# Push for pro-market reform after Chinese Communist Party congress

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The 18th Chinese Communist Party (CCP) congress, which concluded last week with the installation of a new leadership under incoming President Xi Jinping, has been the focus of calls by the international and local business elites for a further pro-market restructuring of the Chinese economy.

Former chairman of Morgan Stanley Asia, Stephen Roach, spelled out the agenda in a commentary entitled "Reform and Open Up" in the *New York Times* on November 8. "In deciphering the tea leaves from the congress," he wrote, "the key can be found in the script of Deng Xiaoping"—the late CCP leader who initiated capitalist restoration in 1978.

Roach explained that as the future of export-led growth was in question, China must carry out major reforms, especially to its remaining state-owned enterprises (SOE). Referring to the 1990s, he wrote: "The downsizing, consolidation and listing of SOE shares in world capital markets are the heart of China's new business ownership model." However, the past decade had seen stagnation in this process, which had "led to a renewed concentration of power in the state-controlled segment of the economy—at odds with the market-oriented system unleashed in late 1990s."

Roach called for the listing of the remaining shares in state-owned enterprises and "a level playing field" between state and private firms. Roach speaks for sections of international finance capital that are seeking to boost profits by gaining access to areas of the Chinese economy still dominated by state-owned enterprises. As in the mid 1990s and early 2000s, when up to 60 million workers lost their jobs, a new round of restructuring and privatisation will have devastating consequences for the Chinese working class.

In a similar vein, a Moody's Investor Service's report this week warned that without pro-market reforms to cut "inefficiency" in the state-owned banks and enterprises, "China's trend growth rate will likely slow more rapidly than otherwise." Its estimated growth rate for China was just 7.5 percent over the next two years—a sharp slowdown from an average of more than 10 percent for the past decade.

Last weekend, Li Jiange, the head of China International Capital Corporation (CICC), also called for a reduction in government intervention and the breaking up of state monopolies. He is vice chairman of the state-owned Central Huijin Investment, which holds stakes in major state banks.

Li was speaking at a conference in Beijing organised by Caixing Media, the country's leading business publication. The CICC was a joint-venture founded by Levin Zhu, the son of former Chinese premier Zhu Rongji, with Morgan Stanley in the 1990s. It rapidly emerged as China's largest investment bank by using its connections with Zhu senior to cash in on the wholesale restructuring of state enterprises. Clearly it is hoping for another lavish financial banquet.

Li said the "expectations are high" for the new CCP leadership to end government interventions, such as price controls, which have become "unbearable" for private businesses. "We need to review what the Chinese Communist Party decided 20 years ago: that is, to let market forces play a fundamental role in allocation resources," he said.

Li suggested that the new CCP leaders would be likely to implement such changes in late 2013. Li, who belongs to the Chinese People's Political Consultative Conference, explained the frustration among business leaders the body met recently: "They told us they don't have the willingness or guts to compete against state players in certain sectors because they have repeatedly had their fingers burnt. We must give private business equal treatment."

At the conference, economist Wu Jinglian and billionaire CCP member Liang Wengen both called for a greater role for private companies and the market. Wu is a senior research fellow at the Development Research Centre. The centre operates under the State Council, and collaborated with the World Bank in producing the *China 2030* report earlier this year which outlined a program of extensive privatisation and deregulation of the credit, land and financial markets. Incoming Premier Li Keqiang endorsed the report.

A US-based CNBC report last week pointed to the sweeping scope of *China 2030* in advocating the elimination of "entitlement" for the working class. "The document makes some extraordinary statements for a country that still describes itself as socialist. For example, early on in the report it states: 'China does not intend to fall victim to the 'high-income trap' whereby publicly financed social entitlements become fiscally unsustainable'."

After the last wave of pro-market restructuring in the 1990s, some 100,000 semi-privatised state enterprises remained, employing some 30 million people. Because of the rising export revenues, the Chinese government maintained SOEs to build infrastructure, power and telecommunications to enhance its "international competiveness" against emerging low-cost rivals in Asia and other regions.

The continued existence of state-owned enterprises became the basis for the various theories of so-called New Left academics and commentators who were critical of "neo-liberalism"—that is, unrestrained pro-market policies. They argued that a "state-led" capitalist economy would allow the creation of a welfare state in China financed by the "profitable" state sector, pointing to the "Chongqing model" of the city's former party chief Bo Xilai.

The fall of Bo amid a corruption scandal in March just after the release of the World Bank's *China 2030* report was not coincidental. It marked a definite turn by the dominant CCP factions against such experiments that had been rendered unviable by the slowing Chinese economy. The public disgrace and purging of Bo was designed to discredit any notion of social reform and, above all, send a strong message to international finance capital that the CCP would accelerate pro-market reform.

Despite continuing inner-party disputes over the detailed implementation, the CCP congress signalled a general agreement by the leadership on implementing a far reaching restructuring agenda. Incoming Premier Li told at a State Council conference yesterday: "We have to march on as there is no way back." Hinting at the dangers, particularly of resistance by workers, he added: "We are also aware that the current reforms have entered a 'fortified zone' and a 'deep-water zone'."