2014/201401/201312/t20131230_307508.htm.

[7] Qi Yiming 戚义明, "Stand on still higher points of the great enterprise of revival: Xi Jinping's important discourses on economic work since the 18th Party Congress" (站在复兴大业更高起点—十八大以来习近平同志关于经济工作的重要论述), *Liaowang Weekly* (瞭望新闻周刊), February 24, 2014. Accessed at http://www.lwgcw.com/NewsShow.aspx?newsId=34510.

[8] I have followed the convention of designating individual policy initiatives first with the article number, and then with its order in the specific series of policy initiatives under that article indicated after the decimal point. Thus, 9.1 indicates the first policy initiative under Article 9.

[9] The Party Congress resolution was echoing the Party Suggestions for the 13th Five-Year Plan, which included such a call. The inclusion of this statement in the Five-Year Plan Suggestions, in turn, was closely linked to Xi Jinping and his closest economic adviser, Liu He. See Barry Naughton, "Leadership Transition and the 'Top-Level Design' of Economic Reform," *China Leadership Monitor*, no. 37 (Spring 2012), pp. 2–4.Accessed at http://www.hoover.org/publications/china-leadership-monitor/article/116031.

[10] "Xi Jingping is the head of the Comprehensively Deepen Reform LSG" (习近平任全面深化改革领导小组组长), China Central Television News, December 30, 2013, accessed at http://news.sina.com.cn/c/2013-12-30/201729121817.shtml.

[11] The video is at http://news.sina.com.cn/c/2014-01-22/194929320209.shtml. The information from the video was conveniently expressed as a graphic by the staff of [Hong Kong] *Dagongbao*, called "Parsing the prestigious line-up of the Deepening Reform LSG from the actual scene" (实景解析中央深改组豪华阵容), accessed at http://news.takungpao.com/special/jxsgxz/. See also "The Central Deepening Reform LSG meets; Li Keqiang is vice-head" (中央深化改革领导小组召开会议 李克强任副组长), China News Net (Beijing) [中国新闻网 (北京)], January 22, 2014, accessed at http://money.163.com/14/0122/19/9J7FDU1U00254TI5.html; "Members of the Comprehensively Deepen Reform LSG; Responsible comrades from the Party Center and national government participate in the meeting" (中央全面深化改革领导小组成员，中央和国家有关部门负责同志列席会议), January 23, 2014, accessed at http://m.guancha.cn/politics/2014_01_23_201828.

[12] "The Office of the Central Deepening Reform LSG will be located in the Central Party Research Office" (中央深改组办事机构将设在中央政研室), *21st Century Business Herald* (21世纪经济报道), February 25, 2014, accessed at news.ifeng.com/shendu/21sjjjbd/detail_2014_02/25/34139906_0.shtml.

[13] Ibid. However, the staff of the Economics and Finance Leadership Small Group traditionally has responsibility for organizing the annual Economic Work Conference, which last year was wrapped up on December 13. The December Economic Work Conference took the baton from the Third Plenum Resolution and made a number of concrete reform proposals. This may indicate a substantial degree of continuity in the work of that LSG Office. Ding Jun 定军, "Comprehensive Deepening Reform LSG starts out red hot; Urbanization reform may be advanced most quickly" (全面深化改革领导小组热启动 或最快推进城镇化改革), *21st Century Business Herald* (21世纪经济报道), December 17, 2013, accessed at http://news.ifeng.com/mainland/special/ggldxz/content-3/detail_2013_12/17/32193186_0.shtml.

[14] "Many provinces are establishing reform LSGs" (多省份成立改革领导小组), *Xinhua Daily* (Nanjing) (新华日报 [南京]), January 2, 2014, accessed at http://news.163.com/14/0102/06/9HII224D00014AED.html; "Experts determine: Reform organs will be successively set up in localities" (专家分析：各地改革机构将陆续成立), China News Net (中国新闻网), January 1, 2014, accessed at http://news.dayoo.com/china/57400/201401/01/57400_110576191.htm; Xiao Ming 肖明, "Deepening Reform Offices are being set up more quickly below the provincial level; diverse features of localities are evident" (省以下深改办加速成立：地方特点鲜明), *21st Century Business Herald* (21世纪经济报道, February 21, 2014, accessed at http://news.ifeng.com/mainland/special/ggldxz/content-3/detail_2014_02/21/34026656_0.shtml; Wang Weijia王维佳. "Three models for staffing province-level reform office heads" (省级改革办主任的三种任职模式), [Hong Kong] *Dagongbao*, March 2, 2014, Accessed at http://news.takungpao.com/mainland/focus/2014-03/2314755.html.

[15] Xiangyang City Communist Party Commission (中共襄阳市委), "A decision on comprehensively deepening reform in order to make an effort to create a new situation of economic and social development" (关于全面深化改革努力开创经济社会发展新局面的决定),

resolution passed by Communist Party of Xiangyang at the Eighth Plenary Section of the 12th Party Congress, December 29, 2013, published January 2, 2014, accessed at http://www.xiangyang.gov.cn/news/xyxw/xyyw/201401/t20140102_477284.shtml.

[16] To a certain extent, financial problems may also appear after liberalization because the willingness to move to liberalization has been dictated by the buildup of problems that threatened to explode anyway under the unreformed system. This association may lead to an overestimate of the danger posed by liberalization itself.

[17] People's Bank of China, "Aggregate Financing to the Real Economy," accessed at http://www.pbc.gov.cn/publish/html/kuangjia.htm?id=2013s18.htm.

[18] The figures for total government debt (local plus central) were 36 percent of GDP in current debt and 53 percent of GDP in current plus contingent liabilities. National Audit Office, Results of the National Audit of Government Debt (全国政府性债务审计结果), December 30, 2013; accessed at http://www.audit.gov.cn/n1992130/n1992150/n1992500/n3432077.files/n3432112.pdf.