

MIZUHO CHINA MONTHLY

China's Economy

1

Deciphering China's "Fourth Plenum" Communique

- The principles and ideals of governance based on party guidance were reaffirmed-

December 2019 Edition

Mizuho Bank, Ltd.

China Business Promotion Department

- Executive Summary -

China's Economy

Deciphering China's "Fourth Plenum" Communique

The Fourth Plenum, an important meeting of the Communist Party of China, closed on October 31, 2019. Based on the theme of the modernization of “national governance system and national governance capability” to promote “socialism with Chinese characteristics,” the meeting placed emphasis on the leadership of the Party in China’s governance. As to the basic system of China’s economy, two elements—the principle of income distribution and a socialist market economy system—were added to the existing element of maintaining state-owned enterprises, suggesting that the importance of responding to income inequality and promoting marketization reform has increased. Regarding the worrisome matter of tensions with the United States, no significant change was seen in China’s stances taken in discussions thus far. Also, a strict attitude toward the issue of Hong Kong was announced. These issues will continue as concerning factors.

Deciphering China's "Fourth Plenum" Communique

The principles and ideals of governance based on party guidance were reaffirmed

**Yusuke Miura: Senior research officer
China Unit, Research
Department-Asia
Mizuho Research Institute Ltd.**

1. An important meeting of the Chinese Communist Party of China, the "Fourth Plenum," was held

On October 28-31, China held the Fourth Plenum of the 19th Central Committee Meeting of the Communist Party of China (CPC) (hereinafter, "Fourth Plenum"). While the Chinese economy has continued to decelerate since the spring of 2018, financial risk measures such as the deleveraging and tensions between the US and China, which served to cause the slowdown, have not yet been resolved. In addition, recently such issues as drawn-out demonstrations in Hong Kong have become protracted. All of these represent major challenges confronting the administration of Xi Jinping, now at the midpoint of its second term of China's leadership. Against this backdrop, there was heightened interest both inside and outside the country in what kinds of administrative policies, especially in the economic area, would be expressed by the Communist Party of China. ¹

In this paper, the "Decisions of the CPC Central Committee on some major issues concerning how to uphold and improve the systems of socialism Chinese characteristics and advance the modernization of China's system and capacity for governance" adopted by the Fourth Plenum (hereinafter, the "Decisions") will be introduced based on the outline given in the communique (bulletin) published after the conclusion of the Fourth Plenum and explanations at the press conference by the relevant departments of the Communist Party of China and others. ²

2. Key themes were "socialism with Chinese characteristics" and "modernization of China's system and capacity for governance"

(1) Reaffirming the principles and ideals of governance against the background of destabilizing internal and external situations

The most important point in the "Decisions," as the name suggests, is the emphasis on the persistence of the fundamental principle in governance of "socialism with Chinese characteristics." Based on this principle, this point highlights that the ideal way of governance in China is the "modernization of the national system and capacity for governance." These two key phrases were raised as the overall goal of the "Full Deepening of Reform" proposed at the Third Plenum of the Eighteenth Party Congress held in 2013 after the Xi Jinping administration ascended to power. Compared to reforms in individual areas of governance such as the economic field raised at the Third Plenum, the agenda at this year's plenum was closer to the essence of governance.

¹ After the start of each term of administration, at its first through third Central Committee meetings (plenums), the Communist Party of China often discusses administration policies such as party personnel, government personnel/organization and reforms mainly in the area of economics respectively, to decide a framework for policy management. However, after the start of the second term of the Xi administration, discussions on a constitutional amendment were held at the Second Plenum. As a result, discussions on government personnel and organizations were held at the Third Plenum, so discussions on administration policy remained unsuccessful. For this reason, there was a widely held view that at the Fourth Plenum, topics related to current policy issues, such as economic reform, would be discussed.

² The full text of the "Decisions" was published on November 5. It contains basic principles and specific priority implementation matters that should be maintained in a wide range of governance areas such as politics, economy, and society. At least in the economics area, it seems that keywords that have already been proposed in important documents and conferences have been included, but are not considered in this report.

One of the reasons why the principles and ideals of the governance system were discussed this time is believed to be the growing need for tightening the grip on domestic politics due to destabilization of the internal and external situations. After taking office, faced with a situation in which social dissatisfaction was likely to increase due to the economic slowdown, promotion of structural reforms and other factors, General Secretary Xi has been gradually stepping up his control over domestic politics, such as centralizing power in the hands of the CPC with Xi himself as the “core” and strengthening the Party’s influence on government administration through reform of the CPC and national institutions. Furthermore, as tensions with the US have intensified since 2018, demands placed on China that could undermine national sovereignty control in such areas as state-owned enterprises and revisions to the legal code and a slowdown of the domestic economy due to punitive tariffs against China have developed as problems. Since the beginning of 2019 new problems have arisen, such as prolonged demonstrations in Hong Kong triggered by proposed amendments to fugitive crime regulations. Through these “Decisions,” it is assumed that General Secretary Xi intends to grapple these difficult situations by reconfirming the policy of governance within the Party.³

(2) Positioning the leadership of the Party at the core of the governance system and prescribing legislation, justice and administration

The communique said that the system of socialism with Chinese characteristics and national governance system are “systems with strong vitality and huge strength. These systems are able to push for the continuous progress of the country with nearly 1.4 billion people,” and emphasized that these are indispensable for the governance of China, a great power.

Based on this, the 13 items in Figure 1 are a list of the systems that China intends to uphold and maintain as an important mission for the future. At the top of the list is the “System of institutions for Party leadership,” which indicates that the Party is positioned at the center of the governance system. At the press conference held after the fourth plenum, this point was cited up front as the most prominent part of the new initiatives set out in the “Decisions,” noting that “It emphasizes the guiding role of the Party's leadership in the national governance system.” Within the scope of “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era” that was raised at the start of the second term of the Xi administration, “Ensuring Party leadership over all work” was listed at the top of the basic strategy and the idea that “The Party exercises overall leadership over all areas of endeavor in every part of the country” was highlighted. This time, it was emphasized once again that these concepts are at the core of the governance system.

Listed after “Party leadership” are the “System of institutions through which people run the country” as represented by the National People’s Congress and the People’s Political Consultative Conference, the “System of socialist rule with Chinese characteristics” and the “Government administration system of socialism with Chinese characteristics,” all of which stipulate the mechanisms related to the exercise of the major state powers of legislation, justice and administration. This contrasts with the fact that the economy was situated as the priority on the agenda at the 18th CPC Third Plenum, so it can be understood from this difference that the Fourth Plenum “Decisions” emphasizes the ideals of governance.

³ According to General Secretary Xi’s explanation, the importance of building a governance system was raised by Deng Xiaoping in 1980, who also noted in his 1992 southern tour speech the following: “We may need another thirty years to establish a set of more mature and settled systems in various areas.” The “Decisions” are part of this long-standing attempt to build a governance system.

Figure 1: Key Initiative Items at the 4th Plenum of the 19th CPC Central Committee and the 3rd Plenum of the 18th CPC Central Committee

4th Plenum of the 19th CPC Central Committee (October 2019)	3rd Plenum of the 18th CPC Central Committee (November 2013)
<ol style="list-style-type: none"> 1. System of institutions for Party leadership 2. System of institutions through which people run the country 3. System of socialist rule with Chinese characteristics 4. Government administration system of socialism with Chinese characteristic 5. China's basic socialist economic system 6. System to make advanced socialist culture 7. Livelihood system for protecting both urban and rural residents 8. Social governance system based on collaboration, participation and common interests 9. System for developing an ecological civilization 10. Party's absolute leadership over the armed forces 11. System of "one country, two systems" 12. Independent foreign policy system of peace 13. Party and state oversight systems 	<ol style="list-style-type: none"> 1. Upholding and maintenance of the basic economic system 2. Acceleration of the development of modern market systems 3. Acceleration of government role and functional changes 4. Deepening of the reform of fiscal and tax systems 5. Establishment of a unified system for urban and rural development 6. Construction of a new system for the open economy 7. Strengthening of the building of a socialist democratic political system 8. Promotion of the building of the rule of law in China 9. Restrictions on power management and strengthening of supervision system 10. Promotion of the renewal of cultural system mechanisms 11. Promotion of social business reforms 12. Renewal of social governance system 13. Acceleration of construction of a system for developing ecological civilization 14. Deepening of national defense and military reform 15. Strengthening and improvement of party leadership for deepening full-scale reform

Note: Translated by MHRI.

Source: Made by MHRI based on Xinhua News Agency

3. In terms of economics, three basic principles regarding public ownership, income distribution and a socialist market economy are highlighted

An economic point emphasized at the press conference was that a new element was added to the basic economic system that supports socialism with Chinese characteristics. In other words, in addition to (1) “the dominant role of the public sector and common development of economic entities under diverse forms of ownership,” which has been regarded as the basic economic system, (2) “distribution according to labor is dominant and a variety of other modes of distribution exist alongside it” and (3) “the synergy between the socialist system and the market economy” were upgraded to become part of the basic economic system according to the “Decisions.” Both (2) and (3) have been used as important concepts for the distinctive socialist economy of China for a long time. However, these concepts have now been positioned as the basis for various economic systems, and they will also likely define the direction of reforms of the system in the future.

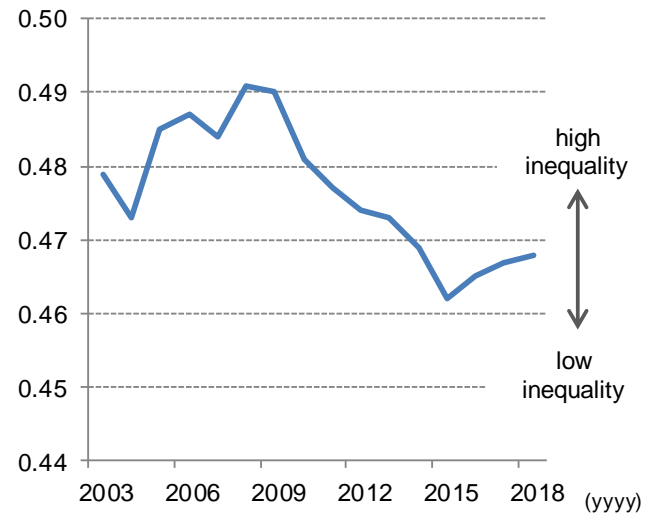
The idea of (1) is to promote the development of non-public economies such as private enterprises, while considering state-owned enterprises as the dominant entities in China's economic system. At the press conference, along with promoting the sound development of private enterprises, the policy to support state capital in becoming stronger, doing better and growing bigger was mentioned again, by strengthening the competitiveness of state-owned enterprises in the market through the reform of state-owned enterprises and the development of a modern enterprise system with Chinese characteristics.

Regarding (2), at the press conference, the idea of proceeding with “the need to increase the pie constantly and distribute it appropriately” and then “expanding the middle-income class, normalizing the income distribution order and forming

an olive-type income distribution structure (thickness of the middle-income class)” were presented. Growth has slowed in China, but at the same time the problem of acute income inequality has not shown sufficient improvement (Figure 2). This strong concern about the current situation has apparently led to making policy on income distribution a higher priority. Furthermore, as a factor that regulates income distribution in addition to work, data has now been newly added, alongside existing factors such as capital, land and knowledge. It is noteworthy that the expression of these ideas takes into account the trend of data resources becoming indispensable for future economic development.

Regarding (3), based on the policy proposed by the 3rd Plenum of the 18th CPC Central Committee Meeting that “markets play a decisive role in resource allocation and make governments better,” the idea of proceeding with “strengthening the protection of property rights, intellectual property rights and enterprises' trade secrets, promoting the construction of the factor market, strengthening the competition policy, carrying forward the development of advanced manufacturing, revitalizing the real economy, improving the system of scientific and technological innovation, and elevating new institutions of the open economy to a higher level” was presented at the press conference. Although continuous attention needs to be paid to the realities of reform and the pace of progress, it appears that there is an awareness that “marketization” is becoming more important for the Chinese economy.

Figure 2: Gini Coefficient for China



Source: Made by MHRI based on data from the National Bureau of Statistics of China and CEIC data.

4.Strengthen governance while emphasizing expansion of social policies to maintain social stability

From the perspective of maintaining social stability, the communique describes a policy of preventing and eliminating social dissatisfaction through social policies while at the same time strengthening management to prevent social dissatisfaction from causing social unrest.

For example, with regard to social policies, “Upholding and improving the livelihood system for protecting both urban and rural residents and working to meet people’s ever-increasing needs for a better life” is stated. In the economic field, abstract principles were emphasized, whereas in this policy relatively specific fields such as education, labor, medical care, nursing, housing, and socially disadvantaged people are listed. As one important issue of future governance, the expansion of public services related to these fields will likely continue to be a focus. In addition to the (absolute) poverty eradication policy currently underway,⁴ a policy to establish long-term mechanisms for resolving relative poverty that reflects the growing awareness of the problem of income inequality described above is also mentioned.

On the other hand, following social policy, “while upholding and improving a social governance system based on collaboration, participation and common interests, maintain social stability and protects national security” was

⁴ Per capita annual net income of less than 2,300 yuan based on 2010 price reference levels.

emphasized. “Support for science and technology” is mentioned in the development of the social governance system, and the development of a public security management system that utilizes technologies such as AI, big data and facial recognition is likely to see further advances in the future.

5. Attitudes regarding tensions with the US and the Hong Kong issue remain unchanged

With regard to the current issues of tensions between the US and China and the disturbance in Hong Kong, the contents of the communique suggest no change in policy that can be expected to bring about prompt resolution of these problems, and that they will remain as worrisome matters in governance.

Regarding tensions between the US and China, “upholding and improving an independent foreign policy system of peace” was expressed, and “to safeguard China’s sovereignty, security and development interests” was emphasized. As stated in section 2, in the US-China talks process, China’s loss of its sovereignty led to China’s rebound, and it can be said that China has made clear that it will not yield in this regard. Meanwhile, as introduced in section 3, the economic field will see opening to the outside promoted and intellectual property protected, but the position of state-owned enterprises will continue to be maintained. This is no different from China’s previous stance in US-China talks. Currently, US-China talks toward the realization of partial agreements are accelerating, but it is expected that tensions will continue over the long term.

Regarding policy toward Hong Kong, in the section under “upholding and improving the structure of the system of ‘one country, two systems’,” the policy statements of “control based strictly on the constitution and basic laws in the Hong Kong and Macau Special Administrative Regions” and “establishment and improvement of legal systems and enforcement mechanisms for national security protection in the special administrative regions” reveal that a strict attitude toward the long-lasting demonstrations in Hong Kong continues. Even at the press conference, the ideas that ““one country” is the premise and foundation for the implementation of the “two systems”” and “remaining committed to the policy of Hong Kong people governing Hong Kong with patriots playing the principal role” were stressed to serve as a check on the demonstrators protesting against the Hong Kong authorities and the Chinese government.

6. China's search for ideal governance should continue

As seen from the above, the “Decisions” is a document to renew China’s determination to promote socialism with Chinese characteristics under the rule of the Party’s strong leadership. This is the “Political Declaration & Code of Conduct” (press conference explanation) regarding future domestic governance. The movement to concentrate power at the center of the Party with General Secretary Xi as the “core” and the tightening of the domestic system by strengthening the leadership of the Party is different in direction from the totalitarianism that, after China’s reform opening in 1978, gradually progressed throughout the previous administration of Hu Jintao, to the transition now to authoritarianism. However, it can be regarded as an inevitable change as the internal and external situations undergo destabilization as described in section 2.

However, as mentioned in the communique, the importance of “meeting the diverse needs of people at multiple levels” will increase in the future. Given such circumstances, the search to find “a way to sustain a unified politics of one-party rule in a multi-dimensional society” is still underway, as pointed out by Prof. Tomoki Kamo of Keio University.⁵ In

⁵ Kamo, Tomoki, "Kyosan-to ittou shihai ha 'kyoujin' de aritsuzukeru noka (Will the Communist Party's One-Party Rule Continue to be

the “Decisions,” the top-down management of the Party is strongly emphasized, but in practice it will be an important task as to whether the Chinese government is able to build a bottom-up mechanism that can understand the will of the people and reflect such will in policies more efficiently. In addition, the improvement of productivity, which is indispensable for maintaining stable economic growth over the long term, is being carried out through the reform of state-owned enterprises that are stipulated as playing the leading role in China's economic system and market reforms under the socialist market economy system, which will be necessary to continue to evaluate whether to be realized.

In the description of the “Decisions” that was published in conjunction with the full text of the “Decisions,” General Secretary Xi observes that while reform efforts have made steady progress, he recognizes that there are “tasks that haven’t been finished yet or that take a considerable amount of time to implement.” China’s search for governance will continue for a long time.

Caution

1. Legal or accounting advice: The information included in this material does not contain any advice on respective professional advisors.
2. Confidentiality: The information included in this material is disclosed to you on the premise of your confidentiality obligation and should be used for internal purposes only. The disclosure of the contents herein to a third party is prohibited.
3. Copyright: The copyright of the information included in this material belongs to the bank, in principle. You are prohibited to make a copy of, make a reproduction of, quote, reprint, translate, loan, or in any way exploit the content of this material in part or in whole, by any means, for any purpose, without our permission.
4. Indemnity: The information included in this material has been obtained from various sources that the bank believes are reliable. However, the bank does not guarantee its correctness, trustworthiness, or integrity. The bank shall also not be liable for any damage, whatsoever, arising from this information.
5. This publication is not deemed to constitute advice, solicitation, or a recommendation to sell financial assets.
6. This document is a translation of the Japanese original, and the original will take precedence in the event of any difference between the two versions.

'Strong?')" (in Japanese), International Affairs (October 2019)