Move over, ‘new normal’: 2016 will be the year of ‘supply side reform’. Leaders gathering for the annual end-of-year work conferences in Beijing sought to switch the state’s economic management approach from boosting demand to increasing quality and efficiency of supply.

Saying that the effectiveness of Keynesian stimulus is limited, leaders sold the buzzword as a path toward a leaner, greener economy. Restructuring SOEs, cutting taxes, increasing financial supervision, and improving pension funding are key items on the supply-side wish list.

Supply-side economic policy will have to first and foremost shed
overcapacity, particularly in housing and industry. Urbanisation has again emerged as a potential cure-all, despite critical skepticism and limited past success. Moving rural residents to cities, leaders hope, will soak up housing while helping meet the ambitious goal of eliminating poverty by 2020.

Leaders facing an uphill battle with deeply rooted economic structures are instead trying to direct attention to foreign policy success. As 2015 drew to a close, state media trumpeted Xi’s globetrotting that resulted in economic partnerships, currency swaps, and the establishment of China-favoured development organisations. Hand-in-hand with other geo-economic initiatives, ‘capacity cooperation’ is emerging as a strategy to both boost China’s stature and export overcapacity.

**featured analysis**

*Paris: a China-aligned agreement*

The Paris Agreement reflects China’s top-level reform agenda—influential industry interests also recognise opportunity. But this alliance must yet overcome the inertia of local government and entrenched SOEs. [full post open access →](#)
1. With powers far beyond my foreign counterparts, I drive China’s financial liberalisation agenda. In the 13th 5-year plan, I will likely take control of the three financial regulatory bodies. This past October, I nudged Shanghai’s government partially out of its own FTZ, taking control of its capital opening. My power comes in part from the political clout of my long-serving governor. He is determined to internationalise China’s financial system, while keen to play by global rules.

2. I'm a high-profile government consultant, among the first economists to specialise in stock-flow models of income distribution, public risks in economic policy, and fiscal emergency response mechanisms. At a December 2015 forum, I made headline for repudiating the piecemeal approach of reform that leaves time wasted on pilots and evaluations. ‘Only state paper issuance has had higher efficiency’, I mocked, not so much in reform execution. Another round of centre-local adjustment is needed to enable central officials to enforce policies, I hence hinted. with or without local cooperation.
3. I am the former director of MoF fiscal Science Research Institute. I have lectured the Politburo on fiscal and tax policy. I am quite impatient with the pace of legislative change: resource, consumption, property and environmental protection tax laws have all fallen victim to fierce inter-agency wrangling, and in the case of the property tax, to incomplete property data and valuation mechanisms. I am also a supporter of taxing residential property holdings which I think it stabilises prices and decouples local governments from land finance—I nonetheless argue for re-examining the property tax regime; integrating current separate taxes on construction and sale of property is imperative.

financial regulators: all under one roof

*financial regulatory shuffle*

Financial regulation is set for a makeover in the 13th 5-year plan. Officials are
debating the integration of the banking regulator (CBRC), securities regulator (CSRC) and insurance regulator (CIRC) with the central bank, the People’s Bank of China.

mid december position:

- **capital markets**: cleaning up accelerates ahead of registration-based IPOs

end december position:

- **central economic work conference**: supply-side reform tops 2016 agenda


Promising 2016 will see the ‘confluence of Chinese and world destinies’, *People’s Daily* editorialised on 2015’s surge of proactive foreign policy. Echoing an earlier summary by Wang Yi 外交部部长 王毅 foreign minister, the editorial cited Xi Jinping’s 习近平 travel schedule, which included visits to the US, the UK, South Africa and Russia. ‘Institutionalised voice’, an aspiration of the forthcoming 13th 5-year plan, was in evidence in Belt and Road, AIIB, BRICS, SCO, COP21, RMB internationalisation,
capacity cooperation, anti-fascist war commemoration, mediation in Syria and more.

mid december position:

- **minimising gaps**: new Africa model; offering global security services

end december position:

- **international compensation**: for domestic stringency

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improving education is one part of a multi-pronged anti-poverty push

social policy

Solving China’s big-city ‘urbanitis’ and housing overcapacity in 2016 held centre stage at the dual Urban and Economic Work Conferences. Migrants will be moved into small and medium cities, where housing overhang is greatest, and developers encouraged to lower prices. Urbanisation efforts, once focused on small cities, may shift to encompass second-tier cities offering increased opportunities, if lacking the pull of megalopolises like Beijing, Shanghai, or Guangzhou. Offering viable alternatives to megacities, says Yang Weimin 杨伟民, will require developing at least 10 city clusters nationwide, above all in the less-developed centre and west.
mid december position:

- **big goals, small steps:** decisions on poverty, pensions and housing

end december position:

- **solving urbanitis and housing overcapacity:** leading the social policy agenda

Yang Jing 杨晶 led the plenary session of the annual Rural Work Conference, attended also by his nominal superior, Vice-Premier Wang Yang 汪洋

agriculture and marine

The State Council Executive Committee addressed the agricultural agenda at the 23 Dec meeting. The annual Rural Work Conference (24-25 Dec) then set the tone for 2016. To develop modern agriculture, argues Han Jun 韩俊 Central Rural Work Leading Group Office, the seed industry must be made more competitive, the level of agricultural mechanisation raised, and agricultural industrial chains developed.
energy and environment

cutting through the smoke

New restrictions on smoking promotion in the Charity Law (in draft) and the Advertising Law underpin Beijing city’s successful ban on smoking in public places and set the stage for further national efforts. full signal client access →
property rights registration to underpin a future property tax re-structuring

governance and law

property market plays the long game?

Simplified property registration under one agency—the Ministry of Land and Resources (MLR)—is promised by year’s end, clarifying for the first time who owns what in China’s massive property market. full signal client access →

mid december position:

- equal under review: auditing officials’ performance

end december position:

- setting sail: rewriting the law of the sea

policy ticker highlights

PBoC to adopt new macroprudential policy framework in 2016
PBoC | 29 december
PBoC will employ a macroprudential assessment (MPA) framework from 2016 onward, replacing its current financial system management tools—a dynamic adjustment mechanism for reserve requirements and a management mechanism for desirable loans to industries needing capital—in place since 2011.

rule of law blueprint issued to build a ‘law-oriented’ government by 2020
Gov.cn | 28 december
Party and state officials released a new 5-year road map for building a law-oriented and law-abiding government on 28 December. It sets a goal of establishing such a government in place by 2020.

annual Rural Work Conference focuses on supply side and upscaling
Farmer’s Daily | 26 december
The 2015 Rural Work Conference, held on 24-25 December to discuss rural plans and next year’s Doc No. 1, focused on structural supply side reforms to ensure agricultural supply, variety and quality meet the needs of consumers.

capacity cooperation: claims of early success
China Daily | 24 december
A glossy promotional video on capacity cooperation tries to capitalise on foreign praise of the initiative, part of a larger effort hailing China’s geopolitical efforts abroad. Capacity cooperation (also called ‘international productive capacity cooperation’) emerged in mid-2015 following a May State Council notification, adding to a wider policy shift to ‘going global 2.0’.

2013 vs. 2015: time is ripe for a shift in urbanisation strategy
China News | 23 december
The 2015 Central Urban Work Conference differs from the 2013 Central Urbanisation Work Conference in two areas, says Deng Haiqing 邓海清 JZ Securities.

red alert: the new normal?
The Observer | 18 december
Beijing issues its second pollution ‘red alert’, effective from 19 to 22 December. The first-ever red alert, issued a week prior, decreased PM2.5 by around 10 percent, stated Chai Fahe 柴发合 Chinese Research Academy of Environmental Sciences.
selected texts of the month (clients only)

**economy**

- the road to mixed financial regulation
- the ‘one bank, three commission’ [system] should set up a supervision office
- financial markets do not necessarily need a ‘super-regulator’
- how to give the regulatory framework surgery?

**social policy**

- CASS: macro controls discounted by drag on property market tax
- housing inventory reduction to prompt tax reform

**governance and law**

- half of provinces refuse to share smoking data
- charity donation from tobacco industry must be banned
- national legislation needed
- BT-VAT switch: localities to lose main revenue source

**lexicon**

ex post facto (regulation) 事中事后 shìzhōngshìhòu

Appearing regularly in 2015 stock market reform discussions of changing from an approval- to a registration-basis IPO process, it implies regulating behaviour rather than prior approval. Ex post facto regulation is co-dependent with supervised deregulation, working with it to support devolution
supervised deregulation
放管结合 fàngguǎn jiéhé
Releasing 放 while controlling 管; finding the equilibrium between free markets and regulation. Used in the context of IPO reform, it describes the delegation of bureaucratic approval processes to industry, though under stronger market regulation.

In the graphic, a pair of ‘devolution’ scissors sets the ‘market’ horse free from the rubber stamp: liberating markets from bureaucratic restraints, the government adopts ‘supervised deregulation’. Ex post facto supervision is a supporting policy measure in the cause of devolution

devolution
简政放权 jiǎnzhèng fàngquán
A streamlining measure notably mentioned in the ‘State Council reform and functional transformation program’ March 2013, and part of the 7th government institutional reform, devolution transfers bureaucratic approvals to enterprises. There are two parts to the term: 简政 jiǎnzhèng, ‘simplify administration’; the second, 放权 fàngquán directly translates as transferring power, implies decentralisation

tianxia
天下 tiānxià
Literally ‘all under heaven’, traditionally refers to the sway of the Chinese emperor. As a core responsibility of the political elite, the term carries a strong moral colouring. Tianxia is something to be ‘won’, originally by arms (as shown in picture), but latterly by integrity (in corporate advertising). Lacking formal boundaries, tianxia may take in the known world. In current foreign policy
debates, it means a projected global order that, unlike the system of nation-states, conforms to Chinese values and in nationalist interpretations is amenable to Chinese interests.

Over one in a hundred PRC citizens has no household registration, mostly those born outside the one-child policy whose families have not paid the penalty. Literally translated as ‘black household’, they have no ID card so cannot access even the most basic public services, such as education, and are subject to heavy social stigma. Plans to make resolving the issue a top priority were announced by the Ministry of Public Security in November 2015 following the introduction of the two-child policy.

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**in the media**

**Xi Jinping’s whirlwind globetrotting heralds “new power diplomacy” – will it work?**

*South China Morning Post* | 30 dec

“As such, China’s economic diplomacy is in large part a mechanism to find additional markets for Chinese companies. It is unsurprising that this diplomacy has become more activist as the imperative of mitigating domestic economic strains becomes more acute,” Benjamin Herscovitch, a research manager at China Policy, a Beijing-based policy analysis and advisory firm, said.
quiz answers: 1. People’s Bank of China 中国人民银行 2. Liu Shangxi 刘尚希
Ministry of Finance Research Institute for Fiscal Science
3. Jia Kang 贾康 Huaxia New Supply Economics Research Institute head

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our clients at multiple levels, from in-house research teams to CEOs and
boards, we help them anticipate, understand and respond to China’s
changing domestic policy and geopolitical environment. contact us for more
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