

Economic ideology

Reagan's Chinese echo

The mystery of Xi Jinping's supply-side strategy



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RONALD REAGAN, a sworn enemy of communism, and Xi Jinping, a doughty defender of Communist rule in China, ought to have little in common. Lately, though, Mr Xi has seemed to channel the late American president. He has been speaking openly for the first time of a need for “supply-side reforms”—a term echoing one made popular during Reagan’s presidency in the 1980s. It is now China’s hottest economic catchphrase (even featuring in a state-approved rap song, released on December 26th: “Reform the supply side and upgrade the economy,” goes one catchy line).

Reagan’s supply-side strategy was notable, at least at the outset, for its controversial focus on cutting taxes as a way of encouraging companies to produce and invest

more. In Xiconomics, the thrust of supply-side policy is less clear, despite the term's prominence at recent economic-planning meetings and its dissection in numerous articles published by state media. Investors, hoping the phrase might herald a renewed effort by the leadership to boost the economy, are eager for detail.

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Mr Xi's first mentions of the supply side, or *gongjice*, in two separate speeches in November, were not entirely a surprise. For a couple of years think-tanks affiliated with government ministries had been promoting the concept (helped by a new institute called the China Academy of New Supply-Side Economics). Their hope is that such reforms will involve deep structural changes aimed at putting the economy on a

sounder footing, rather than yet more stimulus. Since Mr Xi gave the term his public blessing, officials have been scrambling to fall in line with supply-side doctrine, designing policies that seem to fit it or, just as energetically, working to squeeze existing ones into its rubric.

Mr Xi's aim may be to reinvigorate reforms that were endorsed by the Communist Party's 370-member Central Committee in 2013, a year after he took over as China's leader. They called for a "decisive" role to be given to market forces, with the state and private sectors placed on an equal footing. But Mr Xi lacked a catchy phrase to

sum up his economic vision. The one he most commonly used was simply that the economy had entered a “new normal” of slower, more mature, growth. That phrase had its detractors, for it seemed to imply passive acceptance of a more sluggish future. “Supply-side reform” is being made to sound like a call to action. Xinhua, a state news agency, neatly tied the two phrases together: “supply-side structural reform is the new growth driver under the new normal.”

But what does it mean? Those who first pushed supply-side reform onto China's political agenda want a clean break with the credit-driven past. Jia Kang, an outspoken researcher in the finance ministry who co-founded the new supply-side academy, defines the term in opposition to the short-term demand management that has often characterised China's economic policy—the boosting of consumption and investment with the help of cheap money and dollops of government spending.

The result of the old approach has been a steep rise in debt (about 250% of GDP and counting) and declining returns on investment. Supply-siders worry that it is creating a growing risk of stagnation, or even a full-blown economic crisis. Mr Jia says the government should focus instead on simplifying regulations to make labour, land and capital more productive. Making it easier for private companies to invest in sectors currently reserved for bloated state-run corporations would be a good place to start, some of his colleagues argue.

There are plenty of differences between China's supply-siders and those who shaped Mr Reagan's programme, not least in their diagnosis of their respective economies' ills. The Americans thought that production bottlenecks were fuelling inflation and stifling growth. Their Chinese counterparts worry about the opposite: excessive production causing deflation and unsustainably rapid growth. Still, the language used in China can sound just as radical. “We can no longer delay the clean-up of zombie corporations,” Chen Changsheng of the Development Research Centre, a government think-tank, wrote recently. “Taking painkillers and performing blood transfusions is not enough. We need the determination to carry out surgery.”

There may be another similarity as well: a revolution that falls short of its hype. Reagan had to work with a Congress controlled by his political opponents, and the policies he enacted were more moderate and muddled than supply-side purists had hoped. Mr Xi faces no such democratic checks, but China's ruling party is split

between rival interest groups, and economic policy is often implemented in fits and starts as party leaders try to reconcile their competing demands.

Supply us with a slogan

Mr Xi's adoption of the supply-side mantra marks the start of protracted tiptoeing. Over the past two months, party propagandists have asked economists at top universities and research institutions to expound on their views of what supply-side reforms should entail, according to insiders. It is a slogan in search of content.

In the recent proliferation of articles and speeches about supply-side reforms, there are clearly differences over what the emphasis should be. The National Development and Reform Commission, a powerful planning agency, argues that China needs to become more innovative and efficient in making the kinds of things its consumers want to buy. But its version of "supply-side reform" would look more like stimulus than surgery. Tax cuts since 2014 on purchases of electric cars offer a taste of what may lie ahead; sales of these vehicles have surged nearly fourfold this year.

Some fret that the supply-side talk is a dangerous distraction. As Yao Yang of Peking University puts it, the economy's main ailment now is a lack of demand, not a problem with supply. The cure for that, he believes, is a short-term burst of monetary easing, the very thing that ardent supply-siders have been hoping to banish.

For all the recent debate, early signs are that the supply-side shift may not amount to a serious change of course. Measures proposed by the government in late December include lower corporate borrowing costs, an easing of entry barriers in underdeveloped sectors such as health care and a reduction of excess capacity in sectors such as property. It just so happens that all these policies have already been in place for months or even years. If nothing else, Mr Xi's supply-side reforms will prove that China is among the world's most accomplished suppliers of slogans.

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