

Beijing announces significant reforms

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Harbour recently attended two separate research trips to China. From these, we developed expectations for Chinese growth and policy actions that were probably more positive than the consensus. However, even our positive expectations were exceeded as details from the much anticipated Third Plenary session of the Communist Party of China (CPC) were outlined in "the decision" last Friday (18 November). Although the finer details of the reforms have yet to emerge (most likely from the agencies responsible for implementation), here we provide a broad summary of key announcements and potential implications.

Evidently, there is a significant push by the CPC towards freedom of capital movement to improve the allocation of capital, primarily through more support for the private sector and financial markets. There is also a strong focus on social reform to deal with tensions between rural and urban welfare imbalances and to improve human rights. On balance, the reforms announced ought to assist China towards a more sustainable social and economic development profile – but the absence of details regarding environmental and SOE reforms is disappointing for now.

In terms of social reform and human rights improvements, the major changes are captured within the **Hukou reform**, where rural residents will be eligible for a re-classification to become urban citizens. This will give residents who work in urban areas, but are officially registered as rural citizens, access to social welfare programmes such as healthcare and education. Currently, these services can only be accessed by those registered as urban residents. Also, a more liberal stance on the **one-child policy** is a significant policy change, which is likely to reduce social tensions. There is also a range of other proposed changes, such as the removal of the ability to detain a person for a minor crime for four years without a trial, providing steps in the right direction.

The key agenda, however, for the third plenary session was economic reform and the CPC did not disappoint. In broad terms, the changes are comprehensive and are likely to assist New Zealand's largest trading partner in its shift towards more sustainable growth.

From a New Zealand trade perspective, the one-child policy-change and the CPC's continued effort to facilitate urbanisation further strengthens the long-term demand story for New Zealand protein exports. Dairy and meat sectors are most likely to gain from these changes, with first impacts from higher birth-rates possibly only a year away.

On balance however, China has a long way to go as it transitions towards a consumption-led economy, with a need to improve social and human rights conditions as they integrate as an important global citizen. We view the economic announcements as prudent and a positive

surprise in the right direction from the new leadership of the CPC.

Figure 1: Summary table of key policy changes announced by the CPC after the Third Plenary meeting that concluded on 12 November 2013

Policy	Positives	Negatives
Support for private sector & markets		
	Private sector employs 80% of labour	Could see profit margins squeezed while the transition takes place.
	Property rights in the private sector said to become similar to Govt. sector	
	End to excessive Govt intervention, which should improve capital allocation and open for market pricing	
	Removing 30% of admin procedures to start a new business should boost start-ups	
	Call for better property rights	
Hukou reform		
	Hukou (household registration system) reform will move over 230m urban residents to a urban hukou. This represents 1/3 of China's urban population.	Expensive: social welfare, education and health care for a large number of people. Urban areas without the capacity to meet these requirements will receive funding from Central Govt.
	This is a huge social stabiliser, allowing these migrants to settle in the cities they work in an give them access to social welfare services.	
	Likely to increase labour supply to the cities	
	Boost for consumption across the board, including proteins (NZ to benefit)	
	Possible productivity improvements by having a lower labour turnover regime and a	

better educated workforce

A step in the right direction for
human rights

Likely to be the key social stabiliser
to reduce tension between urban
and rural communities

Relaxing of one-child policy (from a policy where both parents have to be an only-child to a policy where either one parent has to be an only-child in order to have a second child)

Human rights improvements

Likely to play a social stabilising
role between the Govt. and the
public.

Little overall economic impact, but
likely to be a significant boost to
infant and toddler nutritional
products (NZ to benefit)

No short-term

economic impact
(though long-term
probably a boost to
consumption)

Could add to the social
welfare costs

SOE reform

A pledge was made to level the
playing-field between private
companies and Govt.-run

No explicit initiatives
announced, which could
be viewed as either a
lack of commitment or
an attempt to keep
public figures who rely
on SOE income at piece.
Either way, a little
disappointing in the
absence of details.

Environmental reform

Although no details were revealed,
environmental reforms are in the
pipeline. However, Beijing is
acutely aware of the tension
between economic growth and
emissions and hence is likely to
manage

There are tensions
between urban
populations who want
cleaner air and people
entirely reliant on
income from heavy
industry. This needs to
be addressed, but the
can has been kicked

down the road.

Banking and financial sector reform

<p>Key change is the introduction of a market price for risk through: 1) interest rates matched to risk profiles; 2) further opening of capital account</p> <p>Ought to more appropriately allocate capital and improve quality of the financial system.</p>	<p>This could squeeze banking margins and SOE margins for some time as capital costs are appropriately charged.</p>
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Land reform

Allow farmers to buy/own land, which should encourage investments in agricultural sector

Aim to establish a market for rural property

Source: Xinhua News Agency (the official press agency of the PRC), CLSA, UBS, Goldman Sachs and ANZ. Note: this table only highlights some key policies and is not exhaustive in any way. Please refer to Xinhua for the complete overview.

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