

## China: Third Plenum Affirms Deepening of Reforms

- The ruling party's Third Plenum affirmed the comprehensive and deepening of reforms in the coming decade, with the setting up of a "central leading team" to design, carry out, coordinate, and push forward reform efforts.
- Target date of 2020 to achieve decisive results in key sectors for a more effective and mature system.
- The lack of details from this blueprint should not be disappointing given the broad brush nature of such document, and more measures are expected ahead. The next key event to watch out for will be the annual central economic working conference in mid-Dec.

### Launching The Reform Blueprint For Next Decade

China's Communist Party Central Committee concluded its 4-day Plenum yesterday (Tue 12 Nov). The communiqué issued after the 18th session of the Third Plenum affirmed the continued move towards "comprehensive" and "deepening" reforms.

In terms of the length of the communiqué, it has about 5000 characters, which is longer than the usual 2,000-3,000 characters seen in communiqués in recent Third Plenary meetings. However it is well below the 7,600+ characters in the 11th session of the Third Plenum in 1978 when Deng Xiaoping launched China's economic reform and opening.

This suggests that the current communiqué contains more than the usual share of the economic and administrative prescriptions for the coming decade. The overall tone of rapid and deeper reforms is unmistakable.

Among the key messages:

- Emphasizing the "comprehensive" and "deepening" of reforms in various parts of the economy:
- Setting up of a "central leading team" to design, carry out, coordinate, and push forward reform efforts.
- Target date of 2020 to achieve decisive results in key sectors for a more effective and mature system.
- Using market economy as a guide, while not abandoning the state-owned enterprise/economy model
- Addressing the relationship between government and market, so that the latter is able to play a more important and critical role in resource allocation
- Participating in more international economic cooperation, accelerating the establishment of more free trade zones and developing inner regions
- Reforming of taxation and fiscal system, with more transparency and efficiency

### What To Watch Out For Ahead

Overall, it is unmistakable that in the coming decade, the reform process in China will be "deeper" and more comprehensive as the country looks for ways to rebalance and level up its economy from the increasingly challenging model of exports/manufacturing towards services sectors, and more equitable distribution of income. At the same time, the market will play a more critical role in allocating resources with more transparent pricing mechanism. This should mean that the government's role will fade gradually at least from price setting in various factors markets.

Given that the communiqué is a guideline or blueprint set out by the ruling party for the next decade, the lack of details should not be disappointing. More details are likely to be fleshed out by the various ministries and regulators in the days and months ahead to speed up the process. It is also worth noting that a target year of 2020 has been set for this latest reform process.

As such, keep an eye out on announcements ahead, which could include: further financial sector reforms such as widening of RMB trading band, deposit insurance scheme, removal of deposit interest rate ceiling, more RMB internationalization efforts, and establishment of free trade zones along the line of Shanghai FTZ, among others.

Another area to watch out for is the resolution of local government debt / financing vehicles, of which the latest audit report should be due anytime in Nov.

Other than that, the next key event for China will be the annual session of the central economic working conference, which is typically held in mid-Dec and could contain more details on reform measures for the following year, as well as a new set of economic targets (or lack of), to have a better sense of the pace and extent of market reforms.

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