



China's Fifth Plenum: Blueprint for Development in the Next Five Years

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The Fifth Plenary Session of the 18th Communist Party of China (CPC) Central Committee was held in Beijing from October 26 to 29, 2015. The meeting was significant as China's top leadership discussed and adopted a short summery called proposal ('jianshi') for China's 13th Five Year Plan. Based on the proposal, China's National Development and Reform Commission (NDRC) will finalize the Five Year Plan, which will guide the economic and social policies from 2016 to 2020. The final plan would be officially issued in March 2016 after National People's Congress (NPC) of China approves it. While the media hype mostly concerns the change in China's one-child policy, the Communiqué issued by the CPC at the conclusion of the Fifth Plenary Session provides significant details about the direction of government policies pertaining to economic and social development of China in the next five years.¹ Although the Communiqué provides repeated reference to reform, it also talks about social welfare measures for poor and vulnerable people and does not provide the same emphasis on market compared to the Third Plenum decision, which was held in November 2013.

China is adapting to the new normal and a number of transitions are underway. It is undergoing transitions in the industrial structure, labour, urbanization, income distribution and other key areas amid its economic slowdown. Significantly, the Communiqué has highlighted the need to 'speed up the formation of mechanism and development methods for ushering new normal of economic development' in China. In this background, this paper first contextualizes the 'new normal' of Chinese economy. The second part of the paper analyses

economic, political, social and other outcomes of the Fifth Plenum, while the third section discusses China's developmental debate in the context of India.

I

Contextualizing the 'New Normal'

China's shift towards 'new normal' is a process when high growth rate turns to medium rate as a result of restructuring of the economy. This can be explained in proper historical context. In late 1970s, Deng Xiaoping emerged as the supreme leader in China and the Third Plenum of 11th Central Committee of the CPC in December 1978 confirmed the shift of economic priorities towards rapid modernization. China implemented a policy of economic reforms and opening up to the world. This has also been described as the 'catch up growth model' as China tried to catch up with the advanced economies of the world.

China followed an export driven growth model supported by infrastructure development and investment in capital goods. China achieved decades of high growth rate and it became the 'manufacturing hub' of the world economy. The Chinese model of growth created wealth in China; however, it could not ensure fair distribution of growth. The reform era saw growth concentrated in eastern or coastal areas in China. The establishment of Special Economic Zones, open cities and open economic zones and the introduction of a wide range of other preferential policies favoured the economic development of coastal areas, which led to sharp increase in regional disparities.² Well known economist, Zhang Xiaoshan, argues, "The long existing development paradigm China adopted since the reform is characterized by taking an urban-oriented, SOE oriented and coastal regions oriented approach. Resources were allocated according to such orientations. Policy priority was not given to rural areas, especially to inland areas, to agriculture, to rural small and medium size enterprises, or to rural population." Thus, people, who lived in urban or coastal areas, became the major beneficiary of China's economic rise. The fact remains that about half of the population in China lives in rural areas.

If we look at inequalities in income and wealth, we find that development has not been inclusive. Since the 1990s, the degree of inequality in China has increased. China was among the most equal countries in terms of income distribution in 1980, but it became the most unequal in Asia by 2010.³ The widening gap between rich and poor may divide the society, which is a big threat faced by China. Some Chinese experts treat economic disparity in China as 'a crisis within economic miracle.'⁴

In this background, China approved the 12th Five Year Plan in 2011 (for the period 2011-2015), aimed at the transformation of growth pattern. It aimed to upgrade the industrial structure by developing the service sector, boosting domestic consumption and expanding employment. While presenting the report to the 18th National Congress of the Communist Party of China, Hu Jintao also emphasized the need to accelerate the change of growth model. In recent years too, China's top leadership has reiterated the goal of strengthening domestic consumption and service sector as major sources of economic growth. However, the policy has not been successful as far as individual consumption rate is concerned. Evidence suggests that China's overall consumption rate and household consumption rate have been falling since 2000.⁵ The gross saving rate of China is 50 percent according to data provided by the World Bank.⁶ Experts have pointed out that the saving rate in China is high as a significant section of population saves for the future in the absence of social security systems.

II

The Outcomes of the Fifth Plenum

Economic Issues

The Fifth Plenum affirmed that China will maintain medium-high economic growth in the next five years and reiterated the aim to double its 2010 GDP and per capita income of residents of cities and rural areas by 2020. Experts have estimated that China might fix a target of 6.5 percent growth for the next five year plan. Significantly, the Communiqué pointed out the need to ensure more balanced, inclusive and sustainable economic development and gave emphasis on 'promoting the coordinated development of urban and rural areas'.

The Communiqué called for promoting new-type of urbanization in China. The country initiated a new-type of urbanization plan in March 2014. Chinese experts stress that the Chinese urbanization drive is different from the Western urbanization, as the Chinese plan is to encourage rural people to get settled in small towns rather than creating slums in cities. It is hoped that urbanization can be one of the main drivers of economic growth, as the government attempts to shift away from an investment-based economy. Premier Li Keqiang noted (in May 2013), “Every rural person, who becomes an urbanite, can increase consumption by more than 10,000 Yuan.”⁷ However, evidence suggests that the urbanization plan might not be very easy to implement as many rural people do not want to leave land and shift to cities.⁸

It is important to note that the Fifth Plenum has provided details of some specific policies for the welfare of poor and disadvantaged people. It includes: (a) improving services to care for women, children and elderly in rural areas; (b) fully subsidizing students with economic problems in secondary, vocational schools; (c) extending old age insurance to its whole population; and (d) improving public services and building capacity in ethnic minority areas, border areas and poor areas. Therefore, it could be said that the Fifth Plenum highlighted the need to build capacity and social welfare system for poor and vulnerable in the age of reforms.

The Communiqué stressed to “implement ‘Made in China 2025’ program to make China a strong manufacturing hub, nurture strategic industries and speed up the development of strong service industry”. The State Council of China adopted ‘Made in China 2025’ programme in May 2015. This is the first 10-year action plan designed to transform China from a manufacturing giant into a world manufacturing power. The 10-year plan will be followed by another two plans in order to transform China into a leading manufacturing power by the year 2049, which will be the 100th anniversary of the founding of the People’s Republic of China. The Chinese experts have argued that the initiative will play a key role in helping China maintain economic growth at a medium-to-high level and to move up the global value chain.⁹

In recent past, China has called for the expansion of the country's service sector. Figures suggest that the share of the service sector in China's GDP rose from 44 percent of GDP in 2011 to 48 percent in 2014.¹⁰ The Communiqué made a pitch for development of strong service industry in China. In other words, the service sector might be playing more important role in Chinese economy in the next five years.

Further, the Communiqué notes that "innovation must be placed at the core of the overall national development." It refers to different aspects of innovation, such as technological innovation, cultural innovation, innovation through the party and the state to make everything work. The emphasis on innovation is quite evident as state funding for research and development rose to 2.20 percent of GDP in 2015 from 1.75 percent in 2010.¹¹ Apart from innovation in Science and Technology, premier social science think tanks in China, such as the Chinese Academy of Social Sciences, have implemented various projects focusing on innovation. The focus on innovation is going to be strengthened in the next five years.

The Communiqué did not make any reference to the reform of State-owned Enterprises (SOEs) in China. However, according to the guideline released by the CPC Central Committee and the State Council, "China will modernize SOEs, enhance state assets management, promote mixed ownership and prevent the erosion of state assets."¹²

Political Issues

The Communiqué notes that 13th Five year period (2016-20) is a decisive stage of building a moderately prosperous society.

The Communiqué refers to Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory, Three Represents and Scientific Development Concept and highlights 'four comprehensives'. As it is well known, Xi Jinping has talked about the 'four comprehensives' in the past. These are: comprehensively constructing a moderately prosperous society, comprehensively deepening reform, comprehensively governing the country according to the law, and comprehensively using strict governance of the Party.

The Fifth Plenum reiterated government's commitment to fight corruption in the country. Corruption has been proved to be a severe problem in the era of modernisation in China. In 2011, Premier Wen Jiabao identified corruption as an 'existential threat' for the CPC. Xi Jinping initiated anti corruption campaign, which has purged around 100 high-ranking officials, including military officers and senior executives of state-owned companies.

Social Issues

The Fifth Plenum allowed two children for all couple, therefore abandoning its decades long one-child policy. The issue needs to be analyzed in its proper context.

It is well accepted that China's shrinking young labour force is largely a result of China's 'one-child policy'. China's working-age ratio reached its peak of 2.6 in 2010 and has since begun to decline.¹³ In fact, the absolute number of working-age population began to decline in 2012.¹⁴ China's working population fell for the third straight year in 2014. By implication, China has witnessed shortage of workers in some regions and an era of low wages for workers is almost over. A Report from the Chinese Academy of Social Sciences also confirmed this trend. The report found that "both the proportion of working-age people among the entire population and the total workforce are declining, posing a future labour shortage."¹⁵ As per UN forecasts, the number of people in China aged 60 and above will approach 400 million, or a quarter of the population, in the early 2030s from one-seventh now.¹⁶ The government's decision to relax the one-child policy in 2007 and 2013 was aimed to reverse the age structure of the population. In this background, the Fifth Plenum decision to allow two children to all Chinese couples is noteworthy. The policy might be beneficial in the long term. However, the current demography of China is expected to negatively influence Chinese economy for years to come.

Environmental Issues

There is recognition in China that economic growth should attach greater importance to social and ecological benefits, and it should adhere to sustainable development. On the issue of environment, the Plenum called for strict environmental rules and creation of a system to supervise environmental protection efforts at the provincial level and below to conduct

vertical management for air, water and soil pollution. The Plenum highlighted green and sustainable development as a way forward and noted that China must adhere to the basic state policy of resources conservation and environmental protection

III

Comparative Appraisal vis-a-vis India

China and India are both large emerging economies of Asia. However, the socio-economic environment as well as institutional framework in China is quite different from India. Many times, the systematic difference leads to the adoption of different policies. Gurcharan Das noted in 2006, “The notable thing about India’s rise is not that it is new, but that its path has been unique. Rather than adopting the classical Asian strategy – exporting labour-intensive, low priced manufactured goods to the West – India has relied on its domestic market more than exports, consumption more than investment, services more than industry, and high tech more than low skilled manufacturing.”¹⁷ The debate in China suggests that China has also tried to learn from the Indian model of development in the recent past.

The Fifth Plenum has focussed on the rebalancing of Chinese economy, special policies to support poor and promotion of the service sector in the economy. The latter two are specific characteristics of Indian economy. It has been rightly noted in India that, “there are now tendencies and trends visible that would suggest that the overall development paradigms in the two countries may be moving in a direction closer to that of each other.”¹⁸ India has also acknowledged the importance of the Chinese model. It has tried to boost the growth of the manufacturing sector through its ‘Make in India’ programme, which is very important from the perspective of employment generation in the country.

The era of new normal and growth transition in China presents both opportunities and challenges for India. If the attempts to raise domestic consumption in China bear fruit, it would be in India’s interest to increase exports of finished products rather than raw material.¹⁹ However, the current trend suggests that India’s overall export to China has declined and trade deficit has increased. The issue of market access for Indian products in

China needs to be resolved to ensure balanced and sustainable trade. Recognizing that balanced trade is crucial for India-China economic ties, Bai Lianlei from the China Institutes of International Studies (CIIS), Beijing, has highlighted that the most effective way to do this would be to increase India's exports to China, making full use of its comparative advantage. He suggests that the two countries could bolster cooperation based on their respective advantages, such as promoting Indian service exports to China.²⁰

In conclusion, it can be said that China is at the end of high growth era. The Fifth Plenum has focussed on rebalancing and restructuring of the Chinese economy. What is important is that the Plenum has also referred to some welfare measures to protect poor and disadvantaged sections of the Chinese society. It is expected that the policy slogan, 'four comprehensives' will be supported by special focus to ensure fair distribution of growth in China.

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Disclaimer: Views expressed are of author and do not reflect the views of the Council.*

Endnotes:

¹ Xinhua News Agency, The Fifth Plenary Session of the 18th Communist Party of China (CPC) Central Committee Communiqué (Chinese version), issued on 29 October 2015.

² The Seventh Five Year Plan (1986-90) of China classified the country into three major regions: the Eastern or Coastal, the Central and the Western. The classification is an official recognition of the regional disparity.

³ Based on *UNDP Human Development Report 2011* (New York: UNDP, 2011).

⁴ Xu Dianqing and Li Xin, *Income Disparity in China: Crisis within Economic Miracle* (London: World Scientific, 2014).

⁵ Chinese Academy of Social Sciences, Beijing, Kan Feng "Key Transitions Driving New Normal Phase: CASS Report," available at http://www.cssn.cn/dzyx/dzyx_jlyhz/201412/t20141224_1455274.shtml (Accessed on 2 November 2015).

⁶ World Bank, <http://data.worldbank.org/indicator/NY.GNS.ICTR.ZS> accessed on 9 November 2015

⁷ "Li Keqiang Expounds on Urbanization," available at http://china.org.cn/china/2013-05/26/content_28934485.htm (Accessed on 3 November 2015).

- ⁸ Based on Author's interview with villagers in Baishui county, Shaanxi province, 22-25 December 2013
- ⁹ "Made in China 2025' plan unveiled" available at www.chinadaily.com.cn/bizchina/2015-05/19/content_20760528.htm (Accessed on 5 November 2015).
- ¹⁰ The World Bank, available at <http://data.worldbank.org/indicator/NV.SRV.TETC.ZS> (Accessed on 9 November 2015).
- ¹¹ Hu Angang, "Embracing China's 'New Normal'" *Foreign Affairs*, May- June 2015.
- ¹² Xinhua, "China Issues Guidelines to Deepen SOEs Reform," available at http://news.xinhuanet.com/english/2015-09/13/c_134620039.htm (Accessed on 6 November 2015).
- ¹³ The working age ratio is the number of people between 16 and 65 years old divided by the number of people younger than 16 or older than 65.
- ¹⁴ Yang Yao, "A New Normal but the Robust Growth: China's Growth Prospects in the Next 10 years," available at www.brookings.edu/.../tt20%20china%20growth%20prospects%20yao.p (Accessed on 3 November 2015).
- ¹⁵ Chinese Academy of Social Sciences, Beijing, Kan Feng, "Key Transitions Driving New Normal Phase: CASS Report," http://www.cssn.cn/dzyx/dzyx_jlyhz/201412/t20141224_1455274.shtml (Accessed on 2 November 2015).
- ¹⁶ "Easing of China's One Child Policy has not Produced a Baby Boom," <http://www.theguardian.com/world/2015/feb/06/china-one-child-policy-problems-ageing-population> (Accessed on 4 November 2015).
- ¹⁷ Gurcharan Das, "The India Model," *Foreign Affairs*, July-August 2006.
- ¹⁸ Amb. Nalin Surie, "India-China Relations: Compete or Engage" Distinguished Lecture - available at www.mea.gov.in/distinguished-lectures-detail.htm?102 (Accessed on 5 November 2015).
- ¹⁹ CV Ranganathan and S. Kumar (eds.), *The 18th National Congress of the Communist Party of China Congress* (New Delhi: ICWA, 2012), p. 236.
- ²⁰ China Institutes of International Studies, Beijing, "How can China and India Boost Economic Ties," available at http://www.ciis.org.cn/english/2015-07/14/content_8068858.htm (Accessed on 3 November 2015).