



World Economic Situation and Prospects

Weekly Highlight

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Economic reform a key destination in China's road map for deepening reforms

In November 2013, China unveiled a comprehensive road map for guiding its overall institutional reforms in the next decade. The road map delineated the goals, principles and strategies for economic, political, cultural, social and ecological reforms.

Economic reform, which China has gradually undertaken over the past three decades, remains at the core of this new stage of overall reform. The central issue to be addressed in these economic reforms, as highlighted by the road map, is the establishment of a proper relationship between the Government and the market: the market will play a decisive role in allocating resources through price signals and competition, while the Government will primarily be responsible for ensuring macroeconomic stability, providing public goods and services, safeguarding fair competition, regulating the market, and acting to remedy market failures.

While the road map reiterates the primary role of the state-owned enterprises (SOEs) in China's socialist market economy, it also emphasizes equal opportunity, equal rules and equal rights for non-SOEs in market competition with SOEs. The road map promotes development of mixed ownership, encouraging enterprises of different ownerships to cross-hold their shares.

In order for the market to play a decisive role in allocating resources, the road map aims to establish an open, transparent, rule-based, fair and competitive market system through reform of the regulations on market entry: the existing system, whereby the Government has defined a list of what enterprises can do, will be replaced by a system based only on a list of what en-

terprises cannot do. This will provide more freedom for enterprises and consumers to choose how they operate. The reforms will limit the Government's role in price-setting, so that it only determines prices for public goods and services, leaving the pricing power for other goods and services to the market. The road map has also charted plans for land reforms and reforms of the financial system—including reforms that will eventually lead to market-based interest rates and exchange rates—and a gradual opening of the capital and financial accounts.

The road map includes reforms to transform the Government's function by significantly reducing its direct involvement in allocating resources, ensuring that Government is more service-oriented, and strengthening the rule of law. The Government will enhance its role in macroeconomic management, but will cut its role in microeconomic supervision, such as approving investment projects, and limit its involvement to those strategically important projects. Budget reforms will be focused on promoting social equity, and will make the budget process more open and transparent. Tax reforms will adopt more direct taxes, and introduce property taxes, taxes for the use of natural resources and for protection of the environment.

Narrowing the urban-rural gap in development is also an important goal identified in the road map. Reforms in this area include a gradual removal of the administrative and social barriers separating the rural residents from the urban residents (such as the hukou system—a resident registration system separating rural from urban), protection of property rights for farmers, and the establishment of markets for trading these property rights.