

Alerts in China's Reform of the Supply Front

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During the 2016 parliamentary sessions of China, dubbed as "two sessions", President Xi Jinping stressed that to promote supply front reform, the government has to make full use of 'additions' and 'subtractions' in its work, balance the present and the distant future, hold well its strength and rhythm, recognize principal and non-principal contradictions as well as coordinate relations of the government and market. However, tendentious problems keep cropping up during the reform. This paper summarizes and analyzes problems to note as follows:

1. Halfway "Subtractions"

In the process of cutting capacity and purging zombie companies, local governments of some provinces and cities held that 'only if inevitable, bankruptcy liquidation should never be applied' to state-owned zombie companies. Although de-capacity through annexation and reorganization, equity transaction and so on bets to ease social conflicts out of mass unemployment and reduce the loss of state-owned resources, we should never neglect principle of efficiency and avoid the aggravation of long-term leftover problems as well as lurking economic risks in order to avoid present short-term contradictions. Local governments should first make clear their core advantages in regional economic development and the leverage of local issues in the nation. They should put conduct bankruptcy liquidation towards industries which are not local advantageous industries or key industries and corporations where production capacity is excessive. In the meantime, they ought to assist the staff resettlement work as well as re-training and re-employment programs so that a better social security service can be established as the safe haven for employees rather than corporations.

When conducting 'subtractions' in supply-side reform, local governments should take warnings from Japan which took pains to deal with zombie companies in 1990s. Both theoretical and empirical literature show that Japan's failure to stripe bad assets off and conduct bankruptcy liquidation thoroughly at that time still hinders the innovation and entrance of Japanese corporations and influence its long-term economic growth. Only if burdens can be alleviated from corporations and capacity can be truly resolved in the industry would social productive forces increase.

2. Unfulfilling "additions"

At present China is deepening the structural reform of the supply front. However, inevitable problems keep cropping up in the process. The central and local governments have to utilize 'additions' and 'subtractions' in their work.

Many “additions” were undertaken in the institutional reform of farmland. Recently, five departments jointly issued interim procedures with regard to experimental units for the mortgage of rural land contract management right. It indicates that relevant reform is accelerated. It’s worth noting that relevant supporting measures have to keep up to avoid excessive costs and high risks of the mortgage of rural land contract management right which would hinder the course of experimental units. In several underdeveloped areas, value assessment of land contract management right lacks frame of relevance. It may lead to either overrated or underrated prices. Moreover, it would be hard to liquidate and recourse bank equity. In view of the mortgage use, although agricultural production and operation are given priority to, they are susceptible to the climate and seasons. Therefore, their mortgage risks are relatively higher. Local governments, especially those of underdeveloped areas should on one hand accelerate the establishment of risk compensation fund so as to encourage financial institutions to support agriculture through innovation. On the other hand, they should actively expand channels for agricultural derivatives and internet agriculture and enhance success rates of programs concerning the mortgage of rural land contract management right by means of guidance and coordination.

While undertaking ‘subtractions’ such as streamlining administration and delegating power to the lower levels, governments should also conduct supervision ‘additions’ for supply-side reform. Right now, in response to supply-side reform, more additions are required in areas such as food safety, drug safety and environmental protection requires. On one hand, local authorities have to strictly enforce safety laws and regulations and never neglect environmental protection standards under the presence of stabilizing economic growth. On the other hand, central authorities ought to raise target level of product quality if necessary or increase level-to-level administration of product quality. They should never set or maintain low standards to shelter cooperation. Instead, they should infuse impetus to upgrade the industrial structure and offer security mechanism for “additions” concerning middle and high-ended products in supply-front reform.

3. Irregularity in the coordination between “additions” and “subtractions”

Current estate markets in second and third-tier cities brave relatively high pressure in de-stocking. Local authorities could combine ‘additions’ with ‘subtractions’ as a mix of solutions. Preferential policies can be offered. For instance, farmers should be allowed to purchase property in urban areas; real estate developers be asked to lower down prices; investors

be allowed to purchase and rent their property. These policies would take effect to some extent. However, during implementation, there still exist various problems. Real estate developers are unwilling to offer enough price reduction. The interests of farmers couldn't be protected. Comparatively speaking, real estate developers enjoy more resources and connections. They find it easier to contact with local officials and appraisal agencies in de-stocking while farmers in hope of buying houses in urban areas and other customers are in unfavorable situations. Among cities promoting old city reconstruction programs, some witnessed price devaluation of demolished houses, overvaluation of resettlement, shrinkage of demolition scheme, to name just a few. All of these are resulted from forceful de-stocking for real estate developers, which might impoverish farmer and spell hidden social problems.

In the long run, governments should on one hand actively promote the combination of 'additions' and 'subtractions' in real estate de-stocking; on the other hand, they should maintain neutrality as well as reduce lend-seeking and rent-setting space. Only if real estate developers recognize the reality and give reasonable price recession could real estate markets realize voidance. Moreover, to protect interests and consumer surplus of purchasers including farmers are conducive to market recovery, economic development and social stability in the long term.

Translator/Hua Zhiyun