

# China vows to unleash deep market-oriented reforms in new policy directive as economic uncertainty grows

Saturday 11 April 2020, by [TANG Frank](#), [WANG Orange](#), [XIN Zhou](#) (Date first published: 10 April 2020).

*The Chinese Communist Party has vowed to deepen market-oriented reform in key sectors of the economy, from land management to labour.*

*Policy comes as China faces increasing headwinds, including the possible realignment of global value chains after the coronavirus pandemic.*

China has vowed to further liberalise its economy from land to labour in a new reform paper, as the country readies itself for an increasingly uncertain outside world.

The new policy guidelines, released by the Communist Party Central Committee and the State Council on Thursday, aim to facilitate the flows of “*production factors*” – namely land, labour, technological knowledge, capital and data – by letting the market rather than the state decide where resources should go, according to the official Xinhua news agency.

China will ensure different market players have “*equal access*” and seek efficiency by following “*market rules, market pricing, and market competition*”, according to the new policy guidelines, which still need to be passed into law.

**Publication of the policy blueprint comes as Beijing’s commitment to market-oriented reforms is meeting suspicion at home and abroad**, and China’s four-decade long growth miracle loses its shine as **the country hurtles towards its first economic contraction since 1976 due to the coronavirus outbreak**.

Zhou Li’an, professor of applied economics at the Guanghua School of Management at Peking University, said the new guidelines could clear up doubts about the fate of China’s future economic direction, including whether it can “*continue to maintain growth*”.

*“To cope with the huge uncertainty in the external environment, China needs to open up fresh growth potential and unleash the ‘reform dividend’,”* said Zhou, referring to the potential improvement to growth after institutional barriers are removed.

## Land reform

A key area of reform will be in China’s rigid land management system.

While the new directive does not grant land ownership to peasants, it promises that rural land not being used for farming can be traded, and farmers can gain more from land deals.

China will also create a nationwide land quota exchange system among different provinces so that developed areas and cities can use more land for development.

## Migrant chinese workers

The new directive also stipulates that all Chinese cities, with the exception of a few major metropolitan areas, should allow domestic migrants to register for residency and offer new migrants equal access to public services, from education to health care.

**This is a step closer towards fully dismantling China’s house registration system**, which

controls access to public services based on the birthplace of the **hukou** registration document holder and can be traced as far back as two millennia.

### **Market-based exchanges**

In addition to land and labour reform, Beijing also pledged to promote market-based exchanges of capital, technology and data, while reiterating earlier promises such as making the yuan a convertible currency.

Analysts said the promised reforms, including freeing up domestic migration and ensuring capital flows to the most efficient sectors, could unleash growth in China's US\$14 trillion economy.

### **A possible realignment of global value chains**

That potential comes at a time when China is facing significant long-term headwinds, including the possible realignment of global value chains after the coronavirus pandemic that could weaken the nation's position as the world's factory floor.

Lu Zhengwei, the chief economist of Industrial Bank in Shanghai, said the promised liberalisation could *"create a new round of long-term economic boom"* with the effects rivalling China's former paramount leader Deng Xiaoping's decision in 1978 to embrace *"reform and opening up"*. *"The effects of stimulus measures will be short-lived, but the effects of reform measures can be long-lasting,"* Lu Zhengwei wrote recently.

China's major trading partners have long complained about its state-led economic model, which includes the presence of large state-owned businesses in key sectors.

After signing a phase one trade deal with China in January, US President Donald Trump said he wanted phase two talks to cover the thorny issue of state-sector reform in China.

### **Reform of state-owned enterprises?**

The new policy directive reiterated previous commitments made by China to deepen reform of its state-owned enterprises, including ushering in a more flexible system of hiring and compensation. It stressed that enterprises under different ownership models would have the same access to resources, which is similar to Beijing's argument that China's state companies and private businesses can compete fairly.

### **Freer market at home?**

Liberal Chinese economists and private businesses are also advocating for a freer market at home and hope Beijing will fulfil a promise made in 2013 to let the market play a "decisive" role in the allocation of resources.

Economists Hua Changchun and Zhang Jie, from Guotai Junan Securities, one of China's largest investment banks, said the liberalisation process would be slow but it would create *"long-term reform dividends"* for China.

*"The release of the paper ... shows that Beijing is still committed to [pro-market] reforms,"* they wrote in a note.

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[https://youtu.be/Nb6T\\_WRrRwk](https://youtu.be/Nb6T_WRrRwk)

Coronavirus economics: China's mask diplomacy and its economy's faltering recovery

<https://youtu.be/GLwtXXbzCdw>

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## **Links**

[1]

<https://www.scmp.com/economy/china-economy/article/3075136/coronavirus-chinas-premier-shrugs-likely-first-quarter>

[2]

<https://www.scmp.com/economy/china-economy/article/3034590/chinas-countryside-returning-poverty-lack-reforms-help-fuel>

[3]

<https://www.scmp.com/economy/china-economy/article/3078233/coronavirus-global-trade-braces-tidal-wave-ahead-shutdown>

[4]

<https://www.scmp.com/economy/china-economy/article/3079036/coronavirus-china-yet-meet-key-phase-one-trade-deal-target>

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<https://scmp.com/economy/china-economy/article/3079421/china-vows-unleash-deep-market-oriented-reforms-new-policy>